BANCA FINNAT

GRUPPO BANCA FINNAT

FINANCIAL STATEMENTS AT 31 DECEMBER 2016 - 87TH FINANCIAL YEAR

FINANCIAL STATEMENTS

AT 31 DECEMBER 2016

87TH FINANCIAL YEAR

CONTENTS

CORPORATE BODIES

BOARD OF DIRECTORS

Carlo Carlevaris
Honorary Chairman

Flavia Mazzarella (*)
Chairman

Leonardo Buonvino
Deputy Chairman

Marco Tofanelli (*)
Deputy Chairman

Arturo Nattino
Managing Director

Ermanno Boffa
Director

Roberto Cusmai
Director

Giulia Nattino
Director

Maria Sole Nattino
Director

Lupo Rattazzi
Director

Andreina Scognamiglio
Director

BOARD OF STATUTORY AUDITORS

Alberto De Nigro
Chairman

Barbara Fasoli Braccini
Permanent Auditor

Francesco Minnetti
Permanent Auditor

Laura Bellicini
Alternate Auditor

Antonio Staffa
Alternate Auditor

MANAGEMENT

Arturo Nattino
General Manager

Giulio Bastia
Joint General Manager
Manager in charge of preparing the accounting documents

Alberto Alfiero
Deputy General Manager

AUDITING FIRM
EY S.p.A.

(*) on 10 March 2017, the Board of Directors of the Bank, upon acknowledging the resignation of the Chairman Mr. Giampietro Nattino, appointed Director Ms. Flavia Mazzarella to replace him as the new Chairman of the Bank. The Board also co-opted, as independent Director, Mr. Marco Tofanelli, appointed also as Deputy Chairman.

EXCERPT FROM THE NOTICE OF CALL OF SHAREHOLDERS' MEETING

(in accordance with Art. 125-bis, Paragraph 1, Italian Legislative Decree no. 58/1998)

Notice is hereby given to the Shareholders of Banca Finnat Euramerica S.p.A., that the General Shareholders' Meeting will be held at the Bank's Registered Office in Rome (Palazzo Altieri - Piazza del Gesù, 49) on 27 April 2017 at 4 pm in single call to discuss and resolve on the following:

AGENDA

1. Statutory financial statements for the year ended 31 December 2016 complete with the related reports by the Board of Directors, the Board of Statutory Auditors and the Auditing Firm. Proposed allocation of the year's profit. Inherent and consequent resolutions. Presentation of the consolidated financial statements at 31 December 2016.
2. Additions to the Board of Directors in office in accordance with Article 2386 of the Italian Civil Code Inherent and consequent resolutions.
3. Determination of the fees due to the Chairman of the Board of Directors, after revocation of previous resolutions. Inherent and consequent resolutions.
4. Disclosure on the remuneration policies for Directors, Employees and outside workers who are not employees. Remuneration Report prepared in accordance with article 123-*ter* of Italian Legislative Decree no. 58/98. Inherent and consequent resolutions.

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Information about:

- attendance at the Meeting (in this regard, it is specified that the "record date" is 18 April 2017);
- vote by proxy and through the Designated Representative;
- exercise of the right to ask questions on the agenda items;
- exercise of the right to supplement the agenda and to submit new draft resolutions;
- the availability of the reports on the agenda items and of the documentation pertaining to the Meeting;
- the additions to the Board of Directors;
- the share capital;

is provided in the full text of the call notice available at the website www.bancafinnat.it ("Investor Relations/Agenda and Documents") and at the authorised storage mechanism called "NIS-Storage" (on the website www.emarketstorage.com).

Rome, 27 March 2017

The Chairman of the Board of Directors
(Ms. Flavia Mazzarella)

FINANCIAL STATEMENTS OF BANCA FINNAT EURAMERICA S.P.A. AT 31 DECEMBER 2016

REPORT ON OPERATIONS AND DRAFT RESOLUTIONS TO THE SHAREHOLDERS' MEETING OF BANCA FINNAT EURAMERICA S.P.A.

Dear Shareholders,

Prior to presenting the report on operations for 2016, following is an overview of the domestic and international macroeconomic background, on the financial markets and on the real estate market.

DOMESTIC AND INTERNATIONAL MACROECONOMIC BACKGROUND

In 2016, the continuing prevalence of ultra-accommodating conditions in the monetary policies adopted by the European Central Bank enabled Eurozone countries to issue over 60 percent of their debt at average rates that were even negative. The corporate world has also benefited from interest rates at record low levels, and this circumstance has enabled corporate issuers in the Eurozone to offer 344 billion euros in new issues on the bond market. While the policy of the ECB did have important effects on the monetary markets, economic growth rates in the Euro area have remained excessively low. General economic sentiment was then also negatively influenced not just by the outcome of the British referendum in favour of Great Britain's divorce from the European Union, but also by the uncertainties emerged on the occasion of the constitutional referendum that should have introduced, in Italy, a series of reforms deemed essential by many international investors for an improvement of our economy's growth outlook.

In the Eurozone, economic growth thus continued substantially to languish, with 0.3% growth recorded both in the second and in the third quarter, after more dynamic growth of 0.6% achieved in the first quarter of 2016. France, after brisk growth of 0.7% in the first quarter, recorded a 0.1% contraction in its gross domestic product in the following quarter, and a recovery limited to 0.2% in the third quarter. Germany, after an initial increase by 0.7%, saw its gross domestic product slow down to 0.4% in the second quarter and 0.2% in the third. Italy's own growth was limited to 0.3% both in the first and in the third quarter, after a second quarter characterised by no growth at all.

Only in the United States did the economy growth constantly and progressively stronger, with gross domestic product expanding by 0.8% year on year in the first quarter, by 1.4% in the second, and by as much as 3.5% in the third.

With regard to emerging countries, while in the third quarter the Chinese GDP confirmed a year-on-year growth of 6.7%, equal to the level already achieved in the previous quarter, Brazil and Russia tried to get out of the recessionary quagmire in which both countries have been stuck in the past two years, in the wake of the heavy decline in the prices of commodities, of which they are both producers and exporters. In the third quarter of 2016, the Brazilian GDP contracted by 2.8%, after a 3.6% drop recorded in the previous quarter, while in Russia the GDP declined by 0.4% after a previous contraction by 0.6%.

Concerning global inflation trends, they were characterised by a first part in which global prices continued to decline, from 2.9% to 2.5%, in the wake of an ever sharper decline in inflation expectations and a second part, starting in September, in which these same expectations (measured by the five-year swap rate for the next five years) rose considerably, reaching 2.4% (from 1.86% at the end of June) for the USA and to 1.75% (from 1.26% at the end of June) for the Eurozone, in the wake of strong rises in oil prices (+34% already at the end of the first half of 2016), but also by virtue of the reflation implications induced by the new pro-cyclic economic policies announced by the new US administration. This strong increase in inflation expectations then found its definitive confirmation in the actual macroeconomic data, especially in the Eurozone. While the rate of increase in consumer prices rose from 1.1% to 1.7% in the United States from April 2016 to December 2016, the Eurozone experienced the most drastic change in scenario, and in Germany the inflation dynamics led prices to shift from a decline of 0.1% in April to year-on-year growth of 1.7% in December. As a whole, the Eurozone went from year-on-year decline of 0.2% in April to year-on-year growth of 1.1% in December, while in Italy consumer price inflation recorded, in December, a year-on-year growth rate of 0.5% after decreasing by the same amount in April.

In this environment, bond yields rose fairly significantly from the minimum values reached shortly after the end of the first half. The yield of the ten-year US Treasury Note rose from 1.38% to 2.46% at the end of December 2016; the yield on the ten-year Bund grew to 0.21% from a negative yield of 0.19%, while the rate on the ten-year Italian BTP rose from 1.34% to 1.81%. Whereas in March, in a still deflationary environment, the ECB had launched new expansionary measures, in the subsequent December intervention, in light of the new reflationary evidence, non-conventional monetary policy interventions were recalibrated. In March, the official policy rate had been lowered to zero (from 0.05%); the negative remuneration required of the banking system in the presence of deposits with the ECB had been increased to -0.4%; the commitments for the purchase of securities by the ECB had been extended to 80 billion a month and new long-term TLTRO had been offered to the banks, potentially even with negative rates. In the meeting of December 2016, instead, the ECB left the policy rates unchanged: the reference rate (refinancing rate) at zero, those on deposits at -0.4% and the marginal lending facility at 0.25%. As for the non-conventional monetary policy measures, the Governing Council of the ECB decided to continue to carry out purchases within the scope of the ongoing programme, extending its effectiveness until December 2017 but lowering the monthly amounts that may be purchased from the current 80 billion euros (valid through March 2017) to 60 billion euros.

In light of the new inflation expectations, in the meeting of 14 December 2016, the Federal Open Market Committee, i.e. the body of the US Fed that steers US monetary policy, also confirmed the current trend towards a more convinced normalisation of its own monetary policy, raising the interest rate by 0.25 points (Fed Funds were raised to 0.7%) and announcing three additional increases, of equal size, during 2017.

THE FINANCIAL MARKETS

In 2016, equity markets exhibited widely different trends among the world's regions. While in the United States and in the main emerging economies rates grew significantly, the Euro area was hampered by the weakness of the macroeconomic scenario and, especially in Italy and in Spain, by the heavy corrections experienced by the respective banking sectors. In the American equity market, the Dow Jones index grew by 13.8% and the S&P 500 by 9.9%, while emerging markets like Brazil and Russia, grappling with their attempts to get out of the heavy economic recession that hit both countries in the 2015/2016 two-year time interval, offered returns, respectively, of 38.9% (+73.9% in Euro terms) and by 26.8%. The global emerging market index offered a return of 10% in US Dollar terms. In the Eurozone, the unsatisfactory economic growth, but above all the political unknown which have burdened the markets for months in terms of uncertainty on the outcome and on the consequences of Brexit and on the outcome and consequences of the constitutional reforms proposed by the Italian government, but rejected by the electors, were the source of strong volatility in European markets. At the end of the year, the representative index of the Eurozone stock market (Eurostoxx 50) remained substantially unchanged (+0.7%) whilst the CAC 40 index of the French stock market offered a return of 4.86% and the DAX index of the German stock market yielded 6.87%. The weight of the mining sector in the composition of the British index FTSE 100 allowed the British stock market to record a return of 14.43% in local currency terms, but the severe drop of the British Pound, which lost up to 18% relative both to the US Dollar and to the Euro, following the referendum in favour of Great Britain's exit from the European Union, caused the performance of the British index to be negative, if the exchange rate had not been hedged (-1.44% in Euro terms). Other negative returns, in Europe, were recorded for Zurich stock market (-6.8%), for the Portuguese market (-11%), for the Madrid Ibex 35 index (-2%) and for the FTSE Mib index of the Italian stock market which, with the heavy contribution of the 39% drop of the banking sector, underwent a capitalisation decline of 10.2% in percent terms, i.e. 42 billion euros in absolute value terms. The total capitalisation of the Italian Stock Market thus declined by 524.9 billion euros, by 776.6 billion euros at the end of 2006, i.e. 31.8% of the GDP (52.7% of GDP at the end of 2006). Within the Eurozone, the Italian stock market capitalisation accounts for 8.4% of total, France's is 30.9% and Germany's 27.2%. In the Asia/Pacific area, the Shanghai stock market index declined by 13.13%, the Japanese Nikkei 225 gained 0.42% and the Hong Kong Hang Seng index gained 0.39%.

On the Commodities markets, aggregate returns amounted to 10.5% after lagging as the worst asset class of the three previous years. The lion's share was taken by Oil, which, after declining (Brent crude oil) from a price of 107 dollars per barrel in July 2014 to 28 dollars in January 2016 (the lowest level in 13 years), yielded an unexpected annual return of 50.6% in the wake of the first cut in production, decided by OPEC after 8 years. In the energy sector, of note were also the return offered by the ICE diesel (+53.9%) and by NYMEX natural Gas (+68.2%). Among industrial metals, Gold recorded a 9% increase, after growing by up to 24% at the end of the first half of 2016, whilst Silver gained 15.9%, Palladium 20.9% and Copper 16.6%. Concerning farming derivatives, the prices of Corn declined (-1.74%) as did those of Wheat (-13.1%), whereas Soy rose by 15.75%. Among imported products, Coffee rose by 9.1%, Cotton by 13.6% and Sugar by as much as 28.7%.

With regard to bond markets, global high yield bonds were the best performers, with annual returns of 14%, while corporate investment grade bonds were disappointing (+3.3%) along with the ten-year US Treasury

Note (0%), whose capital loss, in view of the changed scenario about rates expectations, fully eroded the value of the expected coupon.
The best performance, among government bonds, was recorded by the British Gilts (+7.6%), while more than satisfactory returns were also offered by the French OATS (+4.2%) and the German Bunds (+5.4%). Italian BTPs offered near-zero returns (+0.1%), whilst emerging markets' bonds, as a whole (based on the JP Morgan EMBI Index) offered a return of 8.6%.
As to currency markets, in 2016 gains relative to the Euro were recorded not only by the US Dollar (+3.2%) but also by the Japanese Yen (+6.8%) and the Swiss Franc (+0.84%), while the British Pound lost 17.8%. With respect to the US Dollar, instead, the Brazilian Real was revalued (+17.8%) as did the South African Rand (+11.4%), while the Mexican Peso lost value (-15.1%) along with the British Pound (-15.8%).

THE PROPERTY MARKET IN 2016

The Italian property market continued to climb back, albeit more laboriously than was forecast at the start of 2016, mainly under the influence of a newly uncertain economic environment. The number of sales (starting from residential ones) certainly rose, and 2016 ended with a two-digit growth in transactions, on the order of 12.3% year on year, mostly as a result of the transactions closed in the first part of the year. The change is being driven by the residential sector, which has grown by 23.3% over the last three years. In this framework, the historically low interest rates on loans play their part, facilitating access to credit for home buying purposes. Business properties are having a harder time in getting away from the crisis of recent years, although the number of transactions in the past three years grew by +13%. The transaction activity was not accompanied by a reversal in the trend of prices, which confirmed their recessionary path, albeit with progressively decreasing intensity: the fall in values, which started in 2008, nearly reached the end of its line, but the minus sign is dominating in this second half of 2016 as well, with decline within a range between -1.1% and -0.6%, confirming, for the third year in a row, the progressive reduction of the intensity of price decline.
The volume of transactions in the first 9 months of the year rose to 5.4 billion euros, 5% higher than the figure from the same period of last year, whilst at the European level the volume, equal to 163 billion euros, declined by 16% compared to the figure from the same period of 2015. The fact that the Italian figure bucks the European trend shows that the Italian property cycle is delayed relative to the European cycle.
It should also be pointed that, in the third quarter of 2016, there was a trend reversal with regard to domestic capital, which accounted for 51% of total investments, versus 21% of the second quarter of 2016 (+30%). Foreign capital instead represented 49% of total investments, with 856 million euros, down by 32% relative to the same quarter of 2015.
With regard to sectors, retail recorded the greatest portion of investments with approximately 830 million euros invested in the third quarter (+176% relative to the third quarter of 2015), followed by the office sector, which reached 444 million euros, being confirmed as a product of great interest in the Italian landscape, such as to determine a further compression in prime net returns, both in Milan and in Rome, with values that reached respectively 4.30% and 4.65% in the third quarter of 2016.
Interest for logistics continued to consolidate, recording investments of approximately 340 million euros, twice as much as in the previous period of 2015. In addition, several transactions are in the pipeline for the

end of the year. Prime net returns declined in the markets of Bologna (7.10%), Turin (8.10%) and Veneto (7.60%).
It should be pointed out that the good performance of the hotel sector which has seen approximately 600 million euros invested since the start of the year, and continues to attract a significant portion of capital.

The evolution of the Italian property market does not pertain only to growth in volumes and values, but it is increasingly focused on the ability to enhance the efficiency of the property to better meet potential buyers' needs. The main challenge is to be able to identify new opportunities provided by the market in terms of risk-reward. With regard to asset allocation, in 2016 there was a trend reversal relative to the past; greater attention was paid on value added products and on specialisation by type, especially in high growth potential sectors such as infrastructure, RSA and senior accommodation, requalification of school and sports facilities.

Rome continues to attract investors' interest, with approximately 375 million euros invested in the third quarter of 2016, up compared to the same quarter of 2015 and in line with the figure in Milan, which recorded 388 million euros invested. Milan, which has always been the preferred target of investments, in the first 9 months of 2016 reached 1.8 billion euros, with a prevalence of investments in the executive office sector, which accounted for 74% of the total. It is still confirmed as the reference city, but the dearth of supply has led investors to expand its horizons (some examples are the high street transactions on Bologna, Genoa, Vicenza and Padua).
The office occupier market also indicates good activity in the city of Milan, which in the first 9 months of the year reached an absorption of approximately 220,000 square metres, exceeding the volumes achieved in the same period of the same year by 16%. Rents were stable at 500 euros per square metre per year in the prime locations of the Historical Centre and of the CBD and they rose in the sub-markets of the centre and semi-centre. In Rome, the third quarter of 2016 saw an absorption of approximately 41,000 square metres, i.e. approximately 24% above the quarterly average of the last 5 years. Rents also exhibited a positive trend, increasing in the E.U.R. and in the CBD.

The real estate funds reflects the recovery of the reference market and serves as an important engine for it. According to the annual study by Scenari Immobiliari, the performance of the segment exceeds that of the global economic environment and there are still favourable conditions for further development, such as high liquidity, low interest rates, the presence of a great number of opportunities at reduced prices and the poor liquidity of other forms of investments. The number of funds operating in our Country declined slightly as a result of the expiration of some listed funds and the close-out of family funds, but a slight increase is expected in 2017. In addition to Italian operators, internationally owned SGRs are expected to use this instrument to operate intensively on the domestic market. The interest of foreign operators had already been perceived at the end of last year and intensified in the course of 2016, confirmed by various international investors who had targeted the Italian market among its own future growth objectives, to grow and develop their own business, through a series of acquisitions and an important optimisation of their own portfolio's management.

* * * * *

Dear Shareholders,

We hereby submit the separate Financial statements as of 31 December 2016 for your assessment and approval, showing a net profit of 3,990 thousand euros, down by 634 thousand euros compared with 4,624 thousand euros of the previous year.

The main items that form the 2015 financial year results are shown below and compared with the corresponding 2014 figures:

- **Earnings margin** totals 32,302 thousand euros, compared to 33,423 thousand euros in the previous financial year. The overall decrease by 1,121 thousand euros may be broken down as follows:

  increases
  - 119 thousand euros for Net commissions (14,164 thousand euros at 31 December 2016, compared to 14,045 thousand euros in the previous year);
  - 3,607 thousand euros for Net income from trading activities, which had a positive balance of 1,896 thousand euros as at 31 December 2016, compared to the negative balance of 1,711 thousand euros of the 2015 financial year. The 2016 amount included 408 thousand euros for positive margins on derivatives representing greenhouse gas emissions allowances;

  decreases
  - 1,863 thousand euros for Interest margin (7,570 thousand euros at 31 December 2016 compared to 9,433 thousand euros in the previous year).
  - 396 thousand euros for Dividends and similar income (5,673 thousand euros at 31 December 2016, compared to 6,069 thousand euros in the previous year);
  - 2.588 thousand euros for Profit from the sale of available-for-sale securities (2,999 thousand euros in 2016, compared to 5,587 thousand euros in the corresponding period of the previous year).

- **Value adjustments for impairment** amounted to 1,656 thousand euros compared to 1,764 thousand euros in 2015. The item includes 123 thousand euros of value adjustments on receivables and 1,533 thousand euros of value adjustments on available-for sale financial assets.

- **Operating costs** amount to 24,954 thousand euros compared to 27,660 thousand euros in 2015, down by 2,706 thousand euros overall; their breakdown is as follows:
  - staff costs, which total 16,498 thousand euros, are down by 567 thousand euros, compared to 2015 (17,065 thousand euros);
  - other administrative expenses, totalling 12,545 thousand euros, decreased by 573 thousand euros compared to those of the previous year (13,118 thousand euros). The item also includes the contributions, totalling 1,204 thousand, paid to the National Resolution Fund (versus 1,012 thousand euros of last year);
  - provisions for risks and charges were drawn down by 619 thousand euros as opposed to the allocation made last year;

- other operating income/expenses show a positive balance of 3,869 thousand euros versus a likewise positive balance of 4,021 thousand euros of 2015. The item comprises the recoveries of costs from customers, amounting to 3,639 thousand euros (3,783 thousand euros in the past year). The item also included the negative result of 257 thousand euros referring to the trading of certificates representing greenhouse gas emissions allowances;
- at 31 December 2016, the cost-income ratio amounted to 77.3% with a decrease compared to 31 December 2015 (82.8%) due to the reduction in operating costs.

- **The profit (loss) from equity investments** had a negative balance of 1,426 thousand euros and included the cost of 2,000 thousand euros for the write-down of the Imprebanca S.p.A. equity investment as a result of the impairment test carried out, and the income of 572 thousand euros corresponding to the gain realised from the sale of "Revalo S.p.A."

- **Income tax** amounted to 276 thousand euros, whereas they were positive by 625 thousand at 31 December 2015.

* * *

The change in "Valuation reserves" together with the result for the year, are shown in the Statement of Comprehensive Income.

DIRECT AND INDIRECT DEPOSITS

The breakdown of the Bank's deposits is as follows:

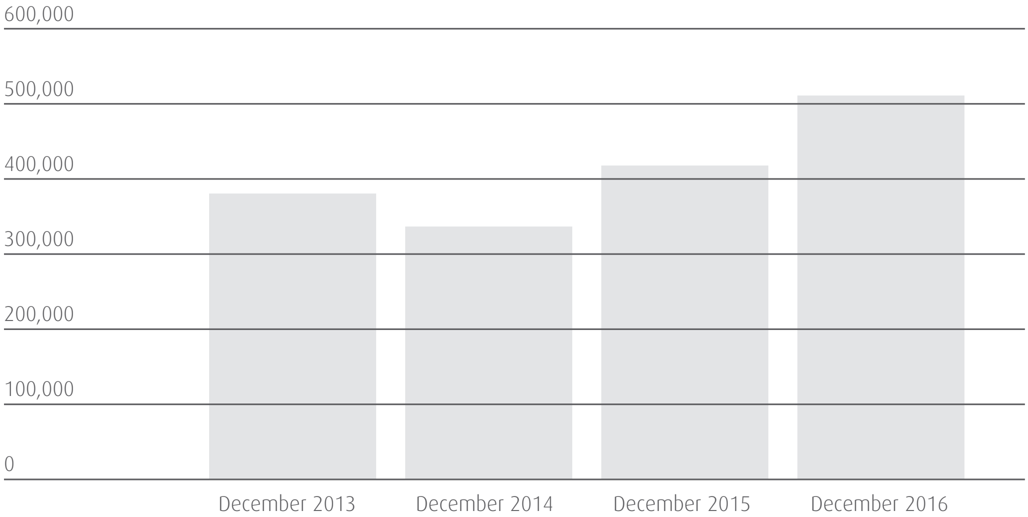
(in thousands of euros)

	December 2013	December 2014	December 2015	December 2016
Direct deposits from customers	**380,810**	**336,854**	**417,760**	**510,686**
- Due to customers (current accounts)	284,987	248,080	331,111	418,331
- Fixed-term deposits	54,138	40,116	60,527	68,530
- Outstanding securities	41,685	48,658	26,122	23,825
Indirect deposits	**4,029,489**	**4,338,207**	**4,609,152**	**4,505,144**
- Individual management	396,335	427,690	449,753	459,775
- Delegated management	214,972	244,252	283,646	251,061
- Deposits under administration (UCI and securities)	3,398,930	3,451,980	3,603,627	3,471,594
- Deposits under administration under advice (UCI and securities)	–	183,688	229,493	255,778
- Third parties' insurance products	19,252	30,597	42,633	66,936
Total deposits	**4,410,299**	**4,675,061**	**5,026,912**	**5,015,830**

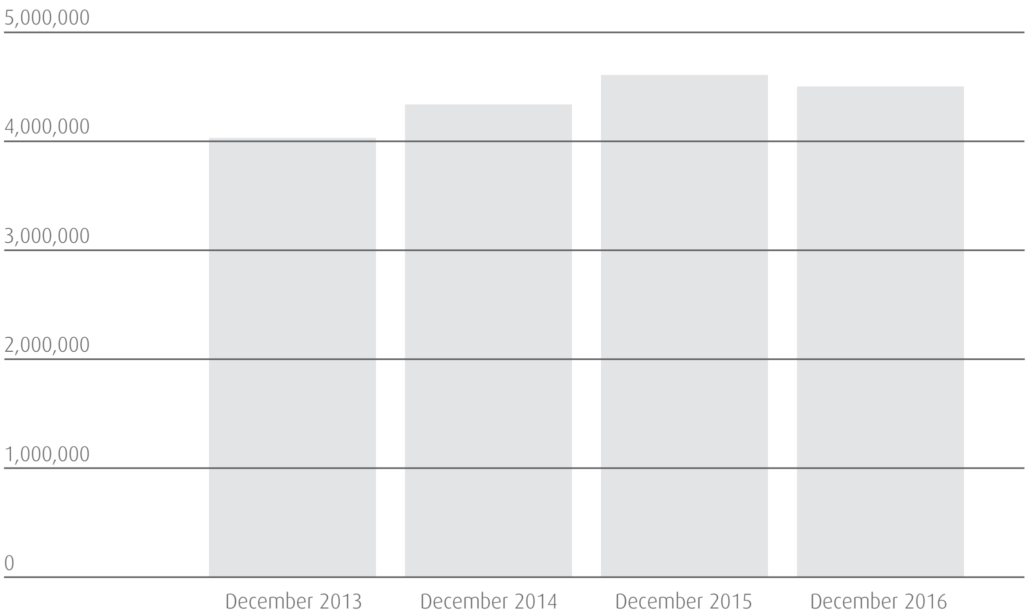
In particular, direct and indirect funding from customers, described above, does not include repo transactions having the Cassa di Compensazione e Garanzia as the counterparty.

All assets shown in the statement also take into account the amount invested in them and originating from the other types highlighted.

Direct deposits from customers



Indirect deposits



OPERATIVE OFFICES

The Bank has operative branches in Rome, Milan and Novi Ligure.
The central office is at 49 Piazza del Gesù, Rome, where 2 branches in Corso Trieste, 118 and Via Catone, 3 (Piazza Risorgimento) are located.

BUSINESS SEGMENTS

Following is an overview of the activities carried out by the Bank and Group companies in 2016:

Investment banking

In 2016, there were several events that created many uncertainties on financial markets: from the British referendum on "Brexit" to the US presidential elections, to the constitutional referendum in our own Country, and to the re-emergence of increasing fears for the soundness of our banking system.
The financial sector was particularly influenced by these events and, for essentially the entire investment services industry, business was affected.

Our bank continues to carry out different Investment Banking activities, constantly focusing on maintaining broad diversification of the revenue sources, which clearly corresponds to a mitigation of the risks that would derive from excessive specialisation and concentration.

The sector of **brokerage**, traditional for our company, recorded contracting volumes (-25% on equities in Italy, -17% on bonds), which nonetheless were in line with the markets (according to ASSOSIM data on brokered volumes, the two figures were respectively -22.5% and -22.28%). A similar decline, approximately 19%, was experienced by commissions, on nearly all segments with the exception of derivatives, for which there was no contraction and the figures are in line with those of 2015.
There are some fields of activity, of a more niche-like nature, on which the Bank has nonetheless continued to operate well: growing revenues were recorded from the brokerage of CO2 certificates, the bank strengthened its own competitive positioning on the appointed intermediary activity for listed funds on the ETF Plus segment of Borsa Italiana (at the end of December, it served in that capacity for 38 funds belonging to 3 Fund Houses) and it continues to be a market leader as a specialist on the AIM market (nearly 30 mandates); this activity continues to provide a significant contribution to the income statement. Starting from the Specialist services, the Bank is increasingly focusing on corporate Broking services for listed issuers; the Bank is also NOMAD for ten companies, it provides six with the "coverage" of its Studies Office and, ever more frequently, it provides advanced, specialist back office services (the revenues deriving from the latter services more than doubled in the past 3 years).

During the year, placements have also been carried out on the small cap AIM market, for which the role of Global Coordinator was played. These listed companies are yielding remarkable returns also to the investors who subscribed them. IPOs generated significantly higher commissions than those achieved in 2015.

For **Assets under Management** the past year was, once again, a very challenging one. The year was characterised by considerable volatility, but above all by the unexpected reactions to important events as they occurred, which were often completely contrary to those that could rationally be expected. An additional difficulty in producing returns derives, obviously, from the extraordinarily low level of the interest rate.
Asset management closed the year, in most mandates, with positive performance, albeit to a marginal extent. This was partly made possible by the strong recovery at the end of the year. The results of the New Millennium funds, managed internally, were also substantially positive: with the exception of the balanced fund (which nevertheless closed with a loss of less than 1%), positive returns were obtained both on the Large Euro Corporate and on the Inflation Linked fund. Still more significant were the rises of the Euro Equities fund (which decisively outperformed its own benchmark as well) and of the Global Equities fund (over 4%).
Asset Management volumes also grew, while those on the SICAVs were substantially stable. Funding on Funds managed by Third Parties rose.
The Advisory service, performed almost exclusively in favour of private customers, is now at steady state.

The Bank is investing in Asset Management: in 2016, the complex process for the establishment of the new Luxembourg-based Management Company of the Group, NATAM SA, was completed, and at the end of the year the company obtained the authorisation of the supervisory authority of the Grand Duchy to operate both in UCITS and AIFMD. It is currently operational and it provides its services to the two New Millennium SICAVs (the UCITS and the SIF) for which all obligations directed at changing their status from SICAVs "under own management" and "under others' management" have been completed.
However, the ambition of NATAM, and of the Group, is to acquire additional mandates from third parties. In this regard, considerable commercial efforts are underway to make the new entity, and the solutions it proposes, better known.

Activities in the bank's own account produced less positive results than those of previous years, because of the limited rates of remuneration. In this scenario, the Bank has not changed the traditional, particularly prudent, approach: the portfolio continues to be substantially invested in short-medium maturity Government Bonds which at this time offer extremely modest returns but do not imply particular assumptions of risks.

However, carry trade strategies continue to be pursued when market conditions exhibit misalignments between the returns from Repos and those of the securities used as the underlying assets.

Advisory & corporate finance
The Bank provides corporate finance consulting services and assistance to private and public companies, with a special focus on medium-sized companies, through its Advisory & Corporate Finance department. In 2016, the team dedicated to this activity continued to develop its operational effectiveness with particular attention paid to the forms of alternative finance such as the capital market or structured debt instruments.

In 2016 the following transactions were also successfully finalised: i) the listing of Energica Motor Company S.p.A., SMRE S.p.A. and Vetrya S.p.A. within which Banca Finnat served as Nomad and Global Coordinator for assistance in the activities directed at organising, managing and executing the reserved placement of shares in support of the listing; ii) the listing of 4AIM SICAF S.p.A., for which Banca Finnat served as Global Coordinator for assistance in activities directed at organising, managing and executing the reserved placement of shares supporting the listing; iii) the structuring, issuing and subscription of a debt instrument by Yourvoice S.p.A. directed at financing corporate development projects; iv) financial assistance in the preparation of a business plan of an Italian e-learning company, directed at obtaining new resources through the structuring of financial transactions; v) financial assistance pertaining to the activities directed at listing on the AIM a company active in the production and marketing of farm machinery; vi) assistance to a company active in the production of citrus fruit juices and derivative products in the renegotiation/remodulation of exposure of banks and/or obtaining new finance in the form of debt capital; vii) financial assistance to an Italian company active in the sector of renewable energies, directed at the disposal of a photovoltaic plant; viii) analysis of the economic and financial plan prepared by an Italian construction company within a tender procedure called by a Public Administration, in order to release a certification letter.
Among currently ongoing mandates, the following are pointed out: an appointment for financial assistance to a high-tech company directed at structuring acquisitions and obtaining financial resources to support it; assistance to the promoter company involved in the construction of a service infrastructure and tourist attractions (including an aquarium), within the scope of a project developed in the city of Rome, directed at negotiation with banks to obtain the finance necessary for the completion of the project; the appointment for financial assistance to an Italian company active in the sector of renewable energies and of energy efficiency, directed at obtaining new resources through the search for potential investors; the appointment for assistance to Giglio Group S.p.A., a company active in the media & entertainment sectors, broadcasting and e-commerce in the process of translisting from the AIM Italia market to the MTA regulated market, STAR segment.

Lastly, in 2016, the on-going Nomad activities for some companies listed on the AIM continued and 2 additional appointments were acquired for assistance to Giglio Group S.p.A. and to WM Capital S.p.A., bringing the number of companies assisted on the AIM Market to 10.

Commercial Division

The first half of the year was characterised by extremely volatile markets especially in January and by negative interest rates extended at period end to a value at global level greater than 11 billion.
The response of our management and advisory approach was therefore aligned with the utmost prudence. The asset allocation continued to be characterised in favour of more conservative or absolute return products.
Concerning the advisory activity, our analysts' ability to identify cases and sectors capable of providing de-correlated performance guided customers' savings, considerably mitigating the volatility and reducing the use of more executive instruments. The constant vicinity of the consultants to the customers made it possible to be rapid when seizing the rebounds of the markets and subsequent profit taking thereby rebalancing the portfolios.

Customer growth was particularly high, with a far higher number of new customers than in previous years, thanks also to the introduction of two new persons in the via Catone branch.
The rise in the remunerated consulting continued and it showed itself to be greatly appreciated by the customers.

As regards marketing activities, the Bank has carried out a wide range of initiatives: overall, more than two events per month were organised. The issues that were tackled pertained to the markets and financial forecasts, the generational changeover, the possible changes in tax conditions with regard to inheritance, social issues and cultural initiatives.

The Bank was able to meet the demands for credit support coming from our Private customers, supporting different initiatives in a still difficult time for credit. This occurred consistently with our credit policy that is extremely careful of the guarantee programmes.

Our financial planning activities, also through the Group's trust companies, continue to be one of the cornerstones of our offering.
Always central in the dealings with the business world was the joint consulting work between bank and trustees to find the best governance solutions. In particular, there was an acceleration in the escrow activity, which enabled corporate customers to close transactions with the utmost security and with the necessary contractual advice.

Property Fund Management
Investire SGR S.p.A. is the second largest market operator of Italian real estate asset management schemes, managing assets valued at 6 billion euros, with over 1,100 properties distributed throughout Italy, mainly to be used for services (offices/logistics/shopping centres) and residential purposes (free market / in social housing).

During the year, the SGR was appointed to manage two new real estate funds, whose institutional investors are a pension fund and an insurance company. The funds will acquire/contribute properties for a total value of approximately 250 million euros.

With regard to the most significant activities carried out on funds currently managed by the SGR, in December the FIP fund disposed of a property located in Rome for 94.5 million euros; the Pegasus fund is assessing new investment opportunities to be completed in the first half of 2017; the FIEPP Fund continued to seek new investment opportunities within the unit holder's risk / reward objectives and it disposed of an entire free standing property in Genoa; the Pegasus fund signed a private agreement for the purchase of a services complex located in the Northeastern outskirts of Milan for a price of 15 million euros: the building shall be subjected to an intense requalification activity, being included as an investment in the value-added segment, with the goal of doubling its value; the FPEP fund focused mainly on the development and requalification of the property portfolio for fractioned sale and on the enhancement of the lease activity; in particular, fractioned sales deeds were executed for approximately 20 million euros; in December, two buildings for office use were also contributed in Rome and Siena;

the HELIOS fund continued its fractioned disposal of the residential assets, and in December it contributed 4 additional residential buildings in Rome for a value of approximately 70 million euros; for the Apple fund, the portion of leased assets reached 72%, of stipulated contracts and/or reservations signed; for the INPGI Fund, lastly, two contributions were completed in February, for a value of approximately 300 million euros, and the merger of the two Funds. For the INPGI Fund, at the unit holder's indication, the technical and commercial activities required for the implementation of the sales plan that will lead to the disposal, in five years, of approximately 700 million euros of assets were started; in the second half, the sales activities were started, preliminarily meeting the tenants' associations. Lastly, a "property showcase" project was launched so as to make commercial information available on-line (sales and leases) for all the residential assets of the various funds; the Crono fund acquired a new property for commercial use located in the centre of Genoa and leased to a leading tenant for a market value of 20 million euros and it continues to seek properties in line with the fund's risk/return profile; the Melograno fund continued activities for the management and letting out of the portfolio, receiving binding offers for an entire free-standing building and for a property unit located in Rome; for the Spazio Sanità fund, the subscription of 25 million euros was completed to continue the investment activity, while another pension fund is about to invest additional equity; in the meantime, scouting for new real estate initiatives continues.

The Distressed & Non Performing Assets area (Securis, II, III, Sistema BCC) continued its road show and portfolio acquisition activities: in detail, asset disposal activities continued on all the funds (in the second half, over 25 properties for an equivalent value of approximately 12.8 million euros), while the Securis III fund contributed 74 additional properties in the second half, for roughly 40 million euros; with regard to this type of portfolio, letting activities also continued, with the use of both traditional and rent to buy contractual forms.

Among listed funds, in December the IRS Fund was liquidated, through the disposal of the entire property portfolio, and concurrently three properties of the Securfondo Fund were sold. In addition, the private purchase agreement was executed for four properties of the Obelisco Fund and of all property assets of the Vesta Fund: all the properties of these funds were included/will be included in a new fund established in December, reserved for institutional investors, which will continue to be managed by the SGR.

Social Housing funds further implemented the acquisition and development initiatives: in 2016, 11 transactions were completed between acquisitions, private agreements and binding agreements, totalling 53.9 million euros for an overall post-development investment of 164.4 million euros, implementing the activities for the subscription of additional equity (+ 68.0 million euros in the year).
In addition, activities continued in preparation of the transformation of the resolved equity (450 million) in subscriptions. In 2016, the marketing of leased apartments and those under future sales agreements in the various funds continued (81% occupancy of the residential portfolio in social housing intended for leasing).

Research & Development

In the period in question, the Bank engaged in the following projects.

Organisation Area

- Transformation of the Corso Trieste agency into a branch was completed.
- The project for the adoption of the Advanced Electronic Signature - FEA was completed for the branch accounts, within the sphere of the cash operations of the Branches.
- New IT procedures were adopted to support the calculation of the customers' Capital Gain.
- The electronic storage service offered by the outsourcer CSE for the handling of the "certified date" was extended.
- A new IT procedure was adopted for Sicav placement, which made it possible to achieve streamlining in the relating operating processes
- The portfolio advisory service offered to customers was supplemented with the adoption of a dedicated account and the production of advanced reports;
- Advanced control procedures and instruments were adopted to maximise the security of the payment services offered with the internet banking channel.

IT and Technologies Area

- Technological and network infrastructure enhancement initiatives were carried out with the installation of a new core switch.
- A technological enhancement measure was carried out for access to the internet service.
- The WatchGuard APT Blocker security service was activated providing protection from threats in real time.
- New fibre optic circuits and accesses were activated.
- The WEB SecetiCBI service was activated.
- The installation of WIFI devices was completed at central and peripheral offices, with the goal of providing an even more effective service to customers.

Mortgage loans and financing

In 2016, the Service performed the ordinary activities aimed at granting loans and monitoring existing credit lines, with thorough analyses of credit ratings and assessments of the guarantees provided.

Corporate governance, organisation, internal control, compliance and Manager in charge of preparing the accounting documents

The corporate governance structure of Banca Finnat Euramerica, originally approved by the Board of Directors at the meeting held on 26 June 2009, in accordance with the provisions of the Bank of Italy issued on 4 March 2008 concerning the corporate governance of Banks, and the subsequent Note dated 19 February 2009, is based on a traditional administration and control system, by virtue of which:

- the Board of Directors alone is responsible for the management of the company;
- the Board of Statutory Auditors is responsible for the supervision of the company and, in this position, it monitors compliance with the articles of association and controls the management;
- the Shareholders' Meeting expresses the will of the shareholders.

The governance principles of Banca Finnat Euramerica, besides being grounded in the applicable laws and regulations in force in Italy, are also inspired by international best practices on the matter and by the recommendations of the Corporate Governance Code for Listed Companies.

The Board of Directors preventively identified the composition of the Governing Body that is deemed optimal in qualitative and quantitative terms, in view of the proper and most effective performance of the duties of the Board, in accordance with the prescriptions of the Bank of Italy's Instruction of 11 January 2012 on organisation and corporate governance.

The Board of Directors carries out its own self-assessment with yearly periodicity. This self-assessment was updated, after preparing a new questionnaire, on 14 June 2016.

Pursuant to the applicable Supervisory Provisions laid down by the Bank of Italy and in the light of the regulations issued on 30 March 2011, the Bank reported to the Shareholders' Meeting held on 29 April 2016 about the remuneration policies and incentives adopted.

With regard to the legal obligations set out in the regulation concerning prudential requirements, in 2016 Banca Finnat Group prepared and delivered the ICAAP report as prescribed by the supervisory provisions. The preparation of these documents, regulated by internal procedures and carried out by the Group's corporate bodies and appointed structures, is the last stage in the much broader and ongoing self-assessment process regarding capital adequacy and its compliance with the RAF, the Group's operational features and the environment in which it operates.

Based on the Supervisory provisions, the Bank is constantly monitoring its liquidity risk, according to the method formalised in a dedicated document containing the guidelines on Liquidity Risk Governance and Management, and periodically performs stress tests on the credit, market, concentration and interest rate risk. The results of the analysis were evaluated by the Board of Directors.

The Members of the Board of Directors - including 4 Independent Directors - and of the Board of Statutory Auditors, whose term of office will expire at the approval of the financial statements at 31 December 2017, were elected by the Shareholder's Meeting of 28 April 2015.

The Board of Directors, on 10 February 2016, appointed by co-optation Ms. Flavia Mazzarella until the approval of the financial statements at 31 December 2015, and she was subsequently appointed by the shareholders' meeting held on 29 April 2016 until approval of the financial statements at 31 December 2017.
Ms. Mazzarella, independent in accordance with the Consolidated Financial Law and the Corporate Governance Code of Borsa Italiana, covers the role of Lead Independent Director, Chairman of the Risk Committee and member of the Appointment Committee.

With regard to the provisions of Article 66 of Italian Law Decree no. 201 of 6 December 2011, amended and converted into Italian Law no. 214 of 22 December 2011 laying down "Urgent provisions for the growth, fairness and consolidation of public accounts", and the formalities required by the "Criteria for the enforcement of Article 36 of Italian Law Decree "Salva Italia" (the so-called "interlocking prohibition")", relating to company employees and the members of the BoD and Board of Statutory Auditors appointed at the Shareholders' Meeting of 28 April 2015 and - for Ms. Flavia Mazzarella appointed by the Shareholders'

Meeting of 29 April 2016 - we have made the necessary assessments of compliance with the prescribed criteria on 19 December 2016.
For the members of the Board of Directors and of the Board of Statutory Auditors, the requirements prescribed by applicable regulations were verified.

On 9 February 2017, the Board of Directors appointed Mr. Giulio Bastia as the Joint General Manager and Manager in charge of preparing the accounting documents, replacing Mr. Paolo Collettini who reached the age limit.

All information required by current regulations is published on the website: www.bancafinnat.it in the Investor Relations, Regulated Information section.

Consob Market Regulation – requirements set forth under Article 36
(Subsidiaries established and regulated by the Law of non-EU States)
Banca Finnat Euramerica undertakes that, in accordance with paragraph 2 of Article 36 of Consob Regulation no. 1619/2007 (Market Regulation), the provisions set out by said Article 36 on the conditions for the listing of parent companies, companies set up or governed according to the laws of States not belonging to the European Union and of significant relevance for the purpose of the consolidated financial statements, do not apply to the subsidiary Finnat Gestioni S.A., since the above mentioned subsidiary falls beneath the limits envisaged by the regulation and does not, therefore, hold "significant relevance".

Market disclosure information
Regarding market disclosure, the Group declares that:
- with reference to the request made by the Bank of Italy, in its Communication of 17 June 2008, the Bank's exposure to financial products perceived by the market as risky comprises the investment in "FIP Funding Class A2-2023" bonds, recorded in the financial statements of the Parent Company as securities held for trading, totalling 2,492 thousand euros (with a nominal value of 4,000 thousand euros). This investment (CMBS Commercial Mortgage-Backed Securities) is the result of the securitisation of the loan to Fondo Immobili Pubblici (managed, as mentioned above, by the subsidiary InvestiRE SGR S.p.A.) and is guaranteed by a special lien on the real estate owned by the Fund, which is almost exclusively leased out to Public Administration entities; consequently, it is an investment that is not exposed to the risk of insolvency.
  At 31 December 2016, the Bank – with the exception of the above mentioned investment – was not exposed to and/or did not hold an interest, either directly or through vehicle companies or other non-consolidated entities, in financial instruments or UCIs characterised by high-risk investments, such as: - SPE (Special Purpose Entities) - CDO (Collateralized Debt Obligations) - Other subprime exposures and Alt-A - CMBS (Commercial Mortgage-Backed Securities) - Leveraged Finance;
- the Board of Directors of Banca Finnat Euramerica S.p.A., pursuant to Consob Resolution No. 18079 of 20 January 2012, decided, on 21 January 2013, to comply with the simplification system set forth in Articles 70 (paragraph 8) and 71 (paragraph 1-bis) of the Regulation adopted by Consob with Resolution No. 11971 of 14 May 1999 as amended and supplemented, by making use of the right, of listed companies, to depart from the obligation to submit the information documents required by Annex 3B

of the Consob Regulation relating to future significant extraordinary operations such as mergers, demergers, capital increase by non-cash contributions, acquisitions and sales;

- with reference to the requests contained in joint Document no. 2 dated 6 February 2009 by the Bank of Italy, Consob and Isvap and in their subsequent Document no. 4 dated 4 March 2010 and the provisions of paragraphs 15 and 25 of IAS 1, regarding disclosures to be made with respect to going concern assumptions, please refer to the commentary provided in Part A, Section 2 – General financial reporting principles and Part E – Information on Risks and Related Hedging Policies of the Notes to the Financial Statements;
- the Bank of Italy published Circular 285 "Prudential Supervision Provisions for Banks" illustrating the implementing provisions in force since 1 January 2014. The document also envisages in the transitional provisions on "own funds", the right not to include, for the purpose of calculating regulatory capital, unrealised profit and loss referring to exposures towards Central Administrations classified in the category "Available-for-sale financial assets". This right (the so-called sterilisation) is valid until the coming into force of IFRS 9 that will replace IAS 39 on financial instruments. The Bank within the time prescribed exercised the above option. IFRS 9 entered into force on 19 December 2016 (twentieth day following publication on the Official Journal of the European Union) and it shall be adopted no later than 1 January 2018. In light of the indications, the Bank of Italy with its notice of 26 January 2017, awaiting a formal clarification by the European authorities, prescribed that this option will continue to be applied to "less significant banks" such as Banca Finnat.

Capital adequacy, prudential ratios and risk management disclosure

Information about the Bank's capital adequacy and risk management are illustrated at length in the Notes to the financial statements, respectively in Part F – Information on Net Equity and in Part E – Information on Risks and Related Hedging Policies.

Own funds and capital ratios

The Regulatory Capital is determined based on the harmonised regulations for Banks and the Investment companies contained in the Regulation ("CRR") and in the EU Directive ("CRD IV") of 26 June 2013 which transfer to the European Union the standards defined by the Basel Committee on Banking Supervision (the so-called Basel 3).
In order to enact the regulations, the Bank of Italy issued, on 17 December 2013, Circular no. 285 "Prudential Supervision Provisions for Banks".

Own funds at 31 December 2016 amounted to 191,620 thousand euros (180,289 thousand euros at 31 December 2015), whereas the Total capital ratio stood at 39.0% (38.4% at 31 December 2015).

PERFORMANCE OF SUBSIDIARIES

InvestiRE SGR S.p.A.

The company, based in Rome and incorporated on 4 February 2002 has the purpose of establishing and managing real estate funds and was authorised by the Bank of Italy on 9 May 2002.

On 29 December 2014, the merger by absorption of Beni Stabili Gestioni SGR S.p.A. and Polaris Real Estate SGR S.p.A. within Investire Immobiliare SGR S.p.A. was finalised, with accounting and tax effects as from 1 January 2015.
As a result of this transaction, the share capital was increased from 8,600,000 euros to 14,770,000 euros and the company is owned by Banca Finnat Euramerica, with 50.16%, by Beni Stabili Siiq, with 17.90%, by Regia S.r.l. (G. Benetton Group) with 11.64%, by Fondazione Cariplo with 8.65%, by Cassa Italiana di Previdenza e Assistenza Geometri with 7.72%, by ICCREA Holding with 2.38% and by Fondazione Cassa dei Risparmi di Forlì with 1.55%;
At 31 December 2016, the company managed 35 real estate funds, with the GAV of the managed assets totalling 7,001 million euros, compared to 6,769 million euros at 31 December 2015.
The draft financial statements at 31 December 2016 show a profit of 7,163 thousand euros compared to 10,797 thousand euros at 31 December 2015 and a book value of the net equity of 83,488 thousand euros compared to 77,558 thousand euros at 31 December 2015. In 2016, the company recognised a total commission income of 35,717 thousand euros compared to 29,030 thousand euros in 2015.

Finnat Fiduciaria S.p.A.
The company – incorporated in accordance with Italian Law no. 1966 of 23 November 1939 – is based in Rome and operates as an equity and security trust company. It has a share capital of 1,500,000 euros held entirely by Banca Finnat Euramerica S.p.A..
On 2 December 2015, the company absorbed Fedra Fiduciaria S.p.A. with accounting and tax effects as from 1 January 2015.
At 31 December 2016, assets under management totalled 1,299 million euros, versus 1,322 million euros at 31 December 2015.
The draft financial statements at 31 December 2016 show a loss of 358 thousand euros versus a profit of 62 thousand euros in the previous year. The result of 2016 is affected by an administrative penalty of 448 thousand euros, against which an appeal was filed for its cancellation. In 2016, the company generated commission revenues of 1,710 thousand euros. At 31 December 2016, the company had a net equity of 1,931 thousand euros, versus 2,604 thousand euros at 31 December 2015.

Finnat Gestioni S.A.
The company, established on 10 April 2008, is based in Lugano and provides financial management and consulting services including, in particular, asset and portfolio management services.
The Bank holds a 70% stake in the company's share capital, which amounts to CHF 750,000, while the remaining stake is held by Banca per la Svizzera Italiana. Managed assets at 31 December 2016 totalled CHF 81.5 million, compared to CHF 100 million at 31 December 2015.
The book value of net equity at 31 December 2016 amounted to CHF 2,030 thousand, compared to CHF 2,094 thousand at 31 December 2015.
The draft financial statements for 2016 show a profit of CHF 341 thousand euros compared to CHF 467 thousand euros at 31 December 2015.
In 2016, the company generated revenues for commission income of CHF 689 thousand euros.

Natam Management Company S.A.

The company, established on 30 August 2016, has its registered office in Luxembourg and share capital 750,000 euros divided into 750 shares with a face value of 1,000 euros each, entirely subscribed by Banca Finnat.

The purpose of Natam is to perform collective asset management both in favour of harmonised funds and of alternative investment schemes.

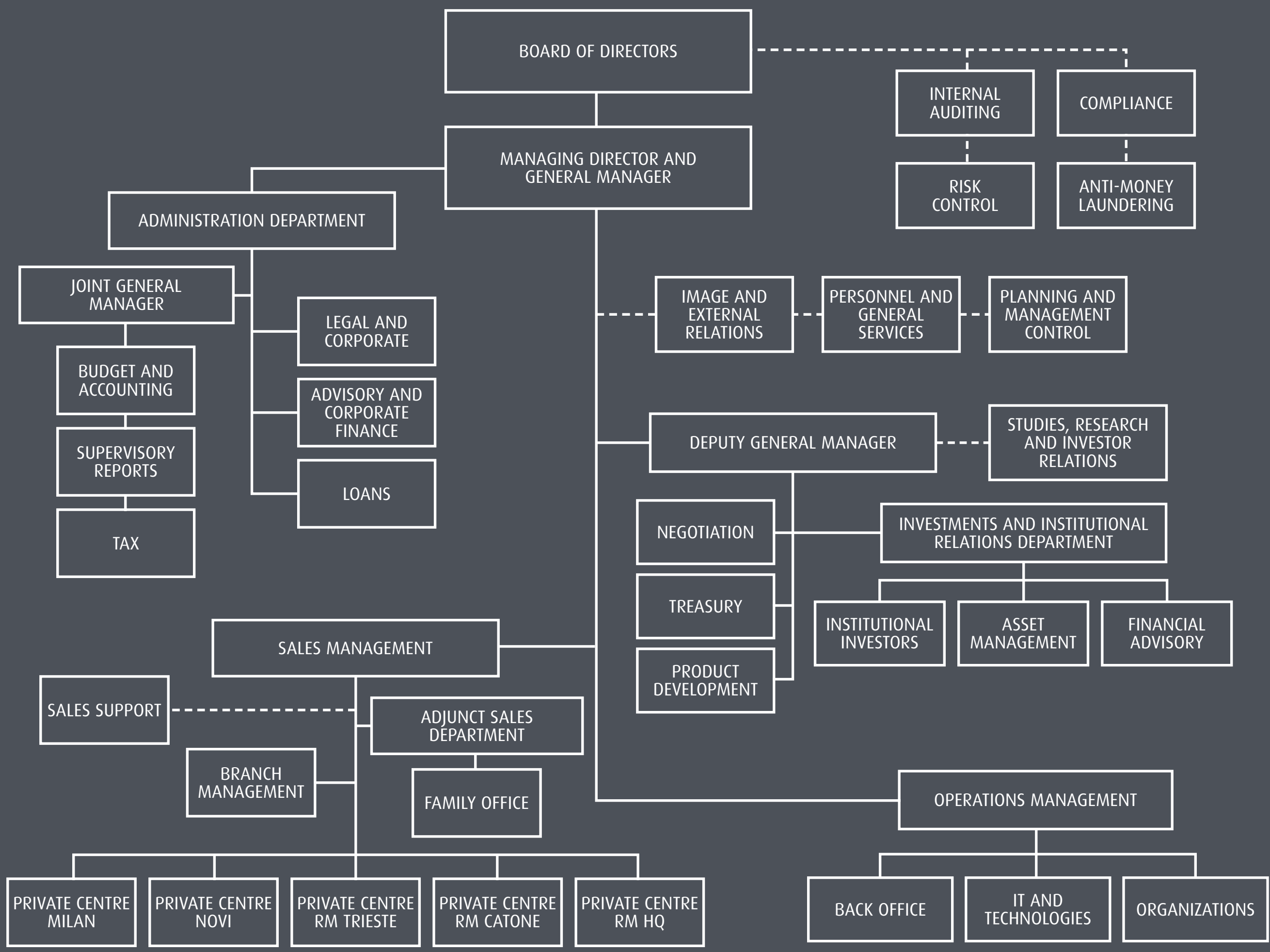
The draft financial statements for 2016 show a loss of 281 thousand euros.

* * *

The Report on Operations of the consolidated financial statements contains the chart illustrating the Group structure and the related shareholdings.

THE STRUCTURE OF BANCA FINNAT EURAMERICA

The organisation structure of the Bank, after the Board of Directors' meeting of 9 February 2017, is as follows:



The total number of personnel in the Bank increased by 2 persons compared to 31 December 2015 as shown in detail below:

	31.12.2016	31.12.2015
staff	**171**	**168**
– executives	24	23
– managers	80	74
– clerical workers	67	71
contractors	**6**	**7**
promoters	**3**	**3**
Total	**180**	**178**

With regard to changes in the number of employees, during the year 6 persons terminated their employment whilst 9 persons were hired in all (4 with undefined duration employment contracts).
The change was due to ordinary personnel turn-over and to the need to enhance some work areas. No employment contracts were terminated for disciplinary or personnel redundancy reasons.
In 2016, a total number of more than 2,900 training hours were administered, with a total number of 560 participations (the training initiatives involved 157 employees).
The training initiatives were mainly oriented to strengthening the linguistic skills (specifically, business English) and the skills required by employees' assigned roles, in particular highly specialised ones (in this sense, of note were the training initiatives in favour of Sales Management personnel).

OWN SHARES

At 31 December 2016, the Bank held 29,492,710 own shares, representing 8.1% of the share capital with a total value of 14,392 thousand euros. At the end of the past year, the Bank held 28,320,718 own shares with a value of 13,949 thousand euros.
During the financial year, the Bank purchased 1,171,992 shares with a total value of 443 thousand euros.

STOCK EXCHANGE CAPITALISATION OF BANCA FINNAT EURAMERICA

(in thousands of euros)

	Number of shares	Market price 17 February 2017	Capitalisation 17 February 2017 (in thousands of euros)	Consolidated net equity (in thousands of euros)	Share capital (in thousands of euros)
Ordinary shares	362,880,000	0.37650	136,624	234,654	72,576

RELATED PARTY TRANSACTIONS

The Bank complies with the Regulations for Related Party Transactions, approved by the Board of Directors on 2 August 2013 to define responsibilities and rules governing the identification, approval and implementation of related party transactions carried out by the Bank or by companies of the Banca Finnat banking group, in accordance with Article 2391-bis of the Italian Civil Code, the Consob Regulation adopted with Resolution no. 17221 of 12 March 2010 and Title V, Chapter 5 of the Bank of Italy Circular no. 263 introducing “New Prudential Supervision Provisions for Banks”, respectively.

The Bank entered into transactions with subsidiary companies or companies subject to significant influence and ordinary transactions of lesser significance and under market conditions that have not impacted significantly on the financial position or results of operations of the company and moreover, in 2016, it did not carry out any transaction with related parties or subjects other than related parties considered to be of an “atypical or unusual” nature, and which, due to their magnitude/relevance might have cast doubts on the safeguarding of the Bank’s assets and the protection of minority shareholders’ rights.
Information required under IAS 24 is shown in part H of the notes to the financial statements.

OPTION FOR THE DOMESTIC CONSOLIDATED TAX SYSTEM

The Bank and its Italian-based subsidiaries have joined the “domestic consolidated tax system”, pursuant to Article 117/129 of the TUIR (Consolidated Income Tax Act). The option was renewed in 2016 also for the 2016/2017/2018 period.

By virtue of this option, the Group companies determine their proportion of the taxes payable and the corresponding fiscal income (taxable income or fiscal loss) is transferred to the Parent Company, relating to which a single taxable income or loss is reported (resulting from the arithmetical sum of its own and its participating subsidiaries’ incomes/losses) and, consequently, a single income tax debit/credit determined.

REVISION IN VIEW OF THE NEW IFRS 9

The Bank launched the IFRS 9 project for the implementation of the new standard, which from 1 January 2018 shall replace the current IAS 39. The new standard will impact the procedure for classifying and measuring financial assets, the logic and the procedures for calculating value adjustments and the hedge accounting model.
A specific working Group was established which, with the assistance and support of a leading audit firm, launched the process for the revision of the management, organisational, administrative and accounting systems, directed at the adoption of the new accounting standard.
Taking into account the current capital levels, it is deemed that the impact of adopting IFRS 9, in particular with regard to the exposure impairment rules, will in no case be critical.

COMPARISON OF KEY BALANCE SHEET AND INCOME STATEMENT FIGURES OF THE 2016 AND 2015 FINANCIAL YEARS

The main 2016 financial statement items and comparative items at 31 December 2015 are summarised below.

The tables reflect the minimum mandatory layout provided for in Circular Letter 262/2005 issued by the Bank of Italy.

BALANCE SHEET OF BANCA FINNAT EURAMERICA S.p.A.

(in thousands of euros)

	31.12.2016	31.12.2015	Absolute change
ASSETS			
Cash and cash equivalents	470	458	12
Financial assets held for trading	40,489	56,578	(16,089)
Available-for-sale financial assets	1,170,361	826,028	344,333
Financial assets held to maturity	1,999	1,959	40
Due from banks	163,339	88,346	74,993
Due from customers	310,020	277,287	32,733
Hedging derivatives	391	215	176
Equity investments	75,132	80,993	(5,861)
Tangible assets	5,010	5,134	(124)
Intangible assets	385	388	(3)
Tax assets	3,836	5,318	(1,482)
Other assets	15,899	15,712	187
TOTAL ASSETS	**1,787,331**	**1,358,416**	**428,915**
LIABILITIES AND NET EQUITY			
Due to banks	1,203	11,496	(10,293)
Due to customers	1,503,643	1,053,783	449,860
Outstanding securities	23,825	26,122	(2,297)
Financial liabilities held for trading	10,772	9,733	1,039
Tax liabilities	3,666	4,403	(737)
Other liabilities	6,895	7,547	(652)
Staff severance fund	2,225	2,316	(91)
Provisions for risks and charges	448	1,067	(619)
Net equity	234,654	241,949	(7,295)
TOTAL LIABILITIES AND NET EQUITY	**1,787,331**	**1,358,416**	**428,915**

INCOME STATEMENT OF BANCA FINNAT EURAMERICA S.p.A.

(in thousands of euros)

	FY 2016	FY 2015	Change	
			Absolute	Percentage
Interest margin	**7,570**	**9,433**	**(1,863)**	**-20%**
Net commissions	**14,164**	**14,045**	**119**	**1%**
Dividends and similar income	5,673	6,069	(396)	
Net income from trading activities	1,896	(1,711)	3,607	
Net income from hedging activities	–	–	–	
Profit (loss) from disposal or repurchase:				
- available-for-sale financial assets	2,999	5,587	(2,588)	
Earnings margin	**32,302**	**33,423**	**(1,121)**	**-3%**
Value adjustment for impairment	(1,656)	(1,764)	108	
Net income from financial operations	**30,646**	**31,659**	**(1,013)**	**-3%**
Staff costs	(16,498)	(17,065)	567	
Other administrative expenses	(12,545)	(13,118)	573	
Net allocations to provisions for risks and charges	619	(1,067)	1,686	
Value adjustments on tangible and intangible assets	(399)	(431)	32	
Other operating income/expenses	3,869	4,021	(152)	
Operating costs	**(24,954)**	**(27,660)**	**2,706**	**-10%**
Profit (loss) from equity investments	(1,426)	–	(1,426)	
Profit (loss) from current operations before taxes	**4,266**	**3,999**	**267**	**7%**
Income tax for the period on current operations	(276)	625	(901)	
Profit (loss) for the year	**3,990**	**4,624**	**(634)**	**-14%**

Following are a series of Bank operating ratios at 31 December 2016 compared with the operating ratios of the previous year.

	FY 2016 (%)	FY 2015 (%)
Interest margin/earnings margin	23.44	28.22
Net commissions/earnings margin	43.85	42.02
Cost/income ratio (operating costs/earnings margin)	77.25	82.76
ROE (profit (loss) for the year/net equity)	1.70	1.91
ROA (profit (loss) for the year/total assets)	0.22	0.34

MAIN TRANSACTIONS IN THE YEAR, SIGNIFICANT SUBSEQUENT EVENTS AND OPERATING OUTLOOK

The main transactions in the year

Concerning the main transactions and most significant events in the year, it should be pointed out that:

- on 10 February 2016, the Board of Directors of the Bank appointed by co-opting - to replace Director Tofanelli - Ms. Flavia Mazzarella as independent non-executive Director. Director Mazzarella was also appointed Lead Independent Director, Chairman of the Risk Committee and member of the Appointment Committee;
- on 6 April 2016, the Court of Rome, with respect to the litigation initiated by the subsidiary Investire SGR for reimbursement of withholding taxes, postponed the hearing to 9 April 2018;
- on 29 April 2016, the Shareholders' Meeting of the Bank:
  - approved the financial statements at 31 December 2015 and resolved the distribution, to the Shareholders, of a gross dividend of 0.01 euro per share, due for payment from 18 May 2016 (coupon date: 16 May 2016);
  - confirmed Ms. Flavia Mazzarella as non-executive and independent director, having already been co-opted during the Board meeting held on 10 February 2016;
  - revoked the resolution of the Shareholders' Meeting held on 28 April 2015 with regard to the determination of the remuneration of the Board of Directors and defined the new remuneration;
  - revoked the previous resolution for the purchase of own shares, valid until 29 April 2016, and authorised - subordinate to authorisation by the Bank of Italy - the purchase of own shares for an amount not to exceed 2,177,280 euros. Subsequently, on 14 June 2016, the Board of Directors resolved to prepare a new plan for the purchase of own shares, superseding the previous one;
  - approved the Remuneration Policy pursuant to Article 123-ter of Italian Legislative Decree No. 58/98;
- on 14 June 2016, the Board of Directors was informed, in the presence of the Board of Statutory Auditors, of the Inspection Report pertaining to the ordinary inspection carried out by the Bank of Italy care of the Parent company between 25 November 2015 and 14 March 2016, from which no penalty profiles emerge;
- on 30 August 2016, the company "NATAM Management Company S.A." was established with its registered office in Luxembourg, share capital 750,000 euros divided into 750 shares with a face value of 1,000 euros each, entirely subscribed by Banca Finnat.

  The purpose of NATAM Management Company S.A. is to perform collective asset management both in favour of harmonised funds and of alternative investment schemes.
- on 20 September 2016, the Board of Directors of the subsidiary InvestiRE SGR S.p.A. was provided with the Inspection Report of the audit carried out by the Bank of Italy between 8 February and 18 May 2016, from which no penalty profiles emerge;
- on 27 October 2016, with the cancellation from the Commercial Register of Milan, the voluntary liquidation procedure of the associate company Sigefi Italia Private Equity Srl was completed;
- on 7 December 2016, the Bank sold to "B.S. 7 S.p.A.", a wholly owned subsidiary of Beni Stabili S.p.A. Siiq, the entire interest, amounting to 36%, in Revalo S.p.A., a company focused on the management property assets, carrying out property & facility management activities and performing advisory services.

Significant events occurring after the end of the financial year

In the period spanning the end of the 2016 financial year and the date on which these financial statements were prepared, no significant events or factors that could affect the financial position, capital position, or results of operations of the Bank emerged.

However, it should be pointed out that:

- on 9 February 2017, the Board of Directors of the Bank also resolved to appoint Deputy General Manager Mr. Giulio Bastia as the new Joint General Manager and Manager in charge of preparing the accounting documents replacing Mr. Paolo Collettini who reached the age limit.
- on 10 March 2017, the Board of Directors, upon acknowledging the resignation of the Chairman Mr. Giampietro Nattino, appointed Director Ms. Flavia Mazzarella to replace him as the new Chairman of the Bank; she retains her characteristics as independent Director. The Board also co-opted, as independent Director, Mr. Marco Tofanelli, appointed as Deputy Chairman and Lead Independent Director. The Board also passed resolutions on the new composition of the Risk Committee and Appointment Committee.

Business outlook

Based on the current forecasts formulated by the Bank's offices, the result for the year 2017 is expected to exceed that of 2016.

* * *

Dear Shareholders,

We submit the financial statements for 2016, comprising the balance sheet, income statement, statement of comprehensive income, statement of changes in net equity, cash flow statement and notes to the financial statements, as well as the related attachments and the report on operations, for your approval.

We would also suggest allocating the year's profits as follows:

profit for the year	**3,990,100**	**euros**
• to the legal reserve, for 5% to be set aside in compliance with the law and the articles of association	199,505	euros
• to the 362,880,000 ordinary shares a gross dividend of 0.010 euros per share corresponding to 5% of the nominal value of the shares (in accordance with Article 2357-ter of the Italian Civil Code the profits due to own shares held as of the date on which the dividend registration date will be allocated proportionally to the other shares)	3,628,800	euros
• to extraordinary reserve	161,795	euros
totalling	**3,990,100**	**euros**

In accordance with Article 1 of Italian Ministerial Decree of 2 April 2008, the dividend of this proposal, exclusively for taxation purposes, is assumed to be formed with the profits produced in years prior to 31 December 2007, having verified the presence of adequate reserves formed with the profit generated through the current year at that date.

Additionally, the stated allocation of the year's profits complies with the provisions of Art. 6 of Italian Legislative Decree no. 38/2005.

We also propose to transfer the current reserve for purchase of own shares amounting to 2,177,280 euros to extraordinary reserve at the conclusion of the buy back plan.

* * * *

As a result of the proposed allocations, the item "Reserves" will break down as follows:

• legal reserve	9,367,174	euros
• dividend adjustment reserve	6,724,772	euros
• reserve for purchased own shares	14,392,190	euros
• extraordinary reserve	58,482,113	euros
• profit brought forward from restated IAS 19	179,409	euros
• reserve for merger surplus	524,609	euros
Total profit reserves	89,670,267	euros
Other reserves (profits from own shares)	4,336,757	euros
Total reserves	94,007,024	euros

Before moving to the analysis of the various financial statement items, the Board wishes to thank all the Company's staff for the excellent work they have done.

Rome, 10 March 2017

On behalf of the Board of Directors
The Chairman
Ms. Flavia Mazzarella

BALANCE SHEET OF BANCA FINNAT EURAMERICA S.P.A.

(amounts in euros)

	Asset items	31.12.2016	31.12.2015
10.	Cash and cash equivalents	469,526	458,013
20.	Financial assets held for trading	40,489,180	56,578,118
40.	Available-for-sale financial assets	1,170,360,720	826,027,625
50.	Financial assets held to maturity	1,998,648	1,958,825
60.	Due from banks	163,339,270	88,345,504
70.	Due from customers	310,020,304	277,287,252
80.	Hedging derivatives	390,767	215,263
100.	Equity investments	75,131,900	80,993,055
110.	Tangible assets	5,010,372	5,134,155
120.	Intangible assets	384,934	387,619
	of which:		
	- goodwill	300,000	300,000
130.	Tax assets	3,836,117	5,318,316
	a) current	1,777,491	2,823,529
	b) advance	2,058,626	2,494,787
	of which in Italian Law 214/2011	1,526,506	1,951,520
150.	Other assets	15,899,677	15,712,480
	Total assets	**1,787,331,415**	**1,358,416,225**

	Liabilities and net equity	31.12.2016	31.12.2015
10.	Due to banks	1,203,432	11,496,396
20.	Due to customers	1,503,642,843	1,053,783,149
30.	Outstanding securities	23,824,517	26,121,670
40.	Financial liabilities held for trading	10,771,500	9,732,691
80.	Tax liabilities	3,665,582	4,402,966
	a) current	182,580	238,654
	b) deferred	3,483,002	4,164,312
100.	Other liabilities	6,896,145	7,547,481
110.	Staff severance fund	2,225,343	2,316,050
120.	Provisions for risks and charges		
	b) other provisions	448,380	1,067,130
130.	Valuation reserves	78,834,039	86,047,421
160.	Reserves	93,645,724	92,650,271
180.	Share	72,576,000	72,576,000
190.	Own shares (-)	(14,392,190)	(13,949,253)
200.	Profit (Loss) for the year (+/-)	3,990,100	4,624,253
	Total liabilities and net equity	**1,787,331,415**	**1,358,416,225**

INCOME STATEMENT OF BANCA FINNAT EURAMERICA S.P.A.

(amounts in euros)

	Items	FY 2016	FY 2015
10.	Interest income and similar income	6,328,813	11,003,134
20.	Interest expense and similar expense	1,241,403	(1,569,886)
30.	**Interest margin**	**7,570,216**	**9,433,248**
40.	Commission income	15,262,660	15,046,843
50.	Commission expense	(1,098,674)	(1,002,221)
60.	**Net commissions**	**14,163,986**	**14,044,622**
70.	Dividends and similar income	5,673,022	6,069,306
80.	Net income from trading activities	1,896,481	(1,710,689)
90.	Net income from hedging activities	–	–
100.	Profit (loss) from the transfer or the repurchase of:		
	b) available-for-sale financial assets	2,998,891	5,586,590
120.	**Earnings margin**	**32,302,596**	**33,423,077**
130.	Net value adjustments/write-backs for impairment of:		
	a) receivables	(122,506)	(1,514,915)
	b) available-for-sale financial assets	(1,532,893)	(249,279)
140.	**Net income from financial operations**	**30,647,197**	**31,658,883**
150.	Administrative expenses:		
	a) staff costs	(16,498,266)	(17,065,495)
	b) other administrative expenses	(12,545,313)	(13,117,724)
160.	Net allocations to provisions for risks and charges	618,750	(1,067,130)
170.	Net value adjustments/write-backs on tangible assets	(368,533)	(390,330)
180.	Net value adjustments /write-backs on intangible assets	(29,911)	(40,475)
190.	Other operating income/expenses	3,867,942	4,021,934
200.	**Operating costs**	**(24,955,331)**	**(27,659,220)**
210.	Profit (loss) from equity investments	(1,425,815)	–
250.	**Profit (loss) from current operations before taxes**	**4,266,051**	**3,999,663**
260.	Income tax for the year on current operations	(275,951)	624,590
270.	**Profit (loss) from current operations after taxes**	**3,990,100**	**4,624,253**
290.	**Profit (loss) for the year**	**3,990,100**	**4,624,253**

STATEMENT OF COMPREHENSIVE INCOME OF BANCA FINNAT EURAMERICA S.P.A.

(amounts in euros)

	Items	FY 2016	FY 2015
10.	**Profit (loss) for the year**	**3,990,100**	**4,624,253**
	Other income items after tax without reallocation to income statement		
40.	Defined-benefit plans	(37,296)	84,718
	Other income items after tax with reallocation to income statement		
100.	Available-for-sale financial assets	(7,176,086)	8,896,406
130.	**Total other income items after tax**	**(7,213,382)**	**8,981,124**
140.	**Comprehensive income (Item 10+130)**	**(3,223,282)**	**13,605,377**

Item 100. includes the change in the fair value of the equity investments in subsidiaries.

STATEMENT OF CHANGES IN NET EQUITY AT 31 DECEMBER 2016

(in euros)

	Balances at 31.12.2015	Changes in opening balances	Balances at 01.01.2016	Allocation of previous FY profit	
				Reserves	Dividends and other allocations
Share capital:	**72,576,000**		**72,576,000**	**–**	**–**
a) ordinary shares	72,576,000		72,576,000	–	–
b) other shares			–	–	–
Share issue premiums	**–**		**–**	**–**	**–**
Reserves:	**92,650,271**	**–**	**92,650,271**	**995,453**	**–**
a) profit	87,315,331		87,315,331	995,453	
b) other	5,334,940		5,334,940	–	–
Valuation reserve	**86,047,421**		**86,047,421**	**–**	**–**
Capital instruments	**–**		**–**		
Own shares	**(13,949,253)**		**(13,949,253)**		
Profit (Loss) for the year	**4,624,253**		**4,624,253**	**(995,453)**	**(3,628,800)**
Net equity	**241,948,692**	**–**	**241,948,692**	**–**	**(3,628,800)**

STATEMENT OF CHANGES IN NET EQUITY AT 31 DECEMBER 2015

(in euros)

	Balances at 31.12.2014	Changes in opening balances	Balances at 01.01.2015	Allocation of previous FY profit	
				Reserves	Dividends and other allocations
Share capital:	**72,576,000**		**72,576,000**	**–**	**–**
a) ordinary shares	72,576,000		72,576,000	–	–
b) other shares			–	–	–
Share issue premiums	**–**		**–**	**–**	**–**
Reserves:	**91,946,362**	**–**	**91,946,362**	**703,909**	**–**
a) profit	86,611,422		86,611,422	703,909	
b) other	5,334,940		5,334,940	–	–
Valuation reserve	**77,066,297**		**77,066,297**	**–**	**–**
Capital instruments	**–**		**–**		
Own shares	**(12,409,577)**		**(12,409,577)**		
Profit (Loss) for the year	**4,332,709**		**4,332,709**	**(703,909)**	**(3,628,800)**
Net equity	**233,511,791**	**–**	**233,511,791**	**–**	**(3,628,800)**

Changes during the year								Net equity at 31.12.2016
	Net equity transactions							
Changes in the reserves	New share issue	Purchase of own shares	Extra dividend distribution	Change in capital instruments	Derivatives on own shares	Stock options	Comprehensive income FY 2016	
–	–	–	–	–	–	–	–	72,576,000
–	–	–	–	–	–	–	–	72,576,000
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	93,645,724
998,181								89,308,965
(998,181)	–	–	–	–	–	–	–	4,336,759
–	–	–	–	–	–	–	(7,213,382)	78,834,039
				–				–
–		(442,937)						(14,392,190)
–	–	–	–	–	–	–	3,990,100	3,990,100
–	–	(442,937)	–	–	–	–	(3,223,282)	234,653,673

Changes during the year								Net equity at 31.12.2015
	Net equity transactions							
Changes in reserves	New share issue	Purchase of own shares	Extra dividend distribution	Change in capital instruments	Derivatives on own shares	Stock options	Comprehensive income FY 2015	
–	–	–	–	–	–	–	–	72,576,000
–	–	–	–	–	–	–	–	72,576,000
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	92,650,271
–								87,315,331
–	–	–	–	–	–	–	–	5,334,940
–	–	–	–	–	–	–	8,981,124	86,047,421
				–				–
–		(1,539,676)						(13,949,253)
–	–	–	–	–	–	–	4,624,253	4,624,253
–	–	(1,539,676)	–	–	–	–	13,605,377	241,948,692

STATEMENT OF CASH FLOWS (indirect method)

(in euros)

	Amount	
	31.12.2016	31.12.2015
A. OPERATING ACTIVITIES		
1. Management	**11,244,327**	**85,370**
- net profit (loss) for the year (+/-)	3,990,100	4,624,253
- capital gains/losses on financial assets held for trading and on financial assets/liabilities carried at fair value (-/+)	659,223	8,361
- capital gains/losses on hedging assets (-/+)	(175,504)	(215,263)
- net value adjustments/write-backs for impairment (+/-)	1,655,398	1,764,194
- net value adjustments/write-backs on tangible and intangible fixed assets (+/-)	452,408	569,752
- net allocations to the provisions for risks and charges and other costs/revenues (+/-)	146,732	1,794,329
- taxes, duties and tax credits not liquidated (+/-)	(275,951)	624,590
- net value adjustments/write-backs of disposal groups after tax (+/-)	–	–
- other adjustments (+/-)	4,791,921	(9,084,846)
2. Cash generated by/used in financial assets	**(442,379,447)**	**(4,570,209)**
- financial assets held for trading	15,429,715	49,659,237
- financial assets carried at fair value	–	–
- available-for-sale financial assets	(345,865,988)	(38,181,348)
- due from banks: on demand	26,827,563	(18,341,922)
- due from banks: other receivables	(105,674,018)	492,472
- due from customers	(32,855,558)	5,296,280
- other assets	(241,161)	(3,494,928)
3. Cash generated by/used in financial liabilities	**436,800,862**	**(3,707,191)**
- due to banks: on demand	(10,963,384)	9,661,864
- due to banks: other payables	670,420	(95,359,214)
- due to customers	449,859,694	108,049,093
- outstanding securities	(2,297,153)	(22,536,436)
- financial liabilities held for trading	1,038,809	7,373,560
- financial liabilities carried at fair value	–	–
- other liabilities	(1,507,524)	(10,896,058)
Cash generated by/used in operating activities	**5,665,742**	**(8,192,030)**

	Amount	
	31.12.2016	31.12.2015
B. INVESTING ACTIVITIES		
1. Cash generated by	**6,702,609**	**4,448,156**
- disposals of equity investments	2,840,000	–
- dividends received on equity investments	3,852,689	4,043,199
- disposal of financial assets held to maturity	–	360,541
- disposals of tangible assets	9,920	44,416
- disposals of intangible assets	–	–
- disposals of business units	–	–
2. Cash used in	**(1,071,719)**	**(271,927)**
- purchases of equity investments	(750,000)	–
- purchases of financial assets held to maturity	(39,823)	–
- purchases of tangible assets	(254,670)	(258,475)
- purchases of intangible assets	(27,226)	(13,452)
- purchases of business units	–	–
Cash generated by/used in investing activities	**5,630,890**	**4,176,229**
C. FINANCING ACTIVITIES		
- issues/purchases of own shares	(442,937)	(1,539,676)
- issues/purchases of capital instruments	–	–
- dividend distribution and other purposes	(10,842,182)	5,352,324
Cash generated by/used in financing activities	**(11,285,119)**	**3,812,648**
CASH GENERATED/USED DURING THE YEAR	**11,513**	**(203,153)**

Key:
(+) generated
(-) used

RECONCILIATION	**31.12.2016**	**31.12.2015**
ITEMS		
Cash and cash equivalents at the beginning of the year	458,013	661,166
Total net cash generated/used during the year	11,513	(203,153)
Cash and cash equivalents: effect of exchange rate changes		
Cash and cash equivalents at the end of the year	469,526	458,013

NOTES TO THE FINANCIAL STATEMENTS OF BANCA FINNAT EURAMERICA S.P.A.

Set out below are the sections of the Notes to the Financial Statements applicable to the Bank.

Part A – Accounting policies

A.1 – General information

Section 1 – Statement of compliance with international accounting standards

Section 2 – General financial reporting principles

Section 3 – Subsequent events

Section 4 – Other information

A.2 – Information on the main financial statement items

A.3 – Information on transfers between portfolios of financial assets

A.4 – Information on fair value

A.5 – Report on the so-called "day one profit/loss"

Part B – Information on the balance sheet

ASSETS

Section 1 – Cash and cash equivalents - Item 10

Section 2 – Financial assets held for trading - Item 20

Section 4 – Available-for-sale financial assets - Item 40

Section 5 – Financial assets held to maturity - Item 50

Section 6 – Due from banks - Item 60

Section 7 – Due from customers - Item 70

Section 8 – Hedging derivatives - Item 80

Section 10 – Equity investments - Item 100

Section 11 – Tangible assets - Item 110

Section 12 – Intangible assets - Item 120

Section 13 – Tax assets and liabilities - Items 130 (assets) and 80 (liabilities)

Section 15 – Other assets - Item 150

LIABILITIES

Section 1 – Due to banks - Item 10

Section 2 – Due to customers - Item 20

Section 3 – Outstanding securities - Item 30

Section 4 – Financial liabilities held for trading - Item 40

Section 8 – Tax liabilities - Item 80

Section 10 – Other liabilities - Item 100

Section 11 – Staff severance fund - Item 110

Section 12 – Provisions for risks and charges - Item 120

Section 14 – Net equity - Items 130, 160, 180, 190 and 200

OTHER INFORMATION

Part A – Accounting policies

A.1 – General information

Section 1 – Statement of compliance with international accounting standards

The financial statements at 31 December 2016 of Banca Finnat Euramerica S.p.A. have been prepared applying the International Accounting Standard (IAS) and the International Financial Reporting Standards (IFRS), as amended by the International Accounting Standards Board (IASB) and approved by the European Commission, in force at 31 December 2016, in accordance with the procedures laid down in EC Regulation no. 1606/02.

The international accounting standards have been applied taking into account, where necessary, the "Framework for the Preparation and Presentation of financial statements" (the Framework).

For further guidance on the application of the new accounting standards, the Company has also referred to the interpretations provided by the International Financial Reporting Interpretations Committee (IFRIC), as well as the documents issued to support the introduction of the IAS/IFRS in Italy by the Organismo Italiano di Contabilità (OIC) – the Italian Accounting Board – and the documents produced by the Italian Bankers' Association (ABI).

If no standard or applicable interpretation applied specifically to a transaction, other event or condition, reference was made to the provisions and guidelines contained in the standards and interpretations dealing with similar and related issues, taking into account the Framework provisions.

Section 2 – General financial reporting principles

In accordance with the requirements jointly issued by the Bank of Italy, Consob and Isvap no. 2 of 6 February 2009 and paragraphs 25 and 26 of IAS 1, the Directors of the Bank have taken into account with the utmost caution and attention – for the purpose of preparing the financial statements – a series of financial, management and other indicators, in order to identify the existence of any circumstance that may be relevant for assessing the compliance with the 'going concern' requirement.

As a result of the audits carried out in respect of the realisable value of the assets– based on prudent weighted assessments – and in consideration of the reliability and results of the risk measurement systems, the Directors of the Bank are confident there is no evidence that could cast doubts in respect of the going concern assumption. Given the size of the Bank's assets, the substantial financial resources owned and the breakdown, quality and liquidity of the Bank's portfolio of financial assets, the Directors of the Bank have prepared these financial statements in the full conviction that the Bank meets the requirements of a going concern in the foreseeable future.

The separate financial statements of Banca Finnat Euramerica S.p.A. financial statements at 31 December 2016 have been prepared by applying the provisions laid down by Circular No. 262 of 22 December 2005 "Banks' financial statements: layout and preparation" – 4th revision of 15 December 2015 – issued by the Bank of Italy in the exercise of the powers established by Article 9 of Italian Legislative Decree No. 38/2005.

The separate financial statements consist of: the balance sheet, income statement, statement of changes in net equity, statement of comprehensive income, cash flow statement and these notes to the financial statements. They also comprise the directors' report on the Bank's situation, on operations as a whole and in the various sectors in which it has operated as well as on main risks and uncertainties that it faces.

In addition, the following documents are attached to the separate financial statements as required by specific legal regulations or established practice:

- Statement of changes in equity investments
- Statement of significant equity investments

The Corporate Governance Report is provided in the specific section, drawn up in accordance with Article 123-bis of the Italian Consolidated Financial Law.

The separate notes to the financial statements provide all information required by law and additional information deemed necessary to give a true and fair view of the Bank's situation. If the information required by the international accounting standards and by the provisions of circular letter no. 262 of 22 December 2005 (4th revision of 15 December 2015) issued by the Bank of Italy does not suffice to give a true and fair, reliable, comparable and comprehensible view, the notes to the financial statements provide additional information for said purpose.

The tables of the consolidated balance sheet, income statement and statement of comprehensive income are made up of items, sub-items and by additional information on the items and sub-items. The items, sub-items and related details constitute the financial accounts. All items with nil balances either for the current or for the previous financial year are not shown. Revenues in the income statement and statement of comprehensive income are shown without any sign whilst costs are shown in brackets.

Comparative figures are shown for each account item of the balance sheet, income statement and statement of comprehensive income. If the account items are not comparable with those of the previous financial year, they are adjusted; the lack of comparability, any adjustment made or the inability to make any such adjustment are reported and commented in the notes to the financial statements.

Consistently with Article 5 of Italian Legislative Decree no. 38 of 28 February 2005, the Separated financial statements were prepared using the euro as the presentation currency. The amounts of the statements are expressed in euros, whilst the figures of the Accompanying Notes, unless otherwise specified, are presented in thousands of euros.

The separate financial statements provide a true and fair view of the financial position, the result for the year and cash flows. The financial statements were also prepared, as specified above, on a going concern basis (IAS 1 paragraph 25), on an accrual basis (IAS 1 paragraphs 27 and 28), in compliance with the obligation to make adjustments to reflect the events subsequent to the reference date of the financial statements (IAS 10). The assets and liabilities, income and expenses have not been offset, except where required or allowed by a principle or interpretation (IAS 1 paragraph 32). The cost of inventory and of the financial instruments was calculated using the weighted average daily cost method, (IAS 2, paragraph 25).

As regards disclosures to be provided in the financial statements, the directors of the Bank have also considered that indicated in the joint document no. 4 of 4 March 2010 issued by Bank of Italy, Consob and Isvap.

The separate financial statements for Banca Finnat Euramerica S.p.A. were audited by EY S.p.A., to whose Report attached hereto specific reference is made.

Following are the Regulations endorsed by the European Commission which shall apply from 1 January 2016 onwards:

- Regulation No. 28/2015 – IFRS 2010-2012 annual improvements cycle.
- Regulation No. 29/2015 – IAS 19 Defined Benefit Plans: employee contributions.
- Regulation No. 2113/2015 – Amendments to IAS 16 Property, plant and equipment and to IAS 41 Agriculture.
- Regulation No. 2173/2015 - Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations.
- Regulation No. 2231/2015 – Amendments to IAS 16 Property, plant and equipment and to IAS 38 Intangible assets: Clarification of Acceptable Methods of Depreciation and Amortisation.
- Regulation No. 2343/2015 – IFRS 2012-2014 annual improvements cycle.
- Regulation No. 2406/2015 – Amendments to IAS 1 Presentation of Financial Statements: Disclosure Initiative.
- Regulation No. 2441/2015 – Amendments to IAS 27 Separate Financial Statements: Equity Method in Separate Financial Statements.
- Regulation no. 1703/2016 – Amendments to IFRS 10 Consolidated financial statements, to IFRS 12 Disclosure of Interests in Other Entities and to IAS 28 Investments in associates and joint ventures.

The adoption of the above-mentioned Regulations did not impact these financial statements.

In 2016, the European Commission endorsed the following Regulations, which shall be effective from 1 January 2018:

- Regulation no. 2067/2016 - IFRS 9 Financial Instruments.
- Regulation no. 1905/2016 – IFRS 15 Revenue from Contracts with Customers.

Section 3 – Subsequent events

In the period spanning the end of the 2016 financial year and the date on which these financial statements were prepared, no significant events or factors that could affect the financial position, capital position, or results of operations of the Bank emerged.

However, it should be pointed out that:

- on 9 February 2017, the Board of Directors of the Bank also resolved to appoint Deputy General Manager Mr. Giulio Bastia as the new Joint General Manager and Manager in charge of preparing the accounting documents replacing Mr. Paolo Collettini who reached the age limit.
- on 10 March 2017, the Board of Directors, upon acknowledging the resignation of the Chairman Mr. Giampietro Nattino, appointed Director Ms. Flavia Mazzarella to replace him as the new Chairman of the Bank; she retains her characteristics as independent Director. The Board also co-opted, as independent Director, Mr. Marco Tofanelli, appointed as Deputy Chairman and Lead Independent Director. The Board also passed resolutions on the new composition of the Risk Committee and Appointment Committee.

The 2016 statutory financial statements will be submitted for the approval of the Shareholders' Meeting convened for 27 April 2017.

Section 4 – Other information

Risks and uncertainties linked to the use of estimates

In compliance with the IAS/IFRS standards, the Bank carries out evaluations, estimates and assumptions in support of the application of the accounting standards and for the determination of the amounts of the assets, liabilities, costs and revenues reported in the financial statements. In respect of the preparation of the financial statements at 31 December 2016, the Bank used estimates (based on the most recent available data), in several limited cases and for immaterial amounts, in respect of both several balance sheet and several income statement items.

Exemption from the preparation of the fourth interim financial report for 2016

With the transposition of the Directive on shareholders' rights (Italian Legislative Decree No. 27 of 27 January 2010), paragraph 1 of Article 154-ter ("Financial Reports") of the Italian Consolidated Financial Law (the "TUF") was amended. This amendment establishes that the annual Financial Report, comprising the draft statutory financial statements, the consolidated financial statements, if prepared, the report on operations and the certification of the appointed administrative bodies and the Manager in charge of preparing the accounting documents, must be published within 120 days of the company year end. The obligation to ensure publication within 120 days refers specifically to the "draft financial statements" approved by the administrative body and no longer to the "statutory financial statements" approved by the Shareholders' Meeting. As such, this amendment restores, for listed companies, the option to postpone approval of the financial statements within maximum terms of 180 days as established by Article 2364, paragraph 2 of the Italian Civil Code, which had been abolished by Directive 2004/109/EC (the Transparency Directive). The decree also establishes that, as an exception to Article 2429, paragraph 1 of the Italian Civil Code, the draft financial statements must be disclosed by the directors to the board of auditors and auditing firm at least 15 days prior to publishing the draft.

With reference to companies belonging to the STAR segment, Borsa Italiana has established the publication - in addition to the reports concerning the first and third quarters, as required by paragraph 5 of Article 154-ter – also the interim report on operations with reference to the 4th quarter; it has also allowed to omit drafting said report if publication of the draft financial statements is brought forward to 90 days as from the end of the year of reference. The term of 90 days (previously set to 75 days prior to the amendments introduced with the implementation of the Directive as explained above) was established by Borsa Italiana with its notice no. 14924 of 8 October 2010 concerning the "Amendments made to the Market Regulation".

In view of the above, the Bank opted not to publish the 4th interim report on operations, by making the draft separate and consolidated financial statements as of 31 December 2016, complete with the certification by the manager in charge of preparing the accounting documents, the Report by the Board of Statutory Auditors and by the Auditing Firm, available to shareholders and to the market within the term of 90 days from the end of the financial year.

A.2 – Information on the main financial statement items

The main accounting standards adopted in preparing the statutory Financial Statements at 31 December 2016 remained unchanged with respect to those adopted in the Financial Statements at 31 December 2015 as concerns classification, measurement and de-recognition criteria in general, and the recognition criteria for costs and revenues.

1 - Financial assets held for trading

Classification criteria

This category includes debt securities, equities, mutual investment funds and the positive fair value of derivative contracts other than those held for hedging purposes. The positive fair value of the derivatives entered into by the Bank for risk hedging purposes, but which do not satisfy the efficiency test, is also recorded.

The classification of a financial instrument in the category of assets or liabilities held for trading should be made at the initial recognition. The reclassification of these types of instruments is permitted only in "rare circumstances" and should in any case be made at the fair value as at the transfer date.

Recognition criteria

Financial instruments are recorded in the category on the settlement date, except for derivatives that are recognised by the subscription date.
They are initially recognised at their fair value, which usually coincides with the purchase price.

Measurement criteria

Subsequent as at initial recognition, financial assets held for trading are carried at their fair value, with the results of any change in value recorded in the income statement. The fair value of assets held in a trading portfolio should be determined on the basis of active market prices or, failing these, on the basis of prices supplied by external operators or, lastly, calculated using the results of internal valuation models that are generally used in financial practice, which are believed to provide reliable estimates of the prices of current market transactions.

Derecognition criteria

Financial assets are derecognised when the contractual rights on the financial flows deriving from the assets are lost, or in the case of a transfer, when it entails the substantial assignment of all the risks and benefits associated with the assets. If it is not possible to determine the transfer of the risks and benefits, the financial assets in the category are derecognised when the control thereof is transferred. Otherwise, the financial assets are maintained on the balance sheet to the extent of the entity's involvement, measured by the exposure of the assets transferred to value changes.

Recognition criteria of income components

The profit or loss resulting from disposals or repayments, and the unrealised profit or loss resulting from changes in the fair value of any financial asset held for trading, will be recorded under item 80 of the income statement "Net income from trading activities", together with the result of the valuations of the foreign-currency assets and liabilities.

Interest is recorded on an accrual basis under item 10 "Interest income and similar income", dividends from equities or fund units are recorded under item 70 "Dividends and similar income", as soon as entitlement to them arises.

2 - Available-for-sale financial assets

Classification criteria

The available-for-sale financial assets include investment fund units, debt securities and equity investments in companies that do not qualify as establishing control or joint control over or association with the said companies. Moreover, this group of assets also includes non-derivative financial assets that cannot be included in the other financial trading asset categories or among the receivables or investments held to maturity, according to the criteria envisaged by a specific framework resolution passed by the BoD.

Recognition criteria

Financial instruments are recorded at their settlement date, except for receivables which are booked at the date of the relevant transaction.

Available-for-sale financial assets are initially recognised at fair value, which normally corresponds to the price paid for them. Costs or revenues directly related to the transaction, if specifically identified at the time, are included in the purchase cost.

Measurement criteria

Subsequent to initial recognition, financial assets held for trading are still carried at their fair value, with the recognition in the income statement of the interest according to the amortised cost approach. Gains and losses deriving from the change in fair value are recorded in a specific net equity reserve, net of the tax effect, unless conditions are met for recording value adjustments as a result of a significant or prolonged decrease in value.

Equity investments in other companies that can be classified as strategic investments, but which do not qualify as establishing control or joint control over or association with the company, and which are not

listed in an active market, do not feature prices provided by market operators and for which a reliable fair value cannot be established, through the use of the internal valuation models generally used in financial practice, are maintained at purchase cost.
At the end of every accounting period, audits are carried out to verify the existence of objective evidence of impairment of value of the financial instruments included in this group of assets.

Derecognition criteria
Financial assets are derecognised when the contractual rights on the cash flows deriving from the assets are lost, or in the case of a transfer, when it entails the substantial assignment of all the risks and benefits associated with the assets. If it is not possible to determine the transfer of the risks and benefits, the financial assets in the category are derecognised when control thereof is transferred. Otherwise, the financial assets are maintained on the balance sheet to the extent of the entity's involvement, measured by the exposure of the assets transferred to value changes.

Recognition criteria of income components
At the time of the transfer, the after-tax gains or losses previously recorded in the net equity reserve are moved to income statement item 100 b) "Profit (loss) from the transfer or repurchase of b) available-for-sale financial assets".
Any long-lasting impairment is assessed in relation to the duration and extent of the impairment itself. Lacking any other negative element (such as any difficulty in the debt service by the issuer, unfavourable changes in the context in which the company operates) the impairment of value is generally deemed to be significant and prolonged in nature:

- in the case of capital instruments and UCI units, if the reduction of fair value below the cost exceeds 50% or lasts for an uninterrupted period longer than 18 months;
- in the case of closed-end UCIs – acquired with contractual commitments (lock-up clauses), or consistently with regulatory provisions that require that they be maintained at least until the expiry of either the relevant contract or the financial instrument – the loss of value is generally deemed to be long-lasting in the cases in which the reduction of fair value below the cost exceeds 80%, or lasts uninterruptedly beyond the expiry of the contractual commitment or of the financial instrument itself, after both are reduced by twelve months for prudential reasons;
- in the case of private-equity funds – for which the investment decision is consistent with maintaining the financial instrument in the bank's portfolio for a medium-to-long-term time horizon, in relation to the expected income-producing potential thereof and the existence of any possible operational and business synergies – the loss of value is normally deemed to be long-lasting in the cases in which the reduction of fair value below the cost exceeds 80% or persists uninterruptedly beyond half the fund's duration;
- in the case of debt securities in which the reduction of fair value below the cost exceeds 30%, or continues uninterruptedly for a period of more than 18 months.

If an available-for-sale financial asset suffers an impairment loss, the cumulated unrealised loss previously recorded in the net equity is reversed from the net equity and recognised in the income statement under item 130 "Net value adjustments/write-backs for the impairment of: b) available-for-sale financial assets".
If the circumstances that led to the recognition of an impairment loss cease to exist, following an event that

is subsequent to the recognition of the impairment of value, a write-back is posted to net equity, in the case of equities, and to the income statement, in the case of debt securities and receivables. The write-back may not exceed the cost (amortised as applicable) that the financial instrument would have had in the absence of the previous adjustment.

3 - Financial assets held to maturity

Classification criteria

This group of assets includes non-derivative financial assets with fixed payments, or payments that can be calculated and with fixed due dates, which, in accordance with IAS 39, are destined to remain in the company's net equity in the long-term, based on a specific resolution passed by the BoD to this effect. As a result of a change in the Directors' intention or ability, or if it is no longer possible to hold an investment until its maturity, the investment is reclassified among the available-for-sale financial assets, according to the special procedures set out in the above-mentioned IAS 39.

Recognition criteria

Financial assets are recorded at the settlement date.

Financial assets held to maturity are initially recognised at their fair value, which normally corresponds to the price paid for them. Costs or revenues directly related to the transaction, if specifically identified at the time, are included in the purchase cost. If the recognition in this group of assets occurs after the reclassification of the Assets held for trading or of the Available-for-sale assets, permitted in "rare circumstances" (in accordance with IAS 39 and IFRS 7), the fair value of the assets, at the date of reclassification, is taken as the new amortised cost of the assets themselves.

Measurement criteria

Following their initial recognition, the financial assets held to maturity are adapted to their amortised cost based on the effective interest rate method, and adjusted to take into account the effects of any write-down. The resulting value is recorded in the income statement under item 10 "Interest income and similar income".

Derecognition criteria

Financial assets are derecognised when the contractual rights on the cash flows deriving from the assets are lost, or in the case of a transfer, when it entails the substantial assignment of all the risks and benefits associated with the assets. If it is not possible to determine the transfer of the risks and benefits, the financial assets in the category are derecognised when control thereof is transferred. Otherwise, the financial assets are maintained on the balance sheet to the extent of the entity's involvement, measured by the exposure of the assets transferred to value changes.

Recognition criteria of income components

At the time of their transfer, the gains and losses resulting from the transfer of these assets are recorded in the income statement under item 100 "Profit/loss from the transfer or repurchase of: c) financial assets held to maturity".

At the end of every accounting period, audits are carried out to verify the existence of objective evidence of impairment of value of the financial instruments included in this group of assets.

If there is evidence of impairment of value, the relevant loss is measured as the difference between the book value of the asset and its present value of the estimated cash flows, discounted at the effective interest rate. The loss is recorded in the income statement under item 130 "Net value adjustments/write-backs for the impairment of c) financial assets held to maturity".
If the circumstances that led to the recognition of an impairment loss cease to exist, following an event that is subsequent to the recognition of the impairment of value, a write-back is posted to the income statement under the same item 130.

4 - Receivables

Classification criteria

This asset group includes receivables due from customers and banks, with fixed and determinable payments, paid directly or acquired from third parties that are not listed on active markets and that have not been originally classified among the financial assets held for trading, available-for-sale financial assets or carried at fair value.
The receivables item also includes operating loans linked to the supply of financial services, repos and unlisted bonds.

Recognition criteria

Financial assets included in this group are initially recorded on the date on which they were provided or, in the case of repos, on the settlement date.
Initial recognition is made on the basis of the fair value of the instrument, which, given the nature and characteristics of the transactions, is equal to the amount provided or the purchase cost. The initial recognised value includes any cost or income related to the transaction, and known at the time, and will be spread over the residual life of the instrument, participating in the formation of the effective interest rate of the transaction (amortised cost method). Internal administrative related costs due from customers are not included.

Valuation and recognition criteria of income statement items

After their initial recognition, receivables are stated at their amortised cost, which is equal to the initial recognition value reduced/increased by capital repayments, by any value adjustment/write-back and by the amortisation calculated on the basis of the effective interest rate, any transaction cost or income known or determinable at the time of provision of the credit.
In the case of short-term receivables, given that the effect of the amortisation is considered negligible, the costs and income directly related to the transactions are posted directly in the income statement.
The amortisation of the transaction costs and income – based on the effective interest rate – is not applied in the case of on-demand receivables and, as a rule, to undated loans. In the case of on-demand loans and, as a rule, undated loans, the relevant value recorded in the financial statements is made equal to the amount paid out, minus any value adjustment.

In accordance with the international accounting standards, all receivables are calculated in compliance with the following criteria:

- significant positions are subject to itemised valuation. A similar procedure is followed for non-performing loans that are individually deemed to be of a non-significant amount;

- classification within the anomalous loan classes specified by the current regulations issued by the Bank of Italy: non-performing loans, likely defaults and past due receivables, is deemed to be objective impairment test evidence;
- performing loans that are insignificant on an individual basis, and for which there is no objective evidence of impairment are collectively valued by grouping them together on a like-for-like risk profile basis. Their value adjustment is calculated on the basis of the historical trend of decline rates referring to each relevant group that are periodically published by the Bank of Italy. In determining the historical loss series the positions that are subject to itemised valuation are removed from the loan population;
- value adjustments determined on a line-by-line basis or collectively are recorded in the income statement in item 130 "Net value adjustments/write-backs for the impairment of a) receivables".

If the circumstances giving rise to the impairment losses cease to exist, the losses are reversed in full or in part. As a result, any write-back, objectively related to an event occurring after the value adjustment was made, is recognised to the income statement until it reaches the amortised cost that the instrument would have had without the previous adjustments.

Impaired exposures - starting on 1 January 2015 in accordance with the new classification established by Bank of Italy Circular no. 272/2008 (7th revision published on 20 January 2015) - are broken down as follows:

- non-performing loans – this is the area of formally impaired loans, including exposure to insolvent customers, even if they have not yet been legally acknowledged as such, or customers in similar positions;
- likely defaults - these define the credit area that covers loan exposures, other than non-performing loans, for which the bank deems unlikely that, without initiating actions like the enforcement of guarantees, the debtor will completely fulfil its obligations (in terms of principle and/or interest);
- past due receivables – are the total exposures to counterparties, other than those classified above, which, at the reference date, feature receivables that have expired or have been past due for over 90 days and exceed a given materiality threshold.

Moreover, the Bank of Italy, with the aforesaid revision, also introduced the category of "forborne exposures".
This classification is applied to credit exposures for which changes to the contractual conditions or total or partial refinancing were allowed, because of the debtor's financial hardship, which may cause a loss for the lender.
These exposures are distinguished in forborne performing and forborne non-performing. The latter are represented as an "of which" sub-set of each of the three categories of impaired exposures and hence they do not constitute a separate category.

Derecognition criteria
Financial assets are derecognised when the contractual rights on the cash flows deriving from the assets are lost, or in the case of a transfer, when it entails the substantial assignment of all the risks and benefits associated with the assets. If it is not possible to determine the transfer of the risks and benefits, the financial assets in the category are derecognised when the control thereof is transferred. Otherwise, the

financial assets are maintained on the balance sheet to the extent of the entity's involvement, measured by the exposure of the assets transferred to value changes.
Gains or losses resulting from the derecognition of the same are recorded in the income statement.

6 - Hedging Transactions

Classification criteria

Risk hedging transactions are directed at neutralising potential losses, attributable to a determined risk, and recognisable on a determined element or group of elements, if that specific risk should actually manifest itself.
IAS 39 provides the following types of hedges:

- Fair value hedge, whose purpose is to hedge exposure to the change in the fair value of an item attributable to a specific risk;
- Cash flow hedge, whose purpose is to hedge exposure to changes in future cash flows attributable to specific risks associated with financial statement items;
- hedge of an investment denominated in a foreign currency, whose purpose is to hedge the risks of an investment in a foreign entity, expressed in a foreign currency.

To date, the Bank has only used the Fair value hedge type.

Recognition criteria

Hedging derivatives, like all derivatives, are initially recognised and subsequently measured at fair value.

Valuation and recognition criteria of income statement items

Hedging derivatives are carried at fair value. In the case of fair value hedging, the change in fair value of the hedged element is offset with the change in fair value of the hedging instrument. This offset is recognised through the recognition in the income statement - under item 90 "Net income from hedging activities" - of said value changes, referred both to the hedged element (with regard to the changes caused by the underlying risk factor), and to the hedging instrument. Any difference, which represents the partial ineffectiveness of the hedge, consequently constitutes its net economic effect.
The derivative is designated as a hedging derivative if there is a formalised documentation of the relationship between the hedged instrument and the hedging instrument and if it is effective at the time when the hedge starts and, prospectively, throughout the time of its validity.
The effectiveness of the hedge depends on the extent to which the changes in fair value of the hedged instrument are offset by those of the hedging instrument. Therefore, the effectiveness is determined by the comparison between the aforesaid changes, taking into account the intent pursued by the company when the hedge was established.
There is effectiveness when the changes in fair value of the hedging financial instrument neutralise almost entirely, i.e. within the limits set by the 80-125% range, the changes in the hedged instrument, for the risk element to be hedged.
The effectiveness is assessed at the date of each set of financial statements or interim report, using:

- prospective tests, which justify the application of hedge accounting, inasmuch as they demonstrate its expected effectiveness;
- retrospective tests, which highlight the degree of effectiveness of the coverage attained in the period

to which they are referred, i.e. which measure the extent to which the actual results deviated from perfect hedging.

If the tests do not confirm the effectiveness of the hedge, from that moment forward hedge accounting for the transactions, as set out above, is stopped, the hedging derivative is reclassified among trading instruments and the hedged financial instrument reacquires the measurement criteria that matches its classification in the financial statements.

7 - Equity investments

Classification criteria

The item "Equity investments" includes equity investments in subsidiaries, associated companies and joint ventures.

Equity interests in other companies in which the Bank does not exercise control or over which it has no significant influence, either directly or through its subsidiaries, but which are acquired as long-term investments and not held for the purpose of trading, are classified as "Available-for-sale financial assets", in accordance with IAS 39.

Recognition criteria

Equity investments are recorded at their settlement date and at purchase - or subscription - cost, including the additional charges.

Measurement criteria

Equity investments in subsidiaries are all measured at fair value, while equity investments in associated companies are recorded at cost.

The method for determining the fair value is in line with current market practice and, on the basis of the provisions of IAS 39, AG 80 and 82, letter e), refers to a series of objective parameters.

The model is based on the discounting of cash flows, as they emerge from the updated long-term plan of the subsidiaries. The figure is used (subject to the updating of parameters) in the preparation of financial statements in order to determine any change in fair value, taking into account any further adjustment needed given specific market situations.

Derecognition criteria

Equity investments are derecognised when they are transferred, with the substantial transfer of all related risks and benefits, or when the contractual rights to cash flows deriving from them expire.

Recognition criteria of income components

– Equity investments in subsidiaries measured at fair value

Changes in fair value resulting from the differences between the measurements at the end of the current year and those of the previous years are recorded using the same criteria prescribed for "Available-for-sale financial assets", in compliance with IAS 39, paragraphs 67 and 70.

– Equity investments in companies measured at cost

If there is evidence that the value of an equity investment may be impaired, the recoverable amount of

said equity investment is estimated considering the present value of future cash flows that the investment could generate, including the final disposal value of the investment.
If the recoverable amount is not temporarily lower than the carrying amount, the difference is recorded in the income statement under item 210 “Profit (loss) from equity investments”.
If the reasons for the impairment are removed following an event that occurs after the recognition of the impairment, write-backs are made to the income statement under the same item as above in the measure of the previous adjustment.

8 - Tangible assets

Classification criteria

This item includes the assets for permanent use held to generate income and the property held for investment purposes.
Tangible assets also include advance payments made for the purchase and revamping of assets that are not yet part of the production process and hence not yet subject to depreciation.

Recognition criteria

All classes of property, plant and equipment recognised as assets are initially recorded at cost, insofar as it is representative of their fair value. The cost includes the purchase price, non-recoverable purchase taxes and any cost directly descending from the installation of the asset for its intended use, minus any trade discount. Financial expenses are recorded according to IAS 23 and, therefore, recognised as a cost in the year in which they were incurred.
Overheads and administrative expenses are not included in the initial cost of the assets in question, unless they are directly descended from the purchase of the asset or its installation.

Valuation and recognition criteria of income statement items

Following their initial recognition, instrumental fixed assets and fixed investments are valued at cost minus the accumulated depreciation and taking into account any value impairment and/or revaluation.
This principle has been adopted because it was deemed more appropriate than the revaluation method provided by the reference accounting standard.

Tangible assets are depreciated each year, at rates calculated by reference to the residual possibility of using the assets, their related useful life and realisable value, except for land (incorporated in the asset value) and works of art, insofar as they have an indefinite life. In the case of land whose value is incorporated in the value of the tangible fixed asset, the relevant separation is made only for free-standing buildings. For assets acquired during the year, the amortisation is calculated on a daily basis starting on the date on which the asset was first used.

Tangible fixed assets featuring an unlimited useful life cannot be depreciated.

Subsequent expenses relating to property, plant and equipment, already recorded, are added to the book value of the asset when it is likely that the future economic benefits exceed the previously established ordinary performance of the asset.

At the end of each financial year, an impairment test is conducted on the assets. More specifically, a comparison is made between the book value of the asset (purchase cost less accumulated depreciation) and its recoverable amount, equal to the greater of the fair value, minus any sales cost, and the related value of use of the asset, meaning the present value of the future cash flows expected from the asset. Adjustments are recorded in the income statement under item 170 “Net value adjustments/write-backs on tangible assets”. If the reasons that led to the recognition of the loss cease to apply, a write-back is recorded that may not exceed the value that the asset would have had minus the depreciation calculated in the absence of previous losses in value.

Derecognition criteria
The book value of a tangible asset must be derecognised on its disposal, or when no future economic benefit is expected from its use.

9 - Intangible assets
Classification criteria
Intangible assets include long-term application software. The positive difference between the value of the assets and liabilities acquired following a business combination and the related purchase price of the combined business entity is recorded under the intangible assets as goodwill.

Recognition criteria
Intangible assets are recorded at cost. The purchase cost may be adjusted for ancillary charges. The costs incurred for the purchase of intangible assets are recognised only if they are identifiable, their cost can be measured reliably, they can be controlled and they are able to generate future economic benefits. Otherwise, the cost of the intangible asset is recorded in the income statement in the year in which it was incurred.

Valuation and recognition criteria of income statement items
Following their initial recognition, intangible assets are recorded at cost, less the accumulated amortisation and any impairment of value. The “at cost” valuation method was deemed more appropriate than the “redetermination of value” method. The cost of intangible assets is amortised, minus the recoverable amount, on the basis of their estimated useful life. For assets acquired during the year, the amortisation is calculated on a daily basis starting on the date on which the asset was first used. In the case of assets transferred and/or disposed of during the year, the amortisation is calculated on a daily basis until the date of transfer and/or disposal.
If the useful life of the fixed asset cannot be established and appears to be indefinite (goodwill), the asset is not amortised, however it is periodically tested for impairment and, in any case, each time objective evidence is found to this effect its initial recognition value may have to be changed. The performance of this test entails the prior allocation of goodwill to a cash-generating unit, whose value can be reliably estimated. Goodwill impairment is calculated as the difference between its book value and the estimated recoverable amount, determined by reference to the cash-generating unit to which the goodwill in question has been allocated. Any impairment calculated as the difference between the book value of the fixed asset and its recoverable amount is recorded in the income statement under item 230 “Goodwill adjustments”.

Goodwill impairment may not be reversed in future accounting periods as required by IAS 36.

Regarding intangible assets other than goodwill, if there is evidence of impairment, an estimate is made each year of the recoverable amount of the assets. The amount of the loss, recorded in the income statement, is equal to the difference between the book value of the asset and its recoverable amount. If the recoverable amount of a specific intangible asset cannot be determined, then the asset must be assigned to the smallest independent cash-flow-generating unit (CGU), and it is by reference to the latter that the recoverable value is estimated and compared with the book value, to establish the possible impairment loss.

Derecognition criteria
Intangible assets are derecognised when they are sold or when no future economic benefits are expected from their use.

11 - Current and deferred tax
Current and deferred income tax, calculated in accordance with the applicable domestic regulations, is recorded in the income statement, except in the case of items directly charged or credited to net equity. Tax provisions are calculated on a prudential basis and also include the risk provisions set aside in connection with the ongoing disputes.

Since 2004, the Bank and its Italian-based subsidiaries have decided to join the “domestic consolidated tax system”, pursuant to Articles 117/129 of the TUIR (Consolidated Income Tax Act). The option was renewed in 2016 also for the 2016/2017/2018 period.
By virtue of this option, the Group companies determine their proportion of the taxes payable and the corresponding fiscal income (taxable income or fiscal loss) is transferred to the Parent Company, relating to which a single taxable income or loss is reported (resulting from the arithmetical sum of its own and its participating subsidiaries’ incomes/losses) and, consequently, a single income tax debit/credit determined.

Deferred tax is calculated based on the fiscal effect of the temporary differences between the book value of the assets and liabilities and their fiscal value, resulting in future taxable amounts or tax deductions. For this purpose, “temporary taxable differences” means those that, in the future, will determine taxable amounts, while “temporary deductible differences” those that, in the future, will determine deductible amounts. Advance taxes are recorded in the financial statements insofar as they are likely to be recovered, based on the capability of the Bank, and of the other Group companies belonging to the “domestic consolidated tax system”, to generate taxable income, in the future, on a regular basis.

Deferred taxation is calculated based on the applicable rates, with respect to, (i) the temporary taxable differences, with respect to which there is the likelihood of effectively incurring taxes, and (ii) the temporary deductible differences, with respect to which there is the reasonable certainty of recovering tax money back.
Deferred taxes are calculated taking into account the rates expected when payment falls due.

If the deferred tax assets and liabilities relate to income statement items, the balancing item is represented by income tax.

When advance and deferred taxes concern transactions recorded in net equity, without affecting the income statement, the directly balancing entry is recorded in net equity, in the specific reserves where provided (valuation reserves).

Current tax assets/liabilities related to income tax for the year are recognised net of any tax paid in advance and any withholding tax incurred.

Advance tax assets and deferred tax liabilities are recorded in the balance sheet, respectively under "Tax assets" and "Tax liabilities".

12 - Provisions for risks and charges

Other provisions

The other provisions for risks and charges include the allocations relating to legal obligations or connected with employment agreements or with disputes, including those of a tax-related nature, originated from a past event for which it is likely that economic resources will be expended to comply with said obligations, provided that a reliable estimate of the related amount can be obtained.

If the time element is significant (expected outlay beyond 12 months), the allocations are discounted to the present with reference to current market rates. The allocation and any subsequent increases in the provisions due to the time factor are recognised in the income statement.
The allocated provisions are subject to periodic reviews and when it becomes unlikely that possible costs may be incurred, the allocations are fully or partly reversed to the benefit of the income statement.

13 - Payables and outstanding securities

Classification criteria

Amounts due to banks, customers and outstanding securities include the various forms of interbank funding and funding from customers, in addition to funding through outstanding bonds, minus any repurchases.

Recognition criteria

On initial recognition, these financial liabilities are recorded upon receipt of the amounts collected at their fair value, which is usually equal to the amount received or the issue price plus/minus any additional cost/income directly attributable to the individual funding or issue transaction, and which has not been reimbursed by/to the creditor.

Valuation and recognition criteria of income statement items

After initial recognition, the above-mentioned financial liabilities are recorded at cost depreciated according to the effective interest rate method, except for short-term liabilities, which remain recorded at their original value, because the effect of time discounting is negligible.

Derecognition criteria

Financial liabilities are derecognised when they expire or are extinguished. A financial liability is considered expired when the debt is settled through payment of the creditor in cash, or by means of other financial assets, goods or services, or when the borrower is legally released from the primary responsibility for the liability.

Derecognition takes place in the event of the repurchase of bonds previously issued. The difference between the book value of liabilities and the amount paid to purchase them is posted in the income statement. The replacement on the market of own shares after they have been repurchased is considered tantamount to a new issue, with the entry of the new placement price.

14 - Financial liabilities held for trading

Classification criteria

This item includes financial liabilities, regardless of their technical form, classified in the trading portfolio. The negative fair value of the derivative contracts concluded by the Bank to manage hedging risks has also been posted, although they do not meet the efficiency test criteria.

Recognition criteria

These liabilities are initially recorded at fair value, which generally corresponds to the amount collected. The initial recognition of financial liabilities occurs at the subscription date.

Measurement criteria

All trading liabilities are carried at their fair value, which is determined in accordance with the procedures shown in the paragraph on "Financial assets held for trading".

Derecognition criteria

Financial liabilities are removed from the balance sheet when they are extinguished or when the related obligation has been discharged, cancelled or has expired. The resulting difference is recorded in the income statement.

Recognition criteria of income components

Profits and losses arising from changes in the fair value of financial liabilities are recorded under income statement item 80 "Net income from trading activities".

16 - Foreign-currency transactions

Foreign-currency transactions are recorded in Euros, at their initial recognition, applying the spot exchange rate in force at the date of the transaction.

When preparing the financial statements, items in foreign currencies are recorded as follows:

- in the case of monetary instruments, at the spot exchange rate on the date of preparation of the financial statements, with exchange differences recorded in the income statement under the item "Net income from trading activities";
- in the case of non-monetary instruments, they are measured at historical cost, at the exchange rate in force at the time of the original transaction;

- in the case of non-monetary instruments carried at fair value, at the spot exchange rate in force at the time of preparation of the financial statements.

Exchange rate differences relating to non-monetary items are recorded applying the accounting standards used for the profits and losses relating to the original instruments.

17 - Other information

1. Own shares

Own shares held are stated in the financial statements at cost, adjusting net equity by a corresponding amount. No profit or loss is recorded in the income statement in connection with the purchase, sale, issue and derecognition of instruments that represent the Bank's capital. The consideration paid or received is recognised directly in net equity.

Any marginal cost incurred for the repurchase of own shares is recorded as a reduction of net equity, as long as it is directly related to the capital transaction that otherwise would not have been incurred.

2. Own share-based payments

Share-based payment plans for employees are recorded in the income statement under the item "Staff costs", in compliance with IFRS 2 and the interpretation document IFRIC 11. A corresponding amount will increase net equity, based on the fair value of the financial instruments at the assignment date, spreading the related charges along the entire duration of the plan.

If stock options are provided, the fair value thereof is calculated using a model that takes into account not only information such as price, duration of the option, current price of the shares, volatility, expected dividends and risk-free interest rate, but also the specific characteristics of the plan. The option and probable realisation of terms according to which the options have been assigned are valued separately in the measurement model.

The combination of both values will result in the fair value of the assigned instrument.

Any reduction in the number of assigned financial instruments is accounted for as a derecognition of a portion thereof.

3. Staff severance fund

The staff severance fund is determined as the Bank's present obligation towards its employees, in terms of the related severance indemnity. The amount of this obligation on the date of the financial statements is estimated using actuarial methods and time-discounted using the "projected unit credit method" whereby each period of service is viewed as giving rise to an additional unit of benefit entitlement and each unit is measured separately to build up the final obligation. Once the final obligation is obtained, the Bank needs to calculate its present value, even if part of the obligation falls in the twelve-month period after the date of the financial statements. Actuarial profits/losses deriving from defined benefit plans are stated in net equity under Valuation reserves. All other components of the allocation to staff severance obligations accrued during the year are posted in the income statement under item 150. Administrative expenses: a) staff costs in "Staff severance fund", for the amounts paid to the INPS Treasury; "payments to defined contribution supplementary external pension funds" for payments made to Supplementary Retirement Plans and "allocation for staff severance fund" for the adjustment of the fund present in the company.

4. Recognition of revenue and costs

Costs are disclosed in the income statement for the periods in which the related revenue is recorded. Revenues are recognised when received, or if it is likely that future benefits will accrue and such benefits may be reliably measured.

In particular, commission income and other income for services delivered are recorded in the financial statements in the period in which the services were contractually due and provided.

Dividends are recognised in the income statement at the time their distribution is resolved.

Other revenues are recognised in the financial statements in accordance with the accrual principle. In particular:

- interest is recognised on an accrual basis, which considers its effective yield;
- default interest is only recorded when collected;
- regarding the trading of financial instruments, it should be noted that if the consideration received/paid differs significantly from the reliably measured fair value, the difference is recognised in the income statement, in accordance with IAS 39.

5. Manner of determination of the amortised cost

The amortised cost of a financial asset or a financial liability is in general the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction for impairment or uncollectibility.

The effective interest rate is the rate that equalises the present value of future contractual cash payments or receipts until the expiry or the following recalculation date of the price to the net carrying amount of the financial asset or financial liability. In order to calculate the present value, the effective interest rate is applied to the flow of future receipts or payments estimated during the useful life of the financial asset or liability - or a shorter period in the presence of certain conditions (for example, the review of market rates).

If it is not possible to estimate reliably the cash flows or the expected life, the Bank uses the expected contractual cash flows for all the period of validity of the contract.

Subsequent to initial recognition, the amortised cost allows to allocate revenues and costs deducted from or summed to the instruments during its expected life through amortisation. The method of determination of the amortised cost depends on whether the valued financial assets/liabilities have a fixed or variable rate.

For fixed-rate instruments, future cash flows are quantified based on the interest rate known during the life of the loan. For variable-rate financial assets/liabilities, whose variability is not known a priori (because, for example, linked to an index), cash flows are determined by maintaining constant the last variable rate recorded. At each date of review of the rate, the redemption plan and the effective interest rate are recalculated over the entire useful life of the instrument, i.e. until the date of expiry. The adjustment is recognised as an expense or income in the income statement.

The valuation at amortised cost is carried out for receivables, financial assets held to maturity, payables and outstanding securities; for debt instruments recorded among the available-for-sale financial assets, the amortised cost is calculated for the sole purpose of booking to the income statement the interests based on the effective interest rate; the difference between the fair value and the amortised cost is recorded in a specific net equity reserve.

6. Fair value option

The Bank did not use the so-called "fair value option" envisaged by IAS 39: therefore, items pertaining to this in the balance sheet and income statement are not reported in the statements, inasmuch as they were not measured.

A.3 – Information on transfers between portfolios of financial assets

The Bank has made the following transfers between portfolios, in the presence of "rare circumstances", as permitted by IAS 39:

- in 2008, transferring debt securities from the "Financial assets held for trading" portfolio to the "Assets held to maturity" portfolio, for a total value of 3,600 thousand euros.

- in 2010, transferring 3 UCI units (related to a real estate fund) from the "Financial assets held for trading" portfolio to the "Available-for-sale financial assets" portfolio.

At 31 December 2016, debt securities were repaid at maturity for a total nominal value of 1,600 thousand euros recorded, in 2008, in the "Financial assets held to maturity" portfolio.

The information requested by IFRS 7 is provided below.

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

Type of financial instrument	Source portfolio	Target portfolio	Book value at 31.12.2016	Fair value at 31.12.2016	Income components without the transfer (pre-tax)		Income components recorded for the year (pre-tax)	
					Items	Other	Items	Other
Debt securities	HFT	HTM	1,999	2,001	(5)	4	–	45
UCI units	HFT	AFS	1,481	1,481	(40)	–	(40)	–

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

In the financial year under review, the Bank did not reclassify financial assets.

A.3.3. Transfers of financial assets held for trading

For a description of the "rare circumstances" that led to the reclassifications made, please refer to the explanations provided in the 2008 financial statements for debt securities and to the 2010 financial statements for the UCI units.

A.3.4 Effective interest rate and cash flow forecast from the reclassified assets

For information on the cash flow forecast from the reclassified debt securities, please refer to that explained in the 2008 financial statements as this was the year during which they were reclassified.

A.4 – Information on fair value

Qualitative information

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

The techniques, valuation processes of the financial instruments and the methods for determining the fair value used by the Bank are shown below.

The fair value of financial instruments is determined based on the prices acquired by the financial markets, in the case of instruments listed on active markets (**Level 1**), or on internal valuation models, in the case of all other financial instruments.

If the instrument is not listed on an active market, or if there is no regularly functioning market, i.e. the market does not feature a sufficient and ongoing number of transactions, bid-ask spread and a volatility that is not sufficiently curbed, the fair value of the financial instruments is generally determined based on the use of valuation methods the purpose of which is to establish the price of a hypothetical independent transaction, motivated by normal market consideration, at the date of valuation.

Regarding the valuation techniques, the following are taken into account:

- if available, the prices of recent transactions involving similar instruments, suitably adjusted to reflect the changed market conditions and the technical differences between the valued instrument and the instrument selected as similar in nature (comparable approach);
- valuation models widely used by the financial community, which have proved over the years capable of producing reliable estimates of prices, with respect to the current market conditions (Mark-to-Model).

Financial instruments classified as **Level 1** instruments include:

- stocks and bonds listed on regulated markets. The principal 'price source' of securities listed on regulated markets is the relevant stock exchange, and generally corresponds to the price published by the regulated market on which the security is negotiated. For financial instruments listed on the Italian Stock Exchange, the value is determined using the posted price;
- collective investments schemes, SICAVs and ETFs if available a NAV (Net Asset Value) calculated on a daily basis;
- foreign exchange spot transactions;
- derivatives for which prices are available on an active market (e.g., futures and options).

Lacking prices on an active market, the fair value of financial instruments is calculated according to the so-called "comparable approach" (**Level 2**), based on the use of valuation models making use of parameters that can be directly observed on the market. In this case, the valuation is not based on the prices of the actual financial instruments being valued, but on prices or credit spreads taken from the official listings of substantially similar instruments, in terms of risk-yield factors, using a certain calculation method (pricing model). This approach translates into the search for transactions on the active markets involving instruments that, in terms of their risk factors, are comparable with the valued instrument.

Following is an overview of the valuation techniques used:

- the use of current market prices of other substantially similar instruments, if they are deemed to be highly comparable (based on the country and sector to which they belong, along with their rating, maturity and degree of seniority of the securities), such as to avoid any substantial alteration of the prices or the use of trading prices – with respect to the same financial instrument – concerning market transactions between independent counterparties;
- the use of prices of similar instruments, in terms of their calibration;
- discounted cash flow models;
- option pricing models.

Financial instruments classified as **Level 2** instruments include:

- UCI funds, with published NAV, and relating to which the NAV is reasonably representative of the value;
- bonds that are not traded on an active market, but which can be priced based on the prices of comparable securities, as inputs for a valuation model. The fair value of bonds without official prices expressed by an active market is calculated by using an appropriate credit spread, determined based on liquid financial instruments with similar features. Moreover, in the case of market transactions – concerning the same financial instrument – between independent counterparties account will be taken of the known trading price;
- OTC derivatives valued based on observable parameters and market models. Interest rate, exchange, share, inflation and commodity derivatives – if they are not traded on regulated markets – are known as Over The Counter (OTC) instruments, i.e. instruments that are bilaterally negotiated with market counterparties, and their valuation is conducted based on specific pricing models, fed by inputs (such as rate, exchange and volatility curves) observed on the market.

Lastly, the determination of the fair value of certain types of financial instruments is based on valuation models that require the use of parameters that cannot be directly observed on the market and which, therefore, require estimates and assumptions by the valuer (**Level 3**).

Financial instruments classified as **Level 3** instruments include:

- unlisted securities. Equity investments held at cost are also conventionally included among the Level 3 instruments;
- funds featuring either an unpublished NAV or a published NAV which, however, is not sufficiently representative of the potential realisation value;

- bonds not listed on active markets, for which there are no comparable instruments, or which require the use of significant assumptions, such as the knowledge of trading prices between independent counterparties;
- OTC derivatives valued using non-market models, or market models based on parameters that cannot be observed on the market.

Level 3 instruments also include financial instruments priced by the Bank based on internal valuation models using inputs that cannot be observed on the market and personal assumptions made by the valuer.

A.4.3 Fair value hierarchy

With the introduction of IFRS 13, the rules for measuring the fair value previously included in different accounting principles were set out in a single document.

The fair value is defined as the price that is received for the sale of an asset or that would be paid for the transfer of a liability in an orderly transaction between market participants at the measurement date.

When measuring the fair value of a financial instrument, IFRS 13 refers to the concept of hierarchy of the measurement criteria used, which was at the time introduced by an amendment to IFRS 7 that required the company to classify the measurements based on a hierarchy of levels that reflects the significance of the inputs used in the measurement of financial instruments.

This classification aims to establish a hierarchy in terms of reliability of fair value depending on the degree of discretion applied by enterprises, giving priority to the use of parameters observable on the market reflecting the assumptions that market participants would use when pricing the asset/liability.

IFRS 13 identifies three different input levels:

- Level 1: inputs represented by quoted prices (without adjustment) on active markets - as defined by IFRS 13 - for assets and liabilities subject to measurement;
- Level 2: inputs other than quoted market prices set forth above, which are observable for the asset or liability, either directly (prices) or indirectly (derived from prices);
- Level 3: inputs that are unobservable inputs for the asset or liability subject to measurement.

The choice between these types is not optional but must be done in a hierarchical order since priority is given to official prices on active markets (level 1); in the absence of such inputs, we use valuation techniques based on parameters that cannot be observed on the market (level 2); with a lower and more discretionary priority, the fair value of assets and liabilities calculated with valuation techniques based on parameters that cannot be observed on the market (level 3).

The valuation method and as a result transfers among the levels of the fair value hierarchy of a financial instrument are altered only if there are significant changes in the market or subjective conditions of the issuer of the financial instrument.

IFRS 13 contemplates that, as already indicated by IFRS 7, the instruments measured at amortised cost are provided with fair value disclosure.

Within the Bank, the following approaches were identified for calculating the fair value:

Financial assets held to maturity

They are entered at amortised cost and are represented by bonds listed on an active market.

The classification criteria in the levels and the method for calculating the fair value of these bonds reflect those of bonds measured at fair value on a recurring basis.

Due from customers and banks

Due from customers and banks with defined contractual expiry:

- Due from Customers are classified in level 3 and the fair value is measured by means of a Discounted Cash Flow model whose discount rate includes the following risk components:
  - cost of funding: equal to the swap rate with the same maturity of the loan instalment plus 100 bps;
  - cost of the credit risk: equal to the average rate of probability of default applied by the bank to the customers determined on the basis of the decline rates present in the Bank of Italy's Public Database.

  Due from banks are classified in level 3 and the fair value is represented by the value entered in the financial statements of the receivable.
- Due from customers and banks with undefined contractual expiry:

  The fair value of due from customers and banks with undefined contractual expiry, in that they are on demand, is represented by the nominal value of the receivables net of the risk component represented by the calculated probability of default, in accordance with what was previously defined, on the basis of the decline rates present in the Bank of Italy's Public Database.

Due to banks and customers

They are entered at their nominal value that is usually equal to the amount received initially by the Bank. This value can be reasonably approximated to the fair value in that the Bank can meet its payables thanks to high capital instruments.

Outstanding securities

The item includes bonds issued and entered at amortised cost. The fair value is calculated by using a model that considers the loan indexation parameter and a target spread.

A.4.4 Other information

The Bank does not use the exception on the compensating valuation of groups of financial assets and liabilities referred to in paragraph 48 of the IFRS 13.

Quantitative information

A.4.5 Fair value hierarchy

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

Assets/liabilities carried at fair value	2016			2015		
	L1	L2	L3	L1	L2	L3
1. Financial assets held for trading	25,356	15,119	14	43,707	12,836	35
2. Financial assets carried at fair value	–	–	–	–	–	–
3. Available-for-sale financial assets	1,129,007	36,642	4,712	794,684	26,321	5,023
4. Hedging derivatives	–	391	–	–	215	–
5. Tangible assets	–	–	–	–	–	–
6. Intangible assets	–	–	–	–	–	–
Total	**1,154,363**	**52,152**	**4,726**	**838,391**	**39,372**	**5,058**
1. Financial liabilities held for trading	–	10,772	–	–	9,733	–
2. Financial liabilities carried at fair value	–	–	–	–	–	–
3. Hedging derivatives	–	–	–	–	–	–
Total	**–**	**10,772**	**–**	**–**	**9,733**	**–**

Key:
L1 = Level 1
L2 = Level 2
L3 = Level 3

A.4.5.2 Annual changes of assets carried at fair value on a recurring basis (level 3)

	Financial assets held for trading	Financial assets carried at fair value	Available-for-sale financial assets	Hedging derivatives	Tangible assets	Intangible assets
1. Opening balance	**35**	**–**	**5,023**	**–**	**–**	**–**
2. Increases	**13**	**–**	**72**	**–**	**–**	**–**
2.1. Purchases	–	–	49	–	–	–
2.2. Profits recorded in:	–	–	–	–	–	–
2.2.1. Income Statement	–	–	–	–	–	–
- of which capital gains	–	–	–	–	–	–
2.2.2. Net equity	X	X	–	–	–	–
2.3. Transfers from other levels	13	–	–	–	–	–
2.4. Other increases	–	–	23	–	–	–
3. Decreases	**34**	**–**	**383**	**–**	**–**	**–**
3.1. Sales	–	–	–	–	–	–
3.2. Repayments	–	–	–	–	–	–
3.3. Losses recorded in:	–	–	383	–	–	–
3.3.1. Income Statement	–	–	383	–	–	–
- of which capital losses	–	–	383	–	–	–
3.3.2. Net equity	X	X	–	–	–	–
3.4. Transfers to other levels	–	–	–	–	–	–
3.5. Other decreases	34	–	–	–	–	–
4. Closing balance	**14**	**–**	**4,712**	**–**	**–**	**–**

Item 3.3.1. Income statement - of which capital losses of Available-for-sale financial assets relates to the impairment test carried out by the Bank on Cassa di Risparmio di Cesena S.p.A. shares.

A.4.5.3 Annual changes of financial liabilities carried at fair value on a recurring basis (level 3)

The table was not prepared because, at the reporting date under review, the item in question has no balances.

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

Assets/Liabilities not carried at fair value or carried at fair value on a non-recurring basis	31.12.2016				31.12.2015			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Financial assets held to maturity	1,999	2,001	–	–	1,959	2,006	–	–
2. Due from banks	163,339	–	–	163,339	88,346	–	–	88,346
3. Due from customers	310,020	–	–	311,927	277,287	–	–	279,039
4. Tangible assets held for investment	–	–	–	–	–	–	–	–
5. Non-current assets and groups of assets being disposed	–	–	–	–	–	–	–	–
Total	**475,358**	**2,001**	**–**	**475,266**	**367,592**	**2,006**	**–**	**367,385**
1. Due to banks	1,203	–	–	1,203	11,496	–	–	11,496
2. Due to customers	1,503,643	–	–	1,503,643	1,053,783	–	–	1,053,783
3. Outstanding securities	23,825	–	–	23,791	26,122	–	–	26,095
4. Liabilities associated to assets being disposed	–	–	–	–	–	–	–	0
Total	**1,528,671**	**–**	**–**	**1,528,637**	**1,091,401**	**–**	**–**	**1,091,374**

Key:
BV = Book value
L1 = Level 1
L2 = Level 2
L3 = Level 3

The Bank has never carried out fair value measurements on a non-recurring basis for assets and liabilities.

A.5 Disclosure on the so-called "day one profit/loss"

The Bank did not record in the financial year under review any positive/negative item arising from the initial fair value measurement of financial instruments.

Part B – Information on the balance sheet

ASSETS

Section 1 – Cash and cash equivalents – Item 10

1.1 Cash and cash equivalents: breakdown

	Total 31.12.2016	Total 31.12.2015
a) Cash	322	307
b) Demand deposits at central banks	148	151
Total	**470**	**458**

Section 2 – Financial assets held for trading – Item 20

2.1 Financial assets held for trading: breakdown by product

Items/Amounts	Total 31.12.2016			Total 31.12.2015		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. Cash assets						
1. Debt securities	20,486	2,494	–	39,145	1,429	–
1.1 Structured securities	–	–	–	–	–	–
1.2 Other debt securities	20,486	2,494	–	39,145	1,429	–
2. Equity securities	1,821	–	14	1,607	34	35
3. UCI units	2,866	1,739	–	2,704	1,794	–
4. Loans	–	–	–	–	–	–
4.1 Outstanding repos	–	–	–	–	–	–
4.2 Other	–	–	–	–	–	–
Total A	**25,173**	**4,233**	**14**	**43,456**	**3,257**	**35**
B. Derivatives						
1. Financial derivatives:	183	10,886	–	251	9,579	–
1.1 held for trading	183	10,886	–	251	9,579	–
1.2 Related to the fair value option	–	–	–	–	–	–
1.3 other	–	–	–	–	–	–
2. Credit derivatives	–	–	–	–	–	–
2.1 held for trading	–	–	–	–	–	–
2.2 related to the fair value option	–	–	–	–	–	–
2.3 Other	–	–	–	–	–	–
Total B	**183**	**10,886**	**–**	**251**	**9,579**	**–**
Total (A+B)	**25,356**	**15,119**	**14**	**43,707**	**12,836**	**35**

Item A.1. "Debt securities" amounting to 22,980 thousand euros (40,574 thousand euros at 31 December 2015) consists of the following financial instruments:

- Level 1: Government bonds of 19,984 thousand euros and bonds of 502 thousand euros;
- Level 2: bonds of 2,494 thousand euros relating almost entirely to "FIP Funding Class A2".

Item A.3. UCI units amounting to 4,605 thousand euros (4,498 thousand euros at 31 December 2015) includes: in Level 1 Anthilia Capital Partners Fund units for a total amount of 2,255 thousand euros, New Millennium Funds amounting to 469 thousand euros and other funds for the difference; in Level 2, units of New Millennium total flex Funds for 1,188 thousand euros and units of Alkimis Funds for 551 thousand euros.

Item B.1.1 Financial derivatives held for trading Level 2 pertains exclusively to the positive valuation of currency forwards.

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

Items/Amounts	Total 31.12.2016	Total 31.12.2015
A. Cash assets		
1. Debt securities	**22,980**	**40,574**
a) Governments and Central Banks	19,984	39,053
b) Other public authorities	–	–
c) Banks	–	–
d) Other issuers	2,996	1,521
2. Equity securities	**1,835**	**1,676**
a) Banks	–	
b) Other issuers:	1,835	1,676
- insurance companies	206	569
- financial companies	–	31
- non-financial companies	1,629	1,062
- other	–	14
3. UCI units	**4,605**	**4,498**
4. Loans	**–**	**–**
a) Governments and Central Banks	–	–
b) Other public authorities	–	–
c) Banks	–	–
d) Other entities	–	–
Total A	**29,420**	**46,748**
B. Derivatives		
a) Banks		
- fair value	1,166	611
b) Customers		
- fair value	9,903	9,219
Total B	**11,069**	**9,830**
Total (A + B)	**40,489**	**56,578**

The item “UCI units” includes: 1,597 thousand euros of bond funds, 2,960 thousand euros of equity funds and 48 thousand euros of other funds.

Section 4 – Available-for-sale financial assets – Item 40

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

Items/Amounts	Total 31.12.2016			Total 31.12.2015		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	1,094,519	10,898	–	748,788	–	–
1.1 Structured securities	–	–	–	–	–	–
1.2 Other debt securities	1,094,519	10,898	–	748,788	–	–
2. Equity securities	34,488	–	4,712	43,248	–	5,023
2.1 Carried at fair value	34,488	–	–	43,248	–	–
2.2 Carried at cost	–	–	4,712	–	–	5,023
3. UCI units	–	25,744	–	2,648	26,321	–
4. Loans	–	–	–	–	–	–
Total	**1,129,007**	**36,642**	**4,712**	**794,684**	**26,321**	**5,023**

Item 1. Debt securities - Level 1 - consists almost exclusively of Government Bonds totalling a nominal value of 1,080 million euros, of which 720 million euros with maturity within 2017, 300 million euros with maturity within 2018 and 60 million euros with maturity within 2024.

The equity securities correspond to the strategic investments and include the following:

- Level 1: London Stock Exchange Group plc (31,377 thousand euros), Anima Holding S.p.A. (2,432 thousand euros), Net Insurance S.p.A. (360 thousand euros) and Vetrya S.p.A. (319 thousand euros);
- Level 3: Fideuram Investimenti SGR S.p.A. (1,075 thousand euros), SIA S.p.A. (1,120 thousand euros), Calipso S.p.A. (44 thousand euros), CSE Consorzio Servizi Bancari S.r.l. (2,430 thousand euros) and Cassa di Risparmio di Cesena S.p.A. (43 thousand euros).

Item 3 UCI units - Level 2 - includes 223 units of Fondo Immobili Pubblici (FIP) for a total of 19,429 thousand euros, 5 units of the Apple Fund for a total of 2,468 thousand euros, units of the New Millennium Total Return Fund for 2,648 thousand euros, units of the Thema Fund for 960 thousand euros and other units making up the difference.

In the case of property UCIs, for which no quoted prices are available, directly or indirectly observable in active markets, fair value is measured on the basis of periodic NAV made available by the management company, believed to represent the fair value at which transfer operations between independent operators are assumed to be completed.

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

Items/Amounts	Total 31.12.2016	Total 31.12.2015
1. Debt securities	**1,105,417**	**748,788**
a) Governments and Central Banks	1,084,391	740,401
b) Other public authorities	–	–
c) Banks	21,026	8,387
d) Other issuers	–	–
2. Equity securities	**39,200**	**48,271**
a) Banks	43	357
b) Other issuers:	39,157	47,914
- insurance companies	360	1,468
- financial companies	34,884	42,855
- non-financial companies	3,913	3,591
- other	–	–
3. UCI units	**25,744**	**28,969**
4. Loans	**–**	**–**
a) Governments and Central Banks	–	–
b) Other public authorities	–	–
c) Banks	–	–
d) Other entities	–	–
Total	**1,170,361**	**826,028**

Item “UCI units” includes real estate funds of 21,897 thousand euros and other funds of 3,847 thousand euros.

Section 5 – Financial assets held to maturity – Item 50

5.1 Financial assets held to maturity: breakdown by product

	Total 31.12.2016				Total 31.12.2015			
	BV	FV			BV	FV		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Debt securities	1,999	2,001	–	–	1,959	2,006	–	–
- structured								
- other	1,999	2,001			1,959	2,006		
2. Loans								
Total	**1,999**	**2,001**	**–**	**–**	**1,959**	**2,006**	**–**	**–**

Key
FV= Fair Value
BV= Book Value

The item includes a bond transferred in 2008, as already mentioned in Section A.3 Information on transfers of financial assets between portfolios.

5.2 Financial assets held to maturity: debtors/issuers

Type of transaction/Amount	Total 31.12.2016	Total 31.12.2015
1. Debt securities		
a) Governments and Central Banks	–	–
b) Other public authorities	–	–
c) Banks	1,999	1,959
d) Other issuers	–	–
2. Loans		
a) Governments and Central Banks	–	–
b) Other public authorities	–	–
c) Banks	–	–
d) Other entities	–	–
Total	**1,999**	**1,959**
Total Fair value	**2,001**	**2,006**

Section 6 – Due from banks – Item 60

6.1 Due from banks: breakdown by product

Type of transaction/Amount	Total 31.12.2016				Total 31.12.2015			
	BV	FV			BV	FV		
		Level 1	Level 2	Level L3		Level 1	Level 2	Level 3
A. Due from central banks	**–**			**–**	**–**			**–**
1. Fixed-term deposits	–	X	X	X	–	X	X	X
2. Obligatory reserve	–	X	X	X	–	X	X	X
3. Repos	–	X	X	X	–	X	X	X
4. Other	–	X	X	X	–	X	X	X
B. Due from banks	**163,339**			**163,339**	**88,346**			**88,346**
1. Loans								
1.1. Current accounts and demand deposits	57,641	X	X	X	84,469	X	X	X
1.2 Fixed-term deposits	89,896	X	X	X	3,877	X	X	X
1.3. Other loans:	–	X	X	X	–	X	X	X
Outstanding repos	–	X	X	X	–	X	X	X
Finance lease	–	X	X	X	–	X	X	X
Other	15,802	X	X	X	–	X	X	X
2. Debt securities	–				–			
2.1 Structured securities	–	X	X	X	–	X	X	X
2.2 Other debt securities	–	X	X	X	–	X	X	X
Total	**163,339**			**163,339**	**88,346**			**88,346**

Key: FV = fair value BV = book value

Item B.1.2. Fixed-term deposits comprises the obligatory reserve deposited at the ICBPI (Istituto Centrale Banche Popolari Italiane) of 4,889 thousand euros and e-mid deposits amounting to 85,007 thousand euros with latest maturity February 2017. At 31 December 2015, the item, of 3,877 thousand euros, referred solely to the obligatory Reserve.

Item 1.3 Other loans relates to guarantee margins on derivatives.

Section 7 – Due from customers – Item 70

7.1 Due from customers: breakdown by product

Type of transaction/Amount	Total 31.12.2016					
	Book value			Fair value		
	Non impaired	Impaired		L1	L2	L3
		Purchased	Other			
Loans						
1. Current accounts	113,478		2,230	X	X	X
2. Outstanding repos	20,390		–	X	X	X
3. Mortgages	144,084		1,770	X	X	X
4. Credit cards, personal loans and loans on salary	–		–	X	X	X
5. Finance lease	–		–	X	X	X
6. Factoring	–		–	X	X	X
7. Other loans	23,026		4,415	X	X	X
Debt securities		–	–			
8. Structured securities	–		–	X	X	X
9. Other debt securities	627		–	X	X	X
Total	**301,605**	**–**	**8,415**			**311,927**

The item "Due from customers" totalled 310,020 thousand euros (277,287 thousand euros at 31 December 2015).

At the reporting date of these financial statements, the items relating to current accounts, mortgages and other loans include **impaired assets** totalling 13,075 thousand euros (8,415 thousand euros after the write-downs), comprising:

- **non-performing loans** totalling 8,640 thousand euros (4,361 thousand euros after the write-downs) relating to the following positions:
  - 4,572 thousand euros (2,080 thousand euros after the write-downs) for the residual amount of a loan resolved on 8 July 2011. The transaction is secured by a first mortgage on property, the value of which – supported by an expert appraisal report revised on 1 December 2016 – covers the entire value of the net exposure. The recoverable amount of the credit is based on the assessed value of the guarantees, which takes into account the time for the collection of credit, in relation to the privileged position of the Bank concerning the real estate collaterals securing the exposure;
  - 4,068 thousand euros referring to trade receivables of 1,046 thousand euros and to cash loans of 3,022 thousand euros.

    The line-by-line write-downs made totalled 4,279 thousand euros (including 1,027 thousand euros referring to trade receivables).
- **likely defaults** totalling 1,011 thousand euros (657 thousand euros after the write-downs) comprising:

Total 31.12.2015					
Book value			Fair value		
Non impaired	Impaired		L1	L2	L3
	Purchased	Other			
95,509		356	X	X	X
–		–	X	X	X
150,689		3,022	X	X	X
–		–	X	X	X
–		–	X	X	X
–		–	X	X	X
22,285		4,863	X	X	X
	–	–			
–		–	X	X	X
563		–	X	X	X
269,046	**–**	**8,241**			**279,039**

- overdraft facilities amounting to 196 thousand euros;
- mortgage positions of 536 thousand euros (64 thousand euros of overdue instalments and 472 thousand euros of principal about to fall due);
- trade receivables of 279 thousand euros.

The line-by-line write-downs made totalled 354 thousand euros (including 225 thousand euros referring to trade receivables);

- other positions **expired or past due** for over 90 days totalling 3,424 thousand euros (3,397 thousand euros after the write-downs).

At 31 December 2016, there are 11 unimpaired "forborne" exposures of which:

- 3 non-performing positions totalling 787 thousand euros (of which 2 positions included among likely defaults for 149 thousand euros and 1 position included among past due loans for 638 thousand euros).
- 8 not impaired positions, amounting to 2,246 thousand euros;

As usual, at 31 December 2016, the Bank calculated the collective write-down of cash loans, based on the mean value of the historical series of the default rates of cash loans received from the Risk Centre. This write-down, amounting to 1,891 thousand euros, was higher than the allocations made for this purpose through 31 December 2015, which amounted to 1,809 thousand euros.

In 2016, the Bank recorded 123 thousand euros in the income statement item "130 Net value adjustments/write-backs for impairment of: a) loans" for value adjustments of which 260 thousand euros for receivables write-offs, 182 thousand euros for specific value adjustments, 82 thousand euros for portfolio value adjustments and 401 thousand euros for write-backs.

At 31 December 2016, the allowance for doubtful receivables totalled 6,551 thousand euros, of which: 4,660 thousand euros, on an itemised basis and 1,891 thousand euros for collective write-downs.

Item 7. "Other loans" includes Deposits for margins with the Cassa di Compensazione e Garanzia amounting to 20,132 thousand euros.

Item 9. "Other debt securities" refers to Senior Fin.Re SPV bonds with a nominal value of 1,700 thousand euros and issued within the securitisation of an unsecured non-performing loan.

7.2 Due from customers: breakdown by debtor/issuer

Type of transaction/Amount	Total 31.12.2016			Total 31.12.2015		
	Non impaired	Impaired		Non impaired	Impaired	
		Purchased	Other		Purchased	Other
1. Debt securities:	**627**	**–**	**–**	**563**	**–**	**–**
a) Governments	–	–	–	–	–	–
b) Other public authorities	–	–	–	–	–	–
c) Other issuers	627	–	–	563	–	–
- non-financial companies	–	–	–	–	–	–
- financial companies	627	–	–	563	–	–
- insurance companies	–	–	–	–	–	–
- other	–	–	–	–	–	–
2. Loans to:	**300,978**	**–**	**8,415**	**268,483**	**–**	**8,241**
a) Governments	–	–	–	–	–	–
b) Other public authorities	–	–	–	–	–	–
c) Other entities	300,978	–	8,415	268,483	–	8,241
- non-financial companies	156,633	–	4,560	138,445	–	4,558
- financial companies	70,566	–	154	57,117	–	149
- insurance companies		–			–	
- other	73,779	–	3,701	72,921	–	3,534
Total	**301,605**	**–**	**8,415**	**269,046**	**–**	**8,241**

A breakdown of "Time distribution of amounts due from customers by residual duration" can be found under Part E Section 3 - Liquidity risk.

Section 8 – Hedging derivatives – Item 80

8.1 Hedging derivatives: breakdown by type of hedge and by level

Items/Amounts	FV 31.12.2016			NV 31.12.2016	FV 31.12.2015			NV 31.12.2015
	L1	L2	L3		L1	L2	L3	
A) Financial derivatives								
1) Fair value		391		17,520		215		20,437
2) Cash flows								
3) Foreign investment								
B. Credit derivatives								
1) Fair value								
2) Cash flows								
Total	**–**	**391**	**–**	**17,520**	**–**	**215**	**–**	**20,437**

Key:
FV = fair value
NV = notional value
L1 = Level 1
L2 = Level 2
L3 = Level 3

8.2 Hedging derivatives: breakdown by hedged portfolios and type of hedge

Transactions/Type of hedge	Fair value						Cash flows		Foreign investments
	Specific					Generic	Specific	Generic	
	interest rate risk	exchange rate risk	credit risk	price risk	more risk				
1. Available-for-sale financial assets		391				X		X	X
2. Receivables				X		X		X	X
3. Financial assets held to maturity	X			X		X		X	X
4. Portfolio	X	X	X	X	X		X		X
5. Other transactions						X		X	
Total assets		**391**							
1. Financial liabilities				X		X		X	X
2. Portfolio	X	X	X	X	X		X		X
Total liabilities									
1. Expected transactions	X	X	X	X	X	X		X	X
2. Portfolio of financial assets and liabilities	X	X	X	X	X		X		

In December 2015, partial Hedge Accounting of 15 million Pounds was carried out to neutralise the impact deriving from the change in the Euro/GBP exchange rate on a significant part of the book value, i.e. 26.9 million Pounds, of the 921,900 London Stock Exchange Group plc (LSEG) shares held, at 31 December 2016, in the Available-for-sale financial assets portfolio.

This partial hedging was carried out with a forward sale transaction of 15 million Pounds with maturity 21 December 2017, whose positive fair value at 31 December 2016 was 391 thousand euros.

In addition to the hedge described above, the Bank also carried out a management hedging of the exchange rate risk, also connected with the LSEG shares, for an additional amount of 12.5 million Pounds.

Section 5 - Net income from hedging activities - Item 90 of the income statement of these notes to the financial statements shows the income components related to this hedge.

Section 10 – Equity investments – Item 100

10.1 Equity investments information on investment relationships

Company name	Registered office	Principal place of business	% share	Voting rights %
A. Wholly-controlled companies				
1. Finnat Fiduciaria S.p.A.	Rome	Rome	100.00	
2. Investire S.G.R. S.p.A.	Rome	Rome	50.16	
3. Finnat Gestioni S.A.	Lugano	Lugano	70.00	
4. Natam Management Company S.A.	Luxembourg	Luxembourg	100.00	
B. Jointly controlled companies				
C. Companies under significant influence (*)				
1. Prévira Invest SIM S.p.A. in liquidation	Rome	Rome	20.00	
2. Imprebanca S.p.A.	Rome	Rome	20.00	

(*) Associated companies

The share ownership also represents the percentage of voting rights at the shareholders' meetings.

10.2 Significant equity investments: book value, fair value and dividends received

10.3 Significant equity investments: accounting information

10.4 Non significant equity investments: accounting information

As indicated in the 4th revision to Circular no. 262 of 22 December 2005, the information about the above items are not provided, inasmuch as the Bank prepares the consolidated financial statements.

10.5 Equity investments: annual changes

	Total 31.12.2016	Total 31.12.2015
A. Opening balance	**80,993**	**73,467**
B. Increases	**1,424**	**7,886**
B.1 Purchases	750	–
B.2 Write-backs	–	–
B.3 Revaluations	100	3,014
B.4 Other changes	574	4,872
C. Decreases	**7,285**	**360**
C.1 Sales	2,840	–
C.2 Value adjustments	4,412	–
C.3 Other changes	33	360
D. Closing balance	**75,132**	**80,993**
E. Total revaluations	**48,380**	**50,656**
F. Total adjustments	**2,000**	**204**

Item B.1 Purchases relates to the subscription, upon establishment, of 100% of the share capital of Natam Management Company S.A., based in Luxembourg.

Item B.3 Revaluations comprises the adjustment to fair value of Finnat Gestioni S.A.

Item B.4 Other changes comprises the gain realised on the sale of the investment in the associate Revalo S.p.A., i.e. 572 thousand euros. The price collected, i.e. 2,840 thousand euros, is shown under item C.1 Sales.

Item C.2 Value adjustments comprises both the fair value adjustment of the subsidiaries - InvestiRE SGR S.p.A., 1,812 thousand euros, and Finnat Fiduciaria S.p.A., 600 thousand euros - and the impairment on the associated company Imprebanca, 2,000 thousand euros.

Item C3. Other changes refers to the price to be collected for the final liquidation amount of the associated company Sigefi Italia Private Equity S.r.l. The gain generated by the liquidation, i.e. 2 thousand euros, is included in Item B.4 Other changes.

Item E - Total revaluations shows the total fair value adjustment of the subsidiaries amounting to 48,380 thousand euros, of which 43,876 thousand euros referred to InvestiRE SGR S.p.A.

Item F - Total adjustments - shows the impairment applied on the associated company Imprebanca.

The investments in subsidiaries were measured on the basis of the three-year business plan prepared by the subsidiaries applying the methods used in professional practice.

Changes in the item Equity investments are shown in detail in the Statement of annual changes in equity investments attached to the financial statements.

Section 11 – Tangible assets – Item 110

11.1 Tangible assets for functional use: breakdown of the assets carried at cost

Assets/amounts	Total 31.12.2016	Total 31.12.2015
1 Owned assets	**5,010**	**5,134**
a) land	1,308	1,308
b) buildings	2,610	2,712
c) furniture	667	693
d) electronic equipment	425	421
e) other	–	–
2 Assets acquired under finance lease	**–**	**–**
a) land	–	–
b) buildings	–	–
c) furniture	–	–
d) electronic equipment	–	–
e) other	–	–
Total	**5,010**	**5,134**

The Bank owns two offices located in Rome - Via Parigi no. 11. In 1974, the property was revalued by 8 thousand euros and further revaluations were made for a total of 1,216 thousand euros in accordance with Italian laws no. 576 of 2 December 1975, no. 72 of 19 March 1983, and no. 413 of 30 December 1991.

Moreover, as a result of the absorption of Finnat Real Estate S.r.l. in 2014, the Bank recorded, with continuity of values, the tangible assets including the free-standing building located in Rome, Corso Trieste, 118.

11.5 Tangible assets for functional use: annual changes

	Land	Buildings	Furniture	Electronic equipment	Other	Total
A. Gross opening balance	1,308	5,930	2,159	4,353	–	13,750
A.1 Net total impairment	–	3,218	1,466	3,932	–	8,616
A.2 Net opening balance	1,308	2,712	693	421	–	5,134
B. Increases:	–	54	19	182	–	255
B.1 Purchases		54	19	174	–	247
B.2 Capitalised improvement expenses						–
B.3 Write-backs						–
B.4 Positive changes in fair value allocated to	–	–	–	–	–	–
a) net equity						–
b) income statement						–
B.5 Positive exchange differences	–	–	–	–	–	–
B.6 Transfers from properties held for investment	–	–	–		–	–
B.7 Other changes	–	–		8	–	8
C. Decreases:	–	156	45	178	–	379
C.1 Sales		–	–	10	–	10
C.2 Depreciation		156	45	168	–	369
C.3 Value adjustments for impairment allocated to	–	–	–	–	–	–
a) net equity						
b) income statement						–
C.4 Negative changes in fair value allocated to	–	–	–	–	–	–
a) net equity						–
b) income statement						–
C.5 Negative exchange differences	–	–	–	–	–	–
C.6 Transfers to:	–	–	–	–	–	–
a) tangible assets held for investment						–
b) assets being disposed						–
C.7 Other changes	–	–			–	–
D. Net closing balance	1,308	2,610	667	425	–	5,010
D.1 Net total impairment	–	3,374	1,511	4,090	–	8,975
D.2 Gross closing balance	1,308	5,984	2,178	4,515	–	13,985
E. Valuation at cost						

The above tangible assets were recognised at cost plus any directly chargeable ancillary expenses. These have been subjected to systematic depreciation on a straight-line basis, determined according to the useful life of the asset in question and the period of effective use.

The depreciation rates applied, on the basis of the useful life of the assets, are as follows: Property 3%, Furniture and Furnishings (with the exclusion of works of art) 12%, Systems 15%-20%, Office machines and electronic equipment 20%, Vehicles 25%.

Section 12 – Intangible assets – Item 120

12.1 Intangible assets: breakdown by asset

Assets/Amounts	Total 31.12.2016		Total 31.12.2015	
	Definite life	Indefinite life	Definite life	Indefinite life
A.1 Goodwill	X	300	X	300
A.2 Other intangible assets	37	48	40	48
A.2.1 Assets carried at cost:	37	48	40	48
a) Intangible assets generated internally	–	–	–	–
b) Other assets	37	48	40	48
A.2.2 Assets carried at fair value:	–	–	–	–
a) Intangible assets generated internally	–	–	–	–
b) Other assets	–	–	–	–
Total	**37**	**348**	**40**	**348**

Item A.1 equal to 300 thousand euros regards a part of the goodwill resulting from the merger of Banca Finnat Euramerica S.p.A. into Terme Demaniali di Acqui S.p.A., carried out in 2003. As it regards an intangible asset with indefinite useful life, an impairment test was carried out in accordance with the provisions of IAS 36. This evaluation did not show any loss in value to record in the income statement.

12.2 Intangible assets: annual changes

	Goodwill	Other intangible assets: generated internally		Other intangible assets: other		Total
		DEF	INDEF	DEF	INDEF	
A. Opening balance	**300**	**–**	**–**	**2,594**	**48**	**2,942**
A.1 Net total impairment	–	–	–	2,554	–	2,554
A.2 Net opening balance	**300**	**–**	**–**	**40**	**48**	**388**
B. Increases	**–**	**–**	**–**	**27**	**–**	**27**
B.1 Purchases	–			27	–	27
B.2 Increases in internal intangible assets	X			–		–
B.3 Write-backs	X			–		–
B.4 Positive changes in fair value	–	–	–	–	–	–
- on net equity	X			–		–
- on income statement	X			–		–
B.5 Positive exchange rate differences	–			–		–
B.6 Other changes	–			–		–
C. Decreases	**–**	**–**	**–**	**30**	**–**	**30**
C.1 Sales	–			–		–
C.2 Value adjustments	–	–	–	30	–	30
(-) Amortisation	X			30		30
(-) Write-downs	–	–	–	–	–	–
(+) net equity	X			–		–
(+) income statement				–		–
C.3 Negative changes in fair value	–	–	–	–	–	–
- on net equity	X			–		–
- on income statement	X			–		–
C.4 Transfers to non-current assets being disposed	–			–		–
C.5 Negative exchange differences	–			–		–
C.6 Other changes	–			–		–
D. Net closing balance	**300**	**–**	**–**	**37**	**48**	**385**
D.1 Total net value adjustments	–	–	–	2,584	–	2,584
E. Gross closing balance	**300**	**–**	**–**	**2,621**	**48**	**2,969**
F. Valuation at cost						

Key:
DEF: definite life
INDEF: indefinite life

The above intangible assets with definite life refer to software licenses. The useful life of the above intangible assets has been estimated as three years hence the assets have been subjected to amortisation on a straight-line basis with the application of the rate of 33.33%.

Section 13 – Tax assets and liabilities – Items 130 (assets) and 80 (liabilities)

Current tax assets total 1,777 thousand euros (2,823 thousand euros at 31 December 2015) and concern tax consolidation credits of 134 thousand euros, Irap credits of 470 thousand euros, VAT credits of 5 thousand euros and tax credits requested for refund of 1,168 thousand euros. This latter amount comprises:

- 1,033 thousand euros (of which 829 thousand euros referred to the Bank and 204 thousand euros referred to the other companies participating in the consolidated tax system) as a result of the request for refund for the recovery of the deduction for Ires purposes, of Irap referred to staff costs, for the years from 2007 to 2011 (Article 2 of Italian Law Decree no. 201/2011 supplemented by Italian Law Decree no. 16/2012);
- 134 thousand euros for taxes paid by the Bank on tax assessment, referred to tax year 2003, for which appeal is pending;
- one thousand euros for VAT.

Current tax liabilities total 183 thousand euros (239 thousand euros at 31 December 2015) and they consist of assessments for which appeals are pending (of which 178 thousand euros referred to tax year 2003).

13.1 Advance tax assets: breakdown

	Total 31.12.2016	Total 31.12.2015
a) Of which per Italian Law 214/2011	**1,527**	**1,952**
Goodwill	942	1,336
Write-down of receivables set forth in Article 106 par. 3 of the TUIR	585	616
b) Other	**532**	**543**
Write-down of securities	258	91
Write-down of receivables	94	94
Staff severance fund - IAS change	57	43
Other	123	315
Total	**2,059**	**2,495**

Advance tax assets on Goodwill refer to the lower tax burden related to the amortisation that will contribute to the calculation of the taxable income in the forthcoming years (until 2019). Said tax goodwill – originally totalling 21,440 thousand euros – was recorded in 2003, as a result of the merger of Banca Finnat Euramerica S.p.A. and Finnat Corporate S.p.A. with Terme Demaniali di Acqui S.p.A.

13.2 Deferred tax liabilities: breakdown

	Total 31.12.2016	Total 31.12.2015
Revaluation of equity investments	665	697
Revaluation of securities	2,763	3,427
Allocation of merger deficit on securities	40	40
Other	15	–
Total	**3,483**	**4,164**

Prepaid and deferred taxes have been determined applying the IRES rate and, where applicable, the IRAP rate in force at the date of preparation of these financial statements.
Article 2 of Italian Law Decree no. 225/2010 (the "mille proroghe" or "thousand extensions" decree), subsequently amended by Article 9 of Italian Law Decree no. 201/2011 (the so-called "Monti" decree) converted by Italian Law no. 214/2011 introduced the possibility of transforming into tax credits the deferred tax assets recorded in the financial statements and related to the value of the goodwill and to the write-down of receivables pursuant to Article 106, paragraph 3, of the TUIR (Consolidated Income Tax Act) in force through 31 December 2013.

In particular, the transformation into tax receivables can be realised upon the occurrence of some cases identified by the regulation itself and more specifically in case of: a) statutory loss; b) tax loss; c) voluntary liquidation; d) subjecting to bankruptcy proceedings. Advance tax assets calculated pursuant to Italian Law 214/2011, for the recognition in the financial statements, should not be subject to the test in accordance with IAS 12.

13.3 Changes in advance taxes (with corresponding item in the income statement)

	Total 31.12.2016	Total 31.12.2015
1. Opening balance	**2,361**	**2,314**
2. Increases	**–**	**441**
2.1 Advance taxes recognised in the year	–	441
a) relating to previous years	–	–
b) due to the change in the accounting policies	–	–
c) write-backs	–	–
d) other	–	441
2.2 New taxes or increases in tax rates	–	
2.3 Other increases	–	–
3. Decreases	**617**	**394**
3.1 Advance taxes cancelled during the year	617	394
a) reallocations	617	394
b) write-downs due to irrevocability	–	–
c) change in the accounting policies	–	–
d) other	–	–
3.2 Reductions in tax rates	–	–
3.3 Other decreases	–	–
a) transformation in tax receivables set forth in Italian Law no. 214/2011	–	–
b) other	–	–
4. Closing balance	**1,744**	**2,361**

The figures indicated in table 13.3 comprise the amounts shown in table 13.3.1.

13.3.1 Changes in advance taxes set forth in Italian Law 214/2011 (with corresponding item in the income statement)

	Total 31.12.2016	Total 31.12.2015
1. Opening balance	**1,952**	**2,221**
2. Increases	**–**	**125**
3. Decreases	**425**	**394**
3.1 Reallocations	425	394
3.2 Transformation into tax receivables		
a) deriving from losses for the year		
b) deriving from tax losses		
3.3 Other decreases		
4. Closing balance	**1,527**	**1,952**

The Bank, albeit in the presence of a tax loss, did not recognise the related advance taxes that can be transformed in tax credits in that, joining the domestic consolidated tax system, the loss is fully offset by the taxable income of the Group.

13.4 Changes in deferred taxes (with corresponding item in the income statement)

	Total 31.12.2016	Total 31.12.2015
1. Opening balance	**2,498**	**2,140**
2. Increases	**6**	**634**
2.1 Deferred taxes recorded in the year	6	634
a) relating to previous years	–	–
b) due to the change in the accounting policies	–	–
c) other	6	634
2.2 New taxes or increases in tax rates	–	–
2.3 Other increases	–	–
3. Decreases	**442**	**276**
3.1 Deferred taxes cancelled during the year	442	276
a) reallocations	442	276
b) due to the change in the accounting policies	–	–
c) other	–	–
3.2 Reductions in tax rates	–	–
3.3 Other decreases	–	–
4. Closing balance	**2,062**	**2,498**

13.5 Changes in advance taxes (with corresponding item in the net equity)

	Total 31.12.2016	Total 31.12.2015
1. Opening balance	**134**	**79**
2. Increases	**232**	**87**
2.1 Advance taxes recognised in the year	232	87
a) relating to previous years	–	–
b) due to the change in the accounting policies	–	–
c) other	232	87
2.2 New taxes or increases in tax rates	–	–
2.3 Other increases	–	–
3. Decreases	**51**	**32**
3.1 Advance taxes cancelled during the year	51	32
a) reallocations	51	32
b) write-downs due to irrevocability	–	–
c) due to the change in the accounting policies	–	–
d) other	–	–
3.2 Reductions in tax rates	–	–
3.3 Other decreases	–	–
4. Closing balance	**315**	**134**

13.6 Changes in deferred taxes (with corresponding item in net equity)

	Total 31.12.2016	Total 31.12.2015
1. Opening balance	**1,666**	**1,857**
2. Increases	**286**	**772**
2.1 Deferred taxes recorded in the year	286	772
a) relating to previous years	–	–
b) due to the change in the accounting policies	–	–
c) other	286	772
2.2 New taxes or increases in tax rates	–	–
2.3 Other increases	–	–
3. Decreases	**531**	**963**
3.1 Deferred taxes cancelled during the year	531	963
a) reallocations	531	963
b) due to the change in the accounting policies	–	–
c) other	–	–
3.2 Reductions in tax rates	–	–
3.3 Other decreases	–	–
4. Closing balance	**1,421**	**1,666**

For further information on changes to advance and deferred taxes, please see: for those recorded in the income statement, Part C - Section 18 Income taxes for the year and for those recorded in the net equity Part D – Comprehensive income.

* * *

With regard to tax-related disputes, it should be pointed out that the following appeals are pending before the Supreme Court, without a hearing date yet set for them:

- appeal against unfavourable decision no. 253/07/10 of the Regional Tax Commission of Rome. The dispute pertains to assessment notice no. RCB030302029/2005, whereby the Revenue Agency argued that certain operating costs relating to the year 2002 were not deductible for IRPEG and IRAP purposes (costs for advisory services and costs pertaining to a lease agreement). The amounts of the higher taxes assessed (55 thousand euro) and related penalties and interests were expensed in the income statement by the Bank in the previous years;
- appeal against partially unfavourable decision no. 150/09/2012 of the Regional Tax Commission of Rome. The dispute pertains to assessment notice no. RCB030302784/2008, whereby the Revenue Agency argued, in relation to the 2003 tax year, that Article 96-bis of the Consolidated Income Tax Act (taxation of 5% of the value of dividends) applied to the dividends distributed by the Luxembourg investee New Millennium Advisory S.A. The 2nd level decision, now being appealed before the Supreme Court, partially allowed the Bank's arguments. In accordance with the 2nd level decision, the amounts of the higher taxes assessed (83 thousand euro) and related penalties and interests were expensed in the income statement by the Bank in the previous years.

Section 15 – Other assets – Item 150

15.1 Other assets: breakdown

	Total 31.12.2016	Total 31.12.2015
Receivables for guarantee deposits	305	310
Payables to group companies for tax consolidation	1,324	1,008
Due from the Group companies	1	1
Deposits with Cassa Compensazione e Garanzia	8,572	6,324
Due from counterparties and brokers	35	82
Tax credits for withholding tax	1,154	2,299
Sundry receivables	4,508	5,688
Total	**15,899**	**15,712**

LIABILITIES

Section 1 – Due to banks – Item 10

1.1 Due to banks: breakdown by product

Type of transaction/Amount	Total 31.12.2016	Total 31.12.2015
1. Due to Central Banks	**–**	**–**
2. Due to banks	**1,203**	**11,496**
2.1 Current accounts and demand deposits	533	11,496
2.2 Fixed-term deposits	–	–
2.3 Loans	670	–
2.3.1 Reverse repos	–	–
2.3.2 Other	670	–
2.4 Amounts due under repurchase agreements of own equity instruments	–	–
2.5 Other liabilities	–	–
Total	**1,203**	**11,496**
Fair value - level 1	–	–
Fair value - level 2	–	–
Fair value - level 3	1,203	11,496
Total Fair value	**1,203**	**11,496**

Item 2.3.2 Other loans relates to guarantee margins on derivatives.

Section 2 – Due to customers – Item 20

2.1 Due to customers: breakdown by product

Type of transactions/Amounts	Total 31.12.2016	Total 31.12.2015
1. Current accounts and demand deposits	494,693	365,074
2. Fixed-term deposits	68,530	60,527
3. Loans	940,168	627,955
3.1 Reverse repos	940,168	627,955
3.2 Other	–	–
4. Amounts due under repurchase agreements of own equity instruments	–	–
5. Other payables	252	227
Total	**1,503,643**	**1,053,783**
Fair value - level 1	–	–
Fair value - level 2	–	–
Fair value - level 3	1,503,643	1,053,783
Total Fair value	**1,503,643**	**1,053,783**

Item 3.1 Reverse repos concerns transactions carried out with Cassa di Compensazione e Garanzia.

Section 3 – Outstanding securities – Item 30

3.1 Outstanding securities: breakdown by product

Type of securities/ Amount	Total 31.12.2016				Total 31.12.2015			
	Book value	Fair value			Book value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Securities	**23,825**	**–**	**–**	**23,791**	**26,122**	**–**	**–**	**26,095**
1. bonds	23,825	–	–	23,791	26,122	–	–	26,095
1.1 structured	–	–	–	–	–	–	–	–
1.2 other	23,825	–	–	23,791	26,122	–	–	26,095
2. other securities	–	–	–	–	–	–	–	–
2.1 structured	–	–	–	–	–	–	–	–
2.2 other	–	–	–	–	–	–	–	–
Total	**23,825**	**–**	**–**	**23,791**	**26,122**	**–**	**–**	**26,095**

The item represents the bonds issued, including the accrued interest. The amount is shown net of the securities held for trading present in the Bank's portfolio, with a nominal amount of 1,177 thousand euros.

Section 4 – Financial liabilities held for trading – Item 40

4.1 Financial liabilities held for trading: breakdown by product

Type of transaction/Amount	Total 31.12.2016					Total 31.12.2015				
	NV	FV			FV*	NV	FV			FV*
		L1	L2	L3			L1	L2	L3	
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	**–**	**–**	**10,772**	**–**			**–**	**9,733**	**–**	
1. Financial derivatives		–	10,772	–			–	9,733	–	
1.1 Held for trading	X	–	10,772	–	X	X	–	9,733	–	X
1.2 Related 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 Related to the fair value option	X	–	–	–	X	X	–	–	–	X
2.3 Other	X	–	–	–	X	X	–	–	–	X
Total B	**X**	**–**	**10,772**	**–**	**X**	**X**	**–**	**9,733**	**–**	**X**
Total (A + B)	**X**	**–**	**10,772**	**–**	**X**	**X**	**–**	**9,733**	**–**	**X**

Key:
FV = fair value
FV* = fair value calculated excluding the changes in value due to the change in the credit rating of the issuer with respect to the issue date
NV = face or notional value
L1 = Level 1
L2 = Level 2
L3 = Level 3

The financial liabilities held for trading "B. Derivatives" includes the measurement of currency forwards of 10,662 thousand euros and the fair value measurement of an Interest Rate Swap Amortising of 110 thousand euros. This derivative is a hedging transaction for managing an interest rate risk.

Section 8 – Tax liabilities – Item 80

See Section 13 of the assets.

Section 10 – Other liabilities – Item 100

10.1 Other liabilities: breakdown

	Total 31.12.2016	Total 31.12.2015
Social security and insurance contributions to be paid	801	924
Payables to employees and contractors	829	1,397
Emoluments to be paid to the Directors	–	21
Emoluments to be paid to the Board of Statutory Auditors	57	139
Due to suppliers	476	660
Payables to group companies for tax consolidation	171	182
Payables to group companies	–	–
Shareholders for dividends to be paid	1,189	1,052
Payables to brokers and institutional counterparties	29	65
Tax payables for withholding tax	1,257	1,355
Other payables	2,086	1,752
Total	**6,895**	**7,547**

Section 11 – Staff severance fund – Item 110

11.1 Staff severance fund: annual changes

	Total 31.12.2016	Total 31.12.2015
A. Opening balance	**2,316**	**2,521**
B. Increases	**807**	**602**
B.1 Allocation for the year	807	602
B.2 Other changes	–	–
C. Decreases	**898**	**807**
C.1 Severance indemnities paid out	275	267
C.2 Other changes	623	540
D. Closing balance	**2,225**	**2,316**

Item B.1 Allocation for the year, includes the actuarial loss of 51 thousand euros recognised among valuation reserves - net of the tax effect - in accordance with IAS 19. In 2015, an actuarial gain of 117 thousand euros was recorded.

Item C.2 Other changes includes payments made to supplementary Social Security Institutes and the INPS Treasury – net of disbursements carried out – as established by Italian Law no. 296/06.

The actuarial assumptions used to calculate the liabilities as at the balance sheet date are set out below:

Demographic assumption
As regards the demography data used, life expectancy was assessed using the RG48 demographic table on population activity ratios ("Tavola di permanenza nella posizione di attivo) (processed by the General Accounting Office, by reference to the 1948 generation), "selected, projected and subdivided by gender", supplemented by internal statistics concerning the probability of staff leaving employment.

Economic-financial assumptions
Technical evaluations were made on the basis of the following assumptions:

- technical discount rate between 0.2706% and 2.1718%, determined on the basis of the rate curve built on the basis of the effective yield rate of the bonds in Euro of leading companies rated AA or higher;
- annual inflation rate 1.25%

The staff severance fund at 31 December 2016, calculated in accordance with the provisions of Article no. 2120 of the Italian Civil Code amounted to 2,069 thousand euros.

Section 12 - Provisions for risks and charges - Item 120

12.1 Provisions for risks and charges: breakdown

	Total 31.12.2016	Total 31.12.2015
1. Company pension funds		
2. Other provisions for risks and charges	**448**	**1,067**
2.1 Legal disputes	–	–
2.2 Staff costs	–	–
2.3 Other	448	1,067
Total	**448**	**1,067**

12.2 Provisions for risks and charges: annual changes

	Pension funds	Other provisions	Total
A. Opening balance	**–**	**1,067**	**1,067**
B. Increases	**–**	**–**	**–**
B.1 Allocation for the year	–	–	–
B2. Changes due to the passing of time	–	–	
B.3 Changes due to discount rate variations	–	–	
B.4 Other changes	–	–	
C. Decreases	**–**	**619**	**619**
C.1 Use in the year	–	619	619
C.2 Changes due to discount rate variations	–	–	
C.3 Other changes	–	–	
D. Closing balance	**–**	**448**	**448**

12.4 Provisions for risks and charges - other provisions

The provision for risks and charges established in 2015 was reduced by 619 thousand euros as a result of the change in the commitment for the indemnity to be paid to the shareholders of the company resulting from the merger of Beni Stabili Gestioni SGR S.p.A. and Polaris Real Estate SGR S.p.A. in InvestiRE SGR S.p.A.

Section 14 – Net equity – Items 130, 160, 180, 190 and 200

14.1 "Share capital" and "Own shares": Breakdown

At 31 December 2016, the share capital paid up by the Bank was 72,576,000 euros, divided into 362,880,000 ordinary shares with a face value of 0.20 euros each, and the Bank holds 29,492,710 own shares, amounting to 8.1% of the share capital (28,320,718 at 31 December 2015).

In application of IAS 32 and of the provisions contained in the Circular Letter no. 262/2005, the own shares held exclusively at 31 December 2016 were used to adjust the net equity for an amount of 14,392 thousand euros, which corresponds to their purchase price.

14.2 Share capital - Number of shares: annual changes

Items/Types	Ordinary	Other
A. Number of shares at the beginning of the year		
– fully paid-up	362,880,000	
– partly paid-up	–	
A.1 Own shares (-)	(28,320,718)	
A.2 Outstanding shares: opening balance	**334,559,282**	
B. Increases	**–**	**–**
B.1 New issues		
– against payment:		
- business combinations	–	
- conversion of bonds	–	
- exercise of warrants	–	
- other	–	
– on a free basis:		
- in favour of staff	–	
- in favour of directors	–	
- other	–	
B.2 Sale of own shares	–	
B.3 Other changes	–	
C. Decreases	**1,171,992**	**–**
C.1 Cancellation	–	
C.2 Purchase of own shares	1,171,992	
C.3 Disposal of companies	–	
C.4 Other changes	–	
D. Outstanding shares: closing balance	**333,387,290**	**–**
D.1 Own shares (+)	29,492,710	
D.2 Number of shares at the end of the year	362,880,000	
– fully paid-up	362,880,000	
– partly paid-up		

14.3 Share capital: additional information

During the year, the Bank's share capital was not subject to change.

14.4 Retained earnings: other information

The "Reserves" item amounts to 93,646 thousand euros (92,651 thousand euros at 31 December 2015) and is broken down as follows:

- retained earnings:
  89,309 thousand euros consisting of the legal reserve of 9,168 thousand euros, extraordinary reserve of 56,143 thousand euros, the dividend adjustment reserve of 6,725 thousand euros, restated IAS 19 retained earnings reserve of 179 thousand euros, the reserve for merger surplus of 525 thousand euros, own shares purchased of 14,392 thousand euros and the residual amount of reserve for purchase of own shares of 2,177 thousand euros;
- other reserves:
  4,337 thousand euros consisting of the reserve for the gains on the sale of own shares.

14.6 Other information

The table below shows the information required by Article 2427, paragraph 7-bis of the Italian Civil Code.

Type/description	Amount at 31.12.2016	Possibility of use	Share available	Summary of utilisation during the last three years: For loss coverage	For other reasons: 2013	2014	2015
Share	**72,576**		**–**				
Reserves:	**93,646**		**67,909**				
Legal reserve	9,168	B	–				
Extraordinary reserve	56,143	A B C	56,143				
Dividend adjustment reserve	6,725	A B C	6,725				
Profit brought forward from restated Ias 19	179	A B C	179				
Gains on the sale of own shares	4,337	A B C	4,337				
Reserve for own shares purchased	14,392		–				
Reserve for purchases of own shares	2,177		–				
Reserve for stock option plan	–	A	–				
Reserve for merger surplus	525	A B C	525				
Valuation reserves:	**78,834**		**1,364**				
Special revaluation regulations	1,364	A B	1,364				
Valuation reserve	77,470	B	–				
Own shares	**(14,392)**		**–**				
TOTAL	**230,664**		**69,273**	–			
Non-distributable share	–		1,364				
Remaining distributable share	**–**		**67,909**				

Key:
A for share capital increase
B for loss coverage
C for distribution to shareholders

OTHER INFORMATION

1. Guarantees given and commitments

Transactions	Amount 31.12.2016	Amount 31.12.2015
1) Financial guarantees given	9,680	12,325
a) Banks	502	420
b) Customers	9,178	11,905
2) Commercial guarantees given	3,764	164
a) Banks	–	–
b) Customers	3,764	164
3) Irrevocable commitments to disburse funds	21,269	16,539
a) Banks	200	2,897
i) for certain use	200	2,897
ii) for uncertain use	–	–
b) Customers	21,069	13,642
i) for certain use	14,166	460
ii) for uncertain use	6,903	13,182
4) Commitments underlying credit derivatives: sales for protection	–	–
5) Assets pledged as guarantee of the obligations of third parties	–	–
6) Other commitments	15,908	16,336
Total	**50,621**	**45,364**

Item 1) a) Banks shows the commitment towards the Interbank Fund for the Protection of Deposits, updated recently, of 492 thousand euros.

2. Assets pledged as guarantee of own liabilities and commitments

Portfolios	Amount 31.12.2016	Amount 31.12.2015
1. Financial assets held for trading	–	–
2. Financial assets carried at fair value	–	–
3. Available-for-sale financial assets	943,762	630,233
4. Financial assets held to maturity	–	–
5. Due from banks	–	–
6. Due from customers	–	–
7. Tangible assets	–	–

4. Management and brokerage on behalf of third parties

Type of service	Amount
1. Execution of orders on customers' behalf	
a) purchases	2,384,489
1. settled	2,367,932
2. unsettled	16,557
b) sales	2,246,354
1. settled	2,228,465
2. unsettled	17,889
2. Portfolio management	
a) individual	614,515
b) collective	–
3. Custody and administration of securities	
a) third-parties securities on deposit related to depository services (excluding portfolio management)	–
1. securities issued by the bank preparing the Financial Statements	–
2. other securities	–
b) third-party securities on deposit (excluding portfolio management): other	1,597,146
1. securities issued by the bank preparing the Financial Statements	80,113
2. other securities	1,517,033
c) third-party securities lodged with third parties	1,587,925
d) own securities lodged with third parties	1,215,539
4. Other transactions	**–**

Part C – Information on the Income Statement

Section 1 – Interest – Items 10 and 20

1.1 Interest income and similar income: breakdown

Items/Categories	Debt securities	Loans	Other transactions	Total FY 2016	Total FY 2015
1. Financial assets held for trading	107	–	–	107	284
2. Available-for-sale financial assets	1,084	–	–	1,084	4,390
3. Financial assets held to maturity	45	–	–	45	49
4. Due from banks	–	(247)	–	(247)	3
5. Due from customers	63	5,436	–	5,499	6,368
6. Financial assets carried at fair value	–	–	–	–	–
7. Hedging derivatives	X	X	–	–	–
8. Other assets	X	X	(159)	(159)	(91)
Total	**1,299**	**5,189**	**(159)**	**6,329**	**11,003**

1.4 Interest expense and similar expense: breakdown

Items/Categories	Payables	Securities	Other transactions	Total FY 2016	Total FY 2015
1. Due to Central Banks	–	X		–	16
2. Due to banks	(9)	X	–	(9)	13
3. Due to customers	(1,283)	X	–	(1,283)	1,402
4. Outstanding securities	X	51	–	51	139
5. Financial liabilities held for trading	–	–	–	–	–
6. Financial liabilities carried at fair value	–	–	–	–	–
7. Other liabilities and funds	X	X	–	–	–
8. Hedging derivatives	X	X	–	–	–
Total	**(1,292)**	**51**	**–**	**(1,241)**	**1,570**

Interest margin totals 7,570 thousand euros, versus 9,433 thousand euros in the previous financial year. The decrease by 1,863 thousand euros is mainly due to the reduction in the yields.

Section 2 – Commissions – Items 40 and 50

2.1 Commission income: breakdown

Type of services/Amounts	Total FY 2016	Total FY 2015
a) guarantees given	148	158
b) credit derivatives	–	–
c) administration, brokerage and consultancy services:	14,032	13,860
1. trading in financial instruments	4,310	4,758
2. trading in currencies	–	–
3 portfolio management	3,939	3,980
3.1. individual	3,939	3,980
3.2. collective	–	–
4. custody and administration of securities	232	216
5. custodian bank	–	–
6. securities placement	4,024	3,724
7. acceptance of trading orders	–	–
8. consulting	1,096	887
8.1. investments	244	153
8.2. financial structure	852	734
9. distribution of third-party services	431	295
9.1 portfolio management	–	–
9.1.1. individual	–	–
9.1.2. collective	–	–
9.2. insurance policies	431	295
9.3. other products	–	–
d) collection and payment services	187	192
e) servicing of securitisation operations	–	–
f) factoring services	–	–
g) rate and tax collection office services	–	–
h) multilateral trading systems management	–	–
i) current account keeping and management	247	209
j) other services	649	628
Total	**15,263**	**15,047**

2.2 Commission income: distribution channels of products and services

Channels/Amounts	Total FY 2016	Total FY 2015
a) own branches:	**4,370**	**4,275**
1. portfolio management	3,939	3,980
2. securities placement	–	–
3. third-party products and services	431	295
b) other outlets:	**–**	**–**
1. portfolio management	–	–
2. securities placement	–	–
3. third-party products and services	–	–
c) other distribution channels:	**4,024**	**3,724**
1. portfolio management	–	–
2. securities placement	4,024	3,724
3. third-party products and services	–	–

2.3 Commission expense: breakdown

Services/Amounts	Total FY 2016	Total FY 2015
a) guarantees received	–	–
b) credit derivatives	–	–
c) management and brokerage services:	942	846
1. trading in financial instruments	423	403
2. trading in currencies	–	–
3. portfolio management:	281	277
3.1 own portfolio	25	25
3.2 third-party portfolio	256	252
4. custody and administration of securities	221	156
5. placement of financial instruments	17	10
6. sales of financial instruments, products and services through other outlets	–	–
d) collection and payment services	59	52
e) other services	98	104
Total	**1,099**	**1,002**

Section 3 – Dividends and similar income – Item 70

3.1 Dividends and similar income: breakdown

Items/Income	Total FY 2016		Total FY 2015	
	Dividends	Income from UCI units	Dividends	Income from UCI units
A. Financial assets held for trading	17	–	24	–
B. Available-for-sale financial assets	1,183	1,803	1,425	2,002
C. Financial assets carried at fair value	–	–	–	–
D. Equity investments	2,670	X	2,618	X
Total	**3,870**	**1,803**	**4,067**	**2,002**

Section 4 – Net income from trading activities – Item 80

4.1 Net income from trading activities: breakdown

Transactions/Income items	Gains (A)	Profit from trading activities (B)	Losses (C)	Losses from trading activities (D)	Net income [(A+B) - (C+D)]
1. Financial assets held for trading	**121**	**759**	**823**	**478**	**(421)**
1.1 Debt securities	31	46	80	34	(37)
1.2 Equity securities	51	711	673	430	(341)
1.3 UCI units	39	2	70	14	(43)
1.4 Loans	–	–	–	–	–
1.5 Other	–	–	–	–	–
2. Financial liabilities held for trading	**–**	**–**	**–**	**–**	**–**
2.1 Debt securities					–
2.2 Payables					–
2.3 Other					–
3. Financial assets and liabilities: exchange differences	**X**	**X**	**X**	**X**	**1,626**
4. Derivatives	**132**	**2,045**	**10**	**1,700**	**691**
4.1 Financial derivatives:	132	2,045	10	1,700	691
- On debt securities and interest rates	79	–	–	89	(10)
- On equity securities and stock indices	53	2,045	10	1,611	477
- On currencies and gold	X	X	X	X	224
- Other	–	–	–	–	–
4.2 Credit derivatives	–	–	–	–	–
Total	**253**	**2,804**	**833**	**2,178**	**1,896**

Net income from trading activities features a positive balance of 1,896 thousand euros, compared to a negative balance of 1,711 thousand euros in the same period of the previous financial year, and may be broken down as follows:

- A positive balance between gains and losses realised on exchange transactions totalling 1,626 thousand euros. The balance includes the gain of 1,395 thousand euros on the forward sale of Pound Sterling against euros to hedge against exposure to exchange risks, with respect to a part of the LSEG shares, which does not meet the requirements of IAS 39 on hedging transactions;
- 626 thousand euros for the positive balance between gains and losses realised relating to trading activities on securities and derivatives (of which 408 thousand euros for positive margins on derivatives representing greenhouse gas emissions allowances);
- Negative difference between unrealised capital gains and losses, in connection with the fair value measurement of the trading portfolio, totalling 659 thousand euros;
- Positive difference of 303 thousand euros between unrealised capital gains and losses in connection with the fair value measurement of currency forwards and of Interest Rate Swap Amortising.

Section 5 - Net income from hedging activities - Item 90

5.1 Net income from hedging activities: breakdown

Income items/Amounts	Total FY 2016	Total FY 2015
A. Income relating to:		
A.1 Fair value hedging derivatives	2,918	215
A.2 Hedged financial assets (fair value)	–	–
A.3 Hedged financial liabilities (fair value)	–	–
A.4 Financial derivatives hedging cash flows	–	–
A.5 Assets and liabilities denominated in a foreign currency	–	–
Total income from hedging activities (A)	**2,918**	**215**
B. Expense referred to:		
B.1 Fair value hedging derivatives	–	–
B.2 Hedged financial assets (fair value)	2,918	215
B.3 Hedged financial liabilities (fair value)	–	–
B.4 Financial derivatives hedging cash flows	–	–
B.5 Assets and liabilities denominated in a foreign currency	–	–
Total costs of hedging activities (B)	**2,918**	**215**
C. Net income from hedging activities (A - B)	**–**	**–**

The present table shows the income components recorded as a result both of the process of evaluation of the LSEG shares hedged for the exchange rate component, and of the related forward hedging derivative discussed in Section 8 - Hedging derivatives - Item 80 among the assets in the Balance Sheet.

Item A.1 Fair value hedging derivatives indicates the positive fair value of the forward sale of 15 million Pounds and comprises 2,527 thousand euros from the transaction that expired on 21 December 2016 and 391 thousand euros from the positive fair value of the transaction, renewed for the same amount, with expiration on 21 December 2017.

Item B.2 Hedged financial assets (fair value) shows the change in value, referred to the portion of the negative reserve of the LSEG shares generated by the exchange rate component.

The hedge was perfectly effective because, upon measuring the forward sale of Pounds, it entails the separation of the spot component from the forward component using only the former for hedging purposes.

Section 6 – Profit (loss) from disposal/repurchase – Item 100

6.1 Profit (Loss) from disposal/repurchase: breakdown

Items/Income items	Total FY 2016			Total FY 2015		
	Profit	Losses	Net income	Profit	Losses	Net income
Financial assets						
1. Due from banks	–	–	–	–	–	–
2. Due from customers	–	–	–	–	–	–
3. Available-for-sale financial assets	2,999	–	2,999	5,587	–	5,587
3.1 Debt securities	516	–	516	408	–	408
3.2 Equity securities	2,483	–	2,483	5,179	–	5,179
3.3 UCI units	–	–	–	–	–	–
3.4 Loans	–	–	–	–	–	–
4. Financial assets held to maturity	–	–	–	–	–	–
Total assets	**2,999**	**–**	**2,999**	**5,587**	**–**	**5,587**
Financial liabilities						
1. Due to banks			–			–
2. Due to customers			–			–
3. Outstanding securities			–			–
Total liabilities	**–**	**–**	**–**	**–**	**–**	**–**

Item 3.1 Debt securities refers to the capital gains realised from the sale of Government Bonds.

Item 3.2 Equity securities relates to the capital gain realised from the sale of 94,750 London Stock Exchange Group plc shares for 2,479 thousand euros.

Section 8 - Net value adjustments/write-backs for impairment – Item 130

8.1 Net value adjustments for impairment of loans: breakdown

Transactions/ Income items	Value adjustments (1)			Write-backs(2)				Total FY 2016 (1) - (2)	Total FY 2015
	Specific		Portfolio	Specific		Portfolio			
	Derecognition	Other		A	B	A	B		
A. Due from banks	–	–	–	–	–	–	–	–	–
- Loans	–	–	–	–	–	–	–	–	–
- Debt securities	–	–	–	–	–	–	–	–	–
B. Due from customers	260	182	82	128	273	–	–	123	1,515
Purchased impaired loans	–	–		–	–			–	–
- Loans	–	–	X	–	–	X	X	–	–
- Debt securities	–	–	X	–	–	X	X	–	–
Other receivables	260	182	82	128	273	–	–	123	1,515
- Loans	260	182	82	128	273	–	–	123	1,515
- Debt securities	–	–	–	–	–	–	–	–	–
C. Total	**260**	**182**	**82**	**128**	**273**	**–**	**–**	**123**	**1,515**

Key: A = from interest B = other write-backs

Specific adjustments - Derecognition refer to non-performing loans of 207 thousand euros and past due loans for the difference, whilst specific adjustments - Others refer to non-performing loans of 110 thousand euros, to likely defaults of 55 thousand and to past due loans of 17 thousand euros. Specific write-backs total 401 thousand euros and refer to non-performing loans of 348 thousand euros, to likely defaults of 35 thousand and to past due loans of 18 thousand euros.

8.2 Net value adjustments for impairment of available-for-sale financial assets: breakdown

Transactions/ Income items	Value adjustments (1)		Write-backs (2)		Total FY 2016 (1) – (2)	Total FY 2015
	Specific		Specific			
	Derecognition	Other	A	B		
A. Debt securities	–	–	–	–	–	–
B. Equity securities	–	1,522	X	X	1,522	–
C. UCI units	–	11	X	–	11	249
D. Loans to banks	–	–	–	–	–	–
E. Loans to customers	–	–	–	–	–	–
F. Total	**–**	**1,533**	**–**	**–**	**1,533**	**249**

Key: A = from interest B = other write-backs

The impairment adjustments on equity securities refers to Net Insurance S.p.A. shares (1,139 thousand euros) and Cassa di Risparmio di Cesena S.p.A. (383 thousand euros).

Section 9 – Administrative expenses – Item 150

9.1 Staff costs: breakdown

Type of expenses/Amounts	Total FY 2016	Total FY 2015
1) Staff	15,370	15,691
a) wages and salaries	11,263	11,485
b) social security charges	2,836	2,955
c) staff severance fund	599	589
d) welfare charges	–	–
e) allocation for staff severance fund	15	7
f) allocation to pensions and similar commitments:	–	–
- defined contribution	–	–
- defined benefit	–	–
g) allocation to external supplementary retirement benefit plans:	152	132
- defined contribution	152	132
- defined benefit	–	–
h) costs due to payment agreements based on own capital instruments	–	–
i) other benefits in favour of employees	505	523
2) Other active staff	159	370
3) Directors and statutory auditors	969	1,004
4) Inactive staff		
5) Expenses recovered for employees seconded with other companies	–	–
6) Expense reimbursements for third party employees seconded with the company	–	–
Total	**16,498**	**17,065**

Item 1) e) does not include the actuarial loss referred to IAS staff severance fund of 51 thousand euros (actuarial gain of 117 thousand euros in 2015), recognised among Valuation reserves - net of the tax effect.

9.2 Average number of employees by category

	FY 2016	FY 2015
Staff	**170**	**165**
(a) senior managers	24	23
(b) executives	49	45
(c) rest of staff	97	97
Other staff	**9**	**8**

9.4 Other benefits in favour of employees

Employee benefits amount to 505 thousand euros (versus 523 thousand euros last year) and concern luncheon voucher, collective health care policies, professional training, cars and other benefits.

9.5 Other administrative expenses: breakdown

Type of expense/Amounts	Total FY 2016	Total FY 2015
Rentals and condominium fees	1,814	1,825
Membership fees	113	105
EDP materials	25	13
Stationery and printing supplies	106	80
Consulting and outsourced professional services	641	978
Outsourcing services	1,730	1,796
Auditing company fees	141	151
Maintenance	141	173
Utilities and connections	1,485	1,659
Postal, transport and shipment fees	56	55
Insurance companies	59	60
Advertising, publications and sponsorship	255	402
Office cleaning	157	157
Books, newspapers and magazines	34	32
Entertainment expenses	296	289
Travel expenses and mileage based reimbursements	122	121
Other duties and taxes	3,592	3,723
Security charges	160	147
Contributions to National Resolution Fund and Interbank Fund for the Protection of Deposits	1,279	1,045
Other	339	307
Total	**12,545**	**13,118**

The other administrative expenses decreased by 573 thousand euros compared to the previous financial year.

Auditing company fees

In accordance with the requirements of art. 149-duodecies of Consob Resolution no. 15915 of 3 May 2007, we list the fees paid for 2016 for the various services provided to Banca Finnat Euramerica S.p.A. by the auditing firm.

There were no services provided by entities belonging to its network.

	Party who provided the service	Payment due in 2016 (in thousands of euros)
Auditing services	EY S.p.A.	97
Declaration of compliance services	EY S.p.A.	4
Total		**101**

The audit includes the auditing of financial statements, the consolidated financial statements, the consolidated half-yearly report as well as the accounting auditing.

The declaration of compliance services refer to the controls carried out on the Unico tax return form, Irap, CNM (domestic consolidation) and the ordinary and simplified 770 forms.

Payments do not include VAT, expense repayments and supervisory contribution. The total expense amounts to 141 thousand euros.

Section 10 - Net allocations to provisions for risks and charges - Item 160

10.1 Net allocations to provisions for risks and charges: breakdown

	Total FY 2016	Total FY 2015
Allocations	–	1,067
Utilisation	619	–
Total	**(619)**	**1,067**

The amount drawn down was commented in Section 12 - "Provisions for risks and charges - Item 120" of the liabilities in the Balance Sheet.

Section 11 – Net value adjustments/write-backs on tangible assets – Item 170

11.1 Net value adjustments on tangible assets: breakdown

Assets/Income items	Depreciation (a)	Value adjustment for impairment (b)	Write-backs (c)	Net income (a+b-c)
A. Tangible assets	369	–	–	369
A.1 Owned assets	369	–	–	369
- Functional use	369			369
- For investment				–
A.2 Acquired under finance lease	–	–	–	–
- Functional use				–
- For investment				–
Total	**369**	**–**	**–**	**369**

Section 12 – Net value adjustments/write-backs on intangible assets – Item 180

12.1 Net value adjustments on intangible assets: breakdown

Assets/Income items	Depreciation (a)	Value adjustment for impairment (b)	Write-backs (c)	Net income (a+b-c)
A. Intangible assets	30	–	–	30
A.1 Owned assets	30	–	–	30
- Generated internally by the company				–
- Other	30			30
A.2 Acquired under finance lease				–
Total	**30**	**–**	**–**	**30**

Section 13 – Other operating income/expenses – Item 190

13.1 Other operating expense: breakdown

	Total FY 2016	Total FY 2015
Amounts reimbursed to customers	7	14
Amortisation for improvements to third party assets	54	139
Other expense	282	68
Total	**343**	**221**

13.2 Other operating income: breakdown

	Total FY 2016	Total FY 2015
Rental income	132	171
Recovery of stamp duty	3,164	3,300
Recovery of substitute tax	156	75
Recovery of other expenses	319	408
Dividend and prescription waiver	158	115
Other income	283	173
Total	**4,212**	**4,242**

Other operating income and expenses show a positive balance of 3,869 thousand euros versus 4,021 thousand euros of 2015. The item comprises the recoveries of costs from customers, amounting to 3,639 thousand euros (3,783 thousand euros in the past year).

Section 14 – Profit (loss) from equity investments – Item 210

14.1 Profit (loss) from equity investments: breakdown

Income items/Amounts	Total FY 2016	Total FY 2015
A. Income	574	–
1. Revaluations		
2. Profit from disposals	572	–
3. Write-backs		
4. Other income	2	
B. Expense	2,000	–
1. Write-downs	–	–
2. Value adjustments for impairment	2,000	–
3. Losses from disposals	–	–
4. Other expense	–	
Net income	**(1,426)**	**–**

Item A.2 Profit from disposal relates to the sale of the equity investment in the associate company Revalo S.p.A.

Item A.4. Other income refers to the gain generated by the final liquidation amount of the associated company Sigefi Italia Private Equity S.r.l.
Item B.2 Value adjustments for impairment relates to the impairment made on the associated company Imprebanca S.p.A.

Section 18 – Income tax for the year on current operations – Item 260

18.1 Income tax for the year on current operations: breakdown

Income items/Amounts		Total FY 2016	Total FY 2015
1.	Current taxes (-)	13	934
2.	Changes in current taxes compared with previous years (+/-)	(108)	2
3.	Reduction in current taxes (+)	–	–
3.bis	Reduction in current taxes for tax receivables per Italian Law no. 214/2011 (+)	–	–
4.	Change in advance taxes (+/-)	(617)	47
5.	Change in deferred taxes (+/-)	436	(358)
6.	**Income taxes for the year (-) (-1+/-2+3+3bis+/-4+/-5)**	**(276)**	**625**

Current taxes result from the difference between the Ires income from tax consolidation of 346 thousand euros and the Irap tax of 333 thousand euros.
The change in the current taxes of the previous years refers to the derecognition of Irpeg receivables relating to the year 1987 and no longer recoverable amounting to 26 thousand euros and to the adjustment to the taxes for the year 2015 by 82 thousand euros.

The change in advance and deferred taxes is equal to the difference between those calculated on an accrual basis in the current year and those accounted for in previous periods and cancelled during the year. The amount of the negative change in advance and deferred taxes, equal to 181 thousand euros, refers to Ires for -464 thousand euros and Irap for +283 thousand euros.

18.2 Reconciliation of the theoretical tax charge with the actual tax charge

	FY 2016		
	IRES	IRAP	TOTALE
Pre-tax profit (loss)	4,266	4,266	
Applicable tax rate	27.50	5.57	
THEORETICAL TAX CHARGE	**(1,173)**	**(238)**	**(1,411)**
Effect of income that is exempt or taxed with concessional rates	2,054	856	2,910
Effect of charges that are fully or partially non-deductible	(1,086)	(225)	(1,311)
Effect of income/charges that are not included in the IRAP taxable income		(798)	(798)
Change in deferred taxes	87	355	442
Changes in current taxes compared with previous years	(108)		(108)
CURRENT TAX CHARGE	**(226)**	**(50)**	**(276)**

Section 21 – Earnings per share

21.1 Average number of ordinary shares with diluted capital

The basic and diluted earnings (loss) per share are given below, in accordance with IAS 33.

The basic earnings (loss) per share are calculated by dividing the net income (in euros) of the holders of the Bank's ordinary shares (the numerator) by the weighted average of the ordinary shares outstanding during the period (the denominator).

For the purpose of calculating the basic earnings (loss) per share, the weighted average of the ordinary shares outstanding during the period is calculated based on the ordinary shares outstanding at the beginning of the period, adjusted by the amount of ordinary shares purchased or issued or sold during the period multiplied by the number of days that the shares were outstanding, in proportion to the total days in the period. Outstanding shares do not include own shares.

The diluted earnings (loss) per share is calculated by adjusting the earnings (loss) of ordinary share holders, and likewise the weighted average of the outstanding shares, to take account of any impact by circumstances with diluted effects.

The following table shows the basic earnings (loss) per share.

	31.12.2016	31.12.2015
Profit (loss) for the year (in euros)	3,990,100	4,624,253
Weighted average of ordinary shares	333,521,822	336,337,676
Basic earnings (loss) per share	0.011964	0.013749

The following table shows the diluted earnings (loss) per share.

	31.12.2016	31.12.2015
Adjusted profit (loss) for the year (in euros)	3,990,100	4,624,253
Weighted average of ordinary shares with diluted capital	333,521,822	336,337,676
Diluted earnings (loss) per share	0.011964	0.013749

Since the Bank has no transactions under way that might determine changes to the number of outstanding shares and the earnings (loss) of ordinary shareholders, the diluted earnings (loss) per share coincides with the basic earnings per share and it is unnecessary to perform the reconciliation provided for by paragraph 70 of IAS 33.

21.2 Other information

At the date of the financial statements, no financial instruments had been issued that could lead to the dilution of the basic earnings (loss) per share.

Part D – Comprehensive income

Analytical statement of comprehensive income

Items		Gross amount	Income tax	Net amount
10.	**Profit (loss) for the year**	**X**	**X**	**3,990**
	Other income items without reallocation to income statement			
20.	Tangible assets			
30.	Intangible assets			
40.	Defined-benefit plans	(51)	14	(37)
50.	Non-current assets being disposed			
60.	Share of valuation reserves of equity investments valued by equity method			
	Other income items with reallocation to income statement			
70.	**Foreign investment hedge:**			
	a) changes in fair value			
	b) reallocation to income statement			
	c) other changes			
80.	**Exchange differences:**			
	a) changes in value			
	b) reallocation to income statement			
	c) other changes			
90.	**Cash flow hedge:**			
	a) changes in fair value			
	b) reallocation to income statement			
	c) other changes			
100.	**Available-for-sale financial assets:**	**(7,587)**	**411**	**(7,176)**
	a) changes in fair value	(5,635)	322	(5,313)
	b) reallocation to income statement	(1,919)	85	(1,834)
	- adjustments from impairment	1,522	(88)	1,434
	- profits/losses from disposal	(3,441)	173	(3,268)
	c) other changes	(33)	4	(29)
110.	**Non-current assets being disposed:**			
	a) changes in fair value			
	b) reallocation to income statement			
	c) other changes			
120.	**Share of valuation reserves of equity investments valued by equity method:**			
	a) changes in fair value			
	b) reallocation to income statement			
	- adjustments from impairment			
	- profits/losses from disposal			
	c) other changes			
130.	**Total other income items**	**(7,638)**	**425**	**(7,213)**
140.	**Comprehensive income (Item 10+130)**	**(7,638)**	**425**	**(3,223)**

Item 100. includes the negative change in the fair value of the equity investments in subsidiaries for a total gross amount of 2,280 thousand euros.

The negative change of 7,176 thousand euros in Item 100 Available for sale financial assets was due, for:

(-) 3,088 thousand euros, to the London Stock Exchange Group plc shares as a result of the reversal of the positive reserve related to the 94,750 shares sold during the year (-2,917 thousand euros) and to the use of -171 thousand euros consequent to the negative change in fair value at the end of 2016 compared to those at 31 December 2015;

(-) 1,254 thousand euros to the Anima Holding S.p.A. shares referred to the use as a result of the decrease in prices at the end of 2016 compared to those at 31 December 2015;

(+) 16 thousand euros to the Cassa Risparmio di Cesena shares as a result of the reversal of the negative reserves for impairment;

(-) 5 thousand euros, to other shares as a result of the negative change of fair value;

(-) 334 thousand euros to units of funds as a result of the negative change in fair value;

(-) 231 thousand euros to debt securities, as a result of the reversal of the reserve referred to the sold securities (-351 thousand euros) and of the positive change in fair value of +120 thousand euros;

(+) 2,280 thousand euros to changes in the fair value of the equity investments in subsidiaries: InvestiRE SGR S.p.A. by -1,787 thousand euro, Finnat Fiduciaria S.p.A. -592 thousand euros and Finnat Gestioni SA +99 thousand euros.

After the aforesaid changes, the valuation reserves at the end of the year are as follows, in thousand euros:

Available-for-sale financial assets		
London Stock Exchange Group plc shares	28,422	euros
Anima Holding S.p.A. shares	1,216	euros
CSE S.r.l. shares	(633)	euros
Other shares	(34)	euros
UCI units	216	euros
Debt securities	719	euros
Total A)	**29,906**	**euros**
Equity investments in companies measured at fair value		
InvestiRE SGR S.p.A.	43,273	euros
Finnat Fiduciaria S.p.A.	1,526	euros
Finnat Gestioni S.A.	2,916	euros
Total B)	**47,715**	**euros**
Total (A+B)	**77,621**	**euros**

Part E - Information on risks and related hedging policies

Foreword

The Bank carries out their activities according to criteria of prudence and reduced exposure to risks, applying the principle of sound and prudent management.

Banca Finnat has defined its Risk Appetite identifying a TIER1 to be held in the medium term; consistently with the maintenance of this level, the bank constantly pursues the following objectives:

- the creation of added value for shareholders;
- an accurate assessment of new initiatives and of the connected risks;
- continuous monitoring in relation to the emergence of new types of risk;
- the development of ever more accurate risk monitoring methodologies;
- the active management of corporate risks by the application of hedging and mitigation techniques;
- growing transparency towards the market about exposure to risks and the conditions of capital adequacy;
- capital balance, even in situations of stress, through the definition of financial leverage targets.

The risk management and monitoring strategy is thus founded on an overall vision of the risks by the management of the Bank and by the company's Bodies and all its functions.

Within Banca Finnat, a fundamental role in risk management and monitoring is played by the Corporate Bodies which, each for the part of its competence, assure continuous monitoring, identify the strategic guidelines and the management and risk policies. The Risk Control organisational unit instead has been assigned, among others, the task of supporting the corporate bodies and monitoring the level of risk assumed.

The widespread acceptance of the risk culture within the Bank is assured by keeping the internal regulations constantly updated, having specialised personnel participate in courses and conferences and disseminating documents and information at various levels.

Section 1 - Credit risk

Qualitative information

1.General aspects

2.Credit risk mitigation techniques

2.1 Organisational aspects

The Bank defined the credit risk as the risk to incur losses due to the unexpected worsening of the creditworthiness of a customer, also following contractual default.

Receivables include:

- receivables due from customers and from banks that required fixed or otherwise determinable payments
- trade receivables
- repurchase agreements.

After their initial recognition, which matches the amount recorded at the time of issue, receivables are measured at their amortised cost, which is equal to the initial recognition value reduced/increased by capital repayments, by any value adjustment/write-back and by the amortisation calculated with the effective interest rate method.

In order to mitigate credit risk and avoid situations that would imply losses and write-downs on the loan portfolio, the Bank carries out credit activities that privilege receivables guaranteed by collateral securities or those guaranteed by liens on securities, asset management and property mortgages. Well-known customers are occasionally granted credit lines based on the creditworthiness of the customer in question.

Moreover, the company structure and organisation – which are characterised by the reduced size and accurate formalisation of credit line/loan disbursement procedures – enable to offer customers primary services, granted with rapid appraisal processes.

The operating strategy adopted by the Bank and outlined above ensured that:

- transactions carried out have low-risk exposures;
- the amount of non-performing loans (net of write-downs) represent less than 2% of the total shown in table "A.1.1 Distribution of financial assets by portfolio and credit quality" in the following pages. The non-performing loans consist mainly of receivables secured by ample first mortgages on property;
- operations generated a positive image and prestige feedback for the Bank, with a positive impact on "traditional" activities.

2.2 Management, measurement and control systems

The valuation of credit risk and creditworthiness of customers is carried out by delegated bodies, which operate by means of proper proxies. The delegated bodies receive all information necessary to evaluate the creditworthiness of the customers, so that they can readily express their opinion on credit line transactions.

The Bank's credit process is illustrated below.

Evaluation of the creditworthiness of credit line applicants

Creditworthiness evaluation, which is performed according to a specific procedure, is mainly aimed at verifying that credit line applicants have the ability to repay as well as verifying the compatibility of the individual credit line applications and the company's strategies with regard to the chosen size and composition of the credit portfolio. With the exception of Senior Fin.Re SPV bonds with a nominal value of 1,700 thousand euros and issued within the securitisation of an unsecured non-performing loan, the Bank did not acquire impaired loans.

The company functions that are involved in the creditworthiness assessment procedure act as follows:

- they accept the loan application of customers;
- they gather the documents required to examine the asset, financial and economic situation of the loan applicant and any guarantor to start filling in all the credit line forms;
- they analyse the qualitative information concerning the new customers and update the information of former customers whose creditworthiness has already been assessed;
- they verify the reliability of the data included in the document and in the information required;
- they formulate, by reference to the files set up, a creditworthiness score of the loan applicant;
- they examine all the various relationships that the Bank has in place with the same loan applicant, both credit and debit ones, and compare loans granted with guarantees offered and guarantees received with proposed guarantors;
- they prepare a summary of the assessments based on the creditworthiness of the customer and formulate an opinion with regard to the amount of the loan that could be granted, the technical use of the loan by the customer, and specify the guarantees to be received based on both qualitative and quantitative information.

Credit granting

Credit granting is performed by the Deliberative Body, taking all the reasons supporting the definition of the amount that could be granted and the guarantees requested into due consideration, based on the risk inherent in the transaction.

Once the loan proposal has been positively resolved upon:

- the guarantees are requested and the loan granting process takes place;
- the credit line/loan is granted;
- the transaction is input in the IT system so that it can be regularly verified: instalments due, review of the interest rate, if contractually provided for, and/or of the associated guarantees.

Management of anomalous loans

The management of anomalous loans is carried out through a careful and periodic analysis of expired positions by the company functions and with the supervision of the General Management. In particular, the General Management of the Bank receives, at a predetermined frequency, appropriate reports containing the trend of impaired loans, broken down by customer with or without loans.

“Impaired” loans, net of write-downs, amounted in total to 8,415 thousand euros, of which 4,361 thousand euros were non-performing loans, 657 thousand euros were likely defaults and 3,397 thousand euros were past due exposures.

To this end, it should be stressed that impaired loans at the end of 2016 were equal to 3% of the total amount of the item due from customers detailed in table A.1.1 Distribution of financial assets by portfolio and credit quality below.

During the year ended 31 December 2016, valuation activities continued to be carried out on the Bank’s loans portfolio by the internal working group which, in accordance with the principle of proportionality and with limited operational complexity, is assessing the implementation of more refined credit evaluation techniques to supplement those traditionally used by the Bank.

Carrying out stress tests

The Bank performs stress tests every six months on credit risk in order to quantify the absorption of capital and to determine the related capital ratios. Stress tests are carried out on the basis of decline rates present in the Bank of Italy’s Public Database, assuming as worst case scenario the one present in the last decade. Despite the presence of the stress scenario above, it is clear how the equity strength of the Bank is not significantly affected.

2.3 Credit risk mitigation techniques

Credit risk mitigation is carried out by privileging almost exclusively transactions guaranteed by collateral securities. Credit lines and disbursements are granted, by the corporate bodies, only after a careful analysis of the creditworthiness and the validity and consistency of the guarantees given. Preventive analyses are implemented by controls subsequent to disbursement, which are carried out to monitor the change in the creditworthiness of customers. Having taken into account the structure of the controls carried out by the Bank for loan hedging and the empirical evidence, it should be underlined that the Bank’s credit risk can be rated as “modest”.

2.4 Impaired financial assets

The monitoring of receivables to customers carried out by the Risk Control Organisation Unit, which, with the support of automated IT instruments, prepares on an established basis appropriate reports for the Senior Management. Subsequent measurement and classification of impaired loans are carried out by special committees set up within the Bank, which assess each time single credit exposures, the customers’ creditworthiness, guarantees and all other relevant factors that may affect the assessment of credit exposures.

* * *

Quantitative information

A. Credit quality

A.1 Impaired and non impaired exposures: balances, value adjustments, changes, breakdown by type and geographical area

A.1.1 Distribution of credit exposures by portfolio and credit quality (book values)

Portfolio/Quality	Non-performing loans	Likely defaults	Past due exposures impaired	Past due exposures not impaired	Non Impaired exposures	Total
1. Available-for-sale financial assets	–	–	–	–	1,105,417	1,105,417
2. Financial assets held to maturity	–	–	–	–	1,999	1,999
3. Due from banks	–	–	–	–	163,339	163,339
4. Due from customers	4,361	657	3,397	3,151	298,454	310,020
5. Financial assets carried at fair value	–	–	–	–	–	–
6. Financial assets being disposed	–	–	–	–	–	–
Total 2016	**4,361**	**657**	**3,397**	**3,151**	**1,569,209**	**1,580,775**
Total 2015	**4,797**	**2,247**	**1,197**	**12,349**	**1,095,790**	**1,116,380**

A.1.2 Distribution of credit exposures by portfolio and credit quality (gross and net amounts)

Portfolio/Quality	Impaired assets			Non impaired assets			Total
	Gross exposure	Specific adjustments	Net exposure	Gross exposure	Portfolio adjustments	Net exposure	(Net exposure)
1. Available-for-sale financial assets	–	–	–	1,105,417	–	1,105,417	1,105,417
2. Financial assets held to maturity	–	–	–	1,999	–	1,999	1,999
3. Due from banks	–	–	–	163,339	–	163,339	163,339
4. Due from customers	13,075	4,660	8,415	303,496	1,891	301,605	310,020
5. Financial assets carried at fair value	–	–	–	X	X		–
6. Financial assets being disposed	–	–	–	–	–	–	–
Total 2016	**13,075**	**4,660**	**8,415**	**1,574,251**	**1,891**	**1,572,360**	**1,580,775**
Total 2015	**13,120**	**4,879**	**8,241**	**1,109,948**	**1,809**	**1,108,139**	**1,116,380**

Portfolio/Quality	Assets with evident poor credit quality		Other assets
	Cumulated losses	Net exposure	Net exposure
1. Financial assets held for trading		8	34,041
2. Hedging derivatives			391
Total 2016		**8**	**34,432**
Total 2015			**50,618**

Gross impaired assets of 13,075 thousand euros consist of non-performing loans (8,640 thousand euros), likely defaults (1,011 thousand euros) and past due receivables (3.424 thousand euros).

At 31 December 2016, there are 11 unimpaired "forborne" exposures of which:

- 3 non-performing positions totalling 787 thousand euros (of which 2 positions included among likely defaults for 149 thousand euros and 1 position included among past due loans for 638 thousand euros).
- 8 not impaired positions, amounting to 2,246 thousand euros.

A.1.3 Cash and off-balance sheet loan exposures to banks: gross and net amounts and maturity brackets

Type of exposures/Amounts	Gross exposure					Specific value adjustments	Portfolio value adjustments	Net exposure
	Impaired assets				Non impaired assets			
	Up to 3 months	From over 3 months to 6 months	From over 6 months to 1 year	More than 1 year				
A. CASH EXPOSURES								
a) Non-performing loans	–	–	–	–	X	–	X	–
- of which: forborne exposures	–	–	–	–	X	–	X	–
b) Likely defaults	–	–	–	–	X	–	X	–
- of which: forborne exposures	–	–	–	–	X	–	X	–
c) Past due exposures impaired	–	–	–	–	X	–	X	–
- of which: forborne exposures	–	–	–	–	X	–	X	–
d) Past due exposures not impaired	X	X	X	X	–	X	–	–
- of which: forborne exposures	X	X	X	X	–	X	–	–
e) Other non impaired exposures	X	X	X	X	186,364	X	–	186,364
- of which: forborne exposures	X	X	X	X	–	X	–	–
TOTAL A	**–**	**–**	**–**	**–**	**186,364**	**–**	**–**	**186,364**
B. OFF-BALANCE SHEET EXPOSURES								
a) Impaired	–	–	–	–	X	–	X	–
b) Not impaired	X	X	X	X	2,058	X	–	2,058
TOTAL B	**–**	**–**	**–**	**–**	**2,058**	**–**	**–**	**2,058**
TOTAL A + B	**–**	**–**	**–**	**–**	**188,422**	**–**	**–**	**188,422**

A.1.6 Cash and off-balance sheet loan exposures to customers: gross and net amounts and maturity brackets

Type of exposures/Amounts	Gross exposure					Specific value adjustments	Portfolio value adjustments	Net exposure
	Impaired assets				Non impaired assets			
	Up to 3 months	From over 3 months to 6 months	From over 6 months to 1 year	More than 1 year				
A. CASH EXPOSURES								
a) Non-performing loans	–	–	–	8,640	X	4,279	X	4,361
- of which: forborne exposures	–	–	–	–	X	–	X	–
b) Likely defaults	364	19	–	628	X	354	X	657
- of which: forborne exposures	–	19	–	130	X	51	X	98
c) Past due exposures impaired	36	206	2,375	807	X	27	X	3,397
- of which: forborne exposures	–	–	638	–	X	5	X	633
d) Past due exposures not impaired	X	X	X	X	3,169	X	18	3,151
- of which: forborne exposures	X	X	X	X	17	X	–	17
e) Other non impaired exposures	X	X	X	X	1,407,697	X	1,873	1,405,824
- of which: forborne exposures	X	X	X	X	2,229	X	13	2,216
TOTAL A	**400**	**225**	**2,375**	**10,075**	**1,410,866**	**4,660**	**1,891**	**1,417,390**
B. OFF-BALANCE SHEET EXPOSURES								–
a) Impaired	1,414	–	–	–	X	–	X	1,414
b) Not impaired	X	X	X	X	44,243	X	–	44,243
TOTAL B	**1,414**	**–**	**–**	**–**	**44,243**	**–**	**–**	**45,657**
TOTAL A + B	**1,814**	**225**	**2,375**	**10,075**	**1,455,109**	**4,660**	**1,891**	**1,463,047**

A.1.7 Credit cash exposures to customers: changes in gross impaired exposures

Reason/Category	Non-performing loans	Likely defaults	Past due exposures impaired
A. Gross opening balance	**9,315**	**2,579**	**1,226**
- of which: exposures sold and not derecognised			
B. Increases	**37**	**189**	**3,081**
B.1 inflows from performing loans	–	–	2,142
B.2 transfers from other categories of impaired loans	–	160	593
B.3 other increases	37	29	346
C. Decreases	**712**	**1,757**	**883**
C.1 outflows to performing loans	–	1,068	296
C.2 derecognition	207	–	–
C.3 collection	505	96	427
C.4 gains from disposals	–		
C.5 losses from disposals	–	–	–
C.6 transfers to other categories of impaired loans	–	593	160
C.7 other decreases	–	–	–
D. Gross closing balance	**8,640**	**1,011**	**3,424**
- of which: exposures sold and not derecognised			

A.1.7*bis* Credit cash exposures to customers: changes in gross forborne exposures by credit quality

Reasons/Quality	Impaired forborne exposures	Forborne exposures: not impaired
A. Gross opening balance	**1,822**	**954**
- of which: exposures sold and not derecognised		
B. Increases	**36**	**1,373**
B.1 inflows from non forborne performing loans	–	266
B.2 inflows from forborne performing loans	–	X
B.3 inflows from impaired forborne loans	X	1,037
B.4 other increases	36	70
C. Decreases	**1,071**	**81**
C.1 outflows to non forborne performing loans	X	–
C.2 outflows to forborne performing loans	1,037	X
C.3 outflows to impaired forborne loans	X	–
C.4 derecognition	–	–
C.5 collection	34	81
C.6 gains from disposals	–	–
C.7 losses from disposals	–	–
C.6 other decreases	–	–
D. Gross closing balance	**787**	**2,246**
- of which: exposures sold and not derecognised		

A.1.8 Credit cash exposures to customers: changes in overall value adjustments

Reason/Category	Non-performing loans		Likely defaults		Past due exposures impaired	
	Total	Of which: forborne exposures	Total	Of which: forborne exposures	Total	Of which: forborne exposures
A. Total opening adjustments	**4,518**		**332**	**74**	**29**	
- of which: exposures sold and not derecognised						
B. Increases	**110**	**–**	**62**	**7**	**22**	**5**
B.1 value adjustments	110	–	55	7	17	–
B.2 losses from disposals	–	–	–	–	–	–
B.3 transfers from other categories of impaired loans	–	–	7	–	5	5
B.4 other increases	–	–	–	–	–	–
C. Decreases	**349**	**–**	**40**	**30**	**24**	**–**
C.1 valuation write-backs	123	–	21	12	15	–
C.2 cash write-backs	20	–	14	13	2	–
C.3 profit from disposals	–	–	–	–	–	–
C.4 derecognition	206	–	–	–	–	–
C.5 transfers to other categories of impaired loans	–	–	5	5	7	–
C.6 other decreases	–	–	–	–	–	–
D. Total closing adjustments	**4,279**		**354**	**51**	**27**	**5**
- of which: exposures sold and not derecognised						

A.2 Classification of exposures based on external and internal ratings

A.2.1 Distribution of on- and off-balance sheet exposures by external rating class

Considering the Bank's customer base, there are no ordinary customers that are assessed through "external ratings" with significant credit lines. Conversely, the majority of the exposures towards banks is assessed through "external ratings".

A.2.2 Distribution of on- and off-balance sheet exposures by internal rating class

The table in question is not filled out as, to date, also having regard to the specific type of credit lines granted, the Bank does not use credit risk measurement models in a complete and systematic manner, according to which a rating is given to counterparties.

A.3. Distribution of guaranteed exposures by type of guarantee

A.3.2 Exposures to guaranteed customers

	Value of net exposures	Collateral (1)			
		Real estate - mortgages	Real estate - finance lease	Securities	Other collateral
1. Guaranteed credit cash exposures:	239,863	120,105	–	51,565	60,285
1.1 fully guaranteed	233,544	120,105	–	51,205	58,341
- of which impaired	7,890	9,144	–	–	–
1.2 partly guaranteed	6,319	–	–	360	1,944
- of which impaired	16	–	–	12	–
2. Guaranteed “off balance sheet” credit exposures:	10,846	2,492	–	2,283	4,583
2.1 fully guaranteed	7,749	2,492	–	1,252	3,897
- of which impaired	514	–	–	–	514
2.2 partly guaranteed	3,097	–	–	1,031	686
- of which impaired	900	–	–	–	164

	Personal guarantees (2)									Total (1)+(2)
	Credit derivatives					Unsecured loans				
	CLN	Other derivatives								
		Governments and Central Banks	Other public authorities	Banks	Other entities	Governments and Central Banks	Other public authorities	Banks	Other entities	
	–	–	–	–	–	–	–	–	5,851	237,806
	–	–	–	–	–	–	–	–	5,851	235,502
	–	–	–	–	–	–	–	–	328	9,472
	–	–	–	–	–	–	–	–	–	2,304
	–	–	–	–	–	–	–	–	–	12
	–	–	–	–	–	–	–	–	734	10,092
	–	–	–	–	–	–	–	–	109	7,750
	–	–	–	–	–	–	–	–	–	514
	–	–	–	–	–	–	–	–	625	2,342
	–	–	–	–	–	–	–	–	–	164

B. Distribution and concentration of credit exposures

B.1 Segment distribution of cash and "off-balance sheet" credit exposures to customer (book value)

Exposures/Counterparties	Governments			Other public authorities		
	Net exposure	Specific value adjustments	Portfolio value adjustments	Net exposure	Specific value adjustments	Portfolio value adjustments
A. Cash exposures						
A.1 Non-performing loans	–	–	X	–	–	X
- of which: forborne exposures	–	–	X	–	–	X
A.2 Likely defaults	–	–	X	–	–	X
- of which: forborne exposures	–	–	X	–	–	X
A.3 Past due exposures impaired	–	–	X	–	–	X
- of which: forborne exposures	–	–	X	–	–	X
A.4 Non impaired exposures	1,104,374	X	–	–	X	–
- of which: forborne exposures	–	X	–	–	X	–
TOTAL A	**1,104,374**	–	–	–	–	–
B. Off-balance sheet exposures						
B.1 Non-performing loans	–	–	X	–	–	X
B.2 Likely defaults	–	–	X	–	–	X
B.3 Other impaired assets	–	–	X	–	–	X
B.4 Non impaired exposures	–	X	–	–	X	–
TOTAL B	–	–	–	–	–	–
TOTAL (A+B) 31.12.2016	**1,104,374**	–	–	–	–	–
TOTAL (A+B) 31.12.2015	**779,453**	–	–	–	–	–

Financial companies			Insurance companies			Non-financial companies			Other entities		
Net exposure	Specific value adjustments	Portfolio value adjustments	Net exposure	Specific value adjustments	Portfolio value adjustments	Net exposure	Specific value adjustments	Portfolio value adjustments	Net exposure	Specific value adjustments	Portfolio value adjustments
–	–	X	–	–	X	3,753	4,163	X	608	116	X
–	–	X	–	–	X	–	–	X	–	–	X
147	2	X	–	–	X	55	242	X	455	110	X
–	–	X	–	–	X	1	18	X	97	33	X
7	–	X	–	–	X	752	6	X	2,638	21	X
–	–	X	–	–	X	–	–	X	633	5	X
73,685	X	207	–	X	–	157,137	X	1,450	73,779	X	234
–	X	–	–	X	–	920	X	9	1,313	X	4
73,839	**2**	**207**	**–**	**–**	**–**	**161,697**	**4,411**	**1,450**	**77,480**	**247**	**234**
–	–	X	–	–	X	–	–	X	–	–	X
–	–	X	–	–	X	–	–	X	–	–	X
–	–	X	–	–	X	1,414	–	X	–	–	X
31,452	X	–	–	X	–	6,708	X	–	6,083	X	–
31,452	**–**	**–**	**–**	**–**	**–**	**8,122**	**–**	**–**	**6,083**	**–**	**–**
105,291	**2**	**207**	**–**	**–**	**–**	**169,819**	**4,411**	**1,450**	**83,563**	**247**	**234**
88,603	**1**	**248**	**–**	**–**	**–**	**159,891**	**4,430**	**1,351**	**81,122**	**449**	**210**

B.2 Geographical distribution of cash and "off-balance sheet" credit exposures to customers (book value)

Exposures/Geographic area	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments
A. Cash exposures										
A.1 Non-performing loans	4,361	4,279	–	–	–	–	–	–	–	–
A.2 Likely defaults	642	354	–	–	15	–	–	–	–	–
A.3 Past due exposures impaired	3,396	27	–	–	–	–	1	–	–	–
A.4 Non impaired exposures	1,402,175	1,869	6,798	22	2	–	–	–	–	–
TOTAL A	**1,410,574**	**6,529**	**6,798**	**22**	**17**	**–**	**1**	**–**	**–**	**–**
B. Off-balance sheet exposures										
B.1 Non-performing loans	–	–	–	–	–	–	–	–	–	–
B.2 Likely defaults	–	–	–	–	–	–	–	–	–	–
B.3 Other impaired assets	1,414	–	–	–	–	–	–	–	–	–
B.4 Non impaired exposures	42,451	–	792	–	–	–	–	–	1,000	–
TOTAL B	**43,865**	**–**	**792**	**–**	**–**	**–**	**–**	**–**	**1,000**	**–**
TOTAL (A+B) 2016	**1,454,439**	**6,529**	**7,590**	**22**	**17**	**–**	**1**	**–**	**1,000**	**–**
TOTAL (A+B) 2015	**1,097,293**	**6,639**	**11,761**	**48**	**15**	**1**				

B.3 Geographical distribution of cash and "off-balance sheet" loan exposures to banks (book value)

Exposures/Geographic area	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments
A. Cash exposures										
A.1 Non-performing loans	–	–	–	–	–	–	–	–	–	–
A.2 Likely defaults	–	–	–	–	–	–	–	–	–	–
A.3 Past due exposures impaired	–	–	–	–	–	–	–	–	–	–
A.4 Non impaired exposures	154,958	–	29,407	–	1,999	–	–	–	–	–
TOTAL A	**154,958**	**–**	**29,407**	**–**	**1,999**	**–**	**–**	**–**	**–**	**–**
B. Off-balance sheet exposures	**–**		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
B.1 Non-performing loans	–	–	–	–	–	–	–	–	–	–
B.2 Likely defaults	–	–	–	–	–	–	–	–	–	–
B.3 Other impaired assets	–	–	–	–	–	–	–	–	–	–
B.4 Non impaired exposures	1,862	–	196	–	–	–	–	–	–	–
TOTAL B	**1,862**	**–**	**196**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
TOTAL (A+B) 2016	**156,820**	**–**	**29,603**	**–**	**1,999**	**–**	**–**	**–**	**–**	**–**
TOTAL (A+B) 2015	**87,365**	**–**	**10,569**		**2,004**					

B.4 Major exposures

a) Amount (book value) 2,459,540 thousand euros

b) Amount (weighted value) 141,397 thousand euros

c) Number 12

The provisions contained in Regulation (EU) no. 575/2013 establish that a major exposure is the exposure of an entity towards a customer or a group of connected customers whose value is equal to or greater than 10% of the entity's admissible capital.

The same provisions that the amount of the exposure of an entity towards an individual customer or a group of connected customers may not exceed 25% of the entity's admissible capital. Obviously, the amount of 25% takes into account credit risk attenuation techniques, the type of guarantee acquired and the debtor counterparty.

The corporate control functions, at a predetermined frequency, audit the total exposure of the customers or groups of connected customers that fall under the category of major exposures and provide adequate information to the Corporate Bodies.

C. Securitisation

The Bank has not carried out any securitisation transaction. At the reporting date, no such transactions, issued by the Bank, were in place.

E. Disposal of companies

A. Financial assets sold and not derecognised in full

Qualitative information

Financial assets sold and not derecognised in full refer Government Bonds used in repos carried out exclusively with Cassa di Compensazione e Garanzia.

Quantitative information

E.1 Financial assets sold and not derecognised: book value and full value

Categories/Portfolio	Financial assets held for trading			Financial assets carried at fair value			Available-for-sale financial assets		
	A	B	C	A	B	C	A	B	C
A. Cash assets	–	–	–	–	–	–	943,762	–	–
1. Debt securities	–						943,762		
2. Equity securities	–						–		
3. UCI	–						–		
4. Loans	–						–		
B. Derivatives				X	X	X	X	X	X
Total 31.12.2016	–	–	–	–	–	–	943,762	–	–
of which impaired									
Total 31.12.2015	–						630,233		
of which impaired									

Key:
A = financial assets sold recognised in full (book value)
B = financial assets sold recognised in part (book value)
C = financial assets sold recognised in part (full value)

	Financial assets held to maturity			Due from banks			Due from customers			Total	
	A	B	C	A	B	C	A	B	C	31.12.2016	31.12.2015
										943,762	**630,233**
										943,762	630,233
	X	X	X	X	X	X	X	X	X		
	X	X	X	X	X	X	X	X	X		
	X	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**		
	–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**943,762**	**X**
											X
										X	**630,233**
										X	

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

Liabilities/ Asset portfolio	Financial assets held for trading	Financial assets carried at fair value	Available-for-sale financial assets	Financial assets held to maturity	Due from banks	Due from customers	Total
1. Due to customers	**–**	**–**	**940,168**				**940,168**
a) relating to fully recognised assets	–	–	940,168	–	–	–	940,168
b) relating to partially recognised assets	–	–	–	–	–	–	–
2. Due to banks							
a) relating to fully recognised assets	–	–	–	–	–	–	–
b) relating to partially recognised assets	–	–	–	–	–	–	–
Total 31.12.2016	**–**	**–**	**940,168**	**–**	**–**	**–**	**940,168**
Total 31.12.2015	**–**		**627,955**				**627,955**

F. Credit risk measurement models

In order to assess the Credit Risk, the Bank uses a standardised method for the quantification of (current and perspective) internal capital in compliance with the guidelines set out in the budgeting and multi-year planning process.

In compliance with the supervisory provisions, the method adopted by the Bank to quantify internal capital enables to use collateral (pledge and mortgage) and personal guarantees as a form of credit risk mitigation. The bank prefers the acquisition of collateral characterised by high liquidity (listed financial instruments) and low price volatility (Sovereign debt Securities).

With a view to verifying the suitability of the internal capital, also in the event of adverse outlooks linked to the negative trend of loans, the Bank carries out stress testing during ICAAP reporting on the credit risk. To carry out these tests, reference is made to the statistics given in the public information of the Bank of Italy, in view of the limited historical series in the Bank's possession, which has only made investments in this area for the last few years.

Section 2 - Market risk

2.1 Interest rate risk and price risk – Regulatory trading portfolio

Qualitative information

A. General aspects

The Bank defined the market risk as the risk of an unfavourable change in the value of a position in financial instruments – included in the trading portfolio for regulatory purposes – due to the adverse performance of interest, exchange and inflation rates, volatility, share prices, credit spreads, price of goods (generic risk) and creditworthiness of the issuer (specific risk).

B. Management processes and measurement methods for the interest rate risk and the price risk

Interest rate risk

The "trading portfolio" – as defined in the supervisory regulations – includes all financial instruments subject to capital requirements for market risks.

The trading portfolio includes:

- debt securities;
- shares;
- UCI units;
- derivatives held for trading.

Most of the debt securities in the portfolio at 31 December 2016 consist of government bonds whose overall duration is short. Share investments mainly refer to securities listed on the Italian Stock Exchange, with high liquidity. The portfolio instruments are denominated in euro.

The Managing Director and the General Management of the Bank provide strategic guidelines on market risk acceptance with regard to the purchase and dealing in trading securities.

With regard to the interest rate risk, the Bank monitors the changes in market rates and prepares a proper report that is sent to the Management.

Price risk

Price risk is the risk of capital losses on listed financial assets or assets that are similar to listed instruments due to fluctuations in the price of securities or to factors attributable to the peculiar situation of the issuer. The Bank adopted special internal regulations that govern and limit the risk assumption with regard to some types of financial instruments and allow the continuous monitoring of the main risk indicators (VAR – Expected Shortfall – Volatility etc.)

In addition, limits were identified and prescribed in stress conditions, considering simultaneous shocks on the credit risk - spread increases and stock price contraction.

The method adopted to calculate VaR is historical; the bank uses a holding period of 2 years, a confidence interval of 99% and a daily time horizon for the quantification of the expected risk.

The trading portfolio is mainly represented by Government debt securities. As a result, price risk is associated with the specific situation of the issuer.
With regard to the share capital securities portfolio, it should be underlined that it almost exclusively includes listed shares with a high degree of liquidity.

Lastly, with reference to market risk management, it should be specified that transactions with similar characteristics in terms complexity, type of issuer or risk are screened by the Managing Director and by the General Management, which performs a specific evaluation also with regard to the risk profiles associated with them.

Quantitative information

1. Regulatory trading portfolio: distribution of financial assets and liabilities for cash and financial derivatives by residual duration (repricing date)

Currency: Euro

Type/Residual duration	On demand	Up to 3 months	From over 3 months to 6 months	From over 6 months to 1 year	From over 1 year to 5 years	From over 5 years to 10 years	More than 10 years	Undated
1. Cash assets	**–**	**12,476**	**5,030**	**–**	**5,443**	**3**	**–**	**–**
1.1 Debt securities	–	12,476	5,030	–	5,443	3	–	–
- with the option of early redemption	–	2,470	–	–	–	–	–	–
- other	–	10,006	5,030	–	5,443	3	–	–
1.2 Other assets	–	–	–	–	–	–	–	–
2. Cash liabilities								
2.1 Reverse repos	–	–	–	–	–	–	–	–
2.2 Other liabilities	–	–	–	–	–	–	–	–
3. Financial derivatives	**–**	**528,353**	**8,581**	**437**	**27,185**	**114**	**–**	**–**
3.1 With underlying security	–	27,859	1,874	–	25,806	114	–	–
- Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
- Other derivatives	–	27,859	1,874	–	25,806	114	–	–
+ Long positions	–	13,946	937	–	12,903	57	–	–
+ Short positions	–	13,913	937	–	12,903	57	–	–
3.2 Without underlying security	–	500,494	6,707	437	1,379	–	–	–
- Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
- Other derivatives	–	500,494	6,707	437	1,379	–	–	–
+ Long positions	–	250,248	4,262	–	–	–	–	–
+ Short positions	–	250,246	2,445	437	1,379	–	–	–

1. Regulatory trading portfolio: distribution of financial assets and liabilities for cash and financial derivatives by residual duration (repricing date)

Currency: Other currencies

Type/Residual duration	On demand	Up to 3 months	From over 3 months to 6 months	From over 6 months to 1 year	From over 1 year to 5 years	From over 5 years to 10 years	More than 10 years	Undated
1. Cash assets	**2**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1.1 Debt securities	2	–	–	–	–	–	–	–
- with the option of early redemption	2	–	–	–	–	–	–	–
- other	–	–	–	–	–	–	–	–
1.2 Other assets	–	–	–	–	–	–	–	–
2. Cash liabilities								
2.1 Reverse repos	–	–	–	–	–	–	–	–
2.2 Other liabilities	–	–	–	–	–	–	–	–
3. Financial derivatives	**–**	**500,682**	**4,038**	**–**	**–**	**–**	**–**	**–**
3.1 With underlying security	–	–	–	–	–	–	–	–
- Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
- Other derivatives	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
3.2 Without underlying security	–	500,682	4,038	–	–	–	–	–
- Options	–	–						
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
- Other derivatives	–	500,682	4,038	–	–	–	–	–
+ Long positions	–	250,340	2,019	–	–	–	–	–
+ Short positions	–	250,342	2,019	–	–	–	–	–

2. Regulatory trading portfolio: distribution of exposures in equity securities and stock indices in the main countries of the market.

Transaction type/Listing index	Listed						Unlisted
	Italy	United States of America	United Kingdom	Japan	Germany	Other	
A. Equity securities							
- Long positions	1,732	–	–	–	14	75	14
- Short positions	–	–	–	–	–	–	–
B. Sales not yet settled on equity securities							
- Long positions	58	–	–	–	3	–	–
- Short positions	61	–	–	–	3	–	–
C. Other derivatives on equity securities							
- Long positions	7	–	–	–	–	1	–
- Short positions	–	–	–	–	–	–	–
D. Derivatives on stock indices							
- Long positions	–	–	–	–	–	–	–
- Short positions	–	–	–	–	–	–	–

2.2 Interest rate risk and price risk – Banking portfolio

Qualitative information

A. General aspects, management processes and measurement methods for interest rate risk and price risk

Interest rate risk

The interest rate risk for the banking book is defined as the current and prospective risk of profit/capital volatility due to unfavourable fluctuations in interest rates. From the definition of the interest rate risk, it is readily apparent that said risk is generated by the imbalances deriving from core business activities as a consequence of the difference in maturity and in the periods of redefinition of the interest rate conditions of assets and liabilities. The Bank's policy for managing the interest rate risk on the banking book is directed at stabilising the interest margin on the banking book.

The internal structures of the Bank monitor on a regular basis and provide adequate reporting of the interest rate risk on the banking book to the Senior Management and to the Board of Directors of the Bank. Stress tests are also carried out on a regular basis on the interest rate risk of the Repricing Gap and Duration Gap banking book. The operating limits to risk assumption were defined by the Board of Directors of the Bank and are reviewed by it on a regular basis.

The banking book comprises financial instruments (assets and liabilities) that are not in the trading portfolio.

It is mainly made up of due to/from banks and customers as well as hedge accounting and hedging derivatives.

As regards the banking book, attention is drawn to the following aspects concerning interest rate risk:

- due from banks and due from customers include:
  - loans to banks, totalling 163 million euros, of which 158 million euros in deposits to banks, mainly with variable rate and 5 million euros in compulsory variable rate reserve;
  - loans to customers, totalling 309 million euros, mainly consisting of current account credit lines of 116 million euros and loans to customers of 146 million euros, mostly with variable rate;

- available-for-sale securities include (in addition to equity securities and UCI units not exposed to interest rate risk) bonds including Government Bonds totalling a nominal value of 1,080 million euros (720 million euros with maturity on or before 2017, 300 million euros with maturity in 2018 and 60 million with maturity on or before 2024);

- securities held to maturity (which were reclassified in 2008 from the HFT category) only include a variable-rate bond, listed in a regulated market, for a total face value of 2 million euros, with maturity in January 2017;

- due to banks and due to customers include:
  - loans and deposits to banks, totalling 1 million euros;
  - loans, fixed-term deposits and current accounts with customers, totalling 1,504 million euros, comprising: 69 million euros in fixed-rate loans (of which 45 million euros with maturity in 2017, 18 million euros in 2018 and 6 million euros in 2019); 495 million euros in current accounts at floating rate or at revisable fixed rate; 940 million euros in repos on securities listed in regulated markets;

- among outstanding securities totalling 24 million euros are variable-rate bonds (Euribor plus 30 b.p.) with maturity in November 2017.

Given the above, it may be concluded that the interest rate risk is low.

Price risk

Price risk is the risk of capital losses on listed financial assets or assets that are similar to listed instruments due to fluctuations in the price of securities or to factors attributable to the peculiar situation of the issuer.

The Bank adopted special internal regulations that govern and limit the risk assumption with regard to some types of financial instruments and allow the continuous monitoring of the main risk indicators (VAR – Expected Shortfall – Volatility etc.).

Quantitative information

1. Banking portfolio: distribution of financial assets and liabilities by residual duration (repricing date)

Currency: Euro

Type/Residual duration	On demand	Up to 3 months	From over 3 months to 6 months	From over 6 months to 1 year	From over 1 year to 5 years	From over 5 years to 10 years	More than 10 years	Undated
1. Cash assets	**193,914**	**643,509**	**152,118**	**246,138**	**324,472**	**380**	**109**	
1.1 Debt securities	–	392,390	151,667	245,417	318,569	–	–	–
- with the option of early redemption		5,734	–	–	7,020			
- other		386,656	151,667	245,417	311,549			
1.2 Loans to banks	54,984	89,887						
1.3 Loans to customers	138,930	161,232	451	721	5,903	380	109	–
- current accounts	114,041					–		
- other loans	24,889	161,232	451	721	5,903	380	109	–
- with the option of early redemption	1,808	140,842	451	500	1,783	361	109	
- other	23,081	20,390		221	4,120	19		
2. Cash liabilities	**478,430**	**307,912**	**199,758**	**211,114**	**313,313**	**–**	**–**	**–**
2.1 Due to customers	477,277	307,912	175,933	211,114	313,313	–	–	–
- current accounts	477,025	7,985	24,732	11,942	23,445			
- other payables	252	299,927	151,201	199,172	289,868	–	–	–
- with the option of early redemption								
- other	252	299,927	151,201	199,172	289,868			
2.2 Due to banks	1,153	–	–	–	–	–	–	–
- current accounts	1,153							
- other payables	–							
2.3 Debt securities	–	–	23,825	–	–	–	–	–
- with the option of early redemption								
- other			23,825					
2.4 Other liabilities	–	–	–	–	–	–	–	–
- with the option of early redemption								
- other								
3. Financial derivatives	**–**	**16,017**	**–**	**17,520**	**–**	**–**	**–**	**–**
3.1 With underlying security	–	–	–	–	–	–	–	–
- Options	–	–	–	–	–	–	–	–
+ Long positions								
+ Short positions								
- Other derivatives	–	–	–	–	–	–	–	–
+ Long positions								
+ Short positions								
3.2 Without underlying security	–	16,017	–	17,520	–	–	–	–
- Options	–	–	–	–	–	–	–	
+ Long positions								
+ Short positions								
- Other derivatives	–	16,017	–	17,520	–	–	–	–
+ Long positions		16,017		17,520				
+ Short positions								
4. Other off-balance sheet transactions	**29,714**	**–**	**–**	**–**	**15,746**	**162**	**–**	**–**
+ Long positions	6,903	–	–	–	15,746	162	–	–
+ Short positions	22,811	–	–	–	–	–	–	–

1. Banking portfolio: distribution of financial assets and liabilities by residual duration (repricing date)

Currency: Other currency

Type/Residual duration	On demand	Up to 3 months	From over 3 months to 6 months	From over 6 months to 1 year	From over 1 year to 5 years	From over 5 years to 10 years	More than 10 years	Undated
1. Cash assets	**20,135**	**–**	**–**	**–**	**–**	**–**	**–**	
1.1 Debt securities	–	–	–	–	–	–	–	–
- with the option of early redemption								
- other								
1.2 Loans to banks	18,468							
1.3 Loans to customers	1,667		–	–	–	–	–	–
- current accounts	1,667							
- other loans		–	–	–	–	–	–	–
- with the option of early redemption								
- other								
2. Cash liabilities	**18,144**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
2.1 Due to customers	18,094	–	–	–	–	–	–	–
- current accounts	18,094							
- other payables		–	–	–	–			
- with the option of early redemption								
- other								
2.2 Due to banks	50	–	–	–	–	–	–	–
- current accounts	50							
- other payables								
2.3 Debt securities	–	–	–	–	–	–	–	–
- with the option of early redemption								
- other								
2.4 Other liabilities	–	–	–	–	–	–	–	–
- with the option of early redemption								
- other								
3. Financial derivatives	**–**	**16,017**	**–**	**17,520**	**–**	**–**	**–**	**–**
3.1 With underlying security								
- Options								
+ Long positions								
+ Short positions								
- Other derivatives								
+ Long positions								
+ Short positions								
3.2 Without underlying security	–	16,017	–	17,520	–	–	–	–
- Options		–	–		–	–		
+ Long positions								
+ Short positions								
- Other derivatives		16,017		17,520				
+ Long positions								
+ Short positions		16,017		17,520				
4. Other off-balance sheet transactions	**–**	**–**			**–**			
+ Long positions								
+ Short positions								

Item 3.2 financial derivatives - Others - (maturity class from 6 months to 1 year) refers to the hedge accounting of 15 million Pounds on a part of the LSEG shares and thoroughly discussed in the asset item Hedging derivatives.
The maturity class up to 3 months includes mainly the hedge of 12.5 million Pounds, also referred to the LSEG shares.

2.3 Exchange rate risk

Qualitative information

A. General aspects, management processes and measurement methods for exchange rate risk

Exchange rate risk management is the responsibility of the General Management and the Finance Department carries out trading, hedging and brokering activities within specific operating limits (amounts) with regard to both financial assets and liabilities denominated in foreign currencies in its own account or on behalf of customers.

Generally, the exposure to exchange rate risk is quite low and limited to temporary misalignments in opposite sign positions. The Bank keeps this risk to a minimum by monitoring the treasury exposure due to the time mismatching between asset and liability items.

B. Exchange rate risk hedging activity

In December 2015, partial Hedge Accounting of 15 million Pounds was carried out to neutralise the impact deriving from the change in the Euro/GBP exchange rate on a part of the book value, i.e. 26.9 million Pounds, of the 921,900 London Stock Exchange Group plc shares held by the Bank in the Available-for-sale financial assets portfolio.
This partial hedging was carried out with a forward sale transaction of 15 million Pounds with maturity 21 December 2016 and renewed for an equal amount on 21 December 2017, whose positive fair value at 31 December 2016 was 391 thousand euros.

In addition to the hedge described above, the Bank also carried out a management hedging of the exchange rate risk, also connected with the LSEG shares, for additional 12.5 million Pounds, to eliminate the exchange rate risk on this equity investment.

Quantitative information

1. Distribution by currency of assets, liabilities and derivatives

Items	Currencies					
	US Dollars	Pound sterling	Yen	Canadian dollars	Swiss francs	Other currencies
A. Financial assets	**14,922**	**34,309**	**536**	**89**	**4,748**	**226**
A.1 Debt securities	2	–	–	–	–	–
A.2 Equity securities	–	31,377	–	–	17	–
A.3 Loans to banks	14,771	1,416	536	89	1,431	224
A.4 Loans to customers	149	1,516	–	–	–	2
A.5 Other financial assets	–	–	–	–	3,300	–
B. Other assets	**24**	**19**	**–**	**–**	**1**	**–**
C. Financial liabilities	**14,742**	**1,238**	**8**	**–**	**2,134**	**21**
C.1 Due to banks	47	–	–	–	–	3
C.2 Due to customers	14,695	1,238	8	–	2,134	18
C.3 Debt securities	–	–	–	–	–	–
C.4 Other financial liabilities	–	–	–	–	–	–
D. Other liabilities	**–**	**–**	**–**	**–**	**–**	**–**
E. Financial derivatives	**344,797**	**182,521**	**7,374**	**864**	**2,701**	**–**
- Options	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–
- Other derivatives	344,797	182,521	7,374	864	2,701	–
+ Long positions	172,399	75,201	3,444	431	885	–
+ Short positions	172,398	107,320	3,930	433	1,816	–
Total assets	**187,345**	**109,529**	**3,980**	**520**	**5,634**	**226**
Total liabilities	**187,140**	**108,558**	**3,938**	**433**	**3,950**	**21**
Imbalance (+/-)	**205**	**971**	**42**	**87**	**1,684**	**205**

2.4 Derivative instruments

A. Financial derivatives

A.1 Regulatory trading portfolio: end-of-period notional values

Underlying assets/Type of derivatives	Total 31.12.2016		Total 31.12.2015	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates	2,242	–	3,063	–
a) Options	–	–	–	–
b) Swaps	2,242	–	3,063	–
c) Forwards	–	–	–	–
d) Futures	–	–	–	–
e) Other	–	–	–	–
2. Share capital securities and stock indices	944	–	–	3,507
a) Options	944	–	–	3,505
b) Swaps	–	–	–	–
c) Forwards	–	–	–	–
d) Futures	–	–	–	2
e) Other	–	–	–	–
3. Currencies and gold	504,318	–	571,929	–
a) Options	–	–	–	–
b) Swaps	–	–	–	–
c) Forwards	504,318	–	571,929	–
d) Futures	–	–	–	–
e) Other	–	–	–	–
4. Goods	–	–	–	200
5. Other underlying assets	–	–	–	–
Total	**507,504**	**–**	**574,992**	**3,707**

A.2 Banking portfolio: end-of-period notional values

A.2.1 Hedging

Underlying assets/Type of derivatives	31.12.2016		31.12.2015	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates				
a) Options				
b) Swaps				
c) Forwards				
d) Futures				
e) Other				
2. Share capital securities and stock indices				
a) Options				
b) Swaps				
c) Forwards				
d) Futures				
e) Other				
3. Currencies and gold	17,520		20,437	
a) Options				
b) Swaps				
c) Forwards	17,520		20,437	
d) Futures				
e) Other				
4. Goods				
5. Other underlying assets				
Total	**17,520**		**20,437**	

A.2.2 Other derivatives

Underlying assets/Type of derivatives	31.12.2016		31.12.2015	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates				
a) Options				
b) Swaps				
c) Forwards				
d) Futures				
e) Other				
2. Share capital securities and stock indices				
a) Options				
b) Swaps				
c) Forwards				
d) Futures				
e) Other				
3. Currencies and gold	16,017			
a) Options				
b) Swaps				
c) Forwards	16,017			
d) Futures				
e) Other				
4. Goods				
5. Other underlying assets				
Total	**16,017**			

A.3 Financial derivatives: gross positive fair value - breakdown by product

Derivative types/Portfolios	Positive fair value			
	Total 31.12.2016		Total 31.12.2015	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Regulatory trading portfolio	10,846	–	9,579	251
a) Options	183	–	–	251
b) Interest rate swaps	–	–	–	–
c) Cross currency swaps	–	–	–	–
d) Equity swaps	–	–	–	–
e) Forwards	10,663	–	9,579	–
f) Futures	–	–	–	–
g) Others	–	–	–	–
B. Banking portfolio - hedging	391	–	215	–
a) Options	–	–	–	–
b) Interest rate swaps	–	–	–	–
c) Cross currency swaps	–	–	–	–
d) Equity swaps	–	–	–	–
e) Forwards	391	–	215	–
f) Futures	–	–	–	–
g) Others	–	–	–	–
C. Banking portfolio - other derivatives	223	–	–	–
a) Options	–	–	–	–
b) Interest rate swaps	–	–	–	–
c) Cross currency swaps	–	–	–	–
d) Equity swaps	–	–	–	–
e) Forwards	223	–	–	–
f) Futures	–	–	–	–
g) Others	–	–	–	–
Total	**11,460**	**–**	**9,794**	**251**

A.4 Financial derivatives: gross negative fair value - breakdown by product

Derivative types/Portfolios	Negative fair value			
	Total 31.12.2016		Total 31.12.2015	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Regulatory trading portfolio	10,772	–	9,656	77
a) Options				77
b) Interest rate swaps	110		189	
c) Cross currency swaps				
d) Equity swaps				
e) Forwards	10,662		9,467	
f) Futures				
g) Others				
B. Banking portfolio - hedging	–	–	–	–
a) Options				
b) Interest rate swaps				
c) Cross currency swaps				
d) Equity swaps				
e) Forwards				
f) Futures				
g) Others				
C. Banking portfolio - other derivatives	–	–	–	–
a) Options				
b) Interest rate swaps				
c) Cross currency swaps				
d) Equity swaps				
e) Forwards				
f) Futures				
g) Others				
Total	**10,772**	**–**	**9,656**	**77**

A.5 OTC financial derivatives - regulatory trading portfolio: notional values, gross positive and negative fair values for counterparties - contracts not covered by offset agreements

Contracts not covered by offset agreements	Governments and Central Banks	Other public authorities	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities
1) Debt securities and interest rates							
- notional value	–	–	2,242	–	–	–	–
- positive fair value	–	–	–	–	–	–	–
- negative fair value	–	–	110	–	–	–	–
- future exposure	–	–	7	–	–	–	–
2) Equity securities and stock indices							
- notional value	–	–	45	65	–	834	–
- positive fair value	–	–	–	2	–	181	–
- negative fair value	–	–	–	–	–	–	–
- future exposure	–	–	4	7	–	27	–
3) Currencies and gold							
- notional value	–	–	252,159	252,159	–	–	–
- positive fair value	–	–	943	9,720	–	–	–
- negative fair value	–	–	9,720	942	–	–	–
- future exposure	–	–	2,522	2,522	–	–	–
4) Other values							
- notional value	–	–	–	–	–	–	–
- positive fair value	–	–	–	–	–	–	–
- negative fair value	–	–	–	–	–	–	–
- future exposure	–	–	–	–	–	–	–

A.7 OTC financial derivatives - banking portfolio: notional values, gross positive and negative fair values for counterparties - contracts not covered by offset agreements

Contracts not covered by offset agreements	Governments and Central Banks	Other public authorities	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities
1) Debt securities and interest rates							
- notional value	–	–	–	–	–	–	–
- positive fair value	–	–	–	–	–	–	–
- negative fair value	–	–	–	–	–	–	–
- future exposure	–	–	–	–	–	–	–
2) Equity securities and stock indices							
- notional value	–	–	–	–	–	–	–
- positive fair value	–	–	–	–	–	–	–
- negative fair value	–	–	–	–	–	–	–
- future exposure	–	–	–	–	–	–	–
3) Currencies and gold							
- notional value	–	–	33,537	–	–	–	–
- positive fair value	–	–	614	–	–	–	–
- negative fair value	–	–	–	–	–	–	–
- future exposure	–	–	335	–	–	–	–
4) Other values							
- notional value	–	–	–	–	–	–	–
- positive fair value	–	–	–	–	–	–	–
- negative fair value	–	–	–	–	–	–	–
- future exposure	–	–	–	–	–	–	–

A.9 Residual life of OTC financial derivatives: notional values

Underlying/Residual life	Up to 1 year	From over 1 year to 5 years	More than 5 years	Total
A. Regulatory trading portfolio	**505,802**	**1,595**	**107**	**507,504**
A.1 Financial derivatives on debt securities and interest rates	863	1,379	–	2,242
A.2 Financial derivatives on equity securities and stock indices	621	216	107	944
A.3 Financial derivatives on exchange rates and gold	504,318	–	–	504,318
A.4 Financial derivatives on other values	–	–	–	–
B. Banking portfolio	**33,537**	**–**	**–**	**33,537**
B.1 Financial derivatives on debt securities and interest rates	–	–	–	–
B.2 Financial derivatives on equity securities and stock indices	–	–	–	–
B.3 Financial derivatives on exchange rates and gold	33,537	–	–	33,537
B.4 Financial derivatives on other values	–	–	–	–
Total 2016	**539,339**	**1,595**	**107**	**541,041**
Total 2015	**593,187**	**2,242**	**–**	**595,429**

Section 3 – Liquidity risk

Qualitative information

A. General aspects, management processes and measurement methods for the liquidity risk

The Bank defined the liquidity risk as the inability to meet own payment commitments. This risk is linked to the inability to raise funds (funding liquidity risk) or to the existence of limits for the disinvestment of assets (market liquidity risk).
Funding liquidity risk means the risk according to which the Bank is not able to meet its own payment commitments and obligations efficiently (compared to the "desired" risk profile and/or "fair" economic conditions) due to the inability to raise funds without compromising its core business activities and/or financial situation.
Market liquidity risk means the risk according to which the Bank is able to dispose of an asset only by incurring capital losses due to the low liquidity of the reference market and/or due to the timing with which the transaction will be carried out.

The analysis of the Bank's financial instruments (assets and liabilities) highlights that, overall, liquidity risk is quite low. In fact, the loans portfolio is mostly made up of short-term funding sources both on the interbank market and with regard to customers (as it comprises mainly on-demand loans that are directly connected with the private banking activity). Most of the securities trading portfolio is made up of highly liquid debt securities issued by countries of the Eurozone.
Concerning the sources of funding, they comprise current accounts, fixed-term deposits, repos and the issue of floating rate bonds. The concentration of the funding sources, present on primary and consolidated customers, is the consequence of the business model adopted by the Bank that entails issuing loans and providing services to highly selected customers.

The Bank's overall exposure to liquidity risk is therefore maintained at modest levels thanks to the structure of the financial portfolio described above.

The ability to meet commitments promptly and economically is guaranteed by carefully monitoring the position through the use of information systems that ensure the ongoing monitoring of the liquidity requirements that are managed, where necessary, by resorting to the interbank deposits and, alternatively, to the repos market.

On the basis of the supervisory provisions, the Bank has defined the guidelines on the governance and management of liquidity risk and the methods of stress tests to be carried out. More specifically, the roles and responsibilities have been defined by the company bodies involved, the calculation methods of the LCR (Liquidity Coverage Ratio) and NSFR (Net Stable Funding Ratio) and the criteria to be applied in carrying out stress testing.
The short-term liquidity management policy, monitoring using the LCR indicator, includes all limits and alert thresholds that allow, both in normal market conditions and in stressful periods, for the measurement of the liquidity risk to which it is exposed. The liquidity needed to cope with any structural imbalance in the

breakdown of assets and liabilities along a one-year timeframe, instead, is monitored through the NSFR indicator.

Within the liquidity risk management process, the Bank's Risk Control organisational unit:

- periodically carries out the stress tests identified by the Bank for risk measurement, performing the measurements necessary to determine the value of the LCR (liquidity Coverage ratio) indicator (aimed at assuring that the Bank holds an amount of high quality liquid assets that enables it to withstand stress situations on the funding market for a time horizon of 30 days) and the NSFR (Net Stable Funding Ratio) (aimed at assuring a structural balance of the financial statements of the bank);
- prepare the reports to be sent to the Senior Management, illustrated the exposure to liquidity risk, also determined on the basis of the stress tests.

The analyses carried out at 31 December 2016 show that the potential outgoing cash flows are entirely covered by the inflows and by the liquidity buffer held by the Bank, and therefore no risk situations are noted.

Quantitative information

1. Time distribution of financial assets and liabilities by residual duration

Currency: Euro

Item/Time frame	On demand	From over 1 day to 7 days	From over 7 days to 15 days	From over 15 days to 1 month	From over 1 month to 3 months	From over 3 months to 6 months	From over 6 months to 1 year	From over 1 year to 5 years	More than 5 years	Undated
Cash assets	**192,638**	**80,389**	**90,343**	**5,985**	**274,625**	**158,429**	**256,511**	**448,210**	**105,610**	**4,889**
A.1 Treasury Bonds	–	–	75,138	–	261,183	151,495	245,253	305,135	65,002	–
A.2 Other debt securities	–	–	205	5,121	48	–	616	19,363	1,132	–
A.3 UCI units	30,350	–	–	–	–	–	–	–	–	–
A.4 Loans	162,288	80,389	15,000	864	13,394	6,934	10,642	123,712	39,476	4,889
- Banks	54,983	59,999	15,000	–	10,000	–	–	–	–	4,889
- Customers	107,305	20,390	–	864	3,394	6,934	10,642	123,712	39,476	–
Cash liabilities	**477,460**	**180**	**50,216**	**51,531**	**205,995**	**176,069**	**235,006**	**314,020**	**–**	**–**
B.1 Deposit and current accounts	477,208	180	335	670	6,811	24,858	12,001	24,151	–	–
- Banks	1,153	–	–	–	–	–	–	–	–	–
- Customers	476,055	180	335	670	6,811	24,858	12,001	24,151	–	–
B.2 Debt securities	–	–	–	–	–	10	23,833	–	–	–
B.3 Other liabilities	252	–	49,881	50,861	199,184	151,201	199,172	289,869	–	–
Off-balance sheet transactions	**23,615**	**28,073**	**33,622**	**334,333**	**148,437**	**6,031**	**17,745**	**47,028**	**1,583**	**–**
C.1 Financial derivatives with exchange of capital	–	28,073	33,622	334,331	148,344	5,908	17,520	26,120	120	–
- Long positions	–	14,054	16,811	175,174	74,172	2,954	17,520	13,060	60	–
- Short positions	–	14,019	16,811	159,157	74,172	2,954	–	13,060	60	–
C.2 Financial derivatives without exchange of capital	293	–	–	–	–	–	–	–	–	–
- Long positions	183	–	–	–	–	–	–	–	–	–
- Short positions	110	–	–	–	–	–	–	–	–	–
C.3 Deposits and loans to be received	–	–	–	–	–	–	–	–	–	–
- Long positions	–	–	–	–	–	–	–	–	–	–
- Short positions	–	–	–	–	–	–	–	–	–	–
C.4 Irrevocable commitments to disburse funds	23,322	–	–	2	93	123	225	20,394	1,463	–
- Long positions	511	–	–	2	93	123	225	20,394	1,463	–
- Short positions	22,811	–	–	–	–	–	–	–	–	–
C.5 Financial guarantees issued*	–	–	–	–	–	–	–	514	–	–
C.6 Financial guarantees received	–	–	–	–	–	–	–	–	–	–
C.7 Credit derivatives with exchange of capital	–	–	–	–	–	–	–	–	–	–
- Long positions	–	–	–	–	–	–	–	–	–	–
- Short positions	–	–	–	–	–	–	–	–	–	–
C.8 Credit derivatives without exchange of capital	–	–	–	–	–	–	–	–	–	–
- Long positions	–	–	–	–	–	–	–	–	–	–
- Short positions	–	–	–	–	–	–	–	–	–	–

Bank "Undated Loans" refer to the deposit in the Obligatory reserve.

Item C.1 includes the value of the purchases and sales of securities not yet settled.

1. Time distribution of financial assets and liabilities by residual duration

Currency: Other currencies

Item/Time frame	On demand	From over 1 day to 7 days	From over 7 days to 15 days	From over 15 days to 1 month	From over 1 month to 3 months	From over 3 months to 6 months	From over 6 months to 1 year	From over 1 year to 5 years	More than 5 years	Undated
Cash assets	**20,143**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
A.1 Treasury Bonds	–	–	–	–	–	–	–	–	–	–
A.2 Other debt securities	2	–	–	–	–	–	–	–	–	–
A.3 UCI units	–	–	–	–	–	–	–	–	–	–
A.4 Loans	20,141	–	–	–	–	–	–	–	–	–
- Banks	18,468	–	–	–	–	–	–	–	–	–
- Customers	1,673	–	–	–	–	–	–	–	–	–
Cash liabilities	**18,144**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
B.1 Deposit and current accounts	18,144	–	–	–	–	–	–	–	–	–
- Banks	50	–	–	–	–	–	–	–	–	–
- Customers	18,094	–	–	–	–	–	–	–	–	–
B.2 Debt securities	–	–	–	–	–	–	–	–	–	–
B.3 Other liabilities	–	–	–	–	–	–	–	–	–	–
Off-balance sheet transactions	–	402	33,622	334,331	148,344	4,038	17,520	–	–	–
C.1 Financial derivatives with exchange of capital	–	402	33,622	334,331	148,344	4,038	17,520	–	–	–
- Long positions	–	200	16,811	159,157	74,172	2,019	–	–	–	–
- Short positions	–	202	16,811	175,174	74,172	2,019	17,520	–	–	–
C.2 Financial derivatives without exchange of capital	–	–	–	–	–	–	–	–	–	–
- Long positions	–	–	–	–	–	–	–	–	–	–
- Short positions	–	–	–	–	–	–	–	–	–	–
C.3 Deposits and loans to be received	–	–	–	–	–	–	–	–	–	–
- Long positions	–	–	–	–	–	–	–	–	–	–
- Short positions	–	–	–	–	–	–	–	–	–	–
C.4 Irrevocable commitments to disburse funds	–	–	–	–	–	–	–	–	–	–
- Long positions	–	–	–	–	–	–	–	–	–	–
- Short positions	–	–	–	–	–	–	–	–	–	–
C.5 Financial guarantees issued*	–	–	–	–	–	–	–	–	–	–
C.6 Financial guarantees received	–	–	–	–	–	–	–	–	–	–
C.7 Credit derivatives with exchange of capital	–	–	–	–	–	–	–	–	–	–
- Long positions	–	–	–	–	–	–	–	–	–	–
- Short positions	–	–	–	–	–	–	–	–	–	–
C.8 Credit derivatives without exchange of capital	–	–	–	–	–	–	–	–	–	–
- Long positions	–	–	–	–	–	–	–	–	–	–
- Short positions	–	–	–	–	–	–	–	–	–	–

Section 4 – Operating risk

Qualitative and quantitative information

A. General aspects, management processes and measurement methods for operating risk

Operating risk is defined as the risk to incur losses arising from the inadequacy or weakness in procedures, human resources and internal systems, or from external events. These include losses arising from frauds, human errors, interruptions in business activities, unavailability of systems, contractual default, natural and/or geopolitical disasters. The operating risk includes the legal risk, while it does not include strategic and reputational risks.

The Bank, albeit adopting a standardised calculation method of the operating risks, carried out an analysis/assessment of operating risks on the "core" procedures. In order to standardise the quantification process of operating risks, the Bank has also formalised the adopted method in the document called "Management of operating risks in Banca Finnat". At 31 December 2016, the organisational unit tasked with monitoring operating risks started the activities necessary for their revision according to the method identified by the corporate Bodies of the Bank.
In particular, the analysis focused on the identification, within the above-mentioned operating procedures, of the activities that may generate operating risks for the Bank and of the related controls to mitigate the risks themselves.

With regards to the quantification of internal capital supporting the operating risk, as previously mentioned, the Bank uses the basic approach under the scope of determining prudential equity requirements, as prescribed by the provisions per Regulation EU 575/2013.

In this context, the internal control function verifies that said procedures, and any revisions thereof, are correctly implemented and are observed, as well as ensuring that they comply with regulations in force.

Part F – Information on net equity

Section 1 – Net equity

Qualitative and quantitative information

The net equity comprises the Capital, Reserves, Own Shares, Valuation Reserves and profit for the year. All financial instruments that are not classified as financial assets or liabilities according to the IAS/IFRS are considered part of the equity.

For supervisory purposes, the relevant aggregate equity is calculated based on the applicable regulations laid down by the Bank of Italy and constitutes the reference control data of the prudential supervisory regulations.

Pursuant to the above-mentioned regulations, the Bank is required to comply with a minimum supervisory ratio of 8%, calculated by reference to credit and market prices.

The net equity of the Bank totals 234,654 thousand euros. It is detailed in the table below.

B.1 Equity: breakdown

Items/Amounts	Amount 31.12.2016	Amount 31.12.2015
1. Share	72,576	72,576
2. Share issue premiums	–	–
3. Reserves	93,646	92,651
- retained earnings	89,309	87,316
a) legal reserve	9,168	8,936
b) statutory reserve	–	–
c) own shares	16,569	14,668
d) other	63,572	63,712
- other	4,337	5,335
4. Capital instruments	–	–
5. (Own shares)	(14,392)	(13,949)
6. Valuation reserves:	78,834	86,047
- Available-for-sale financial assets	77,621	84,797
- Tangible assets		
- Intangible assets		
- Foreign investment hedge		
- Cash flow hedge		
- Exchange differences		
- Non-current assets being disposed		
- Actuarial profit (loss) on defined benefit social security plans	(151)	(114)
- Share of valuation reserves related to investee companies valued by equity method		
- Special revaluation regulations	1,364	1,364
7. Profit (loss) for the year	3,990	4,624
Total	**234,654**	**241,949**

Item 6. Valuation reserves, totalling 78,834 thousand euros, comprises the sub-items:

- Available-for-sale financial assets: in addition to the measurement at fair value of the securities in the portfolio (29,906 thousand euros), the measurement at fair value of the investments in the subsidiaries: InvestiRE SGR S.p.A., 43,273 thousand euro, Finnat Fiduciaria S.p.A., 1,526 thousand euros and Finnat Gestioni S.A., 2,916 thousand euros.
- Actuarial profit (loss) relating to defined benefit pension plans: the portion of the IAS staff severance fund that, in accordance with IAS 19, is recognised in valuation reserves in the amount of -151 thousand euros.
- Special revaluations regulations: revaluations made on owned property in accordance with the provisions of Italian Laws no. 576 of 2 December 1975, no. 72 of 19 March 1983, no. 413 of 30 December 1991 for a total of 1,356 thousand euros and a further revaluation of 8 thousand euros performed in FY 1974.

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

Assets/amounts	Total 31.12.2016		Total 31.12.2015	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	956	237	1,033	84
2. Equity securities	77,352	666	83,974	677
3. UCI units	392	176	556	5
4. Loans	–	–	–	–
Total	**78,700**	**1,079**	**85,563**	**766**

The reserve of item 1. Debt securities mainly concerns the fair value adjustment, after taxes, on total Government Bonds.

The reserve of item 2. Equity securities also includes the adjustment to fair value, net of taxes, of equity investments in subsidiaries by 47,715 thousand euros.

B.3 Valuation reserves of available-for-sale financial assets: annual changes

	Debt securities	Equity securities	UCI units	Loans
1. Opening balance	**949**	**83,297**	**551**	**–**
2. Positive changes	**628**	**1,526**	**25**	**–**
2.1 Increases in fair value	628	100	17	
2.2 Reallocation of negative reserve to income statement	–	1,426	8	–
- from impairment	–	1,426	8	
- from disposal	–	–	–	
2.3 Other changes	–	–	–	
3. Negative changes	**858**	**8,137**	**360**	**–**
3.1 Decreases in fair value	507	5,213	338	
3.2 Adjustments from impairment				
3.3 Reallocation to income statement from positive reserves: from disposal	351	2,917	–	–
3.4 Other changes		7	22	
4. Closing balance	**719**	**76,686**	**216**	**–**

The comment to the changes is illustrated in part D – Comprehensive Income.

B.4 Valuation reserves related to defined benefit plans: annual changes

Negative Reserves related to defined benefit plans amount to 151 thousand euros and increased by 37 thousand euros compared to 2015 (negative by the amount of 114 thousand euros).

Section 2 – Own funds and capital ratios

2.1 Own funds

The Regulatory Capital is determined based on the harmonised regulations for Banks and the Investment companies contained in the Regulation ("CRR") and in the EU Directive ("CRD IV") of 26 June 2013 which transfer to the European Union the standards defined by the Basel Committee on Banking Supervision (the so-called Basel 3).
In order to enact the regulations, the Bank of Italy issued, on 17 December 2013, Circular no. 285 "Prudential Supervision Provisions for Banks".

Own funds at 31 December 2016 amounted to 191,620 thousand euros (180,289 thousand euros at 31 December 2015), whereas the Total capital ratio stands at 39.0% (38.4% at 31 December 2015) versus the 8% minimum requirement set forth in the current regulations for Credit Institutions.

The Total capital ratio, like the CET1 ratio and the Tier1 ratio, widely exceed minimum capital requirements mandated for us by the Bank of Italy at the conclusion of the supervisory review and evaluation process (SREP) established by Directive 2013/36/EU (CRD IV).

A. Qualitative information

The own funds represent the first safeguard against the risks associated with overall bank activities and the main reference parameter for an assessment of the solidity of the bank.
They comprise the sum of:

1. Common Equity Tier 1 ("Common Equity Tier 1" or "CET1")	178,860	euros
2. Additional Tier 1 (Additional Tier 1 or AT1)	–	euros
3. Tier 2 ("Tier 2" or "T2")	12,760	euros

B. Quantitative information

		Total 31.12.2016	Total 31.12.2015
A.	Common Equity Tier 1 ("Common Equity Tier 1" - "CET 1") before the application of prudential filters	245,417	252,269
	- of which CET 1 instruments subject to transitional provisions	–	–
B.	Prudential filters for CET 1 (+/-)	–	–
C.	CET 1 including deductions and the effects of the transitional regulations (A+/-B)	245,417	252,269
D.	Deductions from CET 1	(37,636)	(45,951)
E.	Transitional regulations - Impact on CET 1 (+/-)	(28,921)	(44,523)
F.	Total Common Equity Tier 1 (Common Equity Tier 1 - CET 1) (C - D+/-E)	178,860	161,795
G.	Additional Tier 1 (Additional Tier 1 - AT 1) including deductions and the effects of the transitional regulations	–	–
	- of which AT 1 instruments subject to transitional provisions	–	–
H.	Deductions from AT 1	–	–
I.	Transitional regulations - Impact on AT 1 (+/-)	–	–
L.	Total Additional Tier 1 (Additional Tier 1 - AT 1) (G-H +/-I)	–	–
M.	Tier 2 (Tier 2 - T 2) including deductions and the effects of the transitional regulations	–	–
	- of which T2 instruments subject to transitional provisions	–	–
N.	Deductions from T 2	–	–
O.	Transitional regulations - Impact on T 2 (+/-)	12,760	18,494
P.	Total Tier 2 (Tier 2 - T 2) (M-N +/-O)	12,760	18,494
Q.	Total own funds (F+L+P)	191,620	180,289

With reference to the transitional provisions applied to Own Funds, as set forth in Circular no. 285 issued by the Bank of Italy, the Bank has adopted, starting on 1 January 2014 and until the full entry into force of the new accounting standard IFRS 9, the option of excluding from own funds the unrealised gains and losses pertaining to exposures to Central Administrations, classified among Available-for-sale financial assets. IFRS 9 entered into force on 19 December 2016 (twentieth day following publication on the Official Journal of the European Union) and it shall be adopted no later than 1 January 2018. In light of the indications, the Bank of Italy with its notice of 26 January 2017, awaiting a formal clarification by the European authorities, prescribed that this option will continue to be applied to "less significant banks" such as Banca Finnat.

The impact of this sterilisation on Own Funds at 31 December 2016 was positive by 605 thousand euros and Own Funds would have amounted to 192,225 thousand euros.
At 31 December 2015, said impact was positive by 721 thousand euros and own funds would have amounted to 181,010 thousand euros.

2.2 Capital adequacy

A. Qualitative information

Italian banks must maintain a minimum CET 1 ratio of 4.5%, Tier 1 ratio of 6% and Total Capital Ratio of 8%.

As shown in the table on the breakdown of risk assets and on the capital ratios, the Bank's CET 1 Capital Ratio and Tier 1 Capital Ratio are both equal to 36.4%, whilst its Total Capital Ratio is 39.0%. These parameters widely exceed minimum capital requirements mandated for us by the Bank of Italy at the conclusion of the supervisory review and evaluation process (SREP) established by Directive 2013/36/EU (CRD IV).

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 and counterparty risk				
1. Standard methodology	2,666,964	1,917,456	393,705	372,134
2. Methodology based on internal ratings				
2.1 Basic				
2.2 Advanced				
3. Securitisation	627	563	7,836	7,042
B. CAPITAL REQUIREMENTS FOR SUPERVISORY PURPOSES				
B.1 Credit and counterparty risk			32,123	30,334
B.2 Risk of adjustment of the credit measurement			3	1
B.3 Settlement risk				
B.4 Market risks			2,214	2,268
1. Standard methodology			2,214	2,268
2. Internal models				
3. Concentration risk				
B.5 Operating risk			5,014	4,944
1. Basic method			5,014	4,944
2. Standardised method			–	–
3. Advanced method				
B.6 Other calculation elements				
B7. Total prudential requirements			39,354	37,547
C. RISK ASSETS AND ADEQUACY RATIOS				
C.1 Risk-weighted assets			491,920	469,343
C.2 Common Equity Tier 1 /Weighted risk assets (CET1 capital ratio)			36.4%	34.5%
C.3 Tier 1 capital/Weighted risk assets (Tier 1 capital ratio)			36.4%	34.5%
C.4 Total own funds/Weighted risk assets (Total capital ratio)			39.0%	38.4%

Part G - Business combinations pertaining to entities or business units

Section 1 - Combinations completed during the year

No business combinations were completed during the year, as regulated by IFRS 3, which would have entailed the acquisition of control over businesses or legal entities.

Section 2 - Combinations completed after the end of the year

In the period spanning the end of the 2016 financial year and the date on which these financial statements were prepared, no business combinations regulated by IFRS 3 were carried out.

Part H – Related party transactions

In terms of related party transactions, the Bank has complied with the Regulations for related party transactions, approved by the Board of Directors on 2 August 2013.

For further information on related party transactions carried out during the financial year, please refer to the paragraph in the Report on Operations.

As required by IAS 24, information on related party transactions is provided below.

1. Information on remuneration of key executives

As a result of the latest amendments made by Consob to its resolution no. 11971 of 14 May 1999 for the aforesaid information, please refer to the "Report on Remuneration" prepared in accordance with Article 123-ter of the Italian Consolidated Financial Law and according to form 7-bis of Annexe 3A of the Issuers' Regulation.

2. Information on transactions with related parties

The following table shows the assets, liabilities, guarantees and commitments at 31 December 2016 separately for different types of related parties under IAS 24.

BALANCE SHEET	Financial receivables (Payables)	Receivables (Payables) for the domestic consolidated tax system	Other Receivables (Payables)	Sureties issued	Available margin on sureties granted
Subsidiaries					
InvestiRE SGR S.p.A.	(5,908)	1,308	(122)	5,154	14,846
Finnat Fiduciaria S.p.A.	(2,469)	16	(48)		
Associated companies					
Imprebanca S.p.A.	(140)		–	10	
Management with strategic responsibilities and company representatives	**(2,326)**				
Other related parties	**(1,868)**		**259**	**37**	

Receivables (Payables) for domestic consolidated tax system and Other Receivables (Payables) are included in the financial statement items "Other assets" and "Other liabilities".

With regard to subsidiaries, the breakdown of main income statement items is also shown.

INCOME STATEMENT	Other operating income (Other administrative expenses)	Interest income (Expense)	Dividends	Commission income (Expense)
Subsidiaries				
InvestiRE SGR S.p.A.	19	(105)	1,570	44
Finnat Fiduciaria S.p.A.	11	(1)	300	25
Finnat Gestioni SA			258	

Associated companies do not have income statement items above one thousand euros.

Part L – Segment Reporting

The Bank draws up the segment reporting in part L of the notes to the consolidated financial statements, exercising the option granted by the Circular Letter of the Bank of Italy no. 262 of 22 December 2005 and subsequent amendments.

Significant non-recurring operations and positions or transactions descending from atypical and/or unusual operations

Pursuant to the Consob Communication DEM/6064293 of 28 July 2006, it should be noted that:

- in 2016, no non-recurring events occurred or were carried out, meaning events or operations that do not usually take place, in connection with ordinary business operations;
- no atypical and/or unusual transactions took place during 2016, either within the Group or with related or third parties. Atypical and/or unusual transactions are those operations which, due to their magnitude/importance, to the nature of the counterparty, to the subject matter of the transaction and to the method for determining the transfer price and time frame (whether close to the year-end or not), may give rise to doubts as to: the accuracy/completeness of the information set out in the financial statements, any conflict of interest, the safeguarding of the company's net worth and the protection of minority interests.

The most significant Group transactions in the 2016 financial year are commented on in a special section of the Report on Operations.

ATTACHMENTS TO THE FINANCIAL STATEMENTS

STATEMENT OF CHANGES
IN EQUITY INVESTMENTS

LIST OF MAIN EQUITY INVESTMENTS
IN UNLISTED COMPANIES
DIRECTLY AND INDIRECTLY HELD

Statement of changes in equity investments

(amounts in euros)

	31.12.2015		Purchases and subscriptions	
	No. of shares or units	Value	No. of shares or units	Value
Subsidiaries				
Finnat Fiduciaria S.p.A.	300,000	6,200,000	–	–
InvestiRE S.G.R. S.p.A.	7,409	58,993,553	–	–
Finnat Gestioni S.A.	525	3,200,000	–	–
Natam Management Company S.A.	–	–	750	750,000
Total Subsidiaries (A)		**68,393,553**		**750,000**
Companies under significant control				
Revalo S.p.A.	648,000	2,268,000	–	–
Prèvira Invest SIM S.p.A. in liquidation	30,000	300,000	–	–
Sigefi Italia Private Equity S.r.l. (liquidated)	30,000	31,502	–	–
Imprebanca S.p.A.	10,000,000	10,000,000	–	–
Total Companies under significant control (B)		**12,599,502**	**–**	**–**
Total (A + B)		**80,993,055**		**750,000**

Sales and liquidations		Profit (Loss)	Changes in fair value/ impairment	31.12.2016	
No. of shares or units	Value			No. of shares or units	Value
–	–	–	(600,000)	300,000	5,600,000
–	–	–	(1,811,653)	7,409	57,181,900
–	–	–	100,000	525	3,300,000
				750	750,000
	–	**–**	**(2,311,653)**		**66,831,900**
648,000	2,840,000	572,000	–	–	–
–	–	–	–	30,000	300,000
30,000	33,688	2,186	–	–	–
–	–	–	(2,000,000)	10,000,000	8,000,000
	2,873,688	**574,186**	**(2,000,000)**		**8,300,000**
	2,873,688	**574,186**	**(4,311,653)**		**75,131,900**

The following table lists all equity investments directly or indirectly owned by Banca Finnat Euramerica S.p.A. that exceed a stake of 10% of the capital, made up of shares with voting rights in unlisted public limited companies or membership interests in private limited companies, at the end of the reporting period.

List of main equity investments in unlisted companies directly or indirectly held at 31 December 2016

INVESTEE COMPANY	Shares or membership interests directly and indirectly held		Shares or membership interests directly held			Shares or membership interests indirectly held			
	No. of shares	% stake	No. of shares	% stake	Type of ownership	Investee Companies	No. of shares	% stake	Type of ownership
FINNAT FIDUCIARIA S.p.A. Piazza del Gesù, 49 - 00186 ROME Taxpayer ID No. 07585500585 - Rome REA 620697 Nominal value per share Euro 5	300,000	100.00	300,000	100.00	Ownership				
INVESTIRE SGR S.p.A. Via Po, 16/A - 00198 ROME Taxpayer ID No. 6931761008 - Rome REA 998178 Nominal value per share 1,000 euros	7,409	50.16	7,409	50.16	Ownership				
FINNAT GESTIONI S.A. Via Pietro Peri, 21 - 6900 LUGANO Nominal value per share 1,000 CHF	525	70.00	525	70.00	Ownership				
NATAM MANAGEMENT COMPANY S.A. 32-36, Bd D'Avranches L-1160 Luxembourg Nominal value per share 1,000 euros	750	100.00	750	100.00	Ownership				
IMPREBANCA S.p.A. Via Cola di Rienzo, 240 - 00192 ROME Taxpayer ID No. 9994611003 - Rome REA 1202384 Nominal value per share 1 euro	10,000,000	20.00	10,000,000	20.00	Ownership				
PREVIRA INVEST SIM S.p.A. in liquidation Piazza San Bernardo, 106 - 00187 ROME Taxpayer ID No. 06073551001 - Rome REA 945999 Nominal value per share 10 euros	30,000	20.00	30,000	20.00	Ownership				

REPORT BY THE BOARD OF STATUTORY AUDITORS TO THE SHAREHOLDERS' MEETING OF BANCA FINNAT EURAMERICA SPA ART. 153 OF ITALIAN LEGISLATIVE DECREE NO. 58 OF 24 FEBRUARY 1998 AND ART. 2429 PARAGRAPH 3 OF THE ITALIAN CIVIL CODE YEAR ENDED 31 DECEMBER 2016

Dear Shareholders,

in the course of the year ended 31 December 2016, we have carried out the supervisory activity prescribed by law, also taking into account the Principles of behaviour of the Board of Statutory Auditors recommended by the National Council of Accountants of Italy.

In particular, during the year 2016, we held 19 meetings and we carried out independent checks on the administrative-accounting system, on the organizational structure and on the internal control system. We also held periodic consultation with EY SpA which, as is well known, is tasked, in accordance with Article 14 of Italian Legislative Decree no. 39/2010, to conduct audits pertaining to the regular keeping of the company books, to the correct reporting of operations in the accounting entries, and to the compliance of the financial statements with the rules that regulate it – collecting information about the results of the audits they carried out. In the course of the consultations with the audit firm, no significant aspects emerged that would require specific updates.

The supervisory activity of the Board of Statutory Auditors was also carried out, with regard to the analysis of the corporate policies and of the consequent deeds and resolutions, by attending all 11 meetings of the Board of Directors, and – through the Chairman or another member of the Board – the 8 meetings of the Control and Risk Committee and, in relation to the operating aspects, also through meetings with the heads of the different company functions. We were kept up to date by your Directors on the activity carried out by the Bank and by its subsidiaries, with the proper periodicity in compliance with the law and with Art. 15 of the Articles of Association.

We have obtained knowledge and overseen, always for matters under our competence, compliance with the law and with the articles of incorporation, as well as on compliance with the principles of correct administration, by means of: direct observations; collection of information from the heads of the company functions and from the Manager in charge of preparing corporate reports and accounting documents; meetings with the Independent Auditors to exchange significant data and information, in accordance with Art. 150, Paragraph 3, of Italian Legislative Decree no. 58/1998. In this regard, we point out that on 9 February 2017 the Board of Directors of the Bank resolved to appoint the Deputy General Manager Mr.

Giulio Bastia as the new Joint General Manager and Manager in charge of preparing the accounting documents, to replace Mr. Paolo Collettini who reached the age limit.

We were informed about the transactions of major economic, financial and capital significance and also about those with subsidiaries and related parties, about which correct disclosure has been provided in the Report on Operations and in the Notes to the Financial Statements, which are settled at arm's length and were carried out in compliance with regulations.

Among the most significant events, the following are of note:

- on 14 June 2016, the Board of Directors was informed, in the presence of the Board of Statutory Auditors, of the Inspection Report pertaining to the ordinary inspection carried out by the Bank of Italy care of the Parent Company between 25 November 2015 and 14 March 2016, from which no penalty profiles emerge;
- on 30 August 2016, the company "NATAM Management Company S.A." was established with its registered office in Luxembourg, share capital 750,000 euros divided into 750 shares with a face value of 1,000 euros each, entirely subscribed by Banca Finnat. The purpose of NATAM Management Company S.A. is to perform collective asset management both in favour of harmonised funds and of alternative investment schemes;
- on 20 September 2016, the Board of Directors of the subsidiary InvestiRE SGR S.p.A. was provided with the Inspection Report of the audit carried out by the Bank of Italy between 8 February and 18 May 2016, from which no penalty profiles emerge;
- on 7 December 2016, the Bank sold to "B.S. 7 S.p.A.", a wholly owned subsidiary of Beni Stabili S.p.A. Siiq, the entire interest, amounting to 36%, in Revalo S.p.A.

The Bank did not carry out, either with related parties or with subjects other than related parties, any transaction of an "atypical or unusual nature", which, due to their magnitude/relevance might have cast doubts on the safeguarding of the Bank's assets and the protection of minority shareholders' rights. In general, the transactions carried out by the Company were not found to be imprudent or foolhardy, or in potential conflict of interest or in contrast with the resolutions passed by the Shareholders' Meeting or such as to compromise the integrity of the corporate capital. We favourably evaluated that all transactions examined were in fact in the best interest of the Company.

The Independent Auditors informed us that, in the course of its activity of checking and verifying the data for the financial statements and in the course of the quarterly audits, they did not become aware of actions or deeds deemed reprehensible or worthy of reporting. On 29 March 2017 they released the reports in accordance with Articles 14 and 16 of Italian Legislative Decree no. 39 of 27 January 2010, attesting that the separate financial statements and the consolidated financial statements at 31 December 2016 provide a truthful and fair representation of the capital and financial situation, the

economic result, and the cash flows of the Bank and of the Group and that the report on operations and the information of the report on corporate governance and the shareholder structure are consistent with the financial statements.
We have not observed any additional duties assigned to the Independent Auditors, or to parties tied thereto by continuous dealings, with the exception of the appointment for the "attesting services" (signature of the IRAP, Unico, CNM and simplified and ordinary 770 tax forms) compatible with audit work. No critical aspects emerged with regard to the independence of the Independent Auditors as set out also in the specific annual confirmation of independence in accordance with Article 17, Paragraph 9, Letter a) of Italian Legislative Decree no. 39/2010, released by EY SpA on 29 March 2017.
On 29 March 2017, EY SpA released the report prescribed by Art. 19, Paragraph 3, of Italian Legislative Decree no. 39/2010 which indicates that no fundamental questions arose during the audit, nor were any significant deficiencies observed in the internal audit system with reference to the financial disclosure process.
We did not receive any reports under Art. 2408 of the Italian Civil Code, nor were any complaints received.
We had assurance from the Board of Directors about compliance with the communication obligations with the subsidiaries, prescribed by Art. 114, Paragraph 2, of Italian Legislative Decree no. 58/1998, to allow complete, correct disclosure. In this regard, we exchanged information with the Boards of Statutory Auditors of the subsidiaries, also by means of board meetings. In the course of the contacts with these control bodies, no aspect of particular relevance emerged.
For matters under our competence, we verified the adequacy of the organizational structure of the Bank and of its operation.
We oversaw the internal control system of the Bank, assessing its adequacy using, for this purpose as well, the meetings with the Control and Risk Committee, the meetings with the heads of the Compliance, Anti Money Laundering, Internal Auditing and Risk Control functions and relying also on their annual and periodic reports.
The analysis carried out also shows confirms the correctness of the set-up of the administrative-accounting system which we consider able to meet the needs relating both to the monitoring of the operations and to the formation and representation of the data of the year; the data are presented in compliance with Bank of Italy Circular No. 262 of 22 December 2005 and with the adoption of IAS/IFRS described in the notes to the financial statements. In this regard, we have acknowledged the certifications issued by the Managing Director and of the Manager in charge of preparing the accounting documents of the Bank with respect to the adequacy – in relation to the characteristics of the entity – and to the actual application, in 2016, of the administrative and accounting procedures for the formation of the separate and consolidated financial statements.

In particular, in accordance with Art. 2426 of the Italian Civil Code, we agree with recording, in the consolidated financial statements, the goodwill among balance sheet assets.
In the course of the audit activity, as described above, no significant events emerged that would have to be reported to the Supervisory Bodies or to be mentioned in the present report.
It was not necessary to present the proposals to the Shareholders' Meeting as prescribed by Art. 153, Paragraph 2 of Italian Legislative Decree no. 58/98, nor did the Board exercise its powers of convening the Shareholders' Meeting or the Board of Directors.
We acknowledged that, in compliance with Art. 123-bis of Italian Legislative Decree no. 58/1998, the Bank – which has adopted the Governance Code of the Committee for the Corporate Governance of listed Companies – prepared the Corporate Governance Report.
It should be pointed out that the Board of Directors established the Appointment Committee and that the Committee met 3 times in the course of the year.
In the same way, it should be pointed out that the Remunerations Committee was established and met 4 times in the course of the year.
The Board of Directors oversees the general conduct of operations, with particular attention to conflict of interest situations, taking in consideration, in particular, the information received from the Managing Director and from the Control and Risk Committee, and periodically comparing the results achieved with those planned. At the same time the Board of Directors, as noted previously, examines and approves transactions having significant economic, capital and financial relevance, with particular reference to related party transactions.
We point out that there are four independent directors in the Board of Directors and we deem the number of independent directors to be adequate relative to the composition of the entire Board. On 10 March 2017, the Board of Directors of the Bank, upon acknowledging the resignation of the Chairman Mr. Giampietro Nattino, appointed Director Ms. Flavia Mazzarella to replace him as the new Chairman of the Bank. Ms. Mazzarella retains her characteristics as independent Director. The Board also co-opted, as independent Director, Mr. Marco Tofanelli, appointed as Deputy Chairman and Lead Independent Director. The Board also made decisions with regard to the new composition of the Risk Committee and Appointment Committee.
In addition, it is deemed that the Managing Director periodically reports to the Board of Directors on the activities carried out in exercising his/her delegated powers.
In the course of 2016, we also:

- issued favourable opinion for the co-optation of Ms. Flavia Mazzarella in the Board of Directors;
- expressed favourable vote, in accordance with Art. 136 of Italian Legislative Decree no. 385/1993 as amended, on lending transactions;

- ascertained that the independence requirements of the Board members already existing at the time of appointment are still met;
- followed the process of preparation and approval of the ICAAP report.

Taking all of the above into account, for matters under our competence and upon favourably assessing the dividend distribution proposal, we have not identified any reasons that would prevent approval of the financial statements as at 31 December 2016 and the resolution proposals formulated by the Board of Directors.
Rome, 29 March 2017

THE BOARD OF STATUTORY AUDITORS

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INDEPENDENT AUDITORS© REPORT PURSUANT TO ARTICLES 14 AND 16 OF ITALIANLEGISLATIVE DECREE No. 39 OF 27 JANUARY 2010

To the Shareholders of
Banca Finnat Euramerica S.p.A.

Report on the financial statements

We have audited the annexed financial statements of Banca Finnat Euramerica S.p.A., consisting of the balance sheet at 31 December 2016, the income statement and statement of comprehensive income, of the statement of changes in shareholders© equity, of the cash flow statement for the year ending on said date and o the related explanatory notes.

Responsibility of the Directors for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards adopted by the European Union and the measures implementing Art. 9 of Italian Legislative Decree no. 38 of 28 February 2005 and Art. 43 of Italian Legislative Decree no. 136 of 18 August 2015.

Responsibility of the auditing company

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA Italy) established pursuant to Art. 11, of Italian Legislative Decree no. 39 of 27 January 2010. Said standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatements.

The 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 opinion, including the assessment of risks of significant material misstatements in the financial statements due to fraud or unintentional events. In making said risk assessments, the auditor considers internal control relevant to the preparation of the company©s financial statements that give a true and fair view in order to design audi procedures appropriate to the circumstances and not to express an opinion on the effectiveness of the company©s internal control. The audit also includes evaluating the appropriateness of accounting policies usec and the reasonableness of accounting estimates made by the directors, as well as evaluating the presentation of the financial statements as a whole.

We believe we have obtained sufficient and appropriate audit evidence on which to base our opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the statement of assets and liabilities and financial position of Banca Finnat Euramerica S.p.A. as at 31 December 2016, of the financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards adopted by the European Union and the measures implementing Art. 9 of Italian Legislative Decree no. 38 of 28 February 2005 and Art. 43 of Italian Legislative Decree no. 136 of 18 August 2015.

Report on other legal and regulatory provisions

Opinion on the consistency of the management report and the information contained in the report on corporate governance and ownership structure with the financial statements

We have performed the procedures required under ISA (AS Italy) no. 720B in order to express, as required by law, an opinion on the consistency of the management report and the information in the report on corporate governance and ownership structure indicated in Art. 123-*bis*, Paragraph 4, of Italian Legislative Decree no. 58 of 24 February 1998, which is the responsibility of the Directors of Banca Finnat Euramerica S.p.A., with the financial statements of Banca Finnat Euramerica S.p.A. as at 31 December 2016. In our opinion, the above-mentioned management report and the information in the report on corporate governance and ownership structures are consistent with the financial statements of Banca Finnat Euramerica S.p.A. as at 31 December 2016.

Milan, 29 March 2017

EY S.p.A

Wassim Abou Said

(Partner)

CERTIFICATION OF THE FINANCIAL STATEMENTS PURSUANT TO ARTICLE 81-TER OF CONSOB REGULATION NO. 11971 OF 14 MAY 1999 AS AMENDED

1. The undersigned Arturo Nattino, acting in the capacity of Managing Director, and Giulio Bastia, acting in the capacity of Manager in charge of preparing the accounting documents of Banca Finnat Euramerica S.p.A., hereby certify, also with regard to the provisions of Article 154-bis, paragraphs 3 and 4, of Italian Legislative Decree No. 58 of 24 February 1998:
   - the adequacy, as regards the characteristics of the company, and
   - the effective application,

   of the administrative and accounting procedures for preparing the financial statements as at 31 December 2016.

2. No significant matters emerged, with respect thereto.

3. The undersigned also certify that:
   3.1 the Financial Statements:
      a. have been prepared in accordance with the applicable international accounting standards approved by the European Community, pursuant to Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002;
      b. correspond to the entries in the accounting books and records;
      c. provide a true and fair account of the equity, performance and financial situation of the issuer.

   3.2 The report on operations includes a reliable analysis of the performance and operating income, as well as of the situation of the issuer, together with the description of the main risks and uncertainties to which they are exposed.

Rome, 10 March 2017

The Managing Director	**The Manager in charge of preparing the accounting documents**
(Arturo Nattino)	(Giulio Bastia)

2016 REPORT ON CORPORATE GOVERNANCE AND SHAREHOLDERS (IN ACCORDANCE WITH ARTICLE 123-BIS OF THE ITALIAN CONSOLIDATED FINANCIAL LAW) (YEAR ENDED 31 DECEMBER 2016)

APPROVED BY THE BOARD OF DIRECTORS ON 10 MARCH 2017

CONTENTS

The present Report intends to provide an exhaustive representation on the corporate governance system adopted by Banca Finnat Euramerica S.p.A. and it contains information about the shareholders and on adoption of the Codes of conduct.

The Report is made available at the website of Banca Finnat Euramerica S.p.A. in the Corporate Governance section.

The information contained herein refers to the year ended 31 December 2016 and, with regard to specific issues, it was updated as at 10 March 2017, on which date the Board of Directors met to approve it, together with the draft annual Financial Report for 2016, to be submitted to the Shareholders' Meeting, called for 27 April 2017.
The present Report takes into account the "2016 Annual Report - 4th report on the application of the Governance Code" sent to all the Chairman of Italian listed Companies, with information copies to the Managing Director and to the Chairman of the Board of Statutory Auditors, by the Corporate Governance Committee of Borsa Italiana.

1 ISSUER PROFILE

Following an in-depth self-assessment, Banca Finnat Euramerica S.p.A. has held the corporate governance and organisation model based on the 'traditional' system to be fully valid. With this report, the Bank therefore supplies the annual disclosure on the Corporate Governance model currently adopted by the Bank.
At the meeting held on 9 February 2012, the Board of Directors acknowledged the content of the document issued by the Bank of Italy on 11 January 2012, relating to the "Application of the supervisory provisions on the subject of the organisation and corporate governance of banks", which confirms and further details the provisions already in force; having regard to the fulfilments set out in the process of self-assessment by the BoD, in view of which the Directors are invited to fill in a specific Questionnaire, a specific Report was prepared summarising, inter alia, the key results that have emerged; the document was then approved by the Board of Directors and sent to the Bank of Italy on 30 March 2012.
The Board of Directors, at the meeting held on 2 August 2013, revised and supplemented the "Regulation for Related Party Transactions and for the assumption of risk assets with regard to Related Parties", with the purpose of defining tasks and responsibilities and identifying the rules governing the approval and implementation of related party transactions carried out by Banca Finnat directly, or through subsidiaries, with a view to ensuring the transparency and correctness, both in substantive and procedural terms, of said transactions.
As a result of the Communication of 30 October 2012 of the Bank of Italy, the Shareholders' Meeting of 24 April 2013 resolved in favour of amendments to the articles of association with regard to the obligation for the listed companies to adjust the composition of their company bodies in order to ensure gender balance.
The Shareholders' Meeting held on 28 April 2015 elected the members of the BoD and of the Board of Statutory Auditors, whose term of office will expire at the approval of the financial statements at 31 December 2017.
With regard to the provisions of Article 36 of Italian Law Decree no. 201 of 6 December 2011, amended and converted into Italian Law No. 214 of 22 December 2011 laying down "Urgent provisions for the growth,

fairness and consolidation of public accounts", and the formalities required by the "Criteria for the enforcement of Article 36 of Italian Law Decree "Salva Italia" (the so-called "interlocking Prohibition")", relating to company employees and the members of the BoD and Board of Statutory Auditors of our Bank appointed at the Shareholders' Meeting of 28 April 2015, we made the necessary assessments also on 19 December 2016.
With the deed of 30 November 2015 signed by Notary Misurale, Doc. no. 199024 File no. 72583 the Group's subsidiary, Finnat Fiduciaria S.p.A., absorbed Fedra Fiduciaria S.p.A., itself a wholly owned subsidiary of the Bank.
On 30 August 2016, the Luxembourg-based Company Natam Management Company S.A., wholly owned by Banca Finnat, was established.
On 7 December 2016, Banca Finnat sold its equity investment in Revalo SpA (representing 36% of the share capital of Revalo).

2 INFORMATION ON SHAREHOLDERS (ARTICLE 123-BIS, PARAGRAPH 1, ITALIAN CONSOLIDATED FINANCIAL LAW) (AT 31 DECEMBER 2016)

a) share capital structure (Article 123-bis, paragraph 1/a), Italian Consolidated Financial Law)
The share capital of Banca Finnat Euramerica S.p.A. amounts to 72,576,000.00 euros, fully paid-in, consisting of 362,880,000 ordinary shares, all with a nominal value of 0.20 euros. Shares in Banca Finnat Euramerica S.p.A. are all listed in the STAR segment of the Borsa Italiana.

On 29 April 2016, the Shareholders' Meeting approved a new own share purchase plan, directed at supporting trading (market making).

The plan, to be carried out from 29 April 2016 to 29 April 2017, entailed the purchase of up to a revolving number of 5,000,000 ordinary own shares in addition to those already in the portfolio and, otherwise, for a maximum additional value of no more than 2,177,280 euros for a unit price, for each individual transaction, no higher or lower than by 8% with respect to the reference price recorded in the previous Stock Market session, and, in any case, limited to 2,177,280 euros, with 12 months of validity, to be carried out in accordance with the criteria prescribed by Delegated Regulation (EU) no. 241/2014, and in particular with the provisions of Article 29.3 thereof.
On 14 June 2016, the Board of Directors - in view of the preparation of a new plan for the purchase of own shares - resolved to supersede the previous one.

At 31 December 2016, Banca Finnat Euramerica S.p.A. held 29,492,710 own shares, representing 8.1% of the share capital with a total value of 14,392 thousand euros.

b) Restriction to the transfer of securities (Article 123-bis, paragraph 1/b), Italian Consolidated Financial Law)
In addition to the provisions of current legislation concerning the investment in the share capital of a bank, there are no other restrictions to the transfer of Company shares.

c) Major shareholders (Article 123-bis, paragraph 1/c), Italian Consolidated Financial Law)

The Bank's shares are placed in the central management system for uncertified securities with Monte Titoli S.p.A.

The main equity investments as shown in the communications received pursuant to Article 120 of the Italian Consolidated Financial Law are those indicated in Table 1 hereto.

d) Securities granting special rights (Article 123-bis, paragraph 1/d), Italian Consolidated Financial Law).

No securities have been issued granting special control rights.

e) Shares held by employees: mechanism for exercising voting rights (Article 123-bis, paragraph 1/e) Italian Consolidated Financial Law)

At 31 December 2016, there are no share participation schemes for employees.

f) Restriction to voting rights (Article 123-bis, paragraph 1/f), Italian Consolidated Financial Law).

No restrictions to voting rights are envisaged.

g) Shareholder agreements (Article 123-bis, paragraph 1/g), Italian Consolidated Financial Law)

The Directors are not aware of the existence of any significant shareholder agreement in accordance with Article 122 of the Italian Consolidated Financial Law.

h) Change of control clauses (Article 123-bis, paragraph 1/h) Italian Consolidated Financial Law) and provisions established by the Articles of Association on takeover bids (pursuant to Articles 104, paragraph 1-ter and 104-bis, paragraph 1, Italian Consolidated Financial Law)

No significant agreements were executed that become effective, are amended, or are extinguished in case of change of control of the contracting company.

The Articles of Association of Banca Finnat do not make exceptions to the passivity rules established by Article 104, paragraphs 1 and 2, of the Italian Consolidated Financial Law nor to the application of the neutralisation rules laid down by Article 104-bis, paragraphs 2 and 3, of the Italian Consolidated Financial Law.

i) Delegations to increase the share capital and authorisations to purchase own shares (Article 123-bis, paragraph 1/m) Italian Consolidated Financial Law)

No powers were delegated for capital increases, nor are Directors granted the power to issue investment financial instruments.

The Bank of Italy with measure no. 1039475/11 of 19 December 2011 issued the authorisation to purchase own shares accounting for more than 5% of the share capital, within the maximum limit of 10 million euros.

l) Management and coordination (pursuant to Article 2497 et seq. of the Italian Civil Code)

The Bank is not subject to Management and Coordination pursuant to Article 2497 et seq. of the Italian Civil Code.

The information required by Article 123 bis, paragraph 1 letter i) and letter l) of the Italian Consolidated Financial Law) is respectively explained in paragraph 4.1 (Board of Directors - appointment and replacement) and in paragraph 9 (Remuneration of directors) of this Report.

3 COMPLIANCE (ARTICLE 123-BIS, PARAGRAPH 2/A) ITALIAN CONSOLIDATED FINANCIAL LAW)

In accordance with the provisions of Article 123-bis, paragraph 2, letter a) of the Italian Consolidated Financial Law, we should specify that Banca Finnat adheres to the Governance Code of Borsa Italiana S.p.A. in the version of July 2015.
The Governance Code is accessible to the public on the website of the Corporate Governance Committee at page http://www.borsaitaliana.it/comitato-corporate-governance/codice/2015clean.pdf and it can be viewed on the bank's website www.bancafinnat.it in the Investor Relations/Corporate Governance section.
The Corporate Governance structure of Banca Finnat is not affected by provisions of any non-Italian law.

4 BOARD OF DIRECTORS

4.1 Appointment and replacement (Article 123-bis, paragraph 1/l) Italian Consolidated Financial Law)
In accordance with the provisions of Article 12 of the Articles of Association, according to the resolution taken by the Shareholders' Meeting, the Board of Directors consists of a minimum of five and a maximum of eleven members. There must always be an odd number. The directors stand in office for three years. Their office expires on the data of the Shareholders' Meeting called to approve the financial statements pertaining to the last year of their office. Should the majority of the directors elected by the Shareholders' Meeting cease their office due to standing down, death or other causes, the entire Board is considered as having stood down and any director remaining in office must call the Shareholders' Meeting urgently to reconstitute the Board.

The entire Board of Directors is appointed on the basis of lists presented by the Shareholders, in which candidates must be listed with a progressive number. Lists must be presented to the Company at least fifteen days prior to the date established for the first calling of the Meeting. The lists must be made available to the public at the registered offices and published on the Company's website without delay and, in any case at least ten days prior to the date established for the first calling of the Meeting.
The composition of the Board of Directors must comply with the gender balance regulations in force, as prescribed by Article 12-bis of the Articles of Association.
Each Shareholder or party adhering to a significant shareholders' agreement in accordance with Article 122 of Italian Legislative Decree no. 58 dated 24 February 1998, the respective controlling parties, the subsidiaries and joint control parties in accordance with Article 93 of Italian Legislative Decree no. 58 dated 24 February 1998, may only present, or participate in the presentation of a single list. They may not present or participate in the presentation of more than one list, directly or through a third party or trustee company. Subscriptions and votes cast in breach of this prohibition will not be assigned to any list. Only Shareholders who alone or jointly with other shareholders hold a total of 2.5% of the share capital with voting rights in

the Company's Ordinary Shareholders' Meetings may present lists. Alternative measures may be established by fundamental provisions of law or regulations that will be stated, if applicable, in the notice calling the Meeting. In order to prove ownership of the number of shares necessary to present lists, at the same time Shareholders must provide the Company with the specific certificate issued by a broker qualified in accordance with the law. Together with each list, within the terms of its publication and filing with the registered offices, declarations must also be filed and published by which the individual candidates: (i) accept their candidature and certify, under their own liability, that there is no reason for which they should not be elected or are incompatible with the office, and that they meet the requirements of professionalism and honour and, where applicable, independence, required by current legislation; (ii) supply full information on their personal and professional characteristics; and (iii) supply the further information required by provisions of law and regulations. Lists presented that do not comply with the above provisions shall be considered as not presented. Should there be more than seven members of the Board of Directors, each list must contain at least two candidates in possession of the requirements of independence established for auditors by current legislation. Should, on the other hand, there be fewer than seven members of the Board of Directors, each list must contain at least one candidate in possession of the requirements of independence established for auditors by current legislation. One of the candidates in possession of these requirements of independence must be included in the first place of each list. Where more than one list is voted, members of the Board of Directors will be elected as follows:

a) where the relevant Meeting resolution determines a Board of Directors comprising eleven members, six directors shall be elected in the progressive order in which they are listed, from the list that has obtained the greatest number of votes. Where the relevant Meeting resolution determines a Board of Directors comprising nine members, five directors shall be elected in this way, or four where the Board of Directors shall consist of seven members, or three where the Board of Directors shall consist of five members, and
b) where the relevant Meeting resolution determines a Board of Directors comprising eleven members, five directors shall be elected in the progressive order in which they are listed, from the minority list that has obtained the greatest number of votes. Where the relevant Meeting resolution determines a Board of Directors comprising nine members, four directors shall be elected in this fashion, or three where the Board of Directors shall consist of seven members, or two where the Board of Directors shall consist of five members.

Each share gives the right to one vote. Should only one list be presented, or should no lists be presented, the Meeting shall resolve with the majorities prescribed by the law, without applying the above procedure. Should one or more Directors cease their office during the year, as long as the majority of the Board continues to comprise Directors appointed by the Meeting, the following shall take place in accordance with Art. 2386 of the Italian Civil Code: i) the Board of Directors shall appoint replacements from candidates pertaining to the same list to which the Directors who have ceased their office pertained, in progressive order starting from the first who had not been elected. This is without prejudice to the fact that where the replacement must meet the independence requirements, the first independent candidate from the same list who had not been elected, shall be appointed; ii) should no candidates (or independent candidates) remain on the list who had not previously been elected, the Board of Directors shall replace the Directors who have ceased their office without applying the provisions of point i). With regards to the members of the BoD, the Issuer shall, in addition to the provisions of the Italian Consolidated Financial Law, be subject to the provisions of the Governance Code of listed companies.

With the approval of Italian Law no. 120 of 12 July 2011, effective as from 12 August 2011, laying down "amendments to the consolidated law of provisions on financial intermediation, set forth in Italian legislative decree no. 58 of 24 February 1998, concerning the equal access to the members of the governing and supervisory bodies of the companies listed on regulated markets", it was necessary to change some clauses of the Articles of Association and the new text was approved by the Shareholders' meeting of 24 April 2013.

In particular, the Shareholders' Meeting approved the following amendments to the Articles of Association:

- Art. 9 – the provision concerning the electronic methods for notifying the proxy was amended. The purpose of the amendment is to allow the Company to use every possible form of electronic notification required by applicable provisions, upon indication of it in the notice calling the meeting.
- Art. 12 - The amendments of Article 12 concern, in addition to some mere details of style, the provision of the right to appoint an Honorary Chairman, should the bodies of the Company wish to recognise this title to individuals who distinguished themselves due to their contribution in time in favour of the Company.
- Art. 12-bis – The amendments to Article 12-bis concern, among other things, the process for presenting the lists for the appointment of the administrative body. In this regard, in the light of the indications contained in the Issuers' Regulation, the list of documents that must be produced by those entitled when presenting the lists was specified in more detail. For the same purposes of clarity, the number of independent candidates that must be indicated in each list is specified.

  A further amendment concerns the methods of distribution of the directors to be elected among the majority and the minority list, always in compliance with the principles of the Italian Consolidated Financial Law concerning the appointment of the company bodies and, more in particular, minority representation, including with regard to gender balance.

  Finally, the case of replacement of directors is regulated more in detail in accordance with the applicable principles and the current practice.
- Art. 20 – In line with the provisions of Italian ministerial decree no. 162 of 30 March 2000, it is specified in more detail the list of documents that must be produced by those entitled when presenting the lists.
- Finally, the attendance threshold required for presenting the list of candidates for the appointment of the board of statutory auditors is fixed at 2% - compared to the previous 1%. This change is justified in the light of the current level of capitalisation of the Company that decreased significantly over the last few years. Moreover, we would mention that pursuant to Article 144-sexies of the Issuers' Regulation, if, on the deadline for the presentation of the lists, only one list has been presented or only lists presented by shareholders significantly related to one another, lists may be presented for a further three days and the attendance thresholds required by the Articles of Association are reduced by half. This provision was originally entered in the Issuers' Regulations with Consob resolution no. 15915 of 3 May 2007, when the Articles of Association of the Company already fixed the threshold under review at 1%. Therefore, should the conditions of application of the said provision occur, the shareholders who - alone or jointly with others - hold an interest of at least 1%, would be allowed to present their list of candidates to the office of auditor. Finally, we note that the proposed threshold of 2% is still less than the maximum allowed, equal to 2.5% of the share capital (see Consob resolution no. 18083 of 25 January 2012).

On 3 April 2013, the Board of Directors approved the document that describes the optimal qualitative and quantitative composition of the Board of Directors.

Considering its size and current structure, the Bank has not considered it necessary to set up specific director succession plans. The continuity and certainty of management is, however, guaranteed by the timely replacement of directors in accordance with the provisions of the articles of association.

4.2 Members (Article 123-bis, paragraph 2/d), Italian Consolidated Financial Law)

The Board of Directors was appointed by the Shareholders' Meeting of 28 April 2015 and will remain in office until approval of the financial statements at 31 December 2017. All Directors were appointed from the only list of candidates presented by the relative majority shareholder, Arturo Nattino.

Following the resignation of Mr. Marco Tofanelli on 2 December 2015, the Board of Directors, on 10 February 2016, appointed by co-optation Ms. Flavia Mazzarella, confirmed by the Shareholders' Meeting on 29 April 2016.

At 31 December 2016, the members of the Board of Directors were as follows:

1. **Ermanno Boffa**, born in Pederobba (Treviso) on 19 August 1966 – Italian national – taxpayer ID Number BFF RNN 66M19 G408H. He has carried out auditing work as Member of the Board of Statutory Auditors: of Nordica S.p.A; of FIBI S.p.A since 21 June 2004, of Biasuzzi S.p.A from 21 June 2004 to the present day. Length of office from the first appointment: 7 years.
2. **Leonardo Buonvino**, born in Bari on 12 March 1937 – Italian national – taxpayer ID Number BNV LRD 37C12 A662S. He carried out administration and auditing work from 1979 to 2001 for COFIRI S.p.A. as Managing Director. Length of office from the first appointment: 10 years.
3. **Carlo Carlevaris**, born in Naples on 5 August 1931 – Italian national – taxpayer ID Number CRL CRL 31M05 F839E. He carried out administration and auditing work from 1979 to 2003 for Terme Demaniali di Acqui S.p.A. as Chairman of the Board of Directors. Length of office from the first appointment: 13 years.
4. **Roberto Cusmai**, born in Rome on 28 November 1943 – Italian national – taxpayer ID Number CSM RRT 43S28 H501U. He served as Deputy General Manager in Fideuram S.p.A. from 1986 to 1992, in Banca Fideuram S.p.A. from 1992 to 1997 and in Istituto Nazionale delle Assicurazioni (National Insurance Institute) from 1997 to 2001. From 2004 to 2007, he was Sole Director of Consorzio Agenzia Generale of Rome Ina - Assitalia (Generali Group). Length of office from the first appointment: 4 years.
5. **Arturo Nattino**, born in Rome on 28 January 1964 – Italian national - taxpayer ID Number NTT RTR 64A28 H501G. He was involved in administrative and auditing activities as General Manager for Banca Finnat Euramerica S.p.A. and Member of the Board of Directors for Terme Demaniali di Acqui S.p.A. Length of office from the first appointment: 7 years.
6. **Giampietro Nattino**, born in Rome on 9 June 1935 – Italian national – taxpayer ID Number NTT GPT 35H09 H501V. He carried out administration and auditing work from 1998 to 14 May 2009 for Banca Finnat Euramerica S.p.A as Managing Director. Length of office from the first appointment: 13 years.
7. **Giulia Nattino**, born in Rome on 13 September 1974, – Italian national – taxpayer ID Number NTT GLI 74P53 H501X. She was a member of the Board of Directors for Finnat Fiduciaria S.p.A. from 21 April 2006 and sole director of Finnat Immobiliare Srl from 15 December 2005. Length of office from the first appointment: 3 years.
8. **Maria Sole Nattino**, born in Rome on 24 November 1976, – Italian national – taxpayer ID Number NTTMSL76S64H501C has carried out administration and auditing work as a Member of the Board of Directors of Finnat Fiduciaria S.p.A. since 13 March 2012. Length of office since April 2015.
9. **Lupo Rattazzi**, born in Lausanne (Switzerland) on 25 January 1953 – Italian national - taxpayer ID

Number RTT LPU 53A25 Z133M. He carried out administration and auditing work from 2003 to the present at I.F.I. Istituto Finanziario Industriale S.p.A as member of the Board of Directors and from 1988 to 2000 for the company Air Europe as Chairman of the Board of Directors. Length of office from the first appointment: 8 years.

10. **Andreina Scognamiglio**, born in Naples on 17 March 1959 – Italian national – taxpayer ID Number SCG NRN59 C57F 839E. She has served as a Member of the committee for the "innovation and management of public resources" Doctorate coordinated by the University of Molise from 2009 to the present, as director of the Specialisation School of legal professions of the Law Department of the University of Molise from 2013 to the present; Professor of Administrative Law at the Law Department of the University of Molise from 2005 to the present. Length of office: since April 2015.
11. **Flavia Mazzarella**, born in Teramo on 24 December 1958 – Italian national – taxpayer ID Number MZZ FLV 58T64 L103I. She served as Deputy General Manager at ISVAP from 2005 to 2012, she was a Manager at the Privatisations Office of the Ministry of the Economy and Finance from 1994 to 2002, she was an Analyst at the Research Department of Mediocredito Centrale S.p.A. from 1985 to 1990 and she is currently a Member of the Board of Directors and member of the Risks Committee in the listed company SAIPEM S.p.A. Length of office: since February 2016.

On 10 March 2017, the Chairman of the Board of Directors Mr. Giampietro Nattino, tendered his resignation. Consequently, on 10 March 2017 the Board of Directors:

- appointed Mr. Marco Tofanelli as non-executive independent Director to replace the resigning Director and Chairman Mr. Giampietro Nattino in accordance with Art. 2386 of the Italian Civil Code; Mr. Tofanelli was also appointed Deputy Chairman and Lead Independent Director;
- appointed Ms. Flavia Mazzarella as the new Chairman of the Board of Directors.

On the date of approval of this Report, the members of the Board of Directors were as follows:

Director	Position	Qualification
Carlo Carlevaris	Honorary Chairman	Non-executive, non-independent
Flavia Mazzarella	Chairman	Non-executive, independent*
Leonardo Buonvino	Deputy Chairman	Executive, non-independent
Marco Tofanelli	Deputy Chairman	Non-executive, independent* Lead Independent Director
Arturo Nattino	Managing Director General Manager	Executive, non-independent
Ermanno Boffa	Board Director	Non-executive, independent*
Roberto Cusmai	Board Director	Non-executive, independent*
Giulia Nattino	Board Director	Non-executive, non-independent
Maria Sole Nattino	Board Director	Non-executive, non-independent
Lupo Rattazzi	Board Director	Non-executive, non-independent
Andreina Scognamiglio	Board Director	Non-executive, independent*

* Independent in accordance with Article 148 of the Italian Consolidated Financial Law and with the Governance Code.

In relation to the express provisions of Point 1.C of the Governance Code, the Board decided to express its guidance with regards to the maximum number of offices of director or auditor held by its members, in order that such be considered compatible for the efficient performance of the task assigned them with the Bank.

Therefore, on 16 March 2010 the Board set to 15 (excluding group companies) the maximum number of offices that may be held in financial, banking, insurance or significant size companies.
The above in compliance with the regulations set forth in Article 36 of Italian Law Decree "*Salva Italia*" (the so-called "interlocking prohibition").

The current composition of the Board of Directors complies with the above indications.

The members of the Board of Directors on the date of this Report also hold the following offices in the administrative bodies of other companies listed on regulated markets in Italy and abroad, in financial, banking, insurance or significant size companies.

Name	Position	Company	BFE Group	Other offices
Ermanno Boffa	Director	InvestiRE SGR SpA	X	
	Permanent Auditor	Friuli Veneto Sviluppo SGR SpA		X
	Permanent Auditor	Finbi SpA		X
Leonardo Buonvino	Director	Edinustria SpA		X
	Director	InvestiRE SGR SpA	X	
Carlo Carlevaris	Deputy Chairman	Cementir Holding SpA		X
	Director	ICAL SpA		X
	Director	Vianini Lavori SpA		X
	Director	Vianini SpA		X
	Director	Il Messaggero SpA		X
Flavia Mazzarella	Director	Saipem SpA		X
Arturo Nattino	Director	InvestiRE SGR SpA	X	
	Director	Finnat Fiduciaria SpA	X	
	Director	Finnat Gestioni SA	X	
Giulia Nattino	Director	Finnat Fiduciaria SpA	X	
Maria Sole Nattino	Director	Finnat Fiduciaria SpA	X	
Marco Tofanelli	General Secretary	Assoreti		X
	Member	Fondo Nazionale di Garanzia Management Committee		X
	Director	InvestiRE SGR SpA	X	
Lupo Rattazzi	Director	EXOR NV		X
	Director	GL Investimenti Srl		X

Non-executive directors are, in terms of number and authority, sufficient to guarantee that their opinion is of a suitable weight in taking board resolutions. Non-executive Directors bring their general and specific competences to board discussions, helping take resolutions that comply both with the company's interests and the principles of healthy and prudent management.

Induction program

During the 2016 financial year, the members of the Board of Directors periodically participated in economic, legal and financial initiatives affecting the Company's operations. In particular, they attended meetings with the Bank's Risk Manager to discuss issues such as: Statistical indicators of the portfolio's risk, Methodology for Credit Risk analysis and Methodology for Market Risk analysis.

4.3 Role of the Board of Directors (Article 123-bis, paragraph 2/d), Italian Consolidated Financial Law)

In 2016, 11 meetings of the Board of Directors were held, all of an average duration of 2 hours. During 2017, 2 meetings have already been held and a further 4 are scheduled.

Meetings are called by providing at least 5 days notice, in accordance with the Articles of Association, via registered letter or e-mail. In compliance with the recommendations of the Governance Code, the Board meetings are held by dedicating to the items on the agenda the time required for allowing a constructive debate and the contribution of the Directors.

As a rule, the Joint General Manager is invited to attend the Board meetings; the heads of the audit functions and the key executives are invited to attend as well, depending on the items in the agenda of the subsidiaries as well.

The Bank established an IT platform to which every member of the Board of Directors and of the Board of Statutory Auditors can access with his/her own credentials to consult the documents produced by the meetings of the Board of Directors; alternatively, said documentation may be sent to the Directors via email as well.

The documents are published on the platform 5 days before the date of the meeting.

The Articles of Association grant the Board of Directors the broadest powers of Bank ordinary and extraordinary administration. More specifically, they grant the faculty to carry out all acts and deeds it may hold appropriate for the implementation and attainment of the corporate purpose, only excluding any act that the law reserves to the Shareholders' Meeting.

More specifically, the Board of Directors:

i) assessed, on the basis of information acquired from the appointed bodies (Managing Director, General Manager, Joint General Manager, Manager in charge of preparing the accounting documents), the suitability of the administrative and accounting organisation, with a special reference to the internal control and risk management system. To this end, the Board of Directors shall verify the corporate structure and, consequently, the efficiency of the internal audit system;

ii) examined the organisational, administrative and accounting structure of the subsidiaries;

iii) examined and approved the Bank's financial and industrial strategic plans and approved the quarterly, half-yearly and annual balance sheet and income statements of the Bank and its subsidiaries, as well as periodic monitoring of their implementation;

iv) assessed the proposals presented by the Remunerations Committee, having heard the opinion of the Board of Statutory Auditors, for the remuneration of the directors holding specific offices;

v) assessed the general trend of operations, with a specific focus on situations of conflict of interest, periodically comparing the actual results achieved with those planned, considering, in particular, the information received from the Managing Director;

vi) identified and monitored major risks;

vii) assessed and approved the Bank's operations in advance and, in compliance with that specified by the Group Regulations, preventively approves operations of significant strategic, economic, equity and financial importance involving its subsidiaries;

viii) verified the existence of the requirements of current applicable legislation in relation to criteria of professionalism, integrity and independence with regards to the parties comprising it. On 14 June 2016, having noted that the Board consists of 11 members, which is the maximum number allowed by the Articles of Association, of which 2 are executive, non-independent directors, 4 non-executive, independent directors, 5 non-executive, non-independent directors, the Board of Directors expressed its favourable opinion, deeming its operation and size, its appointed bodies, and the Board Committees established, to be adequate for the Bank's business; the assessment was made analysing dedicated questionnaires submitted to the directors. The results of the questionnaire were examined by the Appointment Committee and by the Board of Directors.

ix) positively ascertained the independence of Directors Ermanno Boffa, Roberto Cusmai, Flavia Mazzarella, Marco Tofanelli and Andreina Scognamiglio;

x) did not authorise any exception to the general prohibition to competition pursuant to Article 2390 of the Italian Civil Code;

xi) taking into account also the assessments of the Manager in charge of preparing the accounting documents, it evaluated the adequacy of the organisational, administrative and accounting structure of subsidiaries with strategic relevance.

4.4 Appointed bodies

The Managing Director and General Manager Arturo Nattino, who can be qualified as the person having principal responsibility for managing the company (chief executive officer) received managerial appointments. The interlocking directorate situation prescribed by application Criterion 2.C.5. is not applicable.

The Deputy Chairman of the Board of Directors is appointed, in accordance with the Articles of Association, to replace the Chairman in all his tasks and powers, taking his/her place in the event of his/her absence or impediment.

The Managing Director, without prejudice to the powers of the Board of Directors in accordance with the law and the articles of association, is granted all powers necessary for the Bank's administration, with the broadest powers in this respect. Within the scope of the tasks assigned, the Managing Director shall represent and sign on the Bank's behalf.

The Managing Director reports back to the Board of Directors every six months with regard to the exercise of his/her appointments.

Without the following intended as any limit to the above delegation, the tasks, powers, faculties and appointments specified hereto by way of example, are conferred to the Managing Director.

a. Statutory and representation powers
   1. To exercise, also on behalf of the Chairman with powers, in case of absence or impediment, legal representation of the Company, before third parties and in judgement, and the corporate signature, in accordance with Article 19 of the Bank's Articles of Association;
   2. to exercise the powers necessary for the administration of the Bank; by way of non-comprehensive example, the Managing Director is vested with the following powers.

b. Management
   1. To prepare the Bank's Business Plan and submit it to the resolution of the Board of Directors,
   2. to submit to the Board of Directors the draft consolidated financial statements, the interim reports and the draft annual budget, prepared with the support of the Joint General Manager;

3. to assure to the Board of Directors, or to the bodies delegated by it, full knowledge and governability of the company's business, defining effective procedures and information flows;
4. to implement the strategic indications and resolutions of the Board of Directors, supervising their implementation and ensuring that they are carried out in compliance with the set guidelines;
5. in case of particular urgency, to make decisions for which the authority rests with the Board of Directors and the Executive Committee, if one is provided, with the input of the Chairman of the Board of Directors. The decisions thus made are brought to the attention of the competent Body during the first meeting in accordance with Article 17 of the Bank's Articles of Association;
6. to monitor the adequacy of the company's capital and financial means as prescribed by pertinent regulations;
7. to represent the Bank in the shareholders' meetings of other companies or entities, also issuing proxies for participation in such meetings, and to exercise all related rights;
8. to exercise any and all other power attributed continuously or from time to time by the Board of Directors;
9. to stipulate deeds and agreements of any type and nature, provided they are consistent with the purpose of the company and fall within the scope of ordinary administration, within the powers delegated to him and in compliance with the regulations promulgated by the Supervisory Authority;
10. to propose to the Board of Directors resolutions with regards to the purchase, sale, granting of mortgage and rent of properties for more than nine years;
11. to propose to the Board of Directors resolutions with regards to the purchase, sale and rent of businesses or business units;
12. to propose to the Board of Directors resolutions with regard to the acquisition and disposal of majority shares and operations on the capital of subsidiaries;
13. to propose to the Board of Directors resolutions with regard to subsidiary management strategies;
14. to propose to the Board of Directors resolutions with regard to the taking and disposal of majority shares and operations on the capital of subsidiaries;
15. to give instructions in relations with investee companies;
16. to represent the Bank before the judicial authorities, in any type of Court and appoint legal counsel and attorneys.

c. Organisation
   1. To assure the consistency of the organisational structure with respect to the Bank's goals and strategies;
   2. to propose to the Board of Directors the establishment, transfer and closing of branches;
   3. periodically to report to the Board of Directors about the corrective measures adopted in case of deficiencies or anomalies brought to light by the control functions.

d. Disposal of assets
   1. To dispose or sell tangible and intangible assets, with a value of over 100,000 euros and up to 1,000,000 euros net of amortisation/depreciation;
   2. after the verification by the Manager in charge of preparing the accounting documents and with the favourable opinion of the Credits Committee, to assign credits without recourse, at a value of no less than 90% of the net value recorded in the financial statements;
   3. after the verification by the Manager in charge of preparing the accounting documents, and with the favourable opinion of the credits committee, to sell credits with recourse, for net amounts below 500,000 euros recorded in the financial statements.

e. Communication
   1. To entertain relations with the media and with analysts;
   2. to prepare the market disclosures about price sensitive and non price sensitive information, upon proposal of the Studies, Research and Investor Relations unit and jointly with the manager in charge of preparing the accounting documents if the disclosure contains accounting information (Article 114 of Italian Legislative Decree 58/98);
   3. to approve the content of any advertising or promotional message.

f. Relations with the authorities, public administration and with agencies
   1. To represent the Bank before the CONSOB and the Bank of Italy and the other Supervisory authorities, with the express power to sign and present communications, reports and notices;
   2. to challenge tax assessments before the tax commissions and administrative offices of every kind and level;
   3. to adhere to bankruptcy proceedings in general, to intervene and bid in court-ordered public auctions. To participate in tenders and auctions for public and private bidding called by state administrations, state-controlled bodies, public agencies in general and private entities; to submit bids also with rises, to accept and sign the provisional and definitive awards, and the related Agreements;
   4. to entertain relations with the Italian Revenue Agency in response to financial investigations and for the notification of open financial relations;
   5. to sign agreements with the Bank of Italy for any reason and cause, including, for example, the agreements for participation in centralised payment systems.

g. Financial activities and investment services
   1. To provide for the purchases and sales of own shares according to the plans approved by the Shareholders' Meeting and according to the procedures approved by the Board of Directors;
   2. to guide the policies for managing trading and available for share portfolios based on the resolutions of the Board of Directors, supervising compliance with the connected risk limits set out in the Regulations for financial activities.

General Manager

a. Management and organisation
   1. To sign the correspondence of the Bank and the documents related to the exercise of the assigned powers, with promise of ratification and approval and under the legal obligations;
   2. to assure the operational management of the Bank, according to the approved organisation model, imparting operating directives and informing the organisation about the goals and policies to be pursued;
   3. to assure the preparation and revision of internal regulations and the formalisation of the corporate processes, in order to assure efficiency and correctness in the operational management of the Bank, consistently with the duties and responsibilities of the organisational units tasked with executing the activities, as they are defined in the corporate organisational chart;
   4. to assure the functionality of the internal audit system and the adoption of suitable and timely corrective measures in case of deficiencies or anomalies reported by the competent corporate functions;
   5. to assure, in compliance with the indications and directives of the Board of Directors, the adoption and full availability of an effective, complete and reliable information system, adequate for the Bank's functional and operational needs;

6. to implement effective communication channels, in order to assure that the personnel of the Bank's Organisational Unit are aware of the policies and procedures pertaining to their duties and responsibilities and, within that scope, to identify and minimise areas of potential conflict of interest;
7. to inform the Board of Directors, at least once every six months, about the most significant decisions made for the management of the company within the scope of his/her powers.

b. Personnel
   1. With the support of the Joint General Manager, to direct and supervise all matters related to human resources and to issue specific regulations for organisational purposes;
   2. to propose to the Board of Directors the approval of the annual budget for personnel expenses and the related remuneration policies, consistently with the strategies approved in the industrial plan, subsequently executing them - after approval - also by exercising the power set out below;
   3. to oversee negotiations for the drawing up of any supplementary corporate employment contracts;
   4. to propose to the Board of Directors the hiring, promotion, termination of the Bank's "significant personnel" as defined in the document pertaining to personnel remuneration policies, approved by the Bank's Shareholder's Meeting, and prepared in compliance with supervisory provisions;
   5. to hire, promote, terminate the remain personnel under defined and undefined duration employment contracts, setting their level, functions, compensation and improvements. Within the limits prescribed by the annual budget for personnel expenses and remuneration policies;
   6. to supervise the entire process of any disciplinary charges and adopt and notify disciplinary penalties;
   7. to decide with regard to the execution of continuous collaboration contracts for personnel not directly employed by the Bank;
   8. to stipulate insurance coverage in favour of staff;
   9. to grant advance payments, at employees' request, from the accrued staff severance fund;
   10. to make decisions with regards to the appointment and revocation of those responsible for departments, organisational units and branches. With the exclusion of the organisations referred to the Bank's "significant personnel", which remain under the authority of the Board of Directors:
   11. to authorise travels and attendance at training courses, according to the powers defined in the Regulations on personnel management and administration. In detail, the following powers are granted:
       i. based on the estimated total cost of the travel, to authorise the expense of up to 50,000 euros. Limit for each individual travel and subject to the provisions of the annual expense budget;
       ii. based on the registration cost for each individual person in a training course, to authorise the expense;
   12. to assume expense commitments, also through the use of corporate credit cards, for entertainment expenses up to 20,000 euros for each individual event.

c. Communication
   1. To sign account statements and notices to customers of a general nature, including those required by bank disclosure regulations;

d. Relations with the authorities, public administration and with agencies
   1. To carry out all actions pertaining to transactions on accounts in Euro and securities held with the Bank of Italy;
   2. to represent the Bank before inland revenue offices, registry offices, revenue technical offices, the Revenue Service, the value added tax offices, service centres, the tax register, municipal offices,

including those for local taxes, and before the general record of equities, preparing, signing and filing petitions, appeals, complaints, declarations, returns and forms for third party income subject to withholding tax, the monthly and annual VAT returns, making payments or collecting reimbursements;
3. to manage relations with the Interbank Fund for the Protection of Deposits;
4. to entertain relations with judicial authorities;
5. to sign any document necessary to deposit trademarks, patents and distinguishing marks with competent administrative bodies;
6. to file reports and/or complaints implementing Board of Directors resolutions, to make garnishee's statements.

e. Banking Services
1. To issue, endorse, accept and protest bank cheques, bills of exchange, promissory notes, deposit warrants and other bills also for collection, subject to prescribed limits to credit and settlement powers;
2. to discount and defer bills;
3. to negotiate, acquire, sell, also on the bank's own behalf, bank bills and commercial paper;
4. to open current accounts and deposit accounts with any bank and postal current accounts and to operate thereon, carrying out all transactions necessary for their operation;
5. to stipulate guaranteed loan agreements with the Bank of Italy and other banks;
6. to authorise bank and intra-bank transfers in Italy or abroad on behalf of private customers and of institutional customers with direct relations, subject to the bank's official counter-signature and certification of funds availability, without limits to their amounts. Powers without amount limits shall nonetheless remain within the supervisory limits for risk concentration (25% of regulatory capital);
7. to authorise bank and intra-bank transfers on behalf of the Bank (suppliers, commissions, etc.), subject to the authorisation already provided according to the assigned expense powers;
8. to authorise the issue of bank drafts on customer's behalf;
9. to receive amounts, make payments and issue receipt;
10. to authorise the general conditions and the interest rates by type of service/transaction (bank service price list);
11. to grant waivers with respect to the price list, by relationship, up to a complete zeroing of the value of all commission items;
12. to grant customers rebates and discounts connected with the Bank's products and services.

f. Financial activities and investment services
1. To request membership in regulated market management companies and multilateral trading facilities, signing the related conventions and restricting the required deposits and to activate conventions with intermediaries/brokers;
2. to guide the policies for managing company liquidity and the "banking book", supervising compliance with the connected risk limits set out in the Regulations for financial activities;
3. to order or authorise, within the scope of the specific guidelines of the Board of Directors, transactions on the bank's own behalf or on behalf of third parties on financial instruments, also not listed on Italian or foreign regulated markets and on currencies and transactions on the money market. In detail, the following powers are granted:

i. to purchase and sell financial instruments and currencies (own behalf) and to carry out transactions on the money market on Banca Finnat accounts within the limit of 200,000,000 euros for each individual transaction;
ii. to purchase or sell financial instruments and currencies on behalf of the Bank's customers (on behalf of third parties), without amount limits;
iii. to intervene on the Bank's behalf in all transactions concerning the transfer of securities, signing for deposits, receipts, transfers, authentication and similar;

4. at the proposal of the Deputy General Manager - Finance Area, to execute framework agreements for over the counter operations and financial guarantee contracts;
5. to authorise settlement of transactions on financial instruments and currencies, and payment orders on the accounts pertaining to transactions in the finance area;
6. to intervene on the Bank's behalf in all transactions concerning the transfer of securities, signing for deposits, receipts, transfers, authentication and similar;
7. to authorise the general mandate conditions (investment service price list);
8. to grant waivers on commissions and expenses (with respect to the price list) by relationship, up to a complete zeroing of the value of all commission items;
9. to authorise transactions with single counterparty entailing temporary loans beyond the limits prescribed for that counterparty;
10. to sign bid documents, information prospectuses, information documents pertaining to financial instruments and products issued or offered by the Bank;
11. to promote, organise and participate directly, with or without providing guarantees with respect to the issuer, in syndicates for the placement and guarantee of financial instruments, also long term, in euro or in foreign currencies, signing the related agreements with guaranteed and sub-guaranteed issuers with all broadest powers to define the remuneration and procedures of the transactions in question, within the scope of the granted powers, within the limit of 20,000,000 euros for each individual transaction; and to organise, without assumption of share, loans and financing, also medium and long term, in euro and foreign currencies, upon specific appointment by the beneficiary;
12. to carry out repo transactions up to amount of 200,000,000 euros for each individual transaction.

g. Credit, settlements, mortgages and property seizures
   1. To approve and authorise settlements and concessions / renewals / changes to credit lines, within the scope of his powers, by technical form, as described in detail below:
      i. to authorise current account overdrafts beyond the agreed limit, up to 2,000,000 euros per individual overdraft;
      ii. to authorise current account overdrafts, up to 2,000,000 euros per individual overdraft;
      iii. to issue credit cards to customers, or to increase the maximum monthly utilisation limit of 50,000 euros (black card);
      iv. to grant credit lines/loans with "class A risk" as defined by the credit Regulations, up to a maximum amount of 1,500,000 euros;
      v. to grant credit lines/loans with "class B risk" as defined by the credit Regulations, up to a maximum amount of 2,000,000 euros;
      vi. to grant credit lines/loans with "class C risk" as defined by the credit Regulations, up to a maximum amount of 3,500,000 euros;

vii. to grant current account overdraft credit lines, up to a maximum amount of 2,500,000 euros;
viii. to authorise the purchase of securities with temporary current account overdraft, up to a maximum amount of 2,500,000 euros;
ix. to authorise "reserved entry unlocking", without amount limits;
x. to authorise the use of the error accounts for purchase / sale of securities on third parties' behalf, with a limit of 500,000 euros for each individual event (income statement impact generated by the activation of the errors account, regardless of the sign);
xi. to grant credit lines for customers' "forward transactions", up to a maximum amount of 3,500,000 euros. For forward transactions hedging positions in securities with duration up to 6 months, a "utilisation" of the line equal to 20% of the forward, equal to 50% with durations above 6 months is generated. For speculative transactions, the "utilisation" is 100% of the forward;
xii. to authorise Euro current account overdrafts for foreign transactions, without amount limits;
xiii. to authorise foreign currency current account overdrafts for foreign transactions, without amount limits;
xiv. to authorise temporary overdrafts (up to 3 days) for transactions on financial instruments, up to a maximum amount of 5,000,000 Euros;
xv. to grant credit lines for transactions entailing risk "of delivery" or "of a commercial nature" (max deferral 6 business days) in relation to the collection of the price, up to a maximum amount of 4,000,000 euros;

2. to provide sureties and guarantees in the interest of the Bank and of third parties, within the limits of the powers assigned under point 1.;
3. subject to the decision by the competent level in terms of amount, in accordance with the then-current credit regulations, to constitute, in the bank's favour, guarantees of any nature in particular with regard to the granting of loans; to allow inscriptions, transcriptions, cancellations, postponements, reductions, annotations, subrogations, fractionings; to request preventive remedies, to enforce recovery actions, on public registries;
4. to request, negotiate and stipulate with banks and financial intermediaries credit transactions in the Bank's favour for up to 10 million euros;
5. to settle disputes - out-of-court or judicially - in relation to credits, with impacts not amounting to more than 250,000 euros. To waive credits of an amount no greater than this same limit. With the preventive opinion of the Credits Committee;
6. to take resolutions - with effect also towards third parties and the competent Property Registrars - with regards to the restriction, reduction, division, subordination, renovation, cancellation (fully or partially) or mortgages and the release of mortgaged property, with a declaration exonerating the Keeper of the records from all relevant liability; all this, furthermore, with reference to cases of total or partial credit recovery, restructuring (see above), settlement (see above) or renunciation of credit (see above) and with the limits set out therein; with reference to the cases of payment or reimbursement - total or partial - of the amount due, with no limit of amounts;
7. to waive - with the same effects and limits as per the previous point - property repossessions and to request the cancellation of transcriptions of property seizures and/or any notes;
8. with reference to credit matters, to act judicially, also through precautionary or executive measures and also by interventions, in every venue and degree and to lodge appeals for declarations of

bankruptcy and insolvency, proposing the related petitions for admission, including late ones, intervening and proposing petitions of any nature in insolvency proceedings and objections to total debt statements. To appoint legal counsel and attorneys for this purpose. All for credits whose amount, for each position, do not exceed 1,000,000 euros;

9. to request preventive remedies, to enforce recovery actions, on public registries;
10. to give execution to the resolutions of the Credits Committee.

h. Expenses
   1. To undertake and authorise spending commitments according to the procedures and in accordance with the powers set out in the Regulations for general expenses and investments. In detail, the following powers are granted:
      i. to assume spending commitments for costs connected with the operation of the Bank, not regulated by specific conventions or administration agreements. If provided in the related annual expense budget and with the limit of 150,000 euros for each individual expense;
      ii. to assume commitments for investments included in the annual budget for the set-up of organisations that assure the operation of the Bank. With a maximum limit of 1,000,000 euros for each individual investment;
      iii. to assume "extra budget" expense commitments, in cases of proven urgency and severity. With limit of 25,000 euros for operation, 10,000 euros for unforeseen events, 5,000 euros for consulting services, 5,000 euros for promotion, 5,000 euros for supplies; informing the Board of Directors at the earliest possible meeting if it was not possible to find amounts in the budget from other annual expense items.

i. Disputes and complaints
   1. At the proposal of the head of the Compliance function, definitively address each individual complaint;
   2. to appoint and revoke legal counsel and attorneys;
   3. to accept and promote settlements with the opposing parties in judgement, up to 250,000 euros of amount for the transaction;
   4. to represent the Bank in judgement;
   5. to respond definitively to each individual complaint for amounts equal to or greater than 50,000 euros and up to 300,000 euros;
   6. to decide reimbursement and returns; waivers to revenues and settlements in the pre-dispute phase (with the exception of cases of restructuring of problem credits and/or of increased credit risk); payments not in accordance with the contractual terms for amounts up to 500,000 euros on an annual basis;
   7. to accept out of court settlements for amounts up to 250,000 euros;
   8. file criminal complaints with the competent Judicial Authorities.

Chairman of the Board of Directors

The Chairman of the Board of Directors has not received managerial appointments, does not hold a specific role in the preparation of business strategies, and is not the main party responsible for management nor the majority shareholder in the Bank.

The Chairman of the Board of Directors has the powers prescribed by the law and by the Articles of Association.

Disclosure to the Board

The Managing Director reports to the Board of Directors, on a half-yearly basis, on the work carried out under the scope of his powers.

During Board meetings, the Chairman of the Board of Directors informs the Directors in a timely manner of all updates to first and second level regulations linked to the Bank and Group's activities.

4.5 Other executive directors

Director	Position	Qualification
Leonardo Buonvino	Deputy Chairman	executive, non-independent
Arturo Nattino	Managing Director and General Manager	executive, non-independent

4.6 Independent directors

The Board of Directors appointed on 28 April 2015 remains in office until approval of the 2017 financial statements. It has been formed in accordance with the criteria specified in the Governance Code and the rules promulgated by the Bank of Italy and by Consob and includes 5 Independent Directors. All Independent Directors have filed professional curricula and issued declarations attesting their Independence. The level of each director's independence has been assessed on the first useful opportunity following his/her appointment, with regard to the requirements laid down by the law, the Governance Code and by Article 20 of the Articles of Association; subsequently, the Board shall annually assess the fulfilment of independence requirements.

After assessing the independence requirements for each of the non-executive Directors, the Board of Directors specifies the valuation criteria applied in practice and it discloses the results of its assessments with a notice released to the market.

By specifically investigating, the Board of Statutory Auditors has ascertained the correct application of the criteria adopted by the Board to assess the independence of its members.

In 2016, the independent directors met without the other directors.

4.7 Lead independent director

During the meeting of 28 April 2015, the Board of Directors established the role of Lead Independent Director prescribed in the Governance Code, although the conditions indicated by the Code did not apply.

The role of Lead Independent Director was assigned to Ms. Mazzarella, appointed by co-optation in the Board of Directors on 10 February 2016, and confirmed by the Shareholders' Meeting on 29 April 2016.

In the meeting of the Board of Directors of 10 March 2017, following the changes that occurred in the composition of the Board of Directors, Mr. Marco Tofanelli was co-opted in the Board and appointed as Lead Independent Director to replace Ms. Flavia Mazzarella, who was appointed Chairman of the Board of Directors.

The Lead Independent Director is assigned the duties prescribed by the Governance Code.

5 PROCESSING OF COMPANY DATA

The Bank has set up the internal procedure “Management of public disclosures of significant events and circumstances”, with the aim of allowing the fulfilment of informative commitments pursuant to Article 114 of Italian Legislative Decree no. 58 dated 24 February 1998, supplying the criteria suitable for identifying documents and information concerning the Bank and Companies subsidiary to the Bank, not of public domain, and of such a level that, if made public, able to significantly affect the price of the financial instruments issued by the Bank (price sensitive issues), in addition to other significant events and circumstances, and to govern the methods by which such are disclosed to the public.

Communication obligations are met, on the Bank Managing Director’s behalf and on his instruction, by the Investor Relator.
Communications are made immediately available to the public in compliance with the law.
The Investor Relator publishes the disclosure on the Bank’s website in both Italian and English, by the time of opening of the market on the day after the date on which said news is disclosed.
The disclosure remains available on the website for at least five years as from the date of publication.

In compliance with the provisions of Article 115-bis of Italian Legislative Decree no. 58/98, and of Regulation (EU) no. 596/2014 the Bank has set up the “Register of Persons with access to privileged information” (Insider Register). The Legal Department appointed to hold the “Insider Register”.
The Bank has also adopted a specific internal procedure, the “Internal Dealing Code”, which is binding for all Board members and aims to govern the disclosure to be made to the market, in the event of company representatives trading in Bank shares.

6 INTERNAL BOARD COMMITTEES

In order to encourage an efficient system of information and consulting, which allows the Board to better assess some of the matters of its competence, the Appointment Committee, Remunerations Committee and the Risk Committee have been set up.

No other Committees have been established within the Board of Directors.
The functions of the Committees have been distributed as prescribed by the Governance Code.
None of the functions of any Committee are reserved to the Board.

7 APPOINTMENT COMMITTEE

During the meeting of 15 May 2012, the Board of Directors, in line with the recommendations of the Governance Code (principle 5.P.1), set up an Appointment Committee, composed mostly of independent directors.
The Appointment Committee comprises the following Directors:
At 31 December 2016, the members of the Committee were as follows:

Director	Position
Andreina Scognamiglio	Chairman *
Flavia Mazzarella**	Member *
Lupo Rattazzi	Member *

* Independent in accordance with Article 148 of the Italian Consolidated Financial Law and with the Governance Code.
** Until 10 March 2017, the date Mr. Marco Tofanelli took office.

In 2016, the Committee met three times and specific minutes were drawn up for the meetings. The Committee has met once during the current year.
The Heads of the Functions involved in relation to the items in the Agenda were invited to attend.

The Appointment Committee - which is assigned the task of identifying the optimal qualitative and quantitative composition of the Board of Directors, indicating the professionals whose presence can facilitate its correct and effective operation - provides advice and formulates opinions, proposals and recommendations in order to identify professionals who can contribute to the optimal composition of the Board.
In particular the Committee shall carry out the following tasks:

a) provide opinions to the Board of Directors concerning its size and composition and express recommendations concerning the professionals whose presence in the Board is deemed advisable and about the topics per Articles 1 C.3. and 1.C.4. of the Governance Code;
b) propose to the Board of Directors candidates for the office of director in case of co-optation, when independent directors need to be replaced, fulfilling the requirement to assure an adequate level of diversification in the collective membership of the Board. In this regard, the Committee shall set a target quota for the less represented gender and shall prepare a plan to raise said quota up to the set target;
c) provide its opinion to the Board of Directors with regard to the identification of candidates for the office of Director in the companies of the Banca Finnat Euramerica S.p.A. Group;
d) it carries out the preliminary phase, if the Board of Directors decides to adopt a plan for the succession of the executive directors;
e) support the Board of Directors in the nomination of candidates for the office of director if one or more directors leave office during the year (see Article 2386, First Paragraph, of the Italian Civil Code), assuring that the minimum number of independent directors is reached.

The Committee shall also provide support to the bodies with strategic supervision and management functions in the following processes:

- self-assessment of the Board, in accordance with Bank of Italy Circular no. 285;
- verification of the conditions prescribed by Article 26 of the Italian Consolidated Law on Banking;
- definition of succession plans for top executive positions, prescribed by Section IV of Bank of Italy Circular no. 285.

In the performance of its duties, the Committee shall take into account to the objective of preventing the Board's decision making processes from being dominated by a single person or groups of persons who can cause prejudice to the Bank.
In the performance of its duties, the Committee may access the information and the corporate functions necessary to carry out its tasks and to rely on outside consultants, within the terms set by the Board of Directors. The Bank shall make financial resources available to the Committee, when necessary for

the performance of its duties, within the limits of the specific budget approved by the Board of Directors.
The duties of the Committee are set by resolution of the Board of Directors who established and they can be supplemented or changed by subsequent resolution of the Board of Directors.
In 2016, the Appointment Committee:

- expressed its opinion with regard to the appointment of a co-opted director;
- analysed the results of the self-assessment by the Board of Directors;
- assessed the composition and operation of the Board;
- expressed its opinion with regard to the appointment of corporate representatives of its subsidiaries and investees;
- revised its Regulations.

8 REMUNERATIONS COMMITTEE

During the meeting of 15 May 2012, the Board of Directors, in line with the recommendations of the Governance Code (principle 6. P.3. of the Code), established a Committee for Remunerations and for any stock option or share assignment plan, consisting of 3 non-executive and independent Directors, one of whom has specific knowledge and experience in compensation policy matters.
The Board of Statutory Auditors participates in the Committee's work. Specific minutes are drawn up for the meetings.

At 31 December 2016, the members of the Committee were as follows:

Member	Position
Roberto Cusmai	Chairman*
Ermanno Boffa	Member*
Andreina Scognamiglio	Member*

* Independent in accordance with Article 148 of the Italian Consolidated Financial Law and with the Governance Code.

During 2016, 4 meetings of the Committee were held, with an average duration of approximately 1.20. Specific minutes were drawn up for the Committee meetings. This year, 2 meetings have been held.
No director concerned took part in the meetings of the Remunerations Committee during which proposals were made with regard to his remuneration.
The Heads of the Functions involved in relation to the items in the Agenda were invited to attend.

The Remunerations Committee provides advice and submits proposals concerning the remuneration of corporate officers and heads of the corporate audit functions and the determination of personnel remuneration criteria, and it supports the Board of Directors with its advice and proposals, in particular:

I. it directly oversees the correct enforcement of the rules for the remuneration of the heads of the corporate audit functions, in close cooperation with the audit body;
II. it oversees the preparation of the documentation to be submitted to the Board of Directors for the related decisions;

III. it collaborates with the other Committees within the Board of Directors, in particular with the Risk Committee;
IV. it assures the involvement of the competent corporate functions in the definition and control of remuneration policies and practices;
V. It expresses its views, relying also on the information received from the competent corporate functions, on the attainment of performance targets, to which the incentive plans are tied, and on the ascertainment of the other conditions set for payment of the compensation;
VI. it provides adequate feedback on the activity it carries out to the corporate bodies, including the Shareholders' Meeting;
VII. it has the authority to access the information and the corporate functions necessary to carry out its tasks with the support of the corporate functions involved according to their areas of responsibility;
VIII. it has the authority to rely on the services of a consultant in order to obtain information about the market practices pertaining to compensation policies, preventively verifying that said consultant is not in situations that may compromise his/her independent judgement;
IX. it reports to Shareholders with regard to the way it carries out its duties; for this purpose, at least the Chairman or another member of the Committee shall attend the annual Shareholders' Meeting;
X. It submits to the Board of Directors proposals for the remuneration of the Managing Director and of the other Directors holding special offices, monitoring the enforcement of the decisions adopted by the Board;
XI. it periodically assesses the criteria adopted for the remuneration of key managers, it oversees their enforcement on the basis of the information provided by the Managing Director and it formulates general recommendations on the matter to the Board of Directors;
XII. it proposes to the Board of Directors the incentive systems deemed most appropriate (including stock option plans and share retention plans) and it monitors the evolution and implementation, over time, of the plans approved by the Shareholders' Meeting at the proposal of the Board.

2. In the performance of its duties, the Committee:
    - coordinates with the Board of Statutory Auditors, which in expressing the opinion per Art. 2389 Paragraph 3 of the Italian Civil Code, verifies the consistency of the Committee's proposals to the Board of Directors with the remuneration policy.
    - it may rely on outside consultants, within the terms set by the Board of Directors. The Bank shall make financial resources available to the Committee, when necessary for the performance of its duties, within the limits of the specific budget approved by the Board of Directors.
3. The duties of the Committee are set by resolution of the Board of Directors who established and they can be supplemented or changed by subsequent resolution of the Board of Directors.

In 2016, the Committee did not deem it necessary to rely on outside consultants.

In 2016, the Remunerations Committee:

a) prepared the report on the activity carried out in 2015;
b) examined the Incentive Plan for 2017;
c) examined the Remuneration Report prepared pursuant to Article 123-ter of Italian Legislative Decree 24 February 1998, no. 58 ("TUF" Italian Consolidated Financial Law) and of Article 84-quater of Consob Regulation no. 11971 ("RE"), as well as in compliance with the Prudential Supervisory Provisions of the Bank of Italy;

d) expressed its favourable opinion about the change to the Directors' fees;
e) expressed its opinion on the application of the 2015 Incentive System and on the distribution of the fees to the most important personnel;
f) acknowledged the Findings and observations of the Bank of Italy, resulting from the inspection;
g) approved the revisions to the Regulation of the Remunerations Committee.

For the correct performance of its functions, the Remunerations Committee had the opportunity to access all information and company functions necessary for the performance of its duties.

9 DIRECTORS' REMUNERATION

On 29 April 2016, the Shareholders' Meeting of Banca Finnat approved the policy for the remuneration of Directors, Employees and Collaborators not linked by contractual relationships.
In accordance with Article 114, paragraph 5 of the Italian Consolidated Financial Law, it is declared that on 31 December 2016, there are no agreements in place concerning indemnity to be paid to directors in the event of early termination of their office.
For all information about the policies for the remuneration of directors adopted by the Bank, please refer to the "Remuneration Report" prepared in accordance with Article 123-ter of the Italian Consolidated Financial Law referred to the year 2016, to be published on the Website www.bancafinnat.it in the Corporate Governance section within the terms prescribed by law.

10 RISK COMMITTEE

In the course of the meeting of the Board of Directors of 15 May 2012, the Risk Committee was established, to provide advice and make proposals. It consists of 3 non-executive independent directors, one of whom has knowledge and experience in accounting, financial and risk management matters.
The Board of Statutory Auditors participates in the Committee's work. Specific minutes are drawn up for the meetings.
At 31 December 2016, the members of the Risk Committee were as follows:

Member	Position
Flavia Mazzarella**	Chairman*
Ermanno Boffa	Member*
Roberto Cusmai	Member*

* Independent in accordance with Article 148 of the Italian Consolidated Financial Law and with the Governance Code.
** Until 10 March 2017, the date Mr. Marco Tofanelli took office.

During the year 2016, the Committee met 8 times for an average duration of 2 hours.
This year, two meetings have been held.
The Heads of the Functions involved in relation to the items in the Agenda were invited to attend.

To enable the Board of Directors to make its own decisions with better knowledge, contributing to ensure that they are the result of adequate preparation and evaluation, the Committee, in relation to the internal auditing and risk management System and to the approval of the periodic financial report, performs preparatory, advisory and proposal-making functions, by formulating proposals, recommendations and opinions.

Opinions to the Board of Directors

In particular, the Committee release its preventive opinion to the Board of Directors with reference:

a) to the definition of the guidelines of the internal audit and risk management system defined by the Board itself, so that the main risks of Banca Finnat S.p.A. and of its subsidiaries are correctly identified and adequately measured, managed and monitored, determining the criteria for the compatibility of such risks with a management of the enterprise that is consistent with the identified strategic objectives;
b) to compliance with the principles to which the internal audit system and the corporate organisation must be aligned and with the requirements that must be fulfilled by the corporate audit functions, bringing to the attention of the Board of Directors any weaknesses and the consequent corrective actions to be promoted; for this purpose it also assesses the proposals of the body with management functions;
c) to the assessment, with at least monthly periodicity, of the adequacy of the internal auditing and risk management system with respect to the characteristics of the company and the assumed risk profile, as well as its effectiveness;
d) to the description in the corporate governance report of the main characteristics of the internal audit and risk management system, and of the coordinating procedures between the parties involved therein, expressing its assessment of the systems' adequacy;
e) to the approval - at least on an annual basis - of the work plan prepared by the internal audit function, and of any changes thereto in the course of the year;
f) to the assessment of the results illustrated by the independent audit firm in the letter of recommendations and in the report on the fundamental questions emerged from the audit;
g) to the appointment and revocation of the head of the internal audit functions, to the adequacy of the resources assigned to him/her to perform his/her duties, and to the definition of his/her remuneration, consistently with company policies;
h) to the definition of the corporate policy for outsourcing corporate audit functions;
i) to the Bank's interest in the completion of Related Party Transactions, and to the advisability and substantial correctness of their conditions. In this regard, for matters not expressly established herein, reference is made to the "Regulation for Related Party Transactions and for the assumption of risk assets with regard to Related Parties" of Banca Finnat of 19 September 2013.

Assistance to the Board of Directors

In assisting the Board of Directors, the Committee:

*in relation to **accounting**:*

a) assesses the correct utilisation of the accounting standards and their consistency for the purposes of the preparation of the separate and consolidated financial statements and of the consolidated half-yearly financial report, together with the Manager in charge of preparing the accounting documents and with the inputs of the independent audit firm and the Board of Statutory Auditors;
b) verifies actual compliance with the administrative and accounting procedures set by the Manager in charge of preparing the accounting documents;

in relation to the ***Internal Audit Function:***

c) monitors the autonomy, adequacy, effectiveness and efficiency of the internal audit function;
d) may ask the internal audit function to perform audits on specific operating areas, concurrently notifying the Chairman of the Board of Statutory Auditors;
e) reviews the periodic and the particularly relevant reports prepared by the Internal Audit function;

in relation to the ***internal control Functions****:*

f) identifies and proposes, relying on the Appointment Committee, the heads of the corporate control functions to be appointed;
g) preventively examines the activity plans and the annual reports of the corporate audit functions addressed to the Board of Directors;
h) verifies that the corporate audit functions correctly comply with the indications and guidelines of the Board of Directors and it assists it in preparing the coordination document prescribed by Bank of Italy Circular no. 263, Title V, Chapter 7, Section II)1;
i) reviews the periodic quarterly and annual reports, and the particularly relevant reports prepared by the control function;

in relation to ***Risk Management and Control****:*

j) it reports to the Board of Directors, at least once every six months, at the time of approving the financial statements and the half-yearly report, on the work performed and the adequacy of the internal auditing and risk management system;
k) supports, with adequate preliminary activities, the evaluations and decisions of the Board of Directors relating to the management of the risks deriving from prejudicial events of which the Board of Directors had become aware;
l) supports the Board in the definition and approval of the risk control strategy and policies. Within the RAF, the Committee performs the necessary assessment and propulsive activity to enable the Board of Directors to define and approve the risk targets and the tolerance thresholds, by virtue of Circular no. 263, Title V, Chapter 7;
m) it ascertains that the incentives underlying the remuneration and incentivising system of the bank are consistent with the RAF ("Risk Appetite Framework"), without prejudice to the responsibilities and authority of the Remunerations Committee;
n) supports the Board in the verification and correct application of the strategies, of the risk control policies and of the RAF;
o) supports the Board in the definition of the policies and processes for the assessment of corporate activities, including the verification that the price and conditions of transactions with customers are consistent with the business model and with the risk strategies;
p) meets, at least once per year, the Supervisory Board in accordance with Legislative Decree no. 231/2001, and examines its annual report.

In the performance of its duties, the Committee:

q) identifies all information flows that must be addressed to it with respect to risks;
r) may access the information and the corporate functions necessary to carry out their tasks and to rely on outside consultants, within the terms set by the Board of Directors. The Bank shall make financial

resources available to the Committee, when necessary for the performance of its duties, within the limits of the specific budget approved by the Board of Directors;

s) exchanges all information of mutual interest with the audit body and, if appropriate, it coordinate with it for the performance of their respective tasks;
t) adopts measures directed at assuring that the transactions in which a director is the bearer of an interest on its own or on third parties' behalf are carried out transparently and complying with criteria of substantial correctness.

In 2016, the Committee did not deem it necessary to rely on outside consultants.

In the course of its meetings, the Committee discussed and approved, inter alia, the following topics:

a) on 14 April 2016, it self-assessed its size and composition with the more general self-assessment of the Board of Directors carried out by filling in a special questionnaire;
b) it examined the Reports for the year 2015 prepared by the Functions tasked with internal audit, risk management and anti-money laundering and their respective activity plans for the year 2016;
c) it analysed the Report on complaints;
d) it assessed the correct application of the accounting standards and their consistency for the purposes of the preparation of the consolidated financial statements;
e) it approved the 2015 ICAAP (Internal Capital Adequacy Assessment Process);
f) in terms of related party transactions: it examined the quarterly Compliance reports on related party transactions; it approved the methodological document for lending transactions with related parties; it examined and expressed its own opinion on the related party transactions under its competence; it expressed its own opinion on the framework resolutions for related party transactions
g) it examined and gave its favourable opinion to the quarterly reports of the Internal Audit, Compliance, Risk Management functions;
h) it approved the internal Regulation of the Committee, revised in light of the new provisions promulgated by the Bank of Italy on the matter of governance and internal audit system and of the Governance Code.
i) it examined the consolidated half-yearly financial report at 30 June 2016.
j) it examined Findings and observations of the Bank of Italy, resulting from the inspection carried out in Banca Finnat and in its subsidiary InvestiRE SGR;
k) it examined the criteria and assessment methodologies applicable when conducting impairment tests to estimate the Bank's investments in subsidiaries and associates.

To explain particular matters at the Committee meetings, the managers of specific business departments intervened according to the agenda.

11 INTERNAL AUDITING AND RISK MANAGEMENT SYSTEM

The Bank, in accordance with current regulations and with the indications of the Governance Code, established an internal auditing system in order continuously to monitor the typical risks of the corporate activities.

Thus, the internal auditing system is the comprehensive set of organisational controls, procedures and rules of conduct directed at enabling, through an adequate process of identification, measurement, management and monitoring of the main risks, a sound and proper management of the company, consistent with pre-set objectives. This system is an integral part of operations and it involves all sectors and corporate structure, each called, for matters under its competence, to assure constant, continuous monitoring of the risks.
The Internal Auditing System therefore meets the need to assure sound and prudent management of the activities of the Bank and of the group, reconciling, at the same time, the attainment of the company objectives, the correct and punctual monitoring of risks and operations guided by correctness criteria; this system also meets the prescription of Article 7 of the Governance Code.
The Internal Auditing System of Banca Finnat S.p.A. was defined by the Board of Directors of the Company and it is subject to periodic monitoring.
The Internal Auditing System comprises:

a) line audits: audits - of a systematic or periodic nature on a sample of data - carried out by the heads of the individual operating units, directed at assuring the correct performance of the transactions carried out by the same productive structures or included in the procedures or carried out within the scope of back office activities;
b) risk management audits: audits carried out by the heads of the individual operating units and by the Risk Management Organisational Unit, connected with the process of definition of risk measurement methods, pertaining to the verification of compliance with the limits assigned to the various operating units and the check of consistency of the operations of the individual productive areas compared to the risk/return targets assigned for the individual types of risks (credit, market, operational);
c) compliance audits: audits carried out by the Compliance Organisational Unit on the operations' compliance with the law, with the instructions of the supervisory authorities and with the Company's own regulations;
d) anti-money laundering audits: audits carried out by the Anti-Money Laundering Organisational Unit on the operations' compliance with the law and with the instructions of the supervisory authorities to contract money laundering and terrorism financing, and with the Company's consequent regulations;
e) internal audit activity: carried out by the Internal Auditing Function to check the regularity of the Company's operations and risk trends, to assess the functionality of the comprehensive internal audit system and to identify any anomalies and violations of procedures and regulations.

Whistleblowing was activated.

The Internal Audit System of Banca Finnat Euramerica also extends to the Subsidiaries.

Banca Finnat has defined the guidelines and fundamental values on which its own Internal Audit System is based. The keystone principles are: the company's activity must comply with applicable internal and external rules, it must be traceable and documentable, the assignment and exercise of powers within a decision-making process must be tied to the positions of responsibility and to the relevance and/or critical nature of the underlying economic transactions, there must be no subjective identity between those who make or implement the decisions, those who must provide accounting evidence of the transactions that were decided and those who must audit them as prescribed by law and by internal procedures, confidentiality and compliance with privacy regulations must be guaranteed.

Responsibility for the Internal Audit System rests, in accordance with current regulations, with the Board of Directors, which shall: (i) set its guidelines, strategic directions and risk management policies, (ii) approve the organisational structure of the bank, ensuring that duties and responsibilities are clearly and appropriately assigned and periodically verify their adequacy and actual operation, ensuring that the main corporate risks are identified and managed properly and that the audit functions have an appropriate level of independence within the structure and are provided with adequate resources for correct operation.
Moreover, the Board of Directors with the support of the Risk Committee periodically assesses the functionality, effectiveness and efficiency of the internal control system, promptly adopting any corrective measures as deficiencies and/or anomalies emerge in the performance of the audits.
As indicated above, the Board of Directors, to implement the provisions of the Code with respect to internal audits and to comply with the provisions of the current supervisory regulations, has established the Audit and Risk Committee within the Board itself; inter alia, the Committee carries out the preparatory activity, directed at enabling the Board to perform its functions the best possible way with regard to the competencies in question.

To implement the provisions of the Code with respect to internal audits, the Board:
a) defined the guidelines of the internal audit and risk management system, so that the main risks the Company and of its subsidiaries are correctly identified and adequately measured, managed and monitored, further determining, by approving the Risk Appetite Framework, the degree of compatibility of such risks with a management of the enterprise that is consistent with the identified strategic objectives, both in an annual and multi-annual perspective;
b) periodically assesses the adequacy of the internal audit and risk management system with respect to the Company’s characteristics and to the assumed risk profile, as well as its effectiveness; this assessment takes place mainly through (i) the review, carried out with the support of the Risk Committee and with quarterly periodicity, of the results of the reports prepared by the heads of the auditing departments and with annual periodicity, of the results of the annual Reports, also prepared by the heads of the auditing departments (ii) approves the work plans prepared by the Heads of the company auditing departments.

Within the management and coordination of the group it heads, the bank also exercises:
a) strategic control over the evolution of the different areas of activity in which the group operates and of the risks bearing on the property portfolio. It is a check both on the expansion of the activities carried out by the group’s companies and on the acquisition and disposal policies implemented by the group’s companies;
b) strategic coordination is performed mainly through the presence, in the Board of Directors of each subsidiary, of a certain number of representatives designated by the Board of Directors of the Bank;
c) management control directed at assuring that the conditions of economic, financial and capital balance of both the group’s individual companies and the group as a whole are maintained. These control needs are met preferably through the preparation of plans, schedules and budgets (company and group), and through the analysis of periodic statements, interim reports, yearly financial statements, at the individual company and consolidated level with reference to the entire group. Management coordination is

provided through the intervention of the Planning and Management Control Organisational Unit that manages relations with the bodies/functions of the subsidiaries;

d) technical-operational control directed at assessing the various risk profiles provided to the group by the individual subsidiaries.

The Managing Director oversees the implementation of the strategies, of the RAF and of the risk governance policies defined by the Board of Directors.
Briefly, this Body:

a) promotes the development and widespread adoption, at all levels, of an integrated risk culture in relation to the different types of risks and extended to the entire bank;
b) oversees the implementation of the strategies, of the Risk Appetite Framework - "RAF" (risk objective system) and of the risk governance policies defined by the Board of Directors;
c) defines and oversees the implementation of the risk management process, assuring its consistency with the risk appetite framework and the risk governance policies and sets operational limits to the assumption of the various types of risk, consistent with the risk appetite framework;
d) establishes the responsibilities of the corporate structures and departments involved in the risk management process, in order to prevent potential conflicts of interest; it also assures that the relevant activities are directed by qualified personnel, with an adequate level of independence and with adequate experience and knowledge for the duties they must perform;
e) defines the internal information flows directed at ensuring that the corporate Bodies and the corporate auditing Functions are fully aware and capable of governing the risk factors and of verifying compliance with the RAF;
f) carries out the initiatives and interventions necessary to continuously assure the completeness, adequacy, functionality and reliability of the internal audit system and informs the Board of Directors of the results of the checks carried out;
g) assures a correct, timely and secure management of the information for accounting, managerial and reporting purposes.

Internal auditing system in relation to the financial disclosure process

The internal auditing system in relation to the financial disclosure process is considered an integral part of the risk management system.
The purpose of the System is to assure the reliability, accuracy, trustworthiness and timeliness of the financial disclosure published periodically by the Bank.
In particular:

- Reliability: disclosure having the characteristics of correctness and compliance with generally accepted accounting principles and having the requirements prescribed by the applied laws and regulations.
- Accuracy: disclosure having the characteristics of neutrality and precision. The disclosure is considered neutral if it lacks preconceived distortions aimed at influencing its users' decision-making process in order to obtain a predetermined result.
- Trustworthiness: disclosure having the characteristics of clarity and completeness, such as to lead to informed investment decisions by investors. The disclosure is deemed clear if it facilitates the understanding of complex aspects of the company, but without becoming excessive and redundant.

- Timeliness: disclosure complying with the prescribed deadlines for its publication.

With reference to the measures adopted by the Bank to assure the characteristics of reliability, accuracy, trustworthiness and timeliness of the financial disclosure, reference is made to the activities carried out with respect to the definition of the Governance and Control Model of the Manager in charge, prepared in accordance with Article 154-bis of the Italian Consolidated Financial Law, which constitute a necessary prerequisite to assure a constant and complete view of the corporate areas that are actually relevant for the purposes of the preparation of the statutory and consolidated corporate accounting documents.

The definition of the Governance and Control Model of the Manager in charge of the Banca Finnat Group was guided:

- by the preliminary identification of a recognised, widely employed comparison model;
- by comparison with reference practices defined or referenced by institutional bodies;
- by comparison with domestic and international best practices adopted by businesses comparable with the Banca Finnat Group.

The model used as a reference by the Bank, which constitutes an internationally recognised method for analysing and evaluating the Internal Auditing System is the one established by the CoSO Report – "Internal Control Integrated Framework" – developed by the "Committee of Sponsoring Organisation of the Treadway Commission".

Within the scope of the activities carried out, the roles and responsibilities were punctually identified of the corporate Functions involved in the existing risk control and management system in relation to the financial disclosure process of the Bank and of the Group.

The correct operation of the existing risk control and management system in relation to the financial disclosure process is a prerequisite and it cannot be independent from the punctual identification of the roles and responsibilities of the involved corporate functions.

In this regard, the Bank formalised its internal information flows and adopted a synoptic picture of the relationships between the Manager in Charge and the other corporate functions.

The bank adopted (in compliance with the provisions of Article 154-bis of the Italian Consolidated Financial Law) the office of the Manager in charge of preparing the accounting documents, who performs the following duties:

- verification of the adequacy and actual application of administrative and accounting procedures for the preparation of the statutory and consolidated financial statements and of the condensed half-yearly financial statements;
- verification that the documents are prepared in accordance with applicable international accounting standards;
- verification that documents match the accounting books and entries;
- verification of the documents' ability to give a true and fair representation of the economic, financial and equity situation of the bank and of the set of companies included in the consolidation;
- verification, for the separate and consolidated financial statements, that the report on operations includes a reliable analysis of the management performance and results, as well as the situation of the Bank and the group of companies included in the consolidation, along with a discussion of the primary risks and uncertainties to which they are exposed;

To exercise the activities and to implement the necessary controls, the Manager in charge employs the control functions and the other Organisational Units of the Bank and of the Group. In particular, among the other significant roles we mention the Internal Auditing function, which provides the Manager in Charge with elements and information that may lead to the identification of the critical areas observed within the Group in the course of its activity, providing their own opinions on the adequacy of the different entities of the Group and the necessary improvement actions; the role of the Organisation Service which provides the necessary support for the formalisation of the processes, risks and sensitive controls; the role of the other corporate functions and the Companies of the Group which co-operate with the Manager in Charge, providing the necessary data and information to carry out their duties and reporting any anomaly and dysfunction of procedures noted within the scope of their activity, which may cause significant impacts on the financial situation of the company or of the Group.
During the 2016 financial year, the Board of Directors approved the work Plan prepared by the Internal Audit Function with the input of the Board of Statutory Auditors and assessed the Internal Auditing and risk management system of the Company, considering it appropriate to the features of the business carried on by the Company.

The following is a brief description of the main auditing devices adopted by the Company.

The compliance department
The Banca Finnat Euramerica S.p.A. Compliance function reports to the Board of Directors of the Bank. On the basis of the most recent regulations of the Bank of Italy, it oversees - according to a risk-based approach - the management of non-compliance risk with regard to business activities, verifying that internal procedures are adequate to prevent that risk.
In general terms, the Compliance action concerns the regulatory areas in respect of which forms of specialised supervision are not already provided for within the Bank.

In particular, it is responsible for the management of non-compliance risk for the most relevant rules, such as those pertaining to the exercise of banking and intermediation activities, management of conflicts of interest, transparency with regards to customers and, more generally, regulations established to protect the consumer, verifying that internal procedures are adequate for the prevention of said risk.
For compliance with the internal and external regulations pertaining to the information system.
For the other regulations for which specialised supervision already exists, it is responsible, together with the special departments in charge, for the definition of the methods for assessing the non-compliance risk and the identification of the related procedures and it also verifies the adequacy of such procedures to prevent the non-compliance risk.
For the performance, for the Group's Trust Companies, of the outsourced activities prescribed for the Compliance department, when applicable. Activity regulated by a dedicated agreement.
For guiding, coordinating and controlling the activities carried out by the Compliance department of the investee Investire Immobiliare Sgr.

Bearing in mind the role assigned to it, Compliance performs the following duties:
1. it assists the risk manager in defining the direct method for identifying the non-compliance risks and, assesses and controls also the reputational risk based on the methods established by it;

2. it identifies the procedures appropriate to ensure an adequate supervision of non-compliance risks;
3. it identifies continuously the applicable laws and regulations, measures and assesses their impact on business processes and procedures and proposes organisational and regulatory measures that are necessary in order to comply with the relevant legislation;
4. it assesses ex ante compliance with applicable regulations of all innovative projects, including operations in new products or services or entry in new markets, with the objective of preventing and managing conflicts of interest both among the different activities carried out by the bank and with reference to employees and to company employees;
5. it assesses the suitability and efficiency of the measures taken to remedy any deficiency in complying with obligations laid down by the relevant legislation;
6. it informs the competent Organisational Units on the obligations included in the relevant legislation, if procedural or contractual actions are required;
7. it provides consultancy and support with regard to company bodies in areas in which non-compliance risk is significant, and it collaborates in the staff training activity on the provisions applicable to the activities carried out;
8. it continuously verifies compliance with the contractual limits prescribed for the individual asset management lines, and it prepares information reports for the involved corporate functions;
9. it performs second level controls concerning compliance with internal and external ICT regulations (ICT Compliance);
10. it analyses the Bank's ICT risk, in concert with the Operations Department and the Risk Control OU, and it verifies the disclosure provided in this area by the IT outsourcer. It consequently provides an adequate periodic flow of information about the analyses and assessments made to the Managing Director;
11. it verifies the consistency of remuneration and company incentive policies and practices;
12. it verifies the compliance of the audit procedures of ICAAP with the external and internal regulations;
13. it monitors trading carried out on its own behalf and on behalf of third parties on financial instruments, for the purpose of complying with Market Abuse regulations;
14. it carries out, also with the collaboration of special departments, specific tests as well as regular controls on business procedures to evaluate their effectiveness and adequacy in relation to the objective of preventing non-compliance risk;
15. it provides company bodies with adequate information flows on the results of the activities carried out, the initiatives implemented on identified problems and the corrective actions to be taken, also with reference to the Group's Trust Companies and to Investire Immobiliare SGR;
16. it coordinates, and exchanges information flows, with the other corporate control functions and towards the Supervisory Body for matters under its competence.
17. it manages the internal violation reporting system (whistleblowing). In accordance with the new provisions by the Bank of Italy (Circular no. 285, Title IV, Chapter 3, Section VIII): it receives any reports, it checks their truthfulness and it notices the competent corporate bodies for the consequent appropriate assessments; it controls the operations carried out for itself by the staff and by company representatives, the operations carried out by the manager in conflict of interests, the number of non-adequate transactions in financial instruments;
18. it manages the customer complaints log;

19. it prepares: regular reports in relation to the business carried on by the Bank, assessments and findings, the measures taken to remedy any deficiency reported and actions planned.
20. It guides, coordinates and controls, as the Parent Company, the activities carried out by the Compliance department of the InvestiRE SGR investee.

Internal auditing

The internal auditing activities were entrusted to the Internal Auditing Organisational Unit that reports to the Board of Directors of the Bank.

The Function is provided with the required autonomy and independence from the operating structures and has adequate resources and means to carry out its task, works with personnel with appropriate knowledge and professional skills and has no access restrictions to company data and files.

Internal Auditing is responsible for ensuring a constant and independent supervisory action on the regular course of the operations and processes of the Bank in order to prevent or report the occurrence of anomalous and risky behaviours or situations, evaluating the effectiveness of the overall internal auditing system and its suitability to ensure the effectiveness and efficiency of corporate processes, safeguard the value of assets and protect against losses, ensure the reliability and integrity of accounting and management information, the compliance of the operations both with the policies established by the company governance bodies and by internal and external laws and regulations. It also provides consultancy to the business functions also by taking part in projects, in order to create added value and improve the effectiveness of control processes, risk management and organisation.

The tasks and activities of the Function, in addition to being defined in the company Function Diagram, are defined in the special Regulations issued by the Board of Directors of the Bank.

In carrying out its tasks, the Internal Auditing analyses in advance the risks involved in different areas in view of the strategic objectives and on the basis of information obtained from the results of previous audits and of the consequent priorities, it prepares an Action plan - on the basis of which it will operate - which is screened on an annual basis by the Risk Committee, and subsequently approved by the Board of Directors.

The Internal Audit Function carried out the aforesaid activity for Banca Finnat as well as for the investee Finnat Fiduciaria S.p.A. within a dedicated outsourcing agreements that regulates the performance of the audit function and carries out guidance and coordination activities for the investee InvestiRE SGR S.p.A. The weaknesses found during the audits are systematically reported to the Organisational Units involved for a prompt action of improvement in respect of which a follow-up is subsequently carried out.

The evaluations of the internal auditing system deriving from the inspections carried out are reported on a quarterly and annually to the Risk Committee and to the Board of Directors.

The Internal Audit Function was assigned the task of overseeing the regular performance of operations and the evolution of risks and to assess the completeness, adequacy, functionality and reliability of the components of the internal audit system, suggesting possible improvements to the Risk Appetite Framework ("RAF"), to the risk management process and to the instruments for measuring and controlling risks, formulating, on the basis of the results of its own audits, recommendations to corporate bodies. Its main activities include the following:

- checking, also with on-site inspections, the regularity of the different corporate activities and compliance, in the different operating sectors, with the limits prescribed by the authorising mechanisms, as well as full and correct use of the available information in the different activities;
- assessing the completeness, adequacy, functionality, reliability of the other components of the internal

audit system including second level control corporate functions, of the risk management process and of the other corporate processes;
- verifying the effectiveness of the RAF definition process, the internal consistency with the overall set-up and the conformity of corporate operations with the RAF;
- verifying the adequacy and correct operation of the corporate processes, including outsourced ones, and of the methods for assessing corporate activities with particular regard to financial instruments.

Risk control department

The Risk Control Organisational Unit in Banca Finnat Euramerica S.p.A. reports to the Board of Directors and its task is to set up an adequate supervision for the management of the risks related to the different business activities and collaborate to the definition and implementation of the Risk Appetite Framework ("RAF") and of the related risk controlling policies.

Its main activities include the following:
- assist the governing bodies and the senior management in defining the RAF, risk controlling policies and the different phases that form their management process as well as fixing the operating limits to the assumption of various types of risk;
- propose the quantity and quality parameters required for defining the RAF, which also refer to stress scenarios and, in case of amendments to the internal and external operating contexts, the adjustment to such parameters;
- verify the adequacy of the RAF and, continuously, the adequacy of the management process of risks and operating limits;
- draw up on a regular basis the map of risks and prepare the ICAAP Report in line with the RAF;
- develop, validate and maintain the risk measurement and control systems ensuring their compliance with the requirements of the specific legislation;
- define common metrics for assessing the operating risks in compliance with the RAF, coordinating with the Compliance Department and with the Operation Management in the IT area and define methods of assessment and control of reputational risks, coordinating with the Compliance Department and the most exposed corporate functions;
- assist the company bodies in the assessment of the strategic risk by monitoring the significant variables;
- analyse the risks of new products and services and those deriving from the entry in new operating and market segments;
- monitor the actual risk assumed by the bank and its consistency with the risk objectives;
- carry out the performance management on single credit exposures and prepare and adequate reporting for the company functions involved.

The anti-money laundering department

The anti-money laundering department in Banca Finnat Euramerica S.p.A. is a staff that reports to the Board of Directors and its task is to supervise the commitment of prevention and management of the risk of money laundering and terrorist financing.

The Department is responsible for carrying out, for the bank, the activities contemplated by the current regulations for the anti-money laundering department; for outsourcing, for the Group's Trust Companies, the activities contemplated by the current regulations for the anti-money laundering department; for guiding, coordinating and controlling the activities carried out by the anti-money laundering department of the investee InvestiRE SGR.

The head of the anti-money laundering Department performs the functions of "Person in charge under Article 41 of Italian Legislative Decree no. 231/2007" (person in charge of reporting suspicious transactions). Its main activities include the following:

- identify applicable laws and regulations and measure their impact on processes and internal procedures and collaborate in the identification of the internal auditing system and procedures to prevent and counter money laundering risks;
- verify whether the internal auditing system and the procedures adopted are suitable and propose necessary or appropriate organisational and procedural changes in order to ensure adequate control over money laundering risks;
- provide advice and support to the company bodies and to the senior management; if new products, services and activities are offered by carrying out preventively the pertaining assessments;
- verify the reliability of the supply information system of the Single Electronic File and ensure on a monthly basis the transmission to the FIU of the aggregated data concerning the recording in the Single Electronic File;
- ensure company bodies appropriate information flows on the results of the activities carried out, the actions taken on identified problems and on the corrective actions to be taken and report on the staff training activity also with reference to the Group's Trust Companies and to InvestiRE SGR;
- evaluate the reports of suspicious transactions received and transmit the reports deemed credible to the Financial Information Unit.

The board of statutory auditors

For information on the Board of Statutory Auditors, please refer to that described in paragraphs 13 and 14 of this report.

11.1 Director in charge of the internal auditing and risk management system

The Board of Directors has a central role with respect to internal auditing.

The Board, which in the presence of the Risk Committee has not identified a director from amongst its members appointed to the internal auditing and risk management system, shall indicate and evaluate with yearly periodicity, with the assistance of the aforesaid Risk Committee internal to the Board, the effectiveness and the actual operation of the system as a whole in relation to the Bank's characteristics.

In the meeting of 10 March 2017, the following were presented to the Board:

i. the Risk Committee report, approved by the latter on 9 March 2017;
ii. the annual Report of the Head of the Internal Auditing Department, which provided positive evaluations concerning the regular performance of the operations and the efficiencies of the corporate operating structures, taking into account the degree of significance of the anomalies noted and the efficiency demonstrated in endorsing, planning and carrying out the proposed corrective actions on the basis of the indications drawn from the results of the Audit activities;
iii. the Report of the Manager in charge of preparing the accounting documents, which did not point out any problems or anomalies with respect to the adopted procedures;
iv. the Report by the Supervisory Body, from which it emerged that in the course of the last half of 2016

the data transmitted to the Supervisory Body are complete and exhaustive, in accordance with the provision of the model, and there were no alarm indications.

Therefore, the Board of Directors, taking also into account the outcome of the aforesaid reports and the information acquired from the appointed bodies, assessed the Bank's organisational, administrative and accounting structure as adequate.

11.2 Head of the internal auditing department

As from 30 June 2003, in relation to the completion of the merger of Banca Finnat Euramerica S.p.A. and Finnat Corporate S.p.A. into Terme Demaniali di Acqui S.p.A., the Board of Directors approved the company organisation chart, which specifically envisages the Internal Auditing Department.

The Head of the Internal Auditing Department, also referred to as the Internal Auditing Manager, is Enrica Macciò. The Head of the Internal Auditing Department is not hierarchically subordinate to any operational area and has free access to all useful information for the performance of her task.
The Internal Auditing function as a whole was not outsourced.

The Head of the Internal Auditing Department prepares - in compliance with international standards - the three-year Audit Plan and submits it to the approval of the Board of Directors. The working program includes the continuous operations required by the regulations (fixed part) and audits of areas and processes deemed most significant also in correlation with relevant risks (variable part).

The objectives of the planned activities are defined for each area of intervention and aim, in short, to ensure proper operation, the adequacy and effectiveness of the risk management system, the accounting system and the overall internal auditing system.

At the end of each audit, the Head of the department draws up a report, which describes in detail the activities carried out, their results and the suggestions made to remove any anomaly reported or to improve the auditing system within the analysed processes. The reports of the audits are delivered to the Senior Management, to the Heads of the Organisational Units involved in the auditing process and to the members of the Board of Statutory Auditors.

Moreover, the Head of Internal Auditing also prepares, once a quarter and once a year, a summary report on her activities, which is submitted to the Risk Committee, to the Board of Statutory Auditors and to the Board of Directors.
If particularly important situations occur, the Head of the Department informs immediately the competent Company Bodies and departments.

During 2016, the Internal Auditing Department carried out the auditing in accordance with the working program submitted to the Board of Directors of 14 March 2016. The main intervention areas concerned anti-money laundering and anti-terrorism, supervisory reporting, Back Office processes, outsourced operational functions, IT security, the liquidity risk and the performance of some investment services. In addition to these activities carried out on the Parent Company, the Internal Auditing carried out audits on

the activities of the subsidiaries Finnat Fiduciaria and Finnat Gestioni and it performed guidance and coordination activities for the subsidiary InvestiRE SGR.
The Internal Auditing Function verified, within the audit plan, the reliability of the IT systems, including the accounting systems.
In relation to the activities carried out in 2016, the Internal Audit function had access to all useful information for the performance of the assigned duties.

11.3 Organisational model pursuant to italian legislative decree no. 231/2001
In 2004, the Bank equipped itself with an Organisation, management and auditing model in accordance with Italian Legislative Decree no. 231/2001.

On 15 May 2012, the Board of Directors resolved to assign to the Board of Statutory Auditors the function of Supervisory Body in accordance with the provisions of Article 6, paragraph 4-bis of Italian Legislative Decree no. 231/01, introduced by the 2012 Stability Law, however on 28 April 2015 the Board of Directors decided to waive the match between the composition of the Supervisory Body and the Board of Statutory Auditors, thus giving continuity to the Supervisory Body, with particular regard to the competencies developed by Mr. de' Micheli (outgoing Permanent Auditor) concerning the prevention of money laundering offences also with regard to the activity carried out within the same bodies.

The Organisation, management and auditing model consists of a 'general part', summarising the main contents of Italian Legislative Decree no. 231/2001, and a 'special part', which identifies the various activities of the Bank presenting a potential risk of committing the different types of crimes considered by Italian Legislative Decree no. 231/2001, the structures and/or departments of the Bank where these crimes can easily be committed, and the procedures and/or internal rules aimed at preventing the commitment of the following crimes:
i) Crimes in matters concerning relations with the Public Administration;
ii) Crimes involving counterfeit coins, public credit papers and stamp values;
iii) Corporate crimes;
iv) Crimes committed for terrorist purposes or to avert the democratic order;
v) Crimes in relation to the mutilation of female genitals;
vi) Crimes against individual personality;
vii) Market abuse;
viii) Crimes committed in breach of health and safety regulations and the protection of health and safety at work;
ix) Money laundering and self-laundering offences;
x) Transnational crimes.
xi) Computer crimes and unlawful processing of data
xii) Organised crime offences
xiii) Crimes relating to violation of copyright
xiv) Incitement to withhold statements from or issue false statements to the judicial authority
xv) Employment of third-country nationals with unlawful residence permit
xvi) Environmental offences (Italian Legislative Decree no. 121/2011)
The Board approved the revised Model on 24 September 2015.

11.4 Auditing firm

The Shareholders' Meeting held on 29 April 2011, entrusted the task of auditing the statutory and consolidated financial statements and the half-yearly report for the nine-year period 2011/2019 to the auditing firm EY S.p.A.

The auditing firm has the task of ascertaining that the company's books are kept correctly, management events reported correctly in the accounts and that the statutory accounts comply with the results of the accounts and checks performed and with the regulations governing such.

EY S.p.A. also issues a report on the Bank's financial statements each year, giving its opinion on the compliance of the statutory financial statements with the regulations governing them.

11.5 Manager in charge of preparing the accounting documents

The Shareholders' Meeting held on 30 April 2007 adapted the Bank's articles of association, introducing, at Article 13, the role of the Manager in charge of preparing the accounting documents, chosen from amongst employees who have performed - in the Bank or other companies - managerial roles for at least three years in matters of accounts and/or auditing and/or internal auditing, or, alternatively, have exercised the profession of accountant for at least five consecutive years.

In any case, the Manager in charge of preparing the accounting documents must meet the requirements of honour envisaged by the provisions of law applicable to the appointment of the members of the auditing bodies of listed companies.

The task is conferred on an open-ended basis or until an expiry date that may be established at the time of appointment. In both cases, this is without prejudice to revocation by the Board of Directors.

This task was carried out by Mr. Paolo Collettini, Joint General Manager of the Bank until 10 February 2017, on which date he tendered his resignation. Therefore, in accordance with Article 154-bis of the Italian Consolidated Financial Law, on 9 February 2017 the Board of Directors, with the favourable opinion of the Board of Statutory Auditors - with the inputs of the Appointment, Remunerations and Risk Committees - appointed Mr. Giulio Bastia, as the new Joint General Manager and Manager in charge of preparing the accounting documents, and ascertained the requirements of professionalism and honour subject to annual verification.

The Board of Directors shall exercise oversight to ensure that the Manager in charge of preparing the accounting documents has adequate means and powers available to carry out his/her assigned duties with the help of all necessary human and material resources pertaining to the bank, and independently exercising his spending power up to the limit of the budget annually authorised by the Board of Directors on the basis of a specific proposal presented by the Manager in charge of preparing the accounting documents and first submitted to the Board of Statutory Auditors. More specifically, in order to carry out the tasks assigned, the Manager in charge of preparing the accounting documents is granted all powers necessary so that he may independently:

1. formulate and sign all accounting communications to be sent to the market on the Bank's behalf;
2. sign correspondence and communications of an accounting nature that are binding for the Bank;
3. prepare and sign reports to the annual and consolidated financial statements;
4. prepare and approve business procedures impacting the individual and consolidated financial statements and documents subject to certification;

5. freely access all information held to be significant, both within the company and the group companies, obtaining appropriate flows of information and/or documents;
6. communicate with all and/or operative and auditing managers of the Bank;
7. have free access to all the Bank's IT systems;
8. have spending power up to the limits of the budget authorised annually by the Board of Directors;
9. organise the business structure using internal resources and, where necessary, may also outsource activities;
10. organise the business structure, organising human resources according to the number and professionalism;
11. organise his office, hiring and organising all human resources and technical means held to be necessary;
12. use Internal Auditing, Organisation and Compliance for the mapping and analysis of the processes of competence and in implementing any specific controls held to be necessary.

Risk Control department

The Risk Control department reports hierarchically to the Board of Directors.

Currently, the Head of Risk Control, appointed by the Board of Directors, is Mr. Antonio Mancaniello (for his duties, please refer to point 11).

Anti-money laundering department

The anti-money laundering department reports hierarchically to the Board of Directors.

Currently, the Head of the Anti-money laundering department, appointed by the Board of Directors, is Mr. Mauro Ceccarelli (for his duties, please refer to point 11).

The Compliance department

The Compliance department reports hierarchically to the Board of Directors.

Currently, the Head of the Compliance department, appointed by the Board of Directors, is Mr. Pierluigi Angelini (for his duties, please refer to point 11).

Internal Audit Function

The Internal Audit function reports hierarchically to the Board of Directors.

Currently, the Head of Internal Audit, appointed by the Board of Directors, is Ms. Enrica Macciò (for her duties, please refer to point 11).

11.6 Coordination between the parties involved in the internal control and risk management system

The Company adopted a Risk Committee, consisting of a sufficient number of company employees belonging to the structures involved in the internal auditing and risk management system.

Joint meetings were periodically held by the Board of Statutory Auditors, the Risk Committee, the Heads of the control Functions, the Manager in charge of preparing the accounting documents and the Auditing Firm.

12 DIRECTORS' AND AUDITORS' INTERESTS AND TRANSACTIONS WITH RELATED PARTIES

On 2 August 2013, the Board of Directors adopted a "Regulation for Related Party Transactions and for the assumption of risk assets with regard to Related Parties" pursuant to Article 2391-bis of the Italian Civil Code, of Consob Regulation no. 17221/2010 and of Title V, Chapter 5 of the New prudential supervisory provisions for banks set forth in Circular Letter no. 263 of the Bank of Italy. The aforementioned Regulation is available on the Company website (www.bancafinnat.it), in Investor Relations/Corporate Governance.

The Company also adopted specific software for the assessment of the Related Parties and for the management of Related Party Transactions.

13 APPOINTMENT OF AUDITORS

In accordance with Article 20 of the Articles of Association, the Shareholders' Meeting elects the Board of Statutory Auditors, comprising three Standing Auditors and two Alternate Auditors.

The entire Board of Statutory Auditors is appointed on the basis of lists presented by the Shareholders, wherein candidates must be listed and progressively numbered with regard to candidates to the office of Standing Auditor, and assigned progressive letters with regards to Alternate Auditors.
The entire Board of Statutory Auditors is appointed in compliance with gender balance regulations in force.

Lists must be presented to the Company at least fifteen days prior to the date established for the first calling of the Meeting. The lists must be made available to the public at the registered offices and published on the Company's website without delay and, in any case at least ten days prior to the date established for the first calling of the Meeting. This is without prejudice to the terms that are fundamentally envisaged by applicable legislation.
Each Shareholder or party adhering to a significant shareholders' agreement in accordance with Article 122 of Italian Legislative Decree no. 58 dated 24 February 1998, the respective controlling parties, the subsidiaries and joint control parties in accordance with Article 93 of Italian Legislative Decree no. 58 dated 24 February 1998, may only present, or participate in the presentation of a single list. They may not present or participate in the presentation of more than one list, directly or through a third party or trustee company. They may not vote for different lists directly or through a third party or trustee company. Candidates may only be presented on a single list, at risk of ineligibility. Subscriptions and votes cast in breach of this prohibition will not be assigned to any list.
Only Shareholders who alone or jointly with other shareholders hold a total of 2% of the shares with voting rights in the Company's Ordinary Shareholders' Meetings may present lists. Alternatively, lesser measures may be established by fundamental provisions of law or regulations that will be stated, if applicable, in the notice calling the Meeting. In order to prove ownership of the number of shares necessary to present lists, at the same time Shareholders must provide the Company with the specific certificate issued by a broker qualified in accordance with the law. Together with each list, within the terms of its filing with the registered offices, declarations must also be filed and published by which the individual candidates: (i) accept their

candidature and certify, under their own liability, that there is no reason for which they should not be elected or are incompatible with the office, and that they meet the requirements of current legislation (including limits to the number of offices that can be held); (ii) supply full information on their personal and professional characteristics; and (iii) supply the further information required by provisions of law and regulations.

Lists presented that do not comply with the above provisions shall be considered as not presented.

Should there be more than one list, the members of the Board of Statutory Auditors are elected as follows:

a) two Permanent auditors and one Alternate auditor are elected from the list that has obtained the greatest number of Shareholder votes, in the progressive order in which they are listed;
b) the Chairman of the Board of Statutory Auditors (the "Minority Auditor") and an Alternate Auditor are elected from the list that has obtained the second greatest number of votes, in the progressive order in which they are listed.

Should equal votes be cast between two or more lists, the candidates of the list whose first candidate for the office of Standing Auditor is most senior in terms of age will be elected.

Should it become necessary to replace an Auditor, the Alternate Auditor pertaining to the same list as that to which the Auditor to be replaced originally pertained shall be appointed. Should this not be the case, the subsequent candidate in progressive order on this list will be appointed, or, where the Auditor standing down is the Minority Auditor, the first candidate of the second minority list in terms of number of votes, shall be appointed.

Where it is not possible to replace the Minority Auditor according to the mechanisms above, the Shareholders' Meeting called to re-form the Board in accordance with the law shall allow for the appointment of this Auditor in compliance with the principles of the regulations adopted by Consob with resolution no. 11971/1999.

Where only one list has been presented, the first three candidates shall be appointed Standing Auditors elected by majority, and the fourth and fifth candidate shall be the Alternate Auditors.

The Board of Statutory Auditors, or at least two Auditors, can call the Shareholders' Meeting by notifying the Chairman of the Board of Directors to this effect.

The Board of Statutory Auditors, or at least one Auditor, may call the meeting of the Board of Directors and/or the Executive Committee, by notifying the Chairman of the Board of Directors to this effect.

With Communication of 30 October 2012, the Bank of Italy informed that the Assessment Measure no. 0910107/12 of 30 October 2012 was issued with regard to the request to amend the articles of association, which include, among other things, the adjustments of some statutory provisions concerning the composition of their company bodies in order to ensure gender balance set forth in Italian Law no. 120 of 12 July 2011 (which introduced the new Articles 147-ter, paragraph 1 and 148, paragraph 1-bis, of the Italian Consolidated Financial Law). These amendments to the Articles of Association were submitted to the approval of the Shareholders' Extraordinary meeting convened on 24 April 2013. When approved, the new provisions of the articles of association aimed at ensuring the observance of the regulation on gender balance will apply as from the first renewal of the Board of Directors and of the Board of Statutory Auditors, respectively, subsequent to 12 August 2012 and for three subsequent mandates, reserving to the least represented gender, for the first mandate in application of the regulations, a share of at least one-fifth of the directors and permanent auditors elected and for the subsequent two mandates, at least one-third the directors and permanent auditors elected (rounding up, if necessary, to the higher integer).

The Shareholders' Meeting of 24 April 2013 approved the amendment to the Articles of Association that required the fixing at 2% - compared to the previous 1% - the attendance threshold required for presenting the list of candidates for the appointment of the board of statutory auditors.

14 AUDITORS (ARTICLE 123-BIS, PARAGRAPH 2/D) ITALIAN CONSOLIDATED FINANCIAL LAW)

In accordance with Article 20 of the Articles of Association, the Board of Statutory Auditors consists of three standing auditors and two alternate auditors appointed by the Ordinary Shareholders' Meeting. All must be auditors registered with the official roll held by the Ministry of Justice.
Auditors remain in office for three years and may stand for re-election. The Shareholders' Meeting that appoints the Auditors and the Chairman of the Board of Statutory Auditors also determines their fees. The Auditors shall be reimbursed all costs sustained by virtue of their office.
During the year, there has been a constant exchange of information between the Board of Statutory Auditors and the Bank's auditing departments.

The Board of Statutory Auditors currently in office was appointed by the Shareholders' Meeting of 28 April 2015 and will remain in office until approval of the financial statements at 31 December 2017.
The members of the Board of Statutory Auditors were appointed from among the only list of candidates presented by the relative majority shareholder, Arturo Nattino. Since no minority list was presented, Alberto De Nigro was elected Chairman of the Board of Statutory Auditors at the proposal of the majority shareholder. The Shareholders' Meeting approved the appointment of Board of Statutory Auditors with the favourable vote of 99.99% of the voting share capital (accounting for 74.24% of the share capital).

The Board of Statutory Auditors consists of:

Auditor	Position
Alberto De Nigro	Chairman
Barbara Fasoli Braccini	Permanent Auditor
Francesco Minnetti	Permanent Auditor
Antonio Staffa	Alternate Auditor
Laura Bellicini	Alternate Auditor

Alberto De Nigro: born in Rome on 1 July 1958, works professionally as a Chartered Accountant in the field of accounting and tax, specifically dealing with extraordinary corporate finance transactions.
Barbara Fasoli Braccini: born in Rome on 25 August 1969, works professionally as a Chartered Accountant in the field of accounting and tax, enrolled in the register of chartered Auditors.
Francesco Minnetti, born in Rome on 24 January 1964, Chartered Accountant and Auditor. Worked academically since 1996, first in the office of University Researcher and since 2003 in the role of Associate Professor of Economics for Financial Brokers at the Cassino University - Department of Economics.

During 2016, the Board of Statutory Auditors met 19 times. Average meeting duration was approximately 4 hours. This year, two meetings have already been held.
The Board of Statutory Auditors positively assessed the existence of the requirements of independence of its members for 2016.

The Board also monitored the independence of the Auditing Firm, specifically checking the nature and scope of further tasks performed by such and, in particular, the signing of the IRAP, Unico, CNM and ordinary and simplified 770 tax return forms.

The Board of Statutory Auditors attends the meetings of the Risk Committee and of the Remunerations Committee.

An auditor who, on his own or on third parties' behalf, has an interest in a given transaction of the Issuer, shall promptly and thoroughly inform the other auditors and the Chairman of the Board of Statutory Auditors with regard to the nature, terms, origin and scope of his/her interest.

In relation to coordination between the parties involved in the internal control and risk management system, please refer to paragraph 11.6 above.

During the 2016 financial year, the members of the Board of Statutory Auditor periodically participated in economic, legal and financial initiatives affecting the Company's operations.
In particular, they attended meetings with the Bank's Risk Manager to discuss issues such as: Statistical indicators of the portfolio's risk, Methodology for Credit Risk analysis and Methodology for Market Risk analysis.

15 RELATIONS WITH SHAREHOLDERS

The Bank has kept investor relations unchanged in order to manage relations with shareholders and the financial community (institutional investors, managers, analysts) in a transparent manner, organising regular meetings.
In the specific Investor Relations section of the Bank's website (www.bancafinnat.it), information of both an accounting and financial nature is available (financial statements, half-yearly reports and quarterly reports, trend of the market value of financial instruments issued by the Bank and traded on regulated markets), in addition to information of interest to most shareholders (e.g. in relation to the make-up of the company bodies, group set-up, etc.), as well as press releases issued, copy of documents presented during the regular meetings with the financial community, explanations of extraordinary operations and other significant and price-sensitive information.

The website also includes the Calendar of Corporate Events, stating the dates of the Shareholders' Meetings and the meetings of the Board of Directors called to approve the draft statutory financial statements, the consolidated financial statements, the half-yearly report and the interim management reports, in addition to those of a more strictly financial nature.

The Investor Relation Manager of Banca Finnat S.p.A is Mr. Gianfranco Traverso Guicciardi (tel. +39 06/699331 fax: +39 06/69922420 e-mail: g.traverso@finnat.it).

16 SHAREHOLDERS' MEETINGS (ART. 123-BIS, PARAGRAPH 1/C) ITALIAN CONSOLIDATED FINANCIAL LAW)

The Shareholders' Meeting, duly constituted, represents all shareholders. Its resolutions, when taken in compliance with the law, oblige them even if not having attended or in disagreement. The ordinary or extraordinary meeting meets in accordance with the law and the provisions of the Articles of Association. In accordance with the provisions of the Articles of Association, Shareholders may take part in the Shareholders' Meeting provided that they demonstrate that they are entitled to attend according to current legislation; the company must receive any notices from intermediaries at least two days prior to the Meeting.
All Shareholders may order their representation in Shareholders' Meeting, granting their representative due power of attorney. For all that is not specified herein, the provisions of Article 2372 of the Italian Civil Code and Articles from 136 to 144 of Italian Legislative Decree no. 58 dated 24 February 1998, shall apply.

The Board of Directors must call the Shareholders' Meeting to approve the financial statements at least once a year, within one hundred and twenty days of year end. Ordinary and extraordinary meetings can be held in either the registered offices or elsewhere, in a place to be specified in the notice of calling, as long as within the territory of the Italian State. For the methods by which the Shareholders' Meetings may be called, their constitution and the validity of the resolutions passed are in accordance with the provisions of law.
The Chairman of the Shareholders' Meeting ensures that the meeting has been regularly called, ascertaining the identity and legitimate presence of those in attendance, governs its proceedings and the results of votes cast. Said results must be noted in the minutes.

There are no provisions for: shares with multiple votes, loyalty shares, or particular rules pertaining to the percentages set for exercising the shares and the prerogatives safeguarding minorities.

The Shareholders' Meeting is chaired by the Chairman, or by the Deputy Chairman of the Board of Directors in his absence, or in the absence of both by the person appointed by the Shareholders present.
The Chairman appoints a secretary, who need not necessarily be a shareholder, and may choose two scrutinisers from amongst those in attendance.
Resolutions are taken in compliance with provisions of law and these Articles of Associations. They are binding for all Shareholders even if not in attendance or in disagreement.

In accordance with Article 8 of the articles of association, all those able to prove their legitimate presence in accordance with the methods established by current legislation may attend the shareholders' meeting. The right to attend and exercise voting rights is certified by a communication to the Company, made through a qualified intermediary in the favour of the party with voting rights, on the basis of the evidence relating to the terms of the accounting date of the seventh trading day prior to the date established for the shareholders' meeting at its first call (record date). Those recorded as holders of shares only subsequent to

the above-stated record date shall not have, therefore, the right to attend and vote in the shareholders' meeting.
The notice by the intermediary must reach the Bank no later than on the third trading day prior to the date established for the shareholders' meeting at its first calling. This is without prejudice to the legitimate right to attend the shareholders' meeting and vote should notices reach the Bank beyond said terms, provided it is prior to the start of the meeting.
Shareholders may be represented in the Shareholders' Meeting, providing the representative appointed by the Bank with a written proxy without expense on their part, or a proxy transmitted electronically as provided by applicable regulations. In this case, the electronic notification of the proxy may be carried out using the appropriate section of the Company's Website, according to the procedures indicated in the notice of call.

Shareholders have the right to ask questions about the items on the agenda by e-mailing said queries to ufficiolegale@finnat.it, or by posting them addressed to Banca Finnat S.p.A. – Ufficio Legale – Piazza del Gesù 49, 00186 Rome, attaching the documents proving the legitimate right to vote.

Shareholders who individually or jointly represent at least one fortieth of the share capital, may ask, within 10 days of the publication of the notice of call, for the supplement of the items on the agenda, specifying the further items proposed in the request. The request must be presented in writing to the registered office, upon demonstration of the relative legitimate presence of the Shareholders' proposing it. Within the above terms and in the same ways, any proponent must also provide the Board of Directors with a report on the items whose discussion is proposed.

Shareholders attending the meeting may speak by raising their hands.

Six directors attended the Shareholders' Meeting of 29 April 2016.
The Board of Directors reported on the operations it carried out.

All documents about the Shareholders' Meeting are made available in a timely manner on the Bank's Website and at its registered office.

The minutes of the Meeting, when not drawn up by a notary, must be signed by the Chairman and Secretary.
Considering the current dimensions of the attendance by shareholders at the Bank's Shareholders' Meetings, the Board of Directors has not currently held it necessary to adopt meeting regulations.

During the year, no significant changes occurred in the market capitalisation of the Bank's shares or in its shareholders.

17 FURTHER CORPORATE GOVERNANCE PRACTICES

Credits Committee

With a specific resolution taken on 16 February 2004, the Directors considered it appropriate to set up a Credits Committee as a consulting tool during the resolution on whether or not to grant credit lines.

Subsequently, during the meeting of 12 November 2010, the Board established to assign the decision-making function to the Credits Committee up to the limits established by the Board.

It comprises, upon appointment by the Board of Directors, six members of the Bank's Senior Management:

Leonardo Buonvino	Deputy Chairman of the Board of Directors
Arturo Nattino	Managing Director/General Manager
Tommaso Gozzetti	Chairman of the Board of Directors of the associated company Imprebanca Spa
Paolo Collettini	Joint general manager *
Giulio Bastia	Deputy General Manager – Credit and Advisory Area **
Carlo Pittatore	Sales Manager

* on 10 February 2017, he tendered his resignation, and currently serves in an advisory role.
* * with the Board of Directors of 9 February 2017, he was appointed Joint General Manager and Manager in charge of preparing the accounting documents.

Depending on the items up for discussion, other professionals or third parties may be invited to attend the meetings.

Functions of the committee
- To support senior management and the Board of Directors in formulating credit policies in order to ensure the quality and the efficient and effective development of credit activities;
- to propose improvements to make to the credit Regulations, to the procedures and systems supporting the lending activity;
- to examine, for consultation purposes and upon proposal and opinions formally expressed by the competent functions, proposals to assume the credit risk for all types of credit within the risk limit predetermined or set by the Board of Directors and the status shift for the position under its competence;
- to decide, within the limits of its authority, on proposals to assume the credit risk for all types of credit within the risk limit predetermined or set by the Board of Directors and the status shift for the position under its competence;
- to perform periodic checks on credit exposures in terms of performance by type of loan and to decide on overdrafts and impaired loans and relating to the loan positions on the basis of reports prepared by the Credits Organisational Unit;
- to formulate the credit policy contents to be submitted to the Board of Directors.

Functioning and periodicity of meetings
The Credits Committee elects a Chairman from amongst its members in the person of Arturo Nattino.
The Head of the Legal Department serves as Committee Secretary, preparing the meeting minutes.
The minutes, approved at the end of the meeting, are signed by the Chairman and by the Secretary and the related documentation is retained by the Legal Department.

The Committee generally meets once a week and, in any case, each time it may be necessary.

Resolutions – Confidentiality obligations

The Committee passes its resolutions by majority vote of those in attendance, expressed by raising their hands. Any contrary votes or abstentions are mentioned in the minutes.

Committee members shall keep strict confidentiality and refrain from divulging any information whereof they become aware in the performance of their duties and they act with utmost diligence to prevent the external disclosure of confidential information.

Limits to decision-making authority: the Credits Committee resolves on the following matters and up to the following amounts:

- 2,500,000.00 euros for first category risks (Class A);
- 3,000,000.00 euros for second category risks (Class B);
- 5,000,000.00 euros for third category risks (Class C);
- 5,000,000.00 euros for customers' "forward transactions".
- 5,000,000 euros for transactions entailing risk "of delivery" or "of a commercial nature" (max deferral 6 business days) in relation to the collection of the price.

These limits were updated by the Board of Directors' resolution of 14 March 2016.

The Committee also expresses an opinion with regards to the granting of credit lines for signing and cash and loans in general in relation to financial transactions of all natures and types, even where exceeding the short-term, for cash or other, on the basis of proposals prepared by the competent departments, for proposals under the competence of higher bodies.

These limits were updated by the Board of Directors' resolution of 14 March 2016. The Committee also expresses an opinion with regards to the granting of credit lines for signing and cash and loans in general in relation to financial transactions of all natures and types, even where exceeding the short-term, for cash or other, on the basis of proposals prepared by the competent departments, for proposals under the competence of higher bodies.

Reporting

The Committee shall periodically report to the Board of Directors on the activity it carries out.

* * * * *

Management Committee

The Management Committee supports the Managing Director and General Manager and the head of the Asset Management organisational unit for asset management guidance and investment strategy.

It also provides support to the Managing Director and General Manager with regard to the investment policies of the Bank pertaining to the property portfolios, within the session of the Committee specifically dedicated to company treasury.

The Management Committee currently consists of:

Managing Director and General Manager (chairman),
Deputy General Manager Finance,
Sales Manager,
Asset Management department Manager,
Studies, research and investor relations Manager,
Family office Manager,
Institutional Investor Manager,
Joint General Manager, (session dedicated to company treasury).
Treasury OU Manager (session dedicated to company treasury).

Functions of the committee:

- to formulate proposals, within the investment policies, assessing whether to maintain and/or make any changes to the composition of the managed portfolio;
- to provide operational guidance in relation to the practical implementation of the initiatives and lastly to agree the respective interventions;
- to provide indications, as a results of the assessments made, with regard to the lines of action to be undertaken in terms of investment strategy;
- to analyse, in collaboration with the office of the Deputy General Manager Finance and in particular with the Asset Management organisational unit, the managed customers' portfolio, thereby assessing the performance and general strategies on the investments carried out by the bank;
- to monitor and evaluate current market performance, in order to reach opinions on future performance.

Internal Risk and Audit Committee

The Internal Risk and Audit Committee provides support to the Managing Director and General Manager in formulating proposals pertaining to the identification, measurement, management and monitoring of the group's risks and of the RAF and in analysis the risks and their level of control, assured by the corporate audit functions and by the operational processes:

The Committee currently consists of:

Managing Director and General Manager (chairman),
Joint General Manager
Deputy General Manager
Head of Internal Auditing
Head of Risk Control
Head of Anti-Money Laundering
Head of Compliance
Head of Operations

Functions of the committee:

- to analyse, on a quarterly basis, the group's level of risk exposure in relation to the different classes of risks, with the support of the units tasked with risk management and control;
- to analyse and propose upgrades to the group's internal audit system;

- to provide periodic information on the analyses performed and the conclusions reached to be submitted to the Board of Directors through the Managing Director and General Manager.

18 CHANGES SINCE THE YEAR END OF REFERENCE

Following the resignation of Mr. Paolo Collettini, on 9 February 2017, the Board of Directors appointed Mr. Giulio Bastia as the Joint General Manager and Manager in charge of preparing the accounting documents. On 10 March 2017, the Chairman of the Board of Directors Mr. Giampietro Nattino, tendered his resignation. Consequently, on 10 March 2017 the Board of Directors:

- appointed Mr. Marco Tofanelli as non-executive independent Director to replace the resigning Director and Chairman Mr. Giampietro Nattino in accordance with Art. 2386 of the Italian Civil Code;
- appointed Ms. Flavia Mazzarella as the new Chairman of the Board of Directors;
- appointed Mr. Marco Tofanelli as the second Deputy Chairman;
- appointed as Lead Independent Director the non-executive Independent Director Mr. Marco Tofanelli, replacing Ms. Flavia Mazzarella (former Lead Independent Director).

As a result of the appointments made, in accordance with the Governance Code approved by the Company, in light of and in compliance with the criteria per the board resolution, on 10 March 2017 the Board of Directors supplemented the Risk Committee and the Appointment Committee within the Board as follows.

The **Risk Committee** currently comprises Messrs:

- Marco Tofanelli (Chairman);
- Ermanno Boffa;
- Roberto Cusmai

The **Appointment Committee** currently comprises Messrs:

- Andreina Scognamiglio (Chairman);
- Lupo Rattazzi;
- Marco Tofanelli.

* * * * *

TABLE 1: INFORMATION ON SHAREHOLDERS

SHARE CAPITAL STRUCTURE

	No. of shares	% of share capital	Listed/ unlisted	Rights and obligations
Ordinary shares	362,880,000	100%	STAR	N.A.
Shares with limited voting right	N.A.	N.A.	N.A.	N.A.
Shares without voting right	N.A.	N.A.	N.A.	N.A.

OTHER FINANCIAL INSTRUMENTS
(assignors of the right to subscribe newly-issued shares)

	Listed/ unlisted	No. of instruments in issue	Category of shares under conversion/ exercise	No. of shares under conversion/ exercise
Convertible bonds	N.A.	N.A.	N.A.	N.A.
Warrants	N.A.	N.A.	N.A.	N.A.

MAJOR EQUITY INVESTMENTS*

Declarant	Direct shareholder	% share of ordinary capital	% share of voting capital
Celeste Buitoni	Celeste Buitoni	–	7.4863%
Arturo Nattino	Arturo Nattino	21.675%	21.675%
Andrea Nattino	Andrea Nattino	16.8881%	10.8537%
Giulia Nattino	Giulia Nattino	12.00%	12.00%
Paola Nattino	Paola Nattino	12.00%	12.00%
Giampietro Nattino	Giampietro Nattino	–	4.5826%

* Based on the communications pursuant to Article 120 of the Italian Consolidated Financial Law on 31 December 2016.

TABLE 2: COMPOSITION OF THE BOARD OF DIRECTORS AND COMMITTEES AT 31 DECEMBER 2016

Board of Directors										
Office	Members	Year of birth	Date of first appoint. *	In office since	In office until	List **	Exec.	Non exec.	Indep. per the Code	Indep. per Cons. Fin. Law
Chairman	Nattino Giampietro	1935	31.07.03	28.04.15	Appr. of 2017 Fin. St.	N.A.		X		
Deputy Chairman	Buonvino Leonardo	1937	28.04.06	28.04.15	Appr. of 2017 Fin. St.	N.A.	X			
Managing Director	Nattino Arturo	1964	14.05.09	28.04.15	Appr. of 2017 Fin. St.	N.A.	X			
Director	Boffa Ermanno	1966	29.04.09	28.04.15	Appr. of 2017 Fin. St.	N.A.		X	X	X
Director	Carlevaris Carlo	1931	31.07.03	28.04.15	Appr. of 2017 Fin. St.	N.A.		X		
Director	Cusmai Roberto	1943	26.04.12	28.04.15	Appr. of 2017 Fin. St.	N.A.		X	X	X
Director	Nattino Giulia	1974	28.04.13	28.04.15	Appr. of 2017 Fin. St.	N.A.		X		
Director	Nattino Maria Sole	1976	28.04.15	28.04.15	Appr. of 2017 Fin. St.	N.A.		X		
Director	Rattazzi Lupo	1953	28.10.08	28.04.15	Appr. of 2017 Fin. St.	N.A.		X		
Director	Scognamiglio Andreina	1959	28.04.15	28.04.15	Appr. of 2017 Fin. St.	N.A.		X	X	X
Director	Mazzarella Flavia	1958	10.02.16	29.04.16	Appr. of 2017 Fin. St.			X	X	X
NO DIRECTORS WHO LEFT OFFICE DURING THE YEAR										
Quorum required for the presentation of lists on the occasion of the latest appointment: 2.5%										
No. of meetings held during the year		BoD: 11		RCC: 8		RC: 4		AC: 3	EC: N.A.	

Notes:

The symbols indicated below need to be entered in the "Office" column:

- • This symbol indicates the director in charge of the internal control and risk management system.
- ◊ This symbol indicates the person mainly responsible for managing the issuer (Chief Executive Officer or CEO).
- ○ This symbol indicates the Lead Independent Director (LID).

* Date of first appointment of each director means the date when the director was appointed for the first time (ever) in the BoD of the issuer.

** This column indicates the list from which each director was drawn ("M": majority list; "m": minority list; "BoD": list presented by the BoD).

*** This column indicates the number of offices as director or auditor held by the party in other companies listed in regulated markets, also abroad, in financial, banking, insurance or significant sized companies. In the Report on Corporate Governance, the offices are indicated extensively.

**** Mr. Arturo Nattino was a member of the Appointments Committee until 29 April 2016; with the BoD meeting of 29 April 2016, the following were appointed as members of the Appointments Committee: Ms. Andreina Scognamiglio, as Chairman, Mr. Lupo Rattazzi and Ms. Flavia Mazzarella.

(*) This column indicates the directors' attendance at the meetings respectively of the BoD and of the committees (indicate the number of meetings attended relative to the total number of the meetings the person could have attended: e.g. 6/8; 8/8; etc.).

(**) This column indicates the qualification of the director within the Committee: "P": Chairman; "M": Member.

		Control and Risk Committee		Remun. Committee		Appointment Committee		Executive Committee (if any)	
Number of other offices held ***	(*)	(*)	****	**	****	**	****	**	
2	11/11							N/A	N/A
2	11/11							N/A	N/A
3	11/11					1/3	M****	N/A	N/A
3	10/11	7/8	M	4/4	M			N/A	N/A
5	6/11							N/A	N/A
0	10/11	8/8	M	4/4	P			N/A	N/A
1	11/11								
1	10/11							N/A	N/A
3	11/11					2/3	M****	N/A	N/A
0	10/11			4/4	M	3/3	P****	N/A	N/A
1	10/11	7/8	P			2/3	M****	N/A	N/A

TABLE 3: COMPOSITION OF THE BOARD OF STATUTORY AUDITORS

Position	Members	Year of birth	Date of first appointment *	In office since
Chairman	Alberto De Nigro	1958	26/04/2012	28/04/2015
Permanent Auditor	Francesco Minnetti	1964	21/06/2003	28/04/2015
Permanent Auditor	Barbara Fasoli Braccini	1969	28/04/2015	28/04/2015
Alternate Auditor	Antonio Staffa	1943	26/04/2012	28/04/2015
Alternate Auditor	Laura Bellicini	1964	28/04/2015	28/04/2015
NO-AUDITORS LEFT OFFICE DURING THE YEAR				
Number of meetings held during the year: 19				
Indicate the quorum required for the presentation of lists by the minorities for the election of one or more members (per Art. 148 of the Consolidated Law on Finance): 2%				

Note:

* The date of first appointment of each auditor is the date on which the auditor was appointed for the first time (ever) in the board of statutory auditor of the issuer.

** This column indicates the list from which each auditor was drawn ("M": majority list; "m": minority list).

*** This column indicates the auditors' attendance in the meetings of the board of statutory auditors (indicate the number of meetings attended relative to the total number of meetings the persons could have attended; e.g. 6/8; 8/8 etc.).

**** This column shows the number of positions as director or auditor held by the individual, of relevance pursuant to Article 148-bis of the Italian Consolidated Financial Law and of the related implementing provisions contained in the Consob Issuers' Regulations. The comprehensive list of appointments is published by the Consob on its own Website in accordance with Article 144-quinquiesdecies of the Consob Issuers' Regulations.

In office until	List **	Indep. per the Code	Board meetings attendance ***	RCC meetings attendance	Number of other offices held ****
Appr. of 2017 Fin. St	M	X	18/19	6/8	4
Appr. of 2017 Fin. St	M	X	19/19	8/8	5
Appr. of 2017 Fin. St	M	X	19/19	7/8	0
Appr. of 2017 Fin. St	M	X	–		15
Appr. of 2017 Fin. St	M	X	–		8

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 OF BANCA FINNAT GROUP

REPORT ON OPERATIONS ON GROUP OPERATIONS

Dear Shareholders,

The consolidated financial statements of Banca Finnat Group for the year ended 31 December 2016 show a net profit of 7,296 thousand euros, down by 1,024 thousand euros compared to the previous year's 8,320 thousand euros.

Income from current operations before taxes, amounting to 15,365 thousand euros, instead is higher by 5,964 thousand euros than last year's (9,401 thousand euros).

The main items that form the 2016 financial year results are shown below and compared with the corresponding 2015 figures:

- **Earnings margin** totals 66,532 thousand euros, compared to 61,369 thousand euros in the previous financial year. The overall increase of 5,163 thousand euros may be broken down as follows:

  increases

  - 6,661 thousand euros for Net commissions (51,105 thousand euros at 31 December 2016, compared to 44,444 thousand euros in the previous year);
  - 3.607 thousand euros for Net income from trading activities, which had a positive balance of 1,896 thousand euros as at 31 December 2016, compared to the negative balance of 1,711 thousand euros of the 2015 financial year. The 2016 amount included 408 thousand euros for positive margins on derivatives representing greenhouse gas emissions allowances;

  decreases

  - 1,863 thousand euros for Interest margin (7,740 thousand euros at 31 December 2016 compared to 9,603 thousand euros in the previous year);
  - 449 thousand euros for Dividends and similar income (3,003 thousand euros at 31 December 2016, compared to 3,452 thousand euros in the previous year);
  - 2,793 thousand euros for Profit from the sale of available-for-sale securities (2,788 thousand euros in 2016, compared to 5,581 thousand euros in 2015).

- **Value adjustments for impairment** amounted to 5,842 thousand euros compared to 4,314 thousand euros in 2015. The item includes 185 thousand euros of value adjustments on receivables and 5,657 thousand euros of value adjustments on available-for sale financial assets.

- **Operating costs** amount to 45,700 thousand euros compared to 47,979 thousand euros in 2015, down by 2,279 thousand euros overall; their breakdown is as follows:
  - staff costs, which total 31,096 thousand euros, are up by 112 thousand euros compared to 2015 (30,984 thousand euros);
  - the other administrative expenses, amounting to 13,318 thousand euros, were lower by 1,003 thousand euros compared to the previous year's (19,321 thousand euros); the item also includes the contributions, totalling 1,204 thousand, paid by the Bank to the National Resolution Fund (versus 1,012 thousand euros of last year);
  - provisions for risks and charges were drawn down by 619 thousand euros as opposed to the allocation made last year;
  - other operating income/expenses show a positive balance of 3,748 thousand euros versus a likewise positive balance of 3,937 thousand euros of 2015. The item comprises recoveries of costs from customers, amounting to 3,882 thousand euros (4,018 thousand euros in the previous year); the item also included the negative result of 257 thousand euros referring to the trading of certificates representing greenhouse gas emissions allowances;
  - at 31 December 2016, the cost-income ratio amounted to 68.7% with a decrease compared to 31 December 2015 (78.2%) due both to the improvement in the earnings margin and to the reduction in operating costs.

- **Income tax** amounted to 5,415 thousand euros at 31 December 2016, whereas they were positive by 4,227 thousand at 31 December 2015. Last year, it benefited from the release of a total amount of 6,389 thousand euros (3,205 thousand euros pertaining to the Group) of the goodwill recognised by the subsidiary InvestiRE SGR S.p.A. as a result of the merger.

* * *

The change in "Valuation reserves" together with the result for the year, are shown in the Statement of Comprehensive Income.

THE STRUCTURE OF BANCA FINNAT EURAMERICA AND OF GROUP COMPANIES

The allocation of total human resources within the activities carried out by the Bank and the Group subsidiaries can be represented as follows:

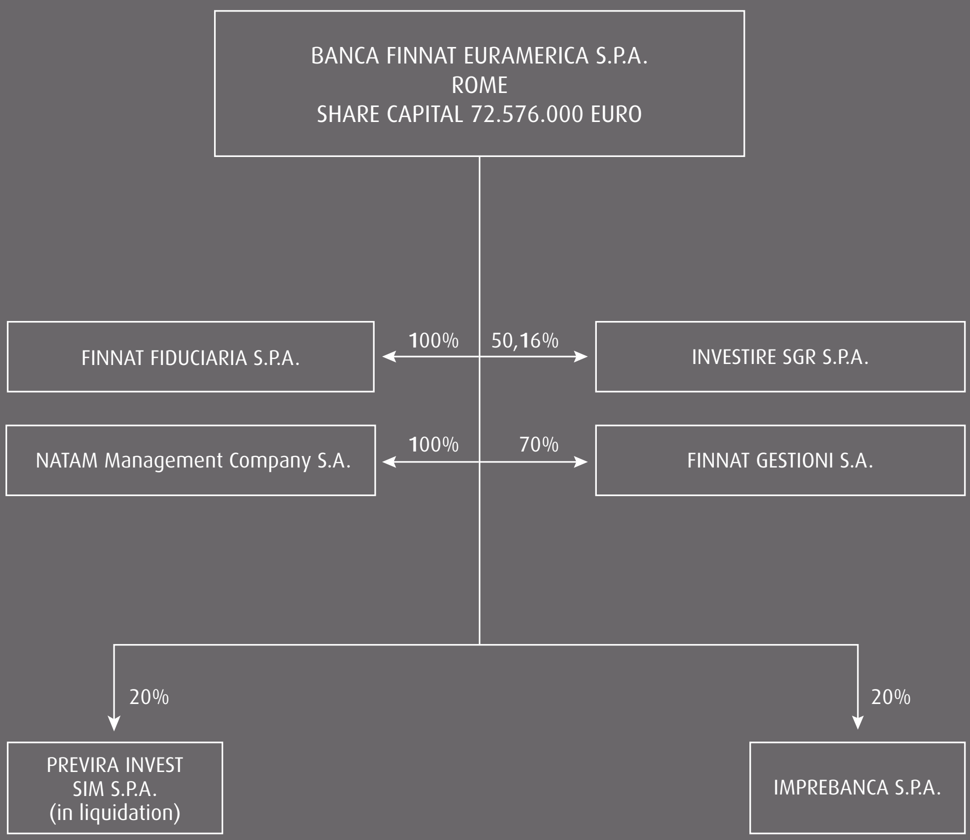
	GENERAL MANAGEMENT 10	
ADVISORY & CORPORATE FINANCE AREA 12	FINANCIAL SERVICES AREA 26	CONTROL FUNCTIONS 14
LOANS AREA 7	REAL ESTATE FUNDS AREA 135	STAFF AND MANAGEMENT SUPPORT 6
COMMERCIAL AREA 61	TRUST AREA 13	ADMINISTRATIVE, OPERATIONS, LEGAL, HR, GENERAL SERVICES AREAS 52

The total number of personnel in the Group increased from 323 at 31 December 2015 to 336 at 31 December 2016 as shown in detail below:

	31.12.2016	31.12.2015
staff	**327**	**313**
executives	52	46
managers	138	128
clerical workers	137	139
contractors	**6**	**7**
promoters	**3**	**3**
Total	**336**	**323**

THE GROUP'S COMPANIES

At 31 December 2016, the Group's structure was as follows:



On 30 August 2016, the company "NATAM Management Company S.A." was established with its registered office in Luxembourg, share capital 750,000 euros divided into 750 shares with a face value of 1,000 euros each, entirely subscribed by Banca Finnat.

On 27 October 2016, with the cancellation from the Commercial Register of Milan, the voluntary liquidation procedure of the associate company Sigefi Italia Private Equity Srl was completed;

On 7 December 2016, the Bank sold to B.S. 7 S.p.A., a wholly owned subsidiary of Beni Stabili S.p.A. Siiq, the entire interest, amounting to 36%, in Revalo S.p.A.

Changes in the Group's deposits

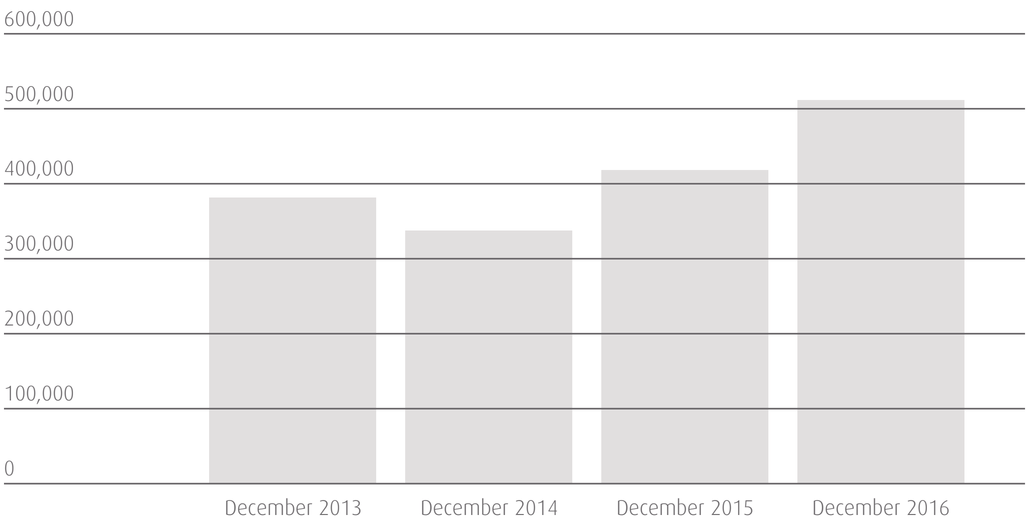
(in thousand of euros)

	December 2013	December 2014	December 2015	December 2016
Direct deposits from customers of the parent company	**380,810**	**336,854**	**417,760**	**510,686**
- Due to customers (current accounts)	284,987	248,080	331,111	418,331
- Fixed-term deposits	54,138	40,116	60,527	68,530
- Outstanding securities	41,685	48,658	26,122	23,825
Indirect deposits of the parent company	**4,029,489**	**4,338,207**	**4,609,152**	**4,505,144**
- Individual management	396,335	427,690	449,753	459,775
- Delegated management	214,972	244,252	283,646	251,061
- Deposits under administration (UCI and securities)	3,398,930	3,451,980	3,603,627	3,471,594
- Deposits under administration under advice (UCI and securities)	-	183,688	229,493	255,778
- Third parties' insurance products	19,252	30,597	42,633	66,936
Trusteeship	**1,581,762**	**1,471,884**	**1,408,787**	**1,374,990**
Real Estate Fund Management	**3,882,512**	**4,130,632**	**6,769,365**	**7,001,357**
Total deposits	**9,874,573**	**10,277,577**	**13,205,064**	**13,392,177**
Luxembourg-based Sicav, the "Promoter" of which is Banca Finnat: New Millennium Sicav, New Millennium Sif and Rinascimento Sicav (extinguished on 5 September 2016 as a result of the merger of the funds in another SICAV).	**612,302**	**702,614**	**725,786**	**677,938**

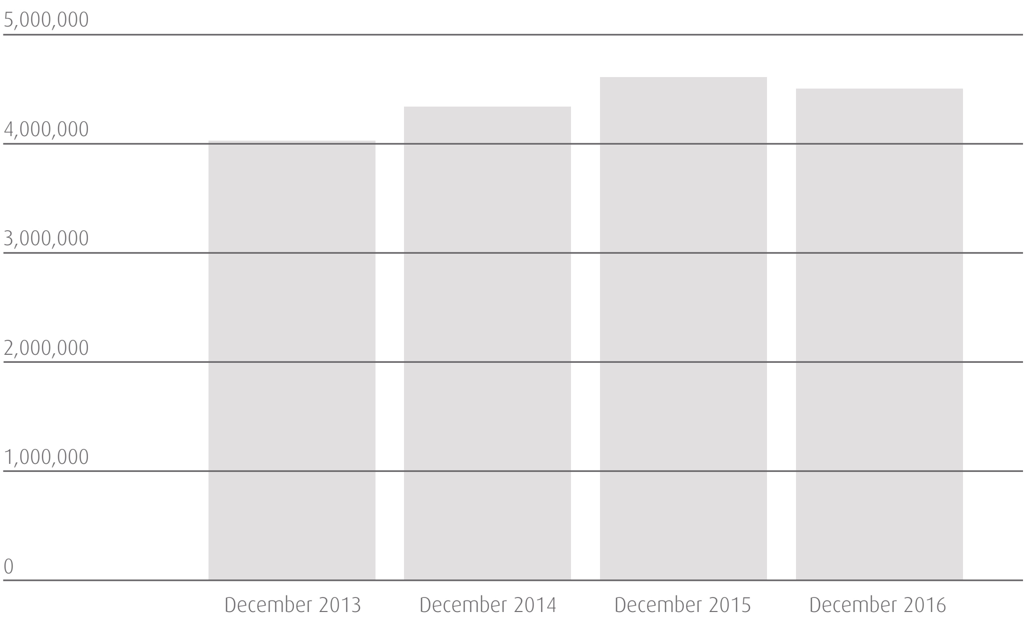
The above statement shows the changes in the Group's deposits broken down by type. In detail: a) direct and indirect funding from customers refers to the Bank's activity and does not include repos having the Cassa di Compensazione e Garanzia as the counterparty; b) trusteeship does not include the funding of Finnat Gestioni S.A.; c) the assets of the subsidiary InvestiRE SGR S.p.A. are measured at the market value of the total managed assets before subtracting debt (GAV).

All assets shown in the statement also take into account the amount invested in them and originating from the other types highlighted.

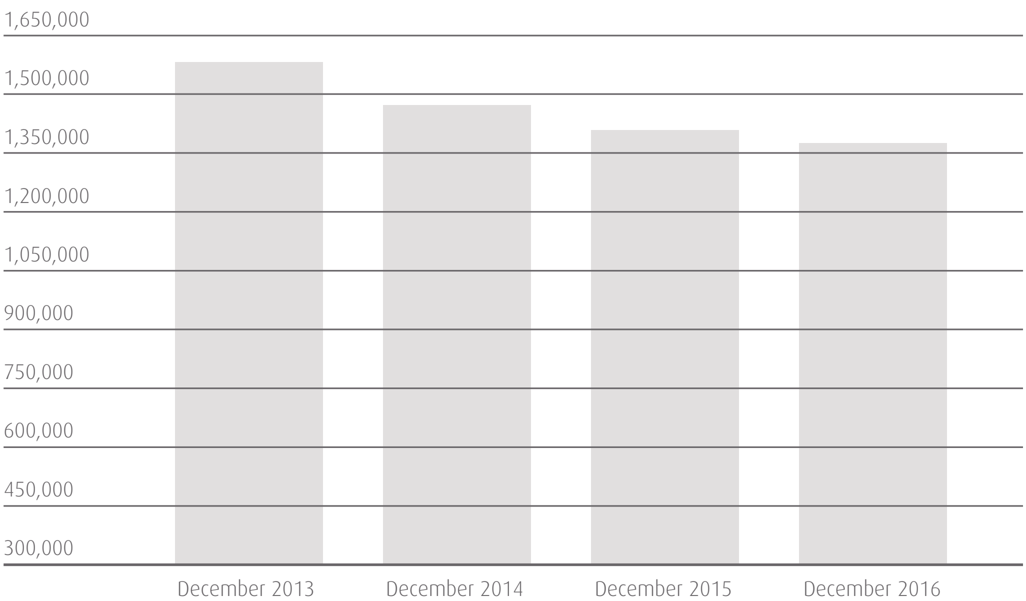
Direct deposits from customers



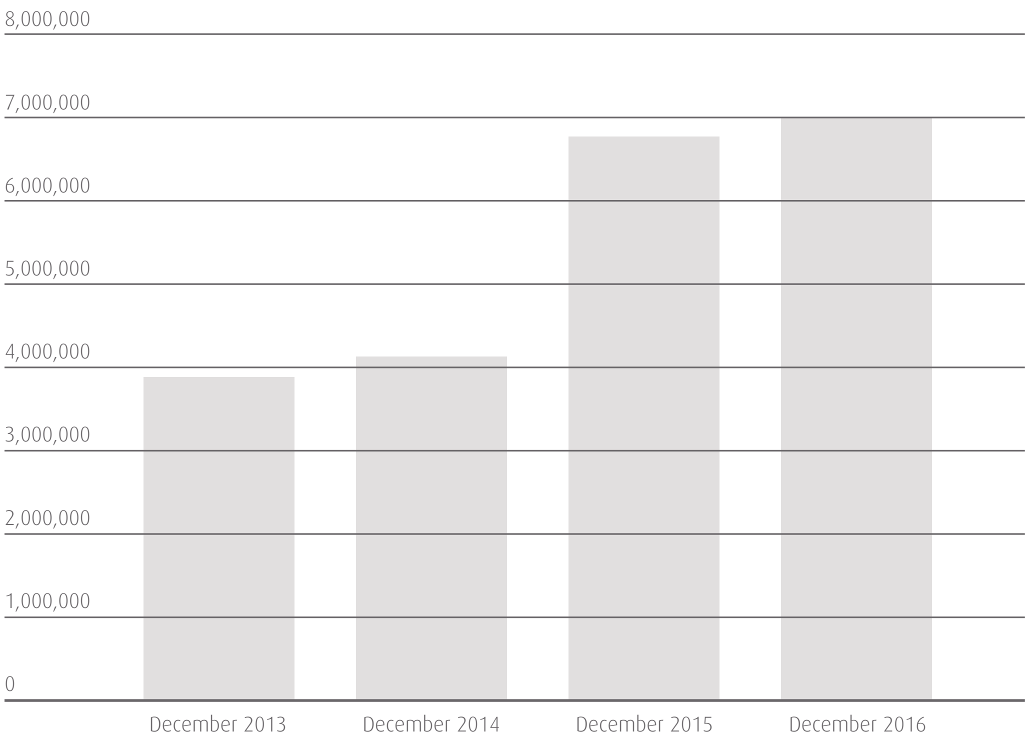
Indirect deposits



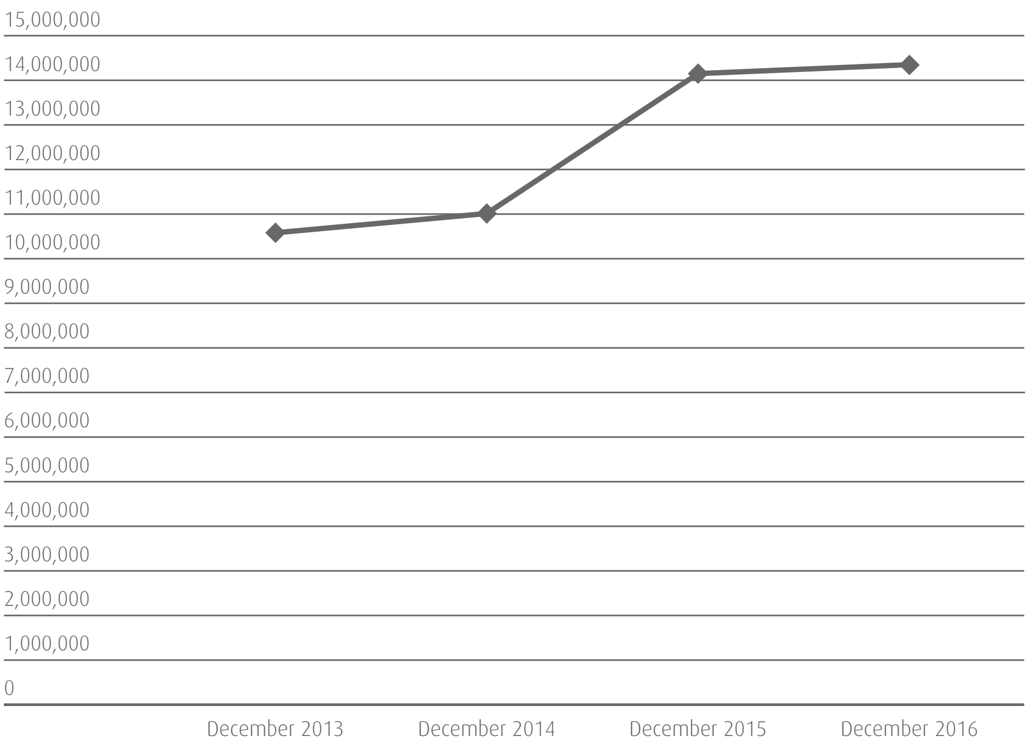
Trusteeship



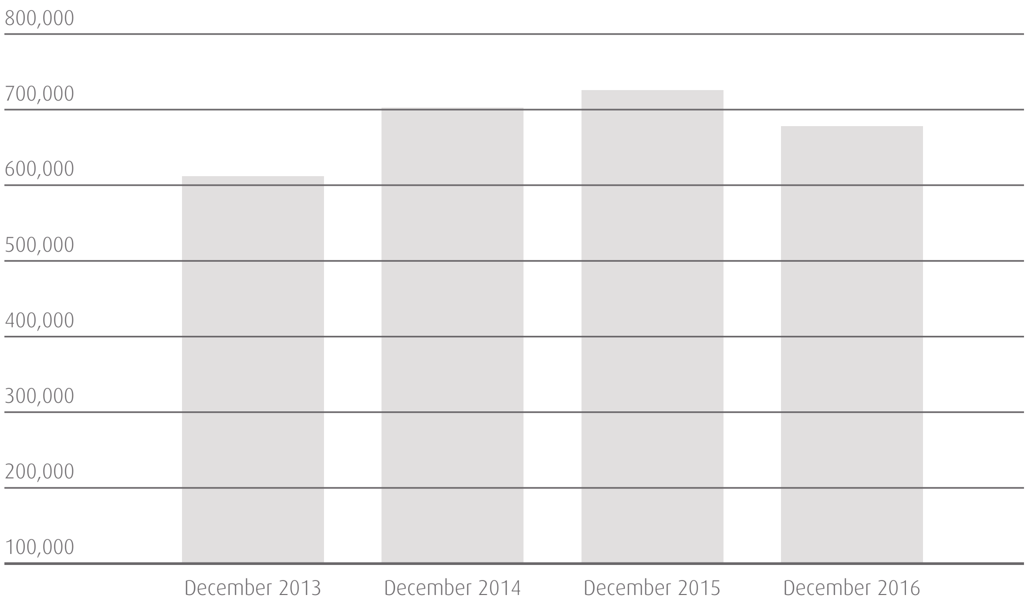
Real Estate Funds



Total deposits of the Group



Luxembourg-based Sicav fund



GROUP OPERATIONS

For comments on the performance of investee company operations, readers are invited to refer to the report on operations in the financial statements of Banca Finnat Euramerica S.p.A., which is included in this report.

Pursuant to Consob communication no. 98084143 of 27 October 1998, it should be noted that the Group principally operates in Italy and in any event does not have operations in locations that are considered to be risk areas.

Transactions regarding securities and equity investments are illustrated and examined in detail in the Notes to the Financial Statements.

COMPARISON OF KEY BALANCE SHEET AND INCOME STATEMENT FIGURES OF THE 2016 AND 2015 FINANCIAL YEARS

The main 2016 financial statement items and comparative items at 31 December 2015 are summarised below.

The tables reflect the minimum mandatory layout provided for in Circular Letter 262/2005 issued by the Bank of Italy.

CONSOLIDATED BALANCE SHEET

(in thousand of euros)

	31.12.2016	31.12.2015	Absolute change
ASSETS			
Cash and cash equivalents	475	469	6
Financial assets held for trading	40,489	56,578	(16,089)
Available-for-sale financial assets	1,172,947	831,421	341,526
Financial assets held to maturity	1,999	1,959	40
Due from banks	170,728	98,386	72,342
Due from customers	335,765	292,644	43,121
Hedging derivatives	391	215	176
Equity investments	8,264	10,549	(2,285)
Tangible assets	5,304	5,501	(197)
Intangible assets	41,022	41,957	(935)
Tax assets	16,003	21,265	(5,262)
Other assets	18,196	18,680	(484)
TOTAL ASSETS	**1,811,583**	**1,379,624**	**431,959**
LIABILITIES AND NET EQUITY			
Due to banks	1,203	11,496	(10,293)
Due to customers	1,496,319	1,045,816	450,503
Outstanding securities	23,825	26,122	(2,297)
Financial liabilities held for trading	10,772	9,733	1,039
Tax liabilities	3,602	10,228	(6,626)
Other liabilities	12,101	13,177	(1,076)
Staff severance fund	4,839	4,405	434
Provisions for risks and charges	448	1,067	(619)
Net equity of minority interests	40,970	39,031	1,939
Group net equity	217,504	218,549	(1,045)
TOTAL LIABILITIES AND NET EQUITY	**1,811,583**	**1,379,624**	**431,959**

CONSOLIDATED INCOME STATEMENT

(in thousand of euros)

	FY 2016	FY 2015	Absolute change	Percent change
Interest margin	**7,740**	**9,603**	**(1,863)**	**-19%**
Net commissions	**51,105**	**44,444**	**6,661**	**15%**
Dividends and similar income	3,003	3,452	(449)	
Net income from trading activities	1,896	(1,711)	3,607	
Net income from hedging activities	–	–	–	
Net profit (loss) from the transfer or the repurchase of:				
- available-for-sale financial assets	2,788	5,581	(2,793)	
Earnings margin	**66,532**	**61,369**	**5,163**	**8%**
Value adjustment for impairment	(5,842)	(4,314)	(1,528)	
Net income from financial operations	**60,690**	**57,055**	**3,635**	**6%**
Staff costs	(31,096)	(30,984)	(112)	
Other administrative expenses	(18,318)	(19,321)	1,003	
Net allocations to provisions for risks and charges	619	(686)	1,305	
Value adjustments on tangible and intangible assets	(653)	(925)	272	
Other operating income/expenses	3,748	3,937	(189)	
Operating costs	**(45,700)**	**(47,979)**	**2,279**	**-5%**
Profit (loss) from equity investments	**375**	**325**	**50**	
Profit (loss) from current operations before taxes	**15,365**	**9,401**	**5,964**	**63%**
Income tax for the period on current operations	(5,415)	4,227	(9,642)	
Profit (loss) from current operations after taxes	**9,950**	**13,628**	**(3,678)**	**-27%**
Profit (loss) of minority interests	(2,654)	(5,308)	2,654	
Net profit (loss) for the period pertaining to the Parent Company	**7,296**	**8,320**	**(1,024)**	**-12%**

Following are a series of Group operating ratios at 31 December 2016 compared with the operating ratios of the previous year.

	FY 2016 %	FY 2015 %
Interest margin/earnings margin	11.63	15.65
Net commissions/earnings margin	76.81	72.42
Cost/income ratio (operating costs/earnings margin)	68.69	78.18
ROE (profit for the year/net equity)	3.35	3.81
ROA (profit for the year/total assets)	0.40	0.60

SIGNIFICANT EVENTS OCCURRING AFTER THE END OF THE FINANCIAL YEAR

In the period spanning the end of the 2016 financial year and the date on which these financial statements were prepared, no significant events or factors that could affect the financial position, capital position, or results of operations of the Group emerged.
However, it should be pointed out that:

- on 9 February 2017, the Board of Directors of the Bank also resolved to appoint Deputy General Manager Mr. Giulio Bastia as the new Joint General Manager and Manager in charge of preparing the accounting documents replacing Mr. Paolo Collettini who reached the age limit.
- on 10 March 2017, the Board of Directors of the Bank, upon acknowledging the resignation of the Chairman Mr. Giampietro Nattino, appointed Director Ms. Flavia Mazzarella to replace him as the new Chairman of the Bank; she retains her characteristics as independent Director. The Board also co-opted, as independent Director, Mr. Marco Tofanelli, appointed as Deputy Chairman and Lead Independent Director. The Board also passed resolutions on the new composition of the Risk Committee and Appointment Committee.

RELATED PARTY TRANSACTIONS

The Bank complies with the Regulations for Related Party Transactions, approved by the Board of Directors on 2 August 2013 to define responsibilities and rules governing the identification, approval and implementation of related party transactions carried out by the Bank or by companies of the Banca Finnat banking group, in accordance with Article 2391-bis of the Italian Civil Code, the Consob Regulation adopted with Resolution no. 17221 of 12 March 2010 and Title V, Chapter 5 of the Bank of Italy Circular no. 263 introducing “New Prudential Supervision Provisions for Banks”, respectively.

The Bank entered into transactions with subsidiary companies or companies subject to significant influence and ordinary transactions of lesser significance and under market conditions that have not impacted significantly on the financial position or results of operations of the company and moreover, in 2016, it did not carry out any transaction with related parties or subjects other than related parties considered to be of an “atypical or unusual” nature, and which, due to their magnitude/relevance might have cast doubts on the safeguarding of the Bank’s assets and the protection of minority shareholders’ rights.

Information required under IAS 24 is shown in part H of the notes to the financial statements.

OPTION FOR THE DOMESTIC CONSOLIDATED TAX SYSTEM

The Bank and its Italian-based subsidiaries have joined the “domestic consolidated tax system”, pursuant to Article 117/129 of the TUIR (Consolidated Income Tax Act). The option was renewed in 2016 also for the 2016/2017/2018 period.

By virtue of this option, the Group companies determine their proportion of the taxes payable and the corresponding fiscal income (taxable income or fiscal loss) is transferred to the Parent Company, relating to which a single taxable income or loss is reported (resulting from the arithmetical sum of its own and its participating subsidiaries' incomes/losses) and, consequently, a single income tax debit/credit determined.

MARKET DISCLOSURE INFORMATION

Regarding market disclosure the Group declares that:

- with reference to the request made by the Bank of Italy, in its Communication of 17 June 2008, the Group's exposure to financial products perceived by the market as risky comprises the investment in "FIP Funding Class A2-2023" bonds, recorded in the financial statements of the Bank as securities held for trading, totalling 2,492 thousand euros (with a nominal value of 4,000 thousand euros). This investment (CMBS Commercial Mortgage-Backed Securities) is the result of the securitisation of the loan to Fondo Immobili Pubblici (managed, as mentioned above, by the subsidiary InvestiRE SGR S.p.A.) and is guaranteed by a special lien on the real estate owned by the Fund, which is almost exclusively leased out to Public Administration entities; consequently, it is an investment that is not exposed to the risk of insolvency.

  At 31 December 2016, the Bank and the other Group companies – with the exception of the above mentioned investment – were not exposed to and/or did not hold an interest, either directly or through vehicle companies or other non-consolidated entities, in financial instruments or UCIs characterised by high-risk investments, such as:- SPE (Special Purpose Entities) - CDO (Collateralized Debt Obligations) - Other exposures vis-à-vis subprime and Alt-A - CMBS (Commercial Mortgage-Backed Securities) - Leveraged Finance;
- the Board of Directors of Banca Finnat Euramerica S.p.A., pursuant to Consob Resolution No. 18079 of 20 January 2012, decided, on 21 January 2013, to comply with the simplification system set forth in Articles 70 (paragraph 8) and 71 (paragraph 1-bis) of the Regulation adopted by Consob with Resolution No. 11971 of 14 May 1999 as amended and supplemented, by making use of the right, of listed companies, to depart from the obligation to submit the information documents required by Annex 3B of the Consob Regulation relating to future significant extraordinary operations such as mergers, demergers, capital increase by non-cash contributions, acquisitions and sales;
- with reference to the requests contained in joint Document no. 2 dated 6 February 2009 by the Bank of Italy, Consob and Isvap and in their subsequent Document no. 4 dated 4 March 2010 and the provisions of paragraphs 15 and 25 of IAS 1, regarding disclosures to be made with respect to going concern assumptions, please refer to the commentary provided in Part A, Section 2 – General financial reporting principles and Part E – Information about Risks and Related Hedging Policies of the Notes to the Financial Statements;
- the Bank of Italy published Circular 285 "Prudential Supervision Provisions for Banks" illustrating the implementing provisions in force since 1 January 2014. The document also envisages in the transitional provisions on "own funds", the right not to include, for the purpose of calculating regulatory capital, unrealised profit and loss referring to exposures towards Central Administrations classified in the category "Available-for-sale financial assets". This right (the so-called sterilisation) is valid until the coming into force of IFRS 9 that will replace IAS 39 on financial instruments. The Bank within the time prescribed

exercised the above option. IFRS 9 entered into force on 19 December 2016 (twentieth day following publication on the Official Journal of the European Union) and it shall be adopted no later than 1 January 2018. In light of the indications, the Bank of Italy with its notice of 26 January 2017, awaiting a formal clarification by the European authorities, prescribed that this option will continue to be applied to "less significant banks" such as Banca Finnat.

PUBLIC DISCLOSURE BY STATE

Figures at 31 December 2016

in accordance with Art. 89 of Directive 2013/36/EU of the European Parliament and of the Council (CRD IV)

Name	Geographic location	Nature of the activity	Revenues (in thousands of euros)	Average number of employees	Pre-tax profit/Loss (in thousands of euros)	Taxes on income or loss (in thousands of euros)
Parent company						
Banca Finnat Euramerica S.p.A.	Italy	Banking	32,302	170	4,266	(276)
Direct subsidiaries						
Finnat Fiduciaria S.p.A.	Italy	Trusteeship	1,699	13	(275)	(83)
InvestiRE SGR S.P.A.	Italy	Promotion and management of closed-ended real estate funds	34,638	135	12,136	(4,973)
Natam Management Company S.A.	Luxembourg	Collective asset management	–	1	(281)	–
Finnat Gestioni SA	Switzerland	Financial management and advice	633	2	397	(84)

CAPITAL ADEQUACY, PRUDENTIAL RATIOS AND RISK MANAGEMENT DISCLOSURE

Information about the Group's capital adequacy and risk management are illustrated at length in the Notes to the financial statements, respectively in Part F – Information on Consolidated Net Equity and in Part E – Risk Information and Related Hedging Policies.

CONSOLIDATED OWN FUNDS AND CAPITAL RATIOS

The Consolidated regulatory capital is determined based on the harmonised regulations for Banks and the Investment companies contained in the Regulation ("CRR") and in the EU Directive ("CRD IV") of 26 June 2013 which transfer to the European Union the standards defined by the Basel Committee on Banking Supervision (the so-called Basel 3).
In order to enact the regulations, the Bank of Italy issued, on 17 December 2013, Circular no. 285 "Prudential Supervision Provisions for Banks".

Own funds at 31 December 2016 amounted to 154,634 thousand euros (148,600 thousand euros at 31 December 2015), whereas the Total capital ratio stood at 30.1% (31.7% at 31 December 2015) versus the 8% minimum requirement set forth in the current regulations for Credit Institutions.

The Total capital ratio, like the CET1 ratio and the Tier1 ratio, widely exceed minimum capital requirements, at the consolidated level, mandated for us by the Bank of Italy at the conclusion of the supervisory review and evaluation process (SREP) established by Directive 2013/36/EU (CRD IV).

RESEARCH & DEVELOPMENT

For research and development activities, readers should refer to the comments contained in the report on operations attached to the separate financial statements of the Parent Company.

BUSINESS OUTLOOK

Based on the current forecasts formulated by the offices of the Bank and of the subsidiaries on the annual performance of the Group, the consolidated result from current operations, before taxes, for the year 2017 is expected to be lower than that of 2016, which included significant revenues for performance fees referred to the subsidiary InvestiRE SGR S.p.A.

CONSOLIDATED NET EQUITY OF THE GROUP

The Group's net equity at 31 December 2016, including the profit for the period, totalled 217,504 thousand euros and changed as follows:

Trend in Group Net Equity

(in thousands of euros)

Net Equity at 31 December 2015	**218,549**
Dividend distribution	(3,629)
Change in valuation reserves	(3,976)
Changes in other reserves	(293)
Changes for purchase of own shares	(443)
Profit (loss) in the period	7,296
Net Equity at 31 December 2016	**217,504**

Reconciliation between the Parent Company's and the Group's net equity and results

(in thousands of euros)

	Net equity	of which: Profit (loss) for the period
Balance as per the Parent Company's financial statements at 31 December 2016	**234,654**	**3,990**
Results of subsidiaries as per the statutory financial statements:		
- fully consolidated companies	3,173	3,173
- valued by equity method	(1,495)	(199)
Amortisation of positive differences:		
- previous years	(984)	
Surplus over the book value related to:		
- fully consolidated companies	28,643	
Elimination of dividends	(541)	(2,670)
Other consolidation adjustments:	(45,946)	3,002
Balance resulting from the consolidated financial statements of the group at 31 December 2016	**217,504**	**7,296**

OWN SHARES

At 31 December 2016, the Bank held 29,492,710 own shares, representing 8.1% of the share capital with a total value of 14,392 thousand euros. At the end of the past year, the Bank held 28,320,718 own shares with a value of 13,949 thousand euros.
During the financial year, the Bank purchased 1,171,992 shares with a total value of 443 thousand euros.

Rome, 10 March 2017

CONSOLIDATED BALANCE SHEET

(in thousands of euros)

	Asset items	31.12.2016	31.12.2015
10.	Cash and cash equivalents	475	469
20.	Financial assets held for trading	40,489	56,578
40.	Available-for-sale financial assets	1,172,947	831,421
50.	Financial assets held to maturity	1,999	1,959
60.	Due from banks	170,728	98,386
70.	Due from customers	335,765	292,644
80.	Hedging derivatives	391	215
100.	Equity investments	8,264	10,549
120.	Tangible assets	5,304	5,501
130.	Intangible assets	41,022	41,957
	of which:		
	- goodwill	37,729	37,729
140.	Tax assets	16,003	21,265
	a) current	1,802	2,992
	b) advance	14,201	18,273
	of which in Italian Law 214/2011	12,594	14,329
160.	Other assets	18,196	18,680
	Total assets	**1,811,583**	**1,379,624**

	Liabilities and net equity	31.12.2016	31.12.2015
10.	Due to banks	1,203	11,496
20.	Due to customers	1,496,319	1,045,816
30.	Outstanding securities	23,825	26,122
40.	Financial liabilities held for trading	10,772	9,733
80.	Tax liabilities	3,602	10,228
	a) current	565	6,302
	b) deferred	3,037	3,926
100.	Other liabilities	12,101	13,177
110.	Staff severance fund	4,839	4,405
120.	Provisions for risks and charges		
	b) other provisions	448	1,067
140.	Valuation reserves	30,423	34,399
170.	Reserves	121,601	117,203
190.	Share	72,576	72,576
200.	Own shares (-)	(14,392)	(13,949)
210.	Net equity of minority interests (+/-)	40,970	39,031
220.	Profit (Loss) for the year (+/-)	7,296	8,320
	Total liabilities and net equity	**1,811,583**	**1,379,624**

CONSOLIDATED INCOME STATEMENT

(in thousands of euros)

	Items	FY 2016	FY 2015
10.	Interest income and similar income	6,394	11,110
20.	Interest expense and similar expense	1,346	(1,507)
30.	**Interest margin**	**7,740**	**9,603**
40.	Commission income	53,252	46,525
50.	Commission expense	(2,147)	(2,081)
60.	**Net commissions**	**51,105**	**44,444**
70.	Dividends and similar income	3,003	3,452
80.	Net income from trading activities	1,896	(1,711)
90.	Net income from hedging activities	-	-
100.	Profit (loss) from the transfer or the repurchase of:		
	b) available-for-sale financial assets	2,788	5,581
120.	**Earnings margin**	**66,532**	**61,369**
130.	Net value adjustments/write-backs for impairment of:		
	a) receivables	(185)	(1,816)
	b) available-for-sale financial assets	(5,657)	(2,498)
140.	**Net income from financial operations**	**60,690**	**57,055**
180.	Administrative expenses:		
	a) staff costs	(31,096)	(30,984)
	b) other administrative expenses	(18,318)	(19,321)
190.	Net allocations to provisions for risks and charges	619	(686)
200.	Net value adjustments/write-backs on tangible assets	(499)	(492)
210.	Net value adjustments/write-backs on intangible assets	(154)	(433)
220.	Other operating income/expenses	3,748	3,937
230.	**Operating costs**	**(45,700)**	**(47,979)**
240.	Profit (loss) from equity investments	375	325
280.	**Profit (loss) from current operations before taxes**	**15,365**	**9,401**
290.	Income tax for the year on current operations	(5,415)	4,227
300.	**Profit (loss) from current operations after taxes**	**9,950**	**13,628**
320.	**Profit (loss) for the year**	**9,950**	**13,628**
330.	Profit (loss) for the year for minority interests	(2,654)	(5,308)
340.	**Net profit (loss) for the year pertaining to the Parent Company**	**7,296**	**8,320**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(in thousands of euros)

	Items	Period FY 2016	Period FY 2015
10.	**Profit (loss) for the year**	**9,950**	**13,628**
	Other income items after tax without reallocation to income statement		
40.	Defined-benefit plans	(191)	210
60.	Share of valuation reserves of equity investments valued by equity method	27	(184)
	Other income items after tax with reallocation to income statement		
100.	Available-for-sale financial assets	(2,871)	4,476
130.	**Total other income items after tax**	**(3,035)**	**4,502**
140.	**Comprehensive income (Item 10+130)**	**6,915**	**18,130**
150.	Consolidated comprehensive income pertaining to minority interests	3,595	4,110
160.	**Consolidated comprehensive income pertaining to the Parent Company**	**3,320**	**14,020**

STATEMENT OF CHANGES IN CONSOLIDATED NET EQUITY AT 31 DECEMBER 2016

(in thousands of euros)

	Total net equity at 31.12.2015	Changes in opening balances	Total net equity at 01.01.2016	Allocation of previous FY profit	
				Reserves	Dividends and other allocations
Share capital:	**72,576**		**72,576**	**–**	**–**
a) ordinary shares	72,576		72,576	–	–
b) other shares	–		–	–	–
Share issue premium	**–**		**–**	**–**	**–**
Reserves:	**152,476**	**–**	**152,476**	**9,999**	**–**
a) profit	94,714		94,714	6,304	
b) other	57,762		57,762	3,695	–
Valuation reserves	**32,849**		**32,849**	**–**	**–**
Capital instruments	**–**		**–**	**–**	**–**
Own shares	**(13,949)**		**(13,949)**	**–**	**–**
Net Profit (Loss) for the year	**13,628**		**13,628**	**(9,999)**	**(3,629)**
Total net equity	**257,580**	**–**	**257,580**	**–**	**(3,629)**
of which: Group net equity	**218,549**	**–**	**218,549**	**–**	**(3,629)**
of which: Net equity of minority interests	**39,031**	**–**	**39,031**	**–**	**–**

STATEMENT OF CHANGES IN CONSOLIDATED NET EQUITY AT 31 DECEMBER 2015

(in thousands of euros)

	Total net equity at 31.12.2014	Changes in opening balances	Total net equity at 01.01.2015	Allocation of previous FY profit	
				Reserves	Dividends and other allocations
Share capital:	**72,576**		**72,576**	**–**	**–**
a) ordinary shares	72,576		72,576	–	–
b) other shares	–		–	–	–
Share issue premium	**–**		**–**	**–**	**–**
Reserves:	**101,024**	**–**	**101,024**	**1,355**	**–**
a) profit	89,633		89,633	1,440	
b) other	11,391		11,391	(85)	–
Valuation reserves	**28,347**		**28,347**	**–**	**–**
Capital instruments	**–**		**–**	**–**	**–**
Own shares	**(12,410)**		**(12,410)**	**–**	**–**
Net Profit (Loss) for the year	**4,984**		**4,984**	**(1,355)**	**(3,629)**
Total net equity	**194,521**	**–**	**194,521**	**–**	**(3,629)**
of which: Group net equity	**191,085**	**–**	**191,085**	**–**	**(3,629)**
of which: Net equity of minority interests	**3,436**	**–**	**3,436**	**–**	**–**

Changes during the year											
	Net Equity transactions										
Changes in reserves	New share issue	Purchase of own shares	Extra dividend distribution	Change in capital instruments	Derivatives on own shares	Stock options	Changes in equity investments	Compre-hensive income FY 2016	Net equity at 31.12.2016 Total	Net equity at 31.12.2016 Group	Net equity at 31.12.2016 Minority interests
–	–	–	–	–	–	–	–	–	72,576	72,576	–
–	–	–	–	–	–	–	–	–	72,576	72,576	–
–	–	–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–	–
(1,949)	–	–	–	–	–	–	–	–	160,526	121,601	38,925
(665)	–	–		–	–	–	–	–	100,353	89,309	11,044
(1,284)	–	–	–	–	–	–	–	–	60,173	32,292	27,881
–	–	–	–	–	–	–	–	(3,035)	29,814	30,423	(609)
–	–	–	–	–	–	–	–	–	–	–	–
–	–	(443)	–	–	–	–	–	–	(14,392)	(14,392)	–
–	–	–	–	–	–	–	–	9,950	9,950	7,296	2,654
(1,949)	–	(443)	–	–	–	–	–	6,915	258,474	–	–
(293)	–	(443)	–	–	–	–	–	3,320	–	217,504	–
(1,656)	–	–	–	–	–	–	–	3,595	–	–	40,970

Changes during the year											
	Net Equity transactions										
Changes in reserves	New share issue	Purchase of own shares	Extra dividend distribution	Change in capital instruments	Derivatives on own shares	Stock options	Changes in equity investments	Compre-hensive income FY 2015	Net equity at 31.12.2015 Total	Net equity at 31.12.2015 Group	Net equity at 31.12.2015 Minority interests
–	–	–	–	–	–	–	–	–	72,576	72,576	–
–	–	–	–	–	–	–	–	–	72,576	72,576	–
–	–	–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–	–
50,097	–	–	–	–	–	–	–	–	152,476	117,203	35,273
3,641	–	–		–	–	–	–	–	94,714	87,316	7,398
46,456	–	–	–	–	–	–	–	–	57,762	29,887	27,875
–	–	–	–	–	–	–	–	4,502	32,849	34,399	(1,550)
–	–	–	–	–	–	–	–	–	–	–	–
–	–	(1,539)	–	–	–	–	–	–	(13,949)	(13,949)	
–	–	–	–	–	–	–	–	13,628	13,628	8,320	5,308
50,097	–	(1,539)	–	–	–	–	–	18,130	257,580	–	–
18,612	–	(1,539)	–	–	–	–	–	14,020	–	218,549	–
31,485	–	–	–	–	–	–	–	4,110	–	–	39,031

CONSOLIDATED STATEMENT OF CASH FLOWS (indirect method)

(in thousands of euros)

	Amount	
	31.12.2016	**31.12.2015**
A. OPERATING ACTIVITIES		
1. Management	**18,273**	**41,277**
- net profit (loss) for the year (+/-)	7,296	8,320
- capital gains/losses on financial assets held for trading and on financial assets/liabilities carried at fair value (-/+)	659	8
- capital gains/losses on hedging assets (-/+)	(176)	(215)
- net value adjustments/write-backs for impairment (+/-)	5,842	4,314
- net value adjustments/write-backs on tangible and intangible fixed assets (+/-)	707	768
- net allocations to the provisions for risks and charges and other costs/revenues (+/-)	1,085	2,062
- net premiums not received (-)	–	–
- other insurance income/expenses not received (-/+)	–	–
- taxes, duties and tax credits not liquidated (+/-)	(5,415)	(4,227)
- net value adjustments/write-backs of disposal groups after tax (+/-)	–	–
- other adjustments (+/-)	8,275	30,247
2. Cash generated by/used in financial assets	**(448,171)**	**(27,180)**
- financial assets held for trading	15,430	49,660
- financial assets carried at fair value	–	–
- available-for-sale financial assets	(347,183)	(43,714)
- due from banks: on demand	29,479	(26,901)
- due from banks: other receivables	(103,021)	3,085
- due from customers	(43,306)	(4,977)
- other assets	430	(4,333)
3. Cash generated by/used in financial liabilities	**436,606**	**3,443**
- due to banks: on demand	10,963	(9,661)
- due to banks: other payables	(21,256)	(76,047)
- due to customers	450,503	108,721
- outstanding securities	(2,297)	(20,836)
- financial liabilities held for trading	1,039	7,374
- financial liabilities carried at fair value	–	–
- other liabilities	(2,346)	(6,108)
Cash generated by/used in operating activities	**6,708**	**17,540**

	Amount	
	31.12.2016	31.12.2015
B. INVESTING ACTIVITIES		
1. Cash generated by	**2,259**	**2,691**
- disposals of equity investments	–	–
- dividends received on equity investments	1,200	1,450
- disposal of financial assets held to maturity	–	360
- disposals of tangible assets	21	329
- disposals of intangible assets	1,038	552
- disposals of subsidiaries and business units	–	–
2. Cash used in	**(620)**	**(39,571)**
- purchases of equity investments	–	–
- purchases of financial assets held to maturity	(40)	–
- purchases of tangible assets	(323)	(1,115)
- purchases of intangible assets	(257)	(38,456)
- purchases of subsidiaries and business units	–	–
Cash generated by/used in investing activities	**1,639**	**(36,880)**
C. FINANCING ACTIVITIES		
- issues/purchases of own shares	(443)	(1,539)
- issues/purchases of capital instruments	–	–
- dividend distribution and other purposes	(7,898)	20,683
Cash generated by/used in financing activities	**(8,341)**	**19,144**
CASH GENERATED/USED DURING THE YEAR	**6**	**(196)**

Key:
(+) generated
(-) used

RECONCILIATION	31.12.2016	31.12.2015
ITEMS		
Cash and cash equivalents at the beginning of the year	469	665
Total net cash generated/used during the year	6	(196)
Cash and cash equivalents: effect of exchange rate changes	–	–
Cash and cash equivalents at the end of the year	475	469

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF BANCA FINNAT EURAMERICA GROUP

The sections of the notes to the financial statements applicable to the Group are shown below.

Part A – Accounting policies

A.1 – General information

Section 1 – Statement of compliance with international accounting standards

The financial statements at 31 December 2016 of Banca Finnat Euramerica Group have been prepared applying the International Accounting Standard (IAS) and the International Financial Reporting Standards (IFRS), as amended by the International Accounting Standards Board (IASB) and approved by the European Commission, in force at 31 December 2016, in accordance with the procedures laid down in Regulation (EC) No. 1606/2002.

The international accounting standards have been applied taking into account, where necessary, the "Framework for the Preparation and Presentation of financial statements" (the Framework).

For further guidance on the application of the new accounting standards, the Company has also referred to the interpretations provided by the International Financial Reporting Interpretations Committee (IFRIC), as well as the documents issued to support the introduction of the IAS/IFRS in Italy by the Organismo Italiano di Contabilità (OIC) – the Italian Accounting Board – and the documents produced by the Italian Bankers' Association (ABI).

If no standard or applicable interpretation applied specifically to a transaction, other event or condition, reference was made to the provisions and guidelines contained in the standards and interpretations dealing with similar and related issues, taking into account the Framework provisions.

Section 2 – General financial reporting principles

In accordance with the requirements jointly issued by the Bank of Italy, Consob and Isvap no. 2 of 6 February 2009 and paragraphs 25 and 26 of IAS 1, the Directors of the Bank have taken into account with the utmost caution and attention – for the purpose of preparing the financial statements – a series of financial, management and other indicators, in order to identify the existence of any circumstance that may be relevant for assessing the compliance with the 'going concern' requirement.

As a result of the audits carried out in respect of the realisable value of the assets – based on prudent and weighted assessments – and in consideration of the reliability and results of the risk measurement systems, the Directors of the Bank are confident there is no evidence that could cast doubts in respect of the Group's going concern assumption. Given the size of the Group's assets, the substantial financial resources owned and the breakdown, quality and liquidity of the portfolio of financial assets, the Directors of the Bank have prepared these consolidated financial statements in the full conviction that the Group meets the requirements of a going concern in the foreseeable future.

The consolidated financial statements at 31 December 2016 have been prepared by applying the provisions laid down by Circular No. 262 of 22 December 2005 "Banks' financial statements: layout and preparation" – 4th revision of 15 December 2015 – issued by the Bank of Italy in the exercise of the powers established by Article 9 of Italian Legislative Decree No. 38/2005.

The Consolidated financial statements consist of: consolidated balance sheet, consolidated income statement, consolidated statement of comprehensive income, statement of changes in consolidated net equity and consolidated cash flow statement and these notes to the consolidated financial statements. They also comprise the directors' report on operations and situation of the Group.

The Notes to the Consolidated Financial Statements provide all information required by law as well as additional information deemed necessary to give a true and fair representation of the Group's situation. If the information required by the international accounting standards and by the provisions of circular letter no. 262 of 22 December 2005 (4th revision of 15 December 2015) issued by the Bank of Italy does not suffice to give a true and fair, reliable, comparable and comprehensible view, the notes to the financial statements provide additional information for said purpose.

The tables of the Consolidated Balance Sheet, Income Statement and Statement of Comprehensive income comprise items, sub-items and additional information on the items and sub-items. The items, sub-items and related details constitute the financial accounts. All items with nil balances either for the current or for the previous financial year are not shown. Revenues in the income statement and statement of comprehensive income are shown without any sign whilst costs are shown in brackets.

Comparative figures are shown for each account item of the consolidated balance sheet, income statement and statement of comprehensive income. If the account items are not comparable with those of the previous financial year, they are adjusted; the lack of comparability, any adjustment made or the inability to make any such adjustment are reported and commented in the notes to the financial statements.

Consistently with article 5 of Italian Legislative Decree no. 38 of 28 February 2005, the consolidated financial statements were prepared using the euro as the presentation currency. Regarding the contents of the tables, all figures are expressed in thousands of euro, unless otherwise specified.

The consolidated financial statements provide a true and fair view of the financial position, the result for the year and cash flows. The financial statements were also prepared, as specified above, on a going concern basis (IAS 1, paragraph 25), on an accrual basis (IAS 1, paragraphs 27 and 28), in compliance with the obligation to make adjustments to reflect the events subsequent to the reference date of the financial statements (IAS 10). The assets and liabilities, income and expenses have not been offset, except where required or allowed by a principle or interpretation (IAS 1, paragraph 32). The cost of inventory and of the financial instruments was calculated using the weighted average daily cost method, (IAS 2, paragraph 25).

As regards disclosures to be provided in the consolidated financial statements, the directors of the Bank have also considered that indicated in the joint document no. 4 of 4 March 2010 issued by Bank of Italy, Consob and Isvap.

The consolidated financial statements for Banca Finnat Euramerica were audited by EY S.p.A., to whose report attached hereto specific reference is made.

Following are the Regulations endorsed by the European Commission which shall apply from 1 January 2016 onwards:

- Regulation No. 28/2015 – IFRS 2010-2012 annual improvements cycle.
- Regulation No. 29/2015 – IAS 19 Defined Benefit Plans: employee contributions;
- Regulation No. 2113/2015 – Amendments to IAS 16 Property, plant and equipment and to IAS 41 Agriculture:
- Regulation No. 2173/2015 – Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations;
- Regulation No. 2231/2015 – Amendments to IAS 16 Property, plant and equipment and to IAS 38 Intangible assets: Clarification of Acceptable Methods of Depreciation and Amortisation;
- Regulation No. 2343/2015 – IFRS 2012-2014 annual improvements cycle;
- Regulation No. 2406/2015 – Amendments to IAS 1 Presentation of Financial Statements: Disclosure Initiative;
- Regulation No. 2441/2015 – Amendments to IAS 27 Separate Financial Statements: Equity Method in Separate Financial Statements.
- Regulation no. 1703/2016 – Amendments to IFRS 10 Consolidated financial statements, to IFRS 12 Disclosure of Interests in Other Entities and to IAS 28 Investments in associates and joint ventures.

The adoption of the above-mentioned Regulations did not impact these financial statements.

In 2016, the European Commission endorsed the following Regulations, which shall be effective from 1 January 2018:

- Regulation no. 2067/2016 – IFRS 9 Financial Instruments;
- Regulation no. 1905/2016 – IFRS 15 Revenue from Contracts with Customers.

Section 3 – Scope and methods of consolidation

1. Equity investments in exclusively controlled subsidiaries

Company names	Principal place of business	Registered office	Type of relationship (1)	Investment relationship		Voting rights % (2)
				Investor company	% stake	
1. InvestiRE SGR S.p.A.	Rome	Rome	1	Banca Finnat	50.16	50.16
2. Finnat Fiduciaria S.p.A.	Rome	Rome	1	Banca Finnat	100.00	100.00
3. Finnat Gestioni S.A.	Lugano	Lugano	1	Banca Finnat	70.00	70.00
4. Natam Management Company S.A.	Luxembourg	Luxembourg	1	Banca Finnat	100.00	100.00

Key:

(1) Type of relationship:

1 = majority voting rights in ordinary shareholders' meetings; 2 = considerable influence in ordinary shareholders' meetings; 3 = agreements with other shareholders; 4 = other forms of control; 5 = sole direction as per article 26, paragraph 1 of Italian Legislative Decree no. 87/92; 6 = sole direction as per article 26, paragraph 2 of Italian Legislative Decree no. 87/92.

(2) Voting rights in ordinary shareholders' meetings, with a distinction between effective and potential rights

The percentage of voting rights in the shareholders' meeting is effective.

2. Significant evaluations and assumptions to determine the scope of consolidation

The scope of consolidation includes:

- the financial statements of the Parent Company Banca Finnat Euramerica S.p.A. and of the subsidiaries, consolidated on a line-by-line basis;
- the financial statements of directly and indirectly associated companies stated at equity, or the last financial report available at the time of preparation of the consolidated financial statements.

The scope of consolidation includes all subsidiary companies, regardless of their legal status, and of whether they are going concerns or being wound up.

Compared to the financial statements for the year ended 31 December 2015, the scope of consolidation has changed as follows:

- on 30 August 2016, the company "NATAM Management Company S.A." was established with its registered office in Luxembourg, share capital 750,000 euros divided into 750 shares with a face value of 1,000 euros each, entirely subscribed by Banca Finnat;
- on 27 October 2016, with the cancellation from the Commercial Register of Milan, the voluntary liquidation procedure of the associate company Sigefi Italia Private Equity Srl was completed;
- on 7 December 2016, the Bank sold to B.S. 7 S.p.A. the entire interest, amounting to 36%, in REVALO.

Subsidiaries

Subsidiaries are companies whose financial and operating policies are directly or indirectly determined and controlled by the Group to which they belong and which Group can, therefore, benefit from their activities. When determining control, account should also be taken of the companies in which Banca Finnat directly or indirectly holds more than half of the voting rights. The voting rights also include the so-called "potential" rights, which can be consistently exercised or converted into effective voting rights at any time.

The financial statements of subsidiaries are consolidated from the date on which the parent company obtains control over the company until the date on which that control ceases.

Associated companies

Associated companies are entities whose financial and operating policies are significantly influenced by the Group, but which it does not control, either jointly or separately; they are included in the consolidation according to the equity method. The profit or losses of the Group are recorded in the consolidated income statement from the date on which the significant influence started and up to the date on which it ceases.
If the loss by the Group exceeds the book value of the equity investment then the value of the equity investment is derecognised and, if the investing company is committed to performing legal or implicit obligations of the investee company, or in any event to hedging its losses, any surplus is recognised in a specific liability fund.

Line-by-line consolidation

All the financial statements of the investee companies used to prepare the consolidated financial statements were drawn up on 31 December and, if necessary, adjusted to ensure the uniform application of the same accounting principles applied by the Parent Company.
The assets and liabilities, expenses and income of the companies consolidated according to the line-by-line method are fully recognised in the consolidated financial statements ("line-by-line" recognition of the balance sheet and income statement aggregates of the subsidiaries), after the recording of any minority interests in specific items; the book value of the equity investments is written off for the corresponding fraction of the net equity of the investee companies, recording the single asset and liability items (including the provisions for risks and charges) at their current value on the date of acquisition of control. Any positive difference resulting from the said writing off is recorded as goodwill, under the asset item "Intangible assets", at the date of the first consolidation and, thereafter, among the net equity reserves. Any negative difference is recorded in the Income Statement.
All intra-group balances (assets, liabilities, revenues and costs) and transactions, including any unrealised profit or loss resulting from intra-group transactions, are written off minus their theoretical fiscal effect, if significant. The Group's share of unrealised profit and loss with associated companies is written off.
Unrealised losses are written off only if they represent impairment losses.

The presentation currency of the Group's financial statements is the Euro, which is also the functional currency of all the companies included in the consolidated financial statements.
Non-monetary assets and liabilities in foreign currencies, recorded at historical cost, are translated using the exchange rate at the date on which the transaction was originally recorded.

The financial statements of the consolidated companies expressed in foreign currencies were translated according to the exchange rate at the reporting date for the assets and liabilities; for the income statement items, the average exchange rates in the period were used, and the historical exchange rates for the net equity items. The differences between the values of the net equity items at the historical exchange rates and those descending and resulting from the translation thereof at the current exchange rates are recorded and, indeed, posted at the current exchange rates in the net equity item called "Other reserves".

Equity consolidation method

This method provides for the initial recording of the investee company at cost. The book value is then periodically adjusted to take into account changes in the investee company's net equity. The pro quota allocation of the net income of the investee company is recorded in a specific item of the consolidated income statement. The net equity of the associates is inferred from the latest available financial statements or from the latest financial report available at the time of preparation of the consolidated financial statements.

The difference – if any – between the book value and the recovery value of the equity investment, estimated based on the present value of the future cash flows generated by the investment itself, is recorded in the income statement.

Section 4 – Subsequent events

In the period spanning the end of the 2016 financial year and the date on which these financial statements were prepared, no significant events or factors that could affect the financial position, capital position, or results of operations of the Group emerged.

However, it should be pointed out that:

- on 9 February 2017, the Board of Directors of the Bank also resolved to appoint Deputy General Manager Mr. Giulio Bastia as the new Joint General Manager and Manager in charge of preparing the accounting documents replacing Mr. Paolo Collettini who reached the age limit.
- on 10 March 2017, the Board of Directors of the Bank, upon acknowledging the resignation of the Chairman Mr. Giampietro Nattino, appointed Director Ms. Flavia Mazzarella to replace him as the new Chairman of the Bank; she retains her characteristics as independent Director. The Board also co-opted, as independent Director, Mr. Marco Tofanelli, appointed as Deputy Chairman and Lead Independent Director. The Board also passed resolutions on the new composition of the Risk Committee and Appointment Committee.

Section 5 – Other information

Risks and uncertainties linked to the use of estimates

In compliance with the IAS/IFRS standards, the Bank and the other Group companies carry out evaluations, estimates and assumptions in support of the application of the accounting standards and for the determination of the amounts of the assets, liabilities, costs and revenues reported in the consolidated financial statements. In respect of the preparation of the financial statements at 31 December 2016, the Bank and the other Group companies have used estimates (based on the most recent available data), in several limited cases and for immaterial amounts, in respect of both several balance sheet and several income statement items.

Exemption from the preparation of the fourth interim financial report for 2016

With the transposition of the Directive on shareholders' rights (Italian Legislative Decree no. 27 of 27 January 2010), paragraph 1 of Article 154-ter ("Financial Reports") of the Italian Consolidated Financial Law (the "TUF") was amended. This amendment establishes that the annual Financial Report, comprising the draft statutory financial statements, the consolidated financial statements, if prepared, the report on operations and the certification of the appointed administrative bodies and the Manager in charge of preparing the accounting documents, must be published within 120 days of the company year end. The obligation to ensure publication within 120 days refers specifically to the "draft financial statements" approved by the administrative body and no longer to the "statutory financial statements" approved by the Shareholders' Meeting. As such, this amendment restores, for listed companies, the option to postpone approval of the financial statements within maximum terms of 180 days as established by Article 2364, paragraph 2 of the Italian Civil Code, which had been abolished by Directive 2004/109/EC (the Transparency Directive). The decree also establishes that, as an exception to art. 2429, paragraph 1 of the Italian Civil Code, the draft financial statements must be disclosed by the directors to the board of auditors and independent auditing firm at least 15 days prior to publishing the draft.

With reference to companies belonging to the STAR segment, Borsa Italiana has established the publication - in addition to the reports concerning the first and third quarters, as required by paragraph 5 of Article 154-ter – also the interim report on operations with reference to the 4th quarter; it has also allowed to omit drafting said report if publication of the draft financial statements is brought forward to 90 days as from the end of the year of reference. The term of 90 days (previously set to 75 days prior to the amendments introduced with the implementation of the Directive as explained above) was established by Borsa Italiana with its notice no. 14924 of 8 October 2010 concerning the "Amendments made to the Market Regulation".

In view of the above, the Bank opted not to publish the 4th interim report on operations, by making the draft separate and consolidated financial statements as of 31 December 2016, complete with the certification by the manager in charge of preparing the accounting documents, that of the board of statutory auditors and the auditing firm, available to shareholders and to the market within the term of 90 days from the end of the financial year.

A.2 – Information on the main financial statement items

The main accounting standards adopted in preparing the consolidated Financial Statements as at 31 December 2016 remained unchanged with respect to those adopted in the financial statements as at 31 December 2015 as concerns classification, measurement and de-recognition criteria in general, and the recognition criteria for costs and revenues.

1 - Financial assets held for trading

Classification criteria

This category includes debt securities, equities, mutual investment funds and the positive fair value of derivative contracts other than those held for hedging purposes. In addition, the positive fair value of the derivatives entered into by the Group for risk hedging purposes, but which do not pass the effectiveness test, is also recorded.

The classification of a financial instrument in the category of assets or liabilities held for trading should be made at the initial recognition. The reclassification of these types of instruments is permitted only in “rare circumstances” and should in any case be made at the fair value as at the transfer date.

Recognition criteria

Financial instruments are recorded in the category on the settlement date, except for derivatives that are recognised by the subscription date.

They are initially recognised at their fair value, which usually coincides with the purchase price.

Measurement criteria

Subsequent as at initial recognition, financial assets held for trading are carried at their fair value, with the results of any change in value recorded in the income statement. The fair value of assets held in a trading portfolio should be determined on the basis of active market prices or, failing these, on the basis of prices supplied by external operators or, lastly, calculated using the results of internal valuation models that are generally used in financial practice, which are believed to provide reliable estimates of the prices of current market transactions.

Derecognition criteria

Financial assets are derecognised when the contractual rights on the financial flows deriving from the assets are lost, or in the case of a transfer, when it entails the substantial assignment of all the risks and benefits associated with the assets. If it is not possible to determine the transfer of the risks and benefits, the financial assets in the category are derecognised when the control thereof is transferred. Otherwise, the financial assets are maintained on the balance sheet to the extent of the entity’s involvement, measured by the exposure of the assets transferred to value changes.

Recognition criteria of income components

The profit or loss resulting from disposals or repayments, and the unrealised profit or loss resulting from changes in the fair value of any financial asset held for trading, will be recorded under item 80 of the income statement "Net income from trading activities", together with the result of the valuations of the foreign-currency assets and liabilities.

Interest is recorded on an accrual basis under item 10 "Interest income and similar income", dividends from equities or fund units are recorded under item 70 "Dividends and similar income", as soon as entitlement to them arises.

2 - Available-for-sale financial assets

Classification criteria

The available-for-sale financial assets include investment fund units, debt securities and equity investments in companies that do not qualify as establishing control or joint control over or association with the said companies. Moreover, this group of assets also includes non-derivative financial assets that cannot be included in the other financial trading asset categories or among the receivables or investments held to maturity, according to the criteria envisaged by a specific framework resolution passed by the BoD.

Recognition criteria

Financial instruments are recorded at their settlement date, except for receivables which are booked at the date of the relevant transaction.
Available-for-sale financial assets are initially recognised at fair value, which normally corresponds to the price paid for them. Costs or revenues directly related to the transaction, if specifically identified at the time, are included in the purchase cost.

Measurement criteria

Subsequent to initial recognition, financial assets held for trading are still carried at their fair value, with the recognition in the income statement of the interest according to the amortised cost approach. Gains and losses deriving from the change in fair value are recorded in a specific net equity reserve, net of the tax effect, unless conditions are met for recording value adjustments as a result of a significant or prolonged decrease in value.

Equity investments in other companies that can be classified as strategic investments, but which do not qualify as establishing control or joint control over or association with the company, and which are not listed in an active market, do not feature prices provided by market operators and for which a reliable fair value cannot be established, through the use of the internal valuation models generally used in financial practice, are maintained at purchase cost.
At the end of every accounting period, audits are carried out to verify the existence of objective evidence of impairment of value of the financial instruments included in this group of assets.

Derecognition criteria

Financial assets are derecognised when the contractual rights on the cash flows deriving from the assets are lost, or in the case of a transfer, when it entails the substantial assignment of all the risks and benefits associated with the assets. If it is not possible to determine the transfer of the risks and benefits, the financial assets in the category are derecognised when control thereof is transferred. Otherwise, the financial assets are maintained on the balance sheet to the extent of the entity's involvement, measured by the exposure of the assets transferred to value changes.

Recognition criteria of income components

At the time of the transfer, the after-tax gains or losses previously recorded in the net equity reserve are moved to income statement item 100 "Profit (loss) from the transfer or repurchase of b) available-for-sale financial assets".

Any long-lasting impairment is assessed in relation to the duration and extent of the impairment itself. Lacking any other negative element (such as any difficulty in the debt service by the issuer, unfavourable changes in the context in which the company operates) the impairment of value is generally deemed to be significant and prolonged in nature:

- in the case of capital instruments and UCI units, if the reduction of fair value below the cost exceeds 50% or lasts for an uninterrupted period longer than 18 months;
- in the case of closed-end UCIs – acquired with contractual commitments (lock-up clauses), or consistently with regulatory provisions that require that they be maintained at least until the expiry of either the relevant contract or the financial instrument – the loss of value is generally deemed to be long-lasting in the cases in which the reduction of fair value below the cost exceeds 80%, or lasts uninterruptedly beyond the expiry of the contractual commitment or of the financial instrument itself, after both are reduced by twelve months for prudential reasons;
- in the case of private equity funds – for which the investment decision is consistent with maintaining the financial instrument in the Group's portfolio for a medium-to-long-term time horizon, in relation to the expected income-producing potential thereof and the existence of any possible operational and business synergies – the loss of value is normally deemed to be long-lasting in the cases in which the reduction of fair value below the cost exceeds 80% or persists uninterruptedly beyond half the fund's duration;
- in the case of debt securities in which the reduction of fair value below the cost exceeds 30%, or continues uninterruptedly for a period of more than 18 months.

If an available-for-sale financial asset suffers an impairment loss, the cumulated unrealised loss previously recorded in the net equity is reversed from the net equity and recognised in the income statement under item 130 "Net value adjustments/write-backs for the impairment of: b) available-for-sale financial assets". If the circumstances that led to the recognition of an impairment loss cease to exist, following an event that is subsequent to the recognition of the impairment of value, a write-back is posted to net equity, in the case of equities, and to the income statement, in the case of debt securities and receivables. The write-back may not exceed the cost (amortised as applicable) that the financial instrument would have had in the absence of the previous adjustment.

3 - Financial assets held to maturity

Classification criteria

This group of assets includes non-derivative financial assets with fixed payments, or payments that can be calculated and with fixed due dates, which, in accordance with IAS 39, are destined to remain in the company's net equity in the long-term, based on a specific resolution passed by the BoD to this effect. As a result of a change in the Directors' intention or ability, or if it is no longer possible to hold an investment until its maturity, the investment is reclassified among the available-for-sale financial assets, according to the special procedures set out in the above-mentioned IAS 39.

Recognition criteria

Financial assets are recorded at the settlement date.

Financial assets held to maturity are initially recognised at their fair value, which normally corresponds to the price paid for them. Costs or revenues directly related to the transaction, if specifically identified at the time, are included in the purchase cost. If the recognition in this group of assets occurs after the reclassification of the Assets held for trading or of the Available-for-sale assets, permitted in "rare circumstances" (in accordance with IAS 39 and IFRS 7), the fair value of the assets, at the date of reclassification, is taken as the new amortised cost of the assets themselves.

Measurement criteria

Following their initial recognition, the financial assets held to maturity are adapted to their amortised cost based on the effective interest rate method, and adjusted to take into account the effects of any write-down. The resulting value is recorded in the income statement under item 10 "Interest income and similar income".

Derecognition criteria

Financial assets are derecognised when the contractual rights on the cash flows deriving from the assets are lost, or in the case of a transfer, when it entails the substantial assignment of all the risks and benefits associated with the assets. If it is not possible to determine the transfer of the risks and benefits, the financial assets in the category are derecognised when control thereof is transferred. Otherwise, the financial assets are maintained on the balance sheet to the extent of the entity's involvement, measured by the exposure of the assets transferred to value changes.

Recognition criteria of income components

At the time of their transfer, the gains and losses resulting from the transfer of these assets are recorded in the income statement under item 100 "Profit/loss from the transfer or repurchase of: c) financial assets held to maturity".

At the end of every accounting period, audits are carried out to verify the existence of objective evidence of impairment of value of the financial instruments included in this group of assets.

If there is evidence of impairment of value, the relevant loss is measured as the difference between the book value of the asset and its present value of the estimated cash flows, discounted at the effective interest rate. The loss is recorded in the income statement under item 130 "Net value adjustments/write-backs for the impairment of c) financial assets held to maturity".

If the circumstances that led to the recognition of an impairment loss cease to exist, following an event that is subsequent to the recognition of the impairment of value, a write-back is posted to the income statement under the same item 130.

4 - Receivables

Classification criteria

This asset group includes receivables due from customers and banks, with fixed and determinable payments, paid directly or acquired from third parties that are not listed on active markets and that have not been

originally classified among the financial assets held for trading, available-for-sale financial assets or carried at fair value.
The receivables item also includes operating loans linked to the supply of financial services, repos and unlisted bonds.

Recognition criteria
Financial assets included in this group are initially recorded on the date on which they were provided or, in the case of repos, on the settlement date.
Initial recognition is made on the basis of the fair value of the instrument, which, given the nature and characteristics of the transactions, is equal to the amount provided or the purchase cost. The initial recognised value includes any cost or income related to the transaction, and known at the time, and will be spread over the residual life of the instrument, participating in the formation of the effective interest rate of the transaction (amortised cost method). Internal administrative related costs due from customers are not included.

Valuation and recognition criteria of income statement items
After their initial recognition, receivables are stated at their amortised cost, which is equal to the initial recognition value reduced/increased by capital repayments, by any value adjustment/write-back and by the amortisation calculated on the basis of the effective interest rate, any transaction cost or income known or determinable at the time of provision of the credit.
In the case of short-term receivables, given that the effect of the amortisation is considered negligible, the costs and income directly related to the transactions are posted directly in the income statement.
The amortisation of the transaction costs and income – based on the effective interest rate – is not applied in the case of on-demand receivables and, as a rule, to undated loans. In the case of on-demand loans and, as a rule, undated loans, the relevant value recorded in the financial statements is made equal to the amount paid out, minus any value adjustment.

In accordance with the international accounting standards, all receivables are calculated in compliance with the following criteria:

- significant positions are subject to itemised valuation. A similar procedure is followed for non-performing loans that are individually deemed to be of a non-significant amount;
- classification within the anomalous loan classes specified by the current regulations issued by the Bank of Italy: non-performing loans, likely defaults and past due receivables, is deemed to be objective impairment test evidence;
- performing loans that are insignificant on an individual basis, and for which there is no objective evidence of impairment are collectively valued by grouping them together on a like-for-like risk profile basis. Their value adjustment is calculated on the basis of the historical trend of decline rates referring to each relevant group that are periodically published by the Bank of Italy. In determining the historical loss series, the positions that are subject to itemised valuation are removed from the loan population;
- value adjustments determined on a line-by-line basis or collectively are recorded in the income statement in item 130 “Net value adjustments/write-backs for the impairment of a) receivables”.

If the circumstances giving rise to the impairment losses cease to exist, the losses are reversed in full or in part. As a result, any write-back, objectively related to an event occurring after the value adjustment was made, is recognised to the income statement until it reaches the amortised cost that the instrument would have had without the previous adjustments.

Impaired exposures - starting on 1 January 2015 in accordance with the new classification established by Bank of Italy Circular no. 272/2008 (7th revision published on 20 January 2015) - are broken down as follows:

- non-performing loans – this is the area of formally impaired loans, including exposure to insolvent customers, even if they have not yet been legally acknowledged as such, or customers in similar positions;
- likely defaults - these define the credit area that covers loan exposures, other than non-performing loans, for which the bank deems unlikely that, without initiating actions like the enforcement of guarantees, the debtor will completely fulfil its obligations (in terms of principle and/or interest);
- past due receivables – are the total exposures to counterparties, other than those classified above, which, at the reference date, feature receivables that have expired or have been past due for over 90 days and exceed a given materiality threshold.

Moreover, the Bank of Italy, with the aforesaid revision, also introduced the category of "forborne exposures".
This classification is applied to credit exposures for which changes to the contractual conditions or total or partial refinancing were allowed, because of the debtor's financial hardship, which may cause a loss for the lender.
These exposures are distinguished in forborne performing and forborne non-performing. The latter are represented as an "of which" sub-set of each of the three categories of impaired exposures and hence they do not constitute a separate category.

Derecognition criteria
Financial assets are derecognised when the contractual rights on the cash flows deriving from the assets are lost, or in the case of a transfer, when it entails the substantial assignment of all the risks and benefits associated with the assets. If it is not possible to determine the transfer of the risks and benefits, the financial assets in the category are derecognised when the control thereof is transferred. Otherwise, the financial assets are maintained on the balance sheet to the extent of the entity's involvement, measured by the exposure of the assets transferred to value changes.
Gains or losses resulting from the derecognition of the same are recorded in the income statement.

6- Hedging Transactions
Classification criteria
Risk hedging transactions are directed at neutralising potential losses, attributable to a determined risk, and recognisable on a determined element or group of elements, if that specific risk should actually manifest itself.
IAS 39 provides the following types of hedges:

- Fair value hedge, whose purpose is to hedge exposure to the change in the fair value of an item attributable to a specific risk;
- Cash flow hedge, whose purpose is to hedge exposure to changes in future cash flows attributable to specific risks associated with financial statement items;
- hedge of an investment denominated in a foreign currency, whose purpose is to hedge the risks of an investment in a foreign entity, expressed in a foreign currency.

To date, the Bank has only used the Fair value hedge type.

Recognition criteria

Hedging derivatives, like all derivatives, are initially recognised and subsequently measured at fair value.

Valuation and recognition criteria of income statement items

Hedging derivatives are carried at fair value. In the case of fair value hedging, the change in fair value of the hedged element is offset with the change in fair value of the hedging instrument. This offset is recognised through the recognition in the income statement - under item 90 "Net income from hedging activities" - of said value changes, referred both to the hedged element (with regard to the changes caused by the underlying risk factor), and to the hedging instrument. Any difference, which represents the partial ineffectiveness of the hedge, consequently constitutes its net economic effect.

The derivative is designated as a hedging derivative if there is a formalised documentation of the relationship between the hedged instrument and the hedging instrument and if it is effective at the time when the hedge starts and, prospectively, throughout the time of its validity.

The effectiveness of the hedge depends on the extent to which the changes in fair value of the hedged instrument are offset by those of the hedging instrument. Therefore, the effectiveness is determined by the comparison between the aforesaid changes, taking into account the intent pursued by the company when the hedge was established.

There is effectiveness when the changes in fair value of the hedging financial instrument neutralise almost entirely, i.e. within the limits set by the 80-125% range, the changes in the hedged instrument, for the risk element to be hedged.

The effectiveness is assessed at the date of each set of financial statements or interim report, using:

- prospective tests, which justify the application of hedge accounting, inasmuch as they demonstrate its expected effectiveness;
- retrospective tests, which highlight the degree of effectiveness of the coverage attained in the period to which they are referred, i.e. which measure the extent to which the actual results deviated from perfect hedging.

If the tests do not confirm the effectiveness of the hedge, from that moment forward hedge accounting for the transactions, as set out above, is stopped, the hedging derivative is reclassified among trading instruments and the hedged financial instrument reacquires the measurement criteria that matches its classification in the financial statements.

7 - Equity investments

Classification criteria

The item "Equity investments" includes investments in associated companies.

Equity interests in other companies in which the Parent Company does not exercise control or over which it has no significant influence, either directly or through its subsidiaries, but which are acquired as long-term investments and not held for the purpose of trading, are classified as "Available-for-sale financial assets", in accordance with IAS 39.

Recognition criteria

Equity investments are recorded at their settlement date and at purchase – or subscription – cost, including the additional charges and subsequent adjustment, on the basis of the stake held in the investee company.

Valuation and recognition criteria of income statement items

After initial recognition, the book value will be adjusted to reflect changes in the net equity of the investee company. The pro quota share of the net income of the investee company is recorded under item 240 "Profit/loss from equity investments" of the income statement.

Derecognition criteria

Equity investments are derecognised when they are transferred, with the substantial transfer of all related risks and benefits, or when the contractual rights to cash flows deriving from them expire.

8 - Tangible assets

Classification criteria

This item includes the assets for permanent use held to generate income and the property held for investment purposes.

Tangible assets also include advance payments made for the purchase and revamping of assets that are not yet part of the production process and hence not yet subject to depreciation.

Recognition criteria

All classes of property, plant and equipment recognised as assets are initially recorded at cost, insofar as it is representative of their fair value. The cost includes the purchase price, non-recoverable purchase taxes and any cost directly descending from the installation of the asset for its intended use, minus any trade discount.

Financial expenses are recorded according to IAS 23 and, therefore, recognised as a cost in the year in which they were incurred.

Overheads and administrative expenses are not included in the initial cost of the assets in question, unless they are directly descended from the purchase of the asset or its installation.

Valuation and recognition criteria of income statement items

Following their initial recognition, instrumental fixed assets and fixed investments are valued at cost minus the accumulated depreciation and taking into account any value impairment and/or revaluation.

This principle has been adopted because it was deemed more appropriate than the revaluation method provided by the reference accounting standard.

Tangible assets are depreciated each year, at rates calculated by reference to the residual possibility of using the assets, their related useful life and realisable value, except for land (incorporated in the asset value) and works of art, insofar as they have an indefinite life. In the case of land whose value is incorporated in the value of the tangible fixed asset, the relevant separation is made only for free-standing buildings. For assets acquired during the year, the amortisation is calculated on a daily basis starting on the date on which the asset was first used.

Tangible fixed assets featuring an unlimited useful life cannot be depreciated.

Subsequent expenses relating to property, plant and equipment, already recorded, are added to the book value of the asset when it is likely that the future economic benefits exceed the previously established ordinary performance of the asset.

At the end of each financial year, an impairment test is conducted on the assets. More specifically, a comparison is made between the book value of the asset (purchase cost less accumulated depreciation) and its recoverable amount, equal to the greater of the fair value, minus any sales cost, and the related value of use of the asset, meaning the present value of the future cash flows expected from the asset. Adjustments are recorded in the income statement under item 200 "Net value adjustments/write-backs on tangible assets". If the reasons that led to the recognition of the loss cease to apply, a write-back is recorded that may not exceed the value that the asset would have had minus the depreciation calculated in the absence of previous losses in value.

Derecognition criteria

The book value of a tangible asset must be derecognised on its disposal, or when no future economic benefit is expected from its use.

9 - Intangible assets

Classification criteria

Intangible assets include long-term application software. The positive difference between the value of the assets and liabilities acquired following a business combination and the related purchase price of the combined business entity is recorded under the intangible assets as goodwill.

Recognition criteria

Intangible assets are recorded at cost. The purchase cost may be adjusted for ancillary charges. The costs incurred for the purchase of intangible assets are recognised only if they are identifiable, their cost can be measured reliably, they can be controlled and they are able to generate future economic benefits. Otherwise, the cost of the intangible asset is recorded in the income statement in the year in which it was incurred.

Valuation and recognition criteria of income statement items

Following their initial recognition, intangible assets are recorded at cost, less the accumulated amortisation and any impairment of value. The "at cost" valuation method was deemed more appropriate than the "redetermination of value" method. The cost of intangible assets is amortised, minus the recoverable amount, on the basis of their estimated useful life. For assets acquired during the year, the amortisation is

calculated on a daily basis starting on the date on which the asset was first used. In the case of assets transferred and/or disposed of during the year, the amortisation is calculated on a daily basis until the date of transfer and/or disposal.
If the useful life of the fixed asset cannot be established and appears to be indefinite (goodwill), the asset is not amortised, however it is periodically tested for impairment and, in any case, each time objective evidence is found to this effect its initial recognition value may have to be changed. The performance of this test entails the prior allocation of goodwill to a cash-generating unit, whose value can be reliably estimated. Goodwill impairment is calculated as the difference between its book value and the estimated recoverable amount, determined by reference to the cash-generating unit to which the goodwill in question has been allocated. Any impairment calculated as the difference between the book value of the fixed asset and its recoverable amount is recorded in the income statement under item 260 "Goodwill adjustments". Goodwill impairment may not be reversed in future accounting periods as required by IAS 36.

Regarding intangible assets other than goodwill, if there is evidence of impairment, an estimate is made each year of the recoverable amount of the assets. The amount of the loss, recorded in the income statement, is equal to the difference between the book value of the asset and its recoverable amount. If the recoverable amount of a specific intangible asset cannot be determined, then the asset must be assigned to the smallest independent cash-flow-generating unit (CGU), and it is by reference to the latter that the recoverable value is estimated and compared with the book value, to establish the possible impairment loss.

Derecognition criteria
Intangible assets are derecognised when they are sold or when no future economic benefits are expected from their use.

11 - Current and deferred tax
Current and deferred income tax, calculated in accordance with the applicable domestic regulations, is recorded in the income statement, except in the case of items directly charged or credited to net equity. Tax provisions are calculated on a prudential basis and also include the risk provisions set aside in connection with the ongoing disputes.

Since 2004, the Bank and its Italian-based subsidiaries have decided to join the "domestic consolidated tax system", pursuant to Articles 117/129 of the TUIR (Consolidated Income Tax Act). The option was renewed in 2016 also for the 2016/2017/2018 period.
By virtue of this option, the Group companies determine their proportion of the taxes payable and the corresponding fiscal income (taxable income or fiscal loss) is transferred to the Parent Company, relating to which a single taxable income or loss is reported (resulting from the arithmetical sum of its own and its participating subsidiaries' incomes/losses) and, consequently, a single income tax debit/credit determined.

Deferred tax is calculated based on the fiscal effect of the temporary differences between the book value of the assets and liabilities and their fiscal value, resulting in future taxable amounts or tax deductions. For this purpose, "temporary taxable differences" means those that, in the future, will determine taxable amounts, while "temporary deductible differences" those that, in the future, will determine deductible amounts. Advance taxes are recorded in the financial statements insofar as they are likely to be recovered, based on the capability of the Bank, and of the other Group companies belonging to the "domestic consolidated tax system", to generate taxable income, in the future, on a regular basis.

Deferred taxation is calculated based on the applicable rates, with respect to, (i) the temporary taxable differences, with respect to which there is the likelihood of effectively incurring taxes, and (ii) the temporary deductible differences, with respect to which there is the reasonable certainty of recovering tax money back.
Deferred taxes are calculated taking into account the rates expected when payment falls due.

If the deferred tax assets and liabilities relate to income statement items, the balancing item is represented by income tax.

When advance and deferred taxes concern transactions recorded in net equity, without affecting the income statement, the directly balancing entry is recorded in net equity, in the specific reserves where provided (valuation reserves).

Current tax assets/liabilities related to income tax for the year are recognised net of any tax paid in advance and any withholding tax incurred.

Advance tax assets and deferred tax liabilities are recorded in the balance sheet, respectively under "Tax assets" and "Tax liabilities".

12 - Provisions for risks and charges

Other provisions

The other provisions for risks and charges include the allocations relating to legal obligations or connected with employment agreements or with disputes, including those of a tax-related nature, originated from a past event for which it is likely that economic resources will be expended to comply with said obligations, provided that a reliable estimate of the related amount can be obtained.

If the time element is significant (expected outlay beyond 12 months), the allocations are discounted to the present with reference to current market rates. The allocation and any subsequent increases in the provisions due to the time factor are recognised in the income statement.
The allocated provisions are subject to periodic reviews and when it becomes unlikely that possible costs may be incurred, the allocations are fully or partly reversed to the benefit of the income statement.

13 - Payables and outstanding securities

Classification criteria

Amounts due to banks, customers and outstanding securities include the various forms of interbank funding and funding from customers, in addition to funding through outstanding bonds, minus any repurchases.

Recognition criteria

On initial recognition, these financial liabilities are recorded upon receipt of the amounts collected at their fair value, which is usually equal to the amount received or the issue price plus/minus any additional cost/income directly attributable to the individual funding or issue transaction, and which has not been reimbursed by/to the creditor.

Valuation and recognition criteria of income statement items

After initial recognition, the above-mentioned financial liabilities are recorded at cost depreciated according to the effective interest rate method, except for short-term liabilities, which remain recorded at their original value, because the effect of time discounting is negligible.

Derecognition criteria

Financial liabilities are derecognised when they expire or are extinguished. A financial liability is considered expired when the debt is settled through payment of the creditor in cash, or by means of other financial assets, goods or services, or when the borrower is legally released from the primary responsibility for the liability.

Derecognition takes place in the event of the repurchase of bonds previously issued. The difference between the book value of liabilities and the amount paid to purchase them is posted in the income statement. The replacement on the market of treasury shares after they have been repurchased is considered tantamount to a new issue, with the entry of the new placement price.

14 - Financial liabilities held for trading

Classification criteria

This item includes financial liabilities, regardless of their technical form, classified in the trading portfolio. The negative fair value of the derivative contracts concluded by the Bank to manage hedging risks has also been posted, although they do not meet the efficiency test criteria.

Recognition criteria

These liabilities are initially recorded at fair value, which generally corresponds to the amount collected. The initial recognition of financial liabilities occurs at the subscription date.

Measurement criteria

All trading liabilities are carried at their fair value, which is determined in accordance with the procedures shown in the paragraph on “Financial assets held for trading”.

Derecognition criteria

Financial liabilities are removed from the balance sheet when they are extinguished or when the related obligation has been discharged, cancelled or has expired. The resulting difference is recorded in the income statement.

Recognition criteria of income components

Profits and losses arising from changes in the fair value of financial liabilities are recorded under income statement item 80 “Net income from trading activities”.

16 - Foreign-currency transactions

Foreign-currency transactions are recorded in Euros, at their initial recognition, applying the spot exchange rate in force at the date of the transaction.

When preparing the financial statements, items in foreign currencies are recorded as follows:

- in the case of monetary instruments, at the spot exchange rate on the date of preparation of the financial statements, with exchange differences recorded in the income statement under the item "Net income from trading activities";
- in the case of non-monetary instruments, they are measured at historical cost, at the exchange rate in force at the time of the original transaction;
- in the case of non-monetary instruments carried at fair value, at the spot exchange rate in force at the time of preparation of the financial statements.

Exchange rate differences relating to non-monetary items are recorded applying the accounting standards used for the profits and losses relating to the original instruments.

18 - Other information

1. Own shares

Own shares held are stated in the financial statements at cost, adjusting net equity by a corresponding amount. No profit or loss is recorded in the income statement in connection with the purchase, sale, issue and derecognition of instruments that represent the Bank's capital. The consideration paid or received is recognised directly in net equity.

Any marginal cost incurred for the repurchase of own shares is recorded as a reduction of net equity, as long as it is directly related to the capital transaction that otherwise would not have been incurred.

2. Own share-based payments

Share-based payment plans for employees are recorded in the income statement under the item "Staff costs", in compliance with IFRS 2 and the interpretation document IFRIC 11. A corresponding amount will increase net equity, based on the fair value of the financial instruments at the assignment date, spreading the related charges along the entire duration of the plan.

If stock options are provided, the fair value thereof is calculated using a model that takes into account not only information such as price, duration of the option, current price of the shares, volatility, expected dividends and risk-free interest rate, but also the specific characteristics of the plan. The option and probable realisation of terms according to which the options have been assigned are valued separately in the measurement model.

The combination of both values will result in the fair value of the assigned instrument.

Any reduction in the number of assigned financial instruments is accounted for as a derecognition of a portion thereof.

3. Staff severance fund

The staff severance fund is determined as the Group's present obligation towards its employees, in terms of the related severance indemnity. The amount of this obligation on the date of the financial statements is estimated using actuarial methods and time-discounted using the "projected unit credit method" whereby each period of service is viewed as giving rise to an additional unit of benefit entitlement and each unit is measured separately to build up the final obligation. Once the final obligation is obtained, the Group needs to calculate its present value, even if part of the obligation falls in the twelve-month period after the date of the financial statements. Actuarial profits/losses deriving from defined benefit plans are stated in net equity under Valuation reserves. All other components of the allocation to staff severance obligations accrued during the year are posted in the income statement under item 180. Administrative expenses: a) staff costs in "Staff severance fund", for the amounts paid to the INPS Treasury; "payments to defined contribution supplementary external pension funds" for payments made to Supplementary Retirement Plans and "allocation for staff severance fund" for the adjustment of the fund present in the company.

4. Recognition of revenue and costs

Costs are disclosed in the income statement for the periods in which the related revenue is recorded. Revenues are recognised when received, or if it is likely that future benefits will accrue and such benefits may be reliably measured.

In particular, commission income and other income for services delivered are recorded in the financial statements in the period in which the services were contractually due and provided.

Dividends are recognised in the income statement at the time their distribution is resolved.

Other revenues are recognised in the financial statements in accordance with the accrual principle. In particular:

- interest is recognised on an accrual basis, which considers its effective yield;
- default interest is only recorded when collected;
- regarding the trading of financial instruments, it should be noted that if the consideration received/paid differs significantly from the reliably measured fair value, the difference is recognised in the income statement, in accordance with IAS 39.

5. Manner of determination of the amortised cost

The amortised cost of a financial asset or a financial liability is in general the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction for impairment or uncollectibility.

The effective interest rate is the rate that equalises the present value of future contractual cash payments or receipts until the expiry or the following recalculation date of the price to the net carrying amount of the financial asset or financial liability. In order to calculate the present value, the effective interest rate is applied to the flow of future receipts or payments estimated during the useful life of the financial asset or liability - or a shorter period in the presence of certain conditions (for example, the review of market rates).

If it is not possible to estimate reliably the cash flows or the expected life, the Group uses the expected contractual cash flows for all the period of validity of the contract.

Subsequent to initial recognition, the amortised cost allows to allocate revenues and costs deducted from

or summed to the instruments during its expected life through amortisation. The method of determination of the amortised cost depends on whether the valued financial assets/liabilities have a fixed or variable rate.
For fixed-rate instruments, future cash flows are quantified based on the interest rate known during the life of the loan. For variable-rate financial assets/liabilities, whose variability is not known a priori (because, for example, linked to an index), cash flows are determined by maintaining constant the last variable rate recorded. At each date of review of the rate, the redemption plan and the effective interest rate are recalculated over the entire useful life of the instrument, i.e. until the date of expiry. The adjustment is recognised as an expense or income in the income statement.

The valuation at amortised cost is carried out for receivables, financial assets held to maturity, payables and outstanding securities; for debt instruments recorded among the available-for-sale financial assets, the amortised cost is calculated for the sole purpose of booking to the income statement the interests based on the effective interest rate; the difference between the fair value and the amortised cost is recorded in a specific net equity reserve.

6. Fair value option

The Group did not use the so-called "fair value option" envisaged by IAS 39: therefore, items pertaining to this in the balance sheet and income statement are not reported in the statements, inasmuch as they were not measured.

A.3 – Information on transfers between portfolios of financial assets

Transfers between portfolios, in "rare circumstances", as allowed by IAS 39, were carried out exclusively by the Parent Company as follows:

- in 2008, transferring debt securities from the "Financial assets held for trading" portfolio to the "Assets held to maturity" portfolio, for a total value of 3,600 thousand euros.
- in 2010, transferring 3 UCI units (related to a real estate fund) from the "Financial assets held for trading" portfolio to the "Available-for-sale financial assets" portfolio.

At 31 December 2016, debt securities were repaid at maturity for a total nominal value of 1,600 thousand euros recorded, in 2008, in the "Financial assets held to maturity" portfolio.

The information requested by IFRS 7 is provided below.

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

Type of financial instrument	Source portfolio	Target portfolio	Book value at 31.12.2016	Fair value at 31.12.2016	Income components without the transfer (pre-tax)		Income components recorded for the year (pre-tax)	
					Items	Other	Items	Other
Debt securities	HFT	HTM	1,999	2,001	(5)	4	–	45
UCI units	HFT	AFS	1,481	1,481	(40)	–	(40)	–

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

In the financial year under review, the Group did not reclassify financial assets.

A.3.3. Transfers of financial assets held for trading

For a description of the "rare circumstances" that led to the reclassification made by the Parent Company, please refer to the explanations provided in the 2008 financial statements for debt securities and to the 2010 financial statements for the UCI units.

A.3.4 Effective interest rate and cash flow forecast from the reclassified assets

For information on the expected cash flows for debt securities reclassified by the Parent Company, please refer to that explained in the 2008 financial statements as this was the year during which they were reclassified.

A.4 – Information on fair value

Qualitative information

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

The techniques, valuation processes of the financial instruments and the methods for determining the fair value used by the Group are shown below.

The fair value of financial instruments is determined based on the prices acquired by the financial markets, in the case of instruments listed on active markets (**Level 1**), or on internal valuation models, in the case of all other financial instruments.

If the instrument is not listed on an active market, or if there is no regularly functioning market, i.e. the market does not feature a sufficient and ongoing number of transactions, bid-ask spread and a volatility that is not sufficiently curbed, the fair value of the financial instruments is generally determined based on the use of valuation methods the purpose of which is to establish the price of a hypothetical independent transaction, motivated by normal market consideration, at the date of valuation.

Regarding the valuation techniques, the following are taken into account:

- if available, the prices of recent transactions involving similar instruments, suitably adjusted to reflect the changed market conditions and the technical differences between the valued instrument and the instrument selected as similar in nature (comparable approach);
- valuation models widely used by the financial community, which have proved over the years capable of producing reliable estimates of prices, with respect to the current market conditions (Mark-to-Model).

Financial instruments classified as **Level 1** instruments include:

- stocks and bonds listed on regulated markets. The principal 'price source' of securities listed on regulated markets is the relevant stock exchange, and generally corresponds to the price published by the regulated market on which the security is negotiated. For financial instruments listed on the Italian Stock Exchange, the value is determined using the posted price;
- collective investments schemes, SICAVs and ETFs if available a NAV (Net Asset Value) calculated on a daily basis;
- foreign exchange spot transactions;
- derivatives for which prices are available on an active market (e.g., futures and options).

Lacking prices on an active market, the fair value of financial instruments is calculated according to the so-called "comparable approach" (**Level 2**), based on the use of valuation models making use of parameters that can be directly observed on the market. In this case, the valuation is not based on the prices of the actual financial instruments being valued, but on prices or credit spreads taken from the official listings of substantially similar instruments, in terms of risk-yield factors, using a certain calculation method (pricing model). This approach translates into the search for transactions on the active markets involving instruments that, in terms of their risk factors, are comparable with the valued instrument.

Following is an overview of the valuation techniques used:

- the use of current market prices of other substantially similar instruments, if they are deemed to be

highly comparable (based on the country and sector to which they belong, along with their rating, maturity and degree of seniority of the securities), such as to avoid any substantial alteration of the prices or the use of trading prices – with respect to the same financial instrument – concerning market transactions between independent counterparties;
- the use of prices of similar instruments, in terms of their calibration;
- discounted cash flow models;
- option pricing models.

Financial instruments classified as **Level 2** instruments include:
- UCI funds, with published NAV, and relating to which the NAV is reasonably representative of the value;
- bonds that are not traded on an active market, but which can be priced based on the prices of comparable securities, as inputs for a valuation model. The fair value of bonds without official prices expressed by an active market is calculated by using an appropriate credit spread, determined based on liquid financial instruments with similar features. Moreover, in the case of market transactions – concerning the same financial instrument – between independent counterparties account will be taken of the known trading price;
- OTC derivatives valued based on observable parameters and market models. Interest rate, exchange, share, inflation and commodity derivatives – if they are not traded on regulated markets – are known as Over the Counter (OTC) instruments, i.e. instruments that are bilaterally negotiated with market counterparties, and their valuation is conducted based on specific pricing models, fed by inputs (such as rate, exchange and volatility curves) observed on the market.

Lastly, the determination of the fair value of certain types of financial instruments is based on valuation models that require the use of parameters that cannot be directly observed on the market and which, therefore, require estimates and assumptions by the valuer (**Level 3**).

Financial instruments classified as **Level 3** instruments include:
- unlisted securities. Equity investments held at cost are also conventionally included among the Level 3 instruments;
- funds featuring either an unpublished NAV or a published NAV which, however, is not sufficiently representative of the potential realisation value;
- bonds not listed on active markets, for which there are no comparable instruments, or which require the use of significant assumptions, such as the knowledge of trading prices between independent counterparties;
- OTC derivatives valued using non-market models, or market models based on parameters that cannot be observed on the market.

Level 3 instruments also include financial instruments priced by the Group based on internal valuation models using inputs that cannot be observed on the market and personal assumptions made by the valuer.

A.4.3 Fair value hierarchy

With the introduction of IFRS 13, the rules for measuring the fair value previously included in different accounting principles were set out in a single document.

The fair value is defined as the price that is received for the sale of an asset or that would be paid for the transfer of a liability in an orderly transaction between market participants at the measurement date.

When measuring the fair value of a financial instrument, IFRS 13 refers to the concept of hierarchy of the measurement criteria used, which was at the time introduced by an amendment to IFRS 7 that required the company to classify the measurements based on a hierarchy of levels that reflects the significance of the inputs used in the measurement of financial instruments.

This classification aims to establish a hierarchy in terms of reliability of fair value depending on the degree of discretion applied by enterprises, giving priority to the use of parameters observable on the market reflecting the assumptions that market participants would use when pricing the asset/liability.

IFRS 13 identifies three different input levels:
- Level 1: inputs represented by quoted prices (without adjustment) on active markets - as defined by IFRS 13 - for assets and liabilities subject to measurement;
- Level 2: inputs other than quoted market prices set forth above, which are observable for the asset or liability, either directly (prices) or indirectly (derived from prices);
- Level 3: inputs that are unobservable inputs for the asset or liability subject to measurement.

The choice between these types is not optional but must be done in a hierarchical order since priority is given to official prices on active markets (level 1); in the absence of such inputs, we use valuation techniques based on parameters that cannot be observed on the market (level 2); with a lower and more discretionary priority, the fair value of assets and liabilities calculated with valuation techniques based on parameters that cannot be observed on the market (level 3).

The valuation method and as a result transfers among the levels of the fair value hierarchy of a financial instrument are altered only if there are significant changes in the market or subjective conditions of the issuer of the financial instrument.

IFRS 13 contemplates that, as already indicated by IFRS 7, the instruments measured at amortised cost are provided with fair value disclosure.

Within the Group, the following approaches were identified for calculating the fair value:

Financial assets held to maturity

They are entered at amortised cost and are represented by bonds listed on an active market.
The classification criteria in the levels and the method for calculating the fair value of these bonds reflect those of bonds measured at fair value on a recurring basis.

Due from customers and banks

- Due from customers and banks with defined contractual expiry:

  Due from Customers are classified in level 3 and the fair value is measured by means of a Discounted Cash Flow model whose discount rate includes the following risk components:
  - cost of funding: equal to the swap rate with the same maturity of the loan instalment plus 100 bps;

  - cost of the credit risk: equal to the average rate of probability of default applied by the bank to the customers determined on the basis of the decline rates present in the Bank of Italy's Public Database.

  Due from banks are classified in level 3 and the fair value is represented by the value entered in the financial statements of the receivable.

- Due from customers and banks with undefined contractual expiry:

  The fair value of due from customers and banks with undefined contractual expiry, in that they are on demand, is represented by the nominal value of the receivables net of the risk component represented by the calculated probability of default, in accordance with what was previously defined, on the basis of the decline rates present in the Bank of Italy's Public Database.

Due to banks and customers

They are entered at their nominal value that is usually equal to the amount received initially by the Bank. This value can be reasonably approximated to the fair value in that the Bank can meet its payables thanks to high capital instruments.

Outstanding securities

The item pertains to bonds issued by the Bank and entered at amortised cost. The fair value is calculated by using a model that considers the loan indexation parameter and a target spread.

A.4.4 Other information

The Group does not use the exception on the compensating valuation of groups of financial assets and liabilities referred to in paragraph 48 of the IFRS 13.

Quantitative information

A.4.5 Fair value hierarchy

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

Assets/liabilities carried at fair value	31.12.2016			31.12.2015		
	L1	L2	L3	L1	L2	L3
1. Financial assets held for trading	25,356	15,119	14	43,707	12,836	35
2. Financial assets carried at fair value	–	–	–	–	–	–
3. Available-for-sale financial assets	1,131,381	36,642	4,924	799,777	26,321	5,323
4. Hedging derivatives	–	391	–	–	215	–
5. Tangible assets	–	–	–	–	–	–
6. Intangible assets	–	–	–	–	–	–
Total	**1,156,737**	**52,152**	**4,938**	**843,484**	**39,372**	**5,358**
1. Financial liabilities held for trading	–	10,772	–	–	9,733	–
2. Financial liabilities carried at fair value	–	–	–	–	–	–
3. Hedging derivatives	–	–	–	–	–	–
Total	**–**	**10,772**	**–**	**–**	**9,733**	**–**

Key: L1 = Level 1; L2 = Level 2; L3 = Level 3

A.4.5.2 Annual changes of assets carried at fair value on a recurring basis (level 3)

	Financial assets held for trading	Financial assets carried at fair value	Available-for-sale financial assets	Hedging derivatives	Tangible assets	Intangible assets
1. Opening balance	**35**	**–**	**5,323**	**–**	**–**	**–**
2. Increases	**14**	**–**	**1,157**	**–**	**–**	**–**
2.1 Purchases	–	–	49	–	–	–
2.2 Profits recorded in:	–	–	–	–	–	–
2.2.1. Income Statement	–	–	–	–	–	–
- of which capital gains	–	–	–	–	–	–
2.2.2. Net equity	X	X	–	–	–	–
2.3 Transfers from other levels	14	–	1,085	–	–	–
2.4 Other increases	–	–	23	–	–	–
3. Decreases	**35**	**–**	**1,556**	**–**	**–**	**–**
3.1. Sales –	–	–	–	–	–	
3.2. Repayments	–	–	319	–	–	–
3.3. Losses recorded in:	–	–	1,237	–	–	–
3.3.1. Income Statement	–	–	1,237	–	–	–
- of which capital losses	–	–	1,237	–	–	–
3.3.2 Net equity	X	X	–	–	–	–
3.4. Transfers to other levels	–	–	–	–	–	–
3.5. Other decreases	35	–	–	–	–	–
4. Closing balance	**14**	**–**	**4,924**	**–**	**–**	**–**

Item 2.3. Transfers from other levels - of available-for-sale financial assets - relate to the units of the IRS fund of the subsidiary InvestiRE SGR S.p.A.

Item 3.3.1. Income statement - of which capital losses - of Available-for-sale financial assets - relates to the impairment test carried out by the Bank on Cassa di Risparmio di Cesena S.p.A. shares amounting to 383 thousand euros and by the subsidiary InvestiRE SGR S.p.A. on the Irs, Iref and Vesta funds.

A.4.5.3 Annual changes of financial liabilities carried at fair value on a recurring basis (level 3)

The table was not prepared because, at the reporting date under review, the item in question has no balances.

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

Assets/Liabilities not carried at fair value or carried at fair value on a non-recurring basis	31.12.2016				31.12.2015			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Financial assets held to maturity	1,999	2,001	–	–	1,959	2,006	–	–
2. Due from banks	170,728	–	–	170,728	98,386	–	–	98,386
3. Due from customers	335,765	–	–	337,672	292,644	–	–	294,396
4. Tangible assets held for investment	–	–	–	–	–	–	–	–
5. Non-current assets and groups of assets being disposed	–	–	–	–	–	–	–	–
Total	**508,492**	**2,001**	**–**	**508,400**	**392,989**	**2,006**	**–**	**392,782**
1. Due to banks	1,203	–	–	1,203	11,496	–	–	11,496
2. Due to customers	1,496,319	–	–	1,496,319	1,045,816	–	–	1,045,816
3. Outstanding securities	23,825	–	–	23,791	26,122	–	–	26,095
4. Liabilities associated to assets being disposed	–	–	–	–	–	–	–	–
Total	**1,521,347**	**–**	**–**	**1,521,313**	**1,083,434**	**–**	**–**	**1,083,407**

Key:
BV = Book value
L1 = Level 1
L2 = Level 2
L3 = Level 3

The Bank and the other Group Companies have never carried out fair value measurements on a non-recurring basis for assets and liabilities.

A.5 Disclosure on the so-called "day one profit/loss"

The Bank and other Group companies have not recorded in the financial year under review any positive/negative items arising from the initial fair value measurement of financial instruments.

Part B – Information on the consolidated balance sheet

ASSETS

Section 1 – Cash and cash equivalents – Item 10

1.1 Cash and cash equivalents: breakdown

	Total 31.12.2016	Total 31.12.2015
a) Cash	328	318
b) Demand deposits at central banks	147	151
Total	**475**	**469**

Section 2 - Financial assets held for trading - Item 20

2.1 Financial assets held for trading: breakdown by product

Items/Amounts	Total 31.12.2016			Total 31.12.2015		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. Cash assets						
1. Debt securities	20,486	2,494	–	39,145	1,429	–
1.1 Structured securities	–	–	–	–	–	–
1.2 Other debt securities	20,486	2,494	–	39,145	1,429	–
2. Equity securities	1,821	–	14	1,607	34	35
3. UCI units	2,866	1,739	–	2,704	1,794	–
4. Loans	–	–	–	–	–	–
4.1 Outstanding repos	–	–	–	–	–	–
4.2 Other	–	–	–	–	–	–
Total A	**25,173**	**4,233**	**14**	**43,456**	**3,257**	**35**
B. Derivatives						
1. Financial derivatives:	183	10,886	–	251	9,579	–
1.1 held for trading	183	10,886	–	251	9,579	–
1.2 Related to the fair value option	–	–	–	–	–	–
1.3 other	–	–	–	–	–	–
2. Credit derivatives	–	–	–	–	–	–
2.1 held for trading	–	–	–	–	–	–
2.2 related to the fair value option	–	–	–	–	–	–
2.3 Other	–	–	–	–	–	–
Total B	**183**	**10,886**	**–**	**251**	**9,579**	**–**
Total (A+B)	**25,356**	**15,119**	**14**	**43,707**	**12,836**	**35**

The financial assets held for trading refer exclusively to the Bank.

Item A.1. “Debt securities” amounting to 22,980 thousand euros (40,574 thousand euros at 31 December 2015) consists of the following financial instruments:

- Level 1: Government bonds of 19,984 thousand euros and bonds of 502 thousand euros;
- Level 2: bonds of 2,494 thousand euros relating almost entirely to "FIP Funding Class A2".

Item A.3. UCI units amounting to 4,605 thousand euros (4,498 thousand euros at 31 December 2015) includes: in Level 1 Anthilia Capital Partners Fund units for a total amount of 2,255 thousand euros, New Millennium Funds amounting to 469 thousand euros and other funds for the difference; in Level 2, units of New Millennium total flex Funds for 1,188 thousand euros and units of Alkimis Funds for 551 thousand euros.

Item B.1.1 Financial derivatives held for trading Level 2 pertains exclusively to the positive valuation of currency forwards.

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

Items/Amounts	Total 31.12.2016	Total 31.12.2015
A. Cash assets		
1. Debt securities	**22,980**	**40,574**
a) Governments and Central Banks	19,984	39,053
b) Other public authorities	-	-
c) Banks	-	-
d) Other issuers	2,996	1,521
2. Equity securities	**1,835**	**1,676**
a) Banks	-	
b) Other issuers:	1,835	1,676
- insurance companies	206	569
- financial companies	-	31
- non-financial companies	1,629	1,062
- other	-	14
3. UCI units	**4,605**	**4,498**
4. Loans	**-**	**-**
a) Governments and Central Banks	-	-
b) Other public authorities	-	-
c) Banks	-	-
d) Other entities	-	-
Total A	**29,420**	**46,748**
B. Derivatives		
a) Banks		
- fair value	1,166	611
b) Customers		
- fair value	9,903	9,219
Total B	**11,069**	**9,830**
Total (A + B)	**40,489**	**56,578**

The item "UCI units" includes: 1,597 thousand euros of bond funds, 2,960 thousand euros of equity funds and 48 thousand euros of other funds.

Section 4 – Available-for-sale financial assets – Item 40

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

Items/Amounts	Total 31.12.2016			Total 31.12.2015		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	1,094,522	10,898	–	749,609	–	–
1.1 Structured securities	–	–	–	–	–	–
1.2 Other debt securities	1,094,522	10,898	–	749,609	–	–
2. Equity securities	34,488	–	4,448	43,248	–	4,759
2.1 Carried at fair value	34,488	–	–	43,248	–	–
2.2 Carried at cost	–	–	4,448	–	–	4,759
3. UCI units	2,371	25,744	476	6,920	26,321	564
4. Loans	–	–	–	–	–	–
Total	**1,131,381**	**36,642**	**4,924**	**799,777**	**26,321**	**5,323**

Item 1 Debt securities - Level 1 - consists almost exclusively of Government Bonds held by the Bank.
The equity securities include the following strategic investments of the Bank:

- Level 1: London Stock Exchange Group plc (31,377 thousand euros), Anima Holding S.p.A. (2,432 thousand euros), Net Insurance S.p.A. (360 thousand euros) and Vetrya S.p.A. (319 thousand euros);
- Level 3: Fideuram Investimenti SGR S.p.A. (1,075 thousand euros), SIA S.p.A. (1,120 thousand euros), Calipso S.p.A. (44 thousand euros), CSE Consorzio Servizi Bancari S.r.l. (2,430 thousand euros) and Cassa di Risparmio di Cesena S.p.A. (43 thousand euros).

Item 3 UCI units Levels 1 and 3 refer to the subsidiary InvestiRE SGR S.p.A. while Level 2 refers to the Bank and includes 223 units of Fondo Immobili Pubblici (FIP) totalling 19,429 thousand euros, 5 units of the Apple Fund totalling 2,468 thousand euros, New Millennium Total Return Fund units for 2,648 thousand euros, units of the Thema Fund for 960 thousand euros and other units making up the difference.

In the case of property UCIs, for which no quoted prices are available, directly or indirectly observable in active markets, fair value is measured on the basis of periodic NAV made available by the management company, believed to represent the fair value at which transfer operations between independent operators are assumed to be completed.

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

Items/Amounts	Total 31.12.2016	Total 31.12.2015
1. Debt securities	**1,105,420**	**749,609**
a) Governments and Central Banks	1,084,394	740,404
b) Other public authorities	–	–
c) Banks	21,026	9,205
d) Other issuers	–	–
2. Equity securities	**38,936**	**48,007**
a) Banks	44	358
b) Other issuers:	38,892	47,649
- insurance companies	360	1,468
- financial companies	34,619	42,590
- non-financial companies	3,913	3,591
- other	–	–
3. UCI units	**28,591**	**33,805**
4. Loans	**–**	**–**
a) Governments and Central Banks	–	
b) Other public authorities	–	
c) Banks	–	
d) Other entities	–	
Total	**1,172,947**	**831,421**

Item “UCI units” includes real estate funds of 24,744 thousand euros and other funds of 3,847 thousand euros.

Section 5 – Financial assets held to maturity – Item 50

5.1 Financial assets held to maturity: breakdown by product

	Total 31.12.2016				Total 31.12.2015			
	BV	FV			BV	FV		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Debt securities	1,999	2,001	–	–	1,959	2,006	–	–
- structured								
- other	1,999	2,001			1,959	2,006		
2. Loans								
Total	**1,999**	**2,001**	**–**	**–**	**1,959**	**2,006**	**–**	**–**

Key:
FV = fair value
BV = book value

The item includes a bond transferred by the Bank in 2008, as already mentioned in Section A.3 Information on transfers of financial assets between portfolios.

5.2 Financial assets held to maturity: debtors/issuers

Type of transaction/Amount	Total 31.12.2016	Total 31.12.2015
1. Debt securities		
a) Governments and Central Banks	–	–
b) Other public authorities	–	–
c) Banks	1,999	1,959
d) Other issuers	–	–
2. Loans		
a) Governments and Central Banks	–	–
b) Other public authorities	–	–
c) Banks	–	–
d) Other entities	–	–
Total	**1,999**	**1,959**
Total Fair value	**2,001**	**2,006**

Section 6 – Due from banks – Item 60

6.1 Due from banks: breakdown by product

Type of transaction/Amount	Total 31.12.2016				Total 31.12.2015			
	BV	FV			BV	FV		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Due from central banks	–				–			
1. Fixed-term deposits	–	X	X	X	–	X	X	X
2. Obligatory reserve	–	X	X	X	–	X	X	X
3. Outstanding repos	–	X	X	X	–	X	X	X
4. Other	–	X	X	X	–	X	X	X
B. Due from banks	**170,728**				**98,386**			
1. Loans								
1.1 Current accounts and demand deposits	65,030	X	X	X	94,509	X	X	X
1.2 Fixed-term deposits	89,896	X	X	X	3,877	X	X	X
1.3 Other loans:	15,802	X	X	X	–	X	X	X
- Outstanding repos	–	X	X	X	–	X	X	X
- Finance lease	–	X	X	X		X	X	X
- Other	15,802	X	X	X		X	X	X
2. Debt securities	–				–			
2.1 Structured securities	–	X	X	X	–	X	X	X
2.2 Other debt securities	–	X	X	X	–	X	X	X
Total	**170,728**			**170,728**	**98,386**			**98,386**

Key:
FV = fair value
BV = book value

Item B.1.2. Fixed-term deposits referring exclusively to the Parent Company comprises the obligatory reserve deposited at the ICBPI (Istituto Centrale Banche Popolari Italiane) of 4,889 thousand euros and e-mid deposits amounting to 85,007 thousand euros with latest maturity February 2017. At 31 December 2015, the item, of 3,877 thousand euros, referred solely to the obligatory Reserve.

Item 1.3 Other loans relates to guarantee margins on derivatives referred to the Bank.

Section 7 – Due from customers – Item 70

7.1 Due from customers: breakdown by product

Type of transaction/Amount	Total 31.12.2016						Total 31.12.2015					
	Book value			Fair value			Book value			Fair value		
	Non impaired	Impaired		L1	L2	L3	Non impaired	Impaired		L1	L2	L3
		Purchased	Other					Purchased	Other			
Loans												
1. Current accounts	113,478	–	2,230	X	X	X	95,509	–	356	X	X	X
2. Outstanding repos	20,390	–	–	X	X	X	–	–	–	X	X	X
3. Mortgages	144,084	–	1,770	X	X	X	150,689	–	3,022	X	X	X
4. Credit cards, personal loans and loans on salary	–	–	–	X	X	X	–	–	–	X	X	X
5. Finance lease	–	–	–	X	X	X	–	–	–	X	X	X
6. Factoring	–	–	–	X	X	X	–	–	–	X	X	X
7. Other loans	48,589	–	4,597	X	X	X	37,470	–	5,035	X	X	X
Debt securities		–	–					–	–			
8 Structured securities	–	–	–	X	X	X	–	–	–	X	X	X
9 Other debt securities	627	–	–	X	X	X	563	–	–	X	X	X
Total	**327,168**	**–**	**8,597**			**337,672**	**284,231**	**–**	**8,413**			**294,396**

Key:
L1: Level 1
L2: Level 2
L3: Level 3

The item "Due from customers" totalled 335,765 thousand euros (292,644 thousand euros at 31 December 2015).

At the reporting date of these financial statements, the items relating to current accounts, mortgages and other loans include **impaired assets** relating to the Parent Company totalling 13,075 thousand euros (8,415 thousand euros after the write-downs), comprising:

- **non-performing loans** totalling 8,640 thousand euros (4,361 thousand euros after the write-downs) relating to the following positions:
  - 4,572 thousand euros (2,080 thousand euros after the write-downs) for the residual amount of a loan resolved on 8 July 2011. The transaction is secured by a first mortgage on property, the value of which – supported by an expert appraisal report revised on 1 December 2016 – covers the entire value of the net exposure. The recoverable amount of the credit is based on the assessed value of the guarantees, which takes into account the time for the collection of credit, in relation to the privileged position of the Bank concerning the real estate collaterals securing the exposure;
  - 4,068 thousand euros referring to trade receivables of 1,046 thousand euros and to cash loans of 3,022 thousand euros.

  The line-by-line write-downs made totalled 4,279 thousand euros (including 1,027 thousand euros referring to trade receivables).
- **likely defaults** totalling 1,011 thousand euros (657 thousand euros after the write-downs) comprising:
  - overdraft facilities amounting to 196 thousand euros;

- mortgage positions of 536 thousand euros (64 thousand euros of overdue instalments and 472 thousand euros of principal about to fall due);
- trade receivables of 279 thousand euros.

The line-by-line write-downs made totalled 354 thousand euros (including 225 thousand euros referring to trade receivables);

- other positions **expired or past due** for over 90 days totalling 3,424 thousand euros (3,397 thousand euros after the write-downs).

At 31 December 2016, there are 11 unimpaired "forborne" exposures of which:

- 3 non-performing positions totalling 787 thousand euros (of which 2 positions included among likely defaults for 149 thousand euros and 1 position included among past due loans for 638 thousand euros).
- 8 not impaired positions, amounting to 2,246 thousand euros;

As usual, at 31 December 2016, the Bank calculated the collective write-down of cash loans, based on the mean value of the historical series of the default rates of cash loans received from the Risk Centre. This write-down, amounting to 1,891 thousand euros, was higher than the allocations made for this purpose through 31 December 2015, which amounted to 1,809 thousand euros.

In 2016, the Bank recorded 123 thousand euros in the income statement item "130 Net value adjustments/write-backs for impairment of: a) loans" for value adjustments of which 260 thousand euros for receivables write-offs, 182 thousand euros for specific value adjustments, 82 thousand euros for portfolio value adjustments and 401 thousand euros for write-backs.

At 31 December 2016, the allowance for doubtful receivables totalled 6,551 thousand euros, of which: 4,660 thousand euros, on an itemised basis and 1,891 thousand euros for collective write-downs.

As regards the other Group companies, the subsidiary Finnat Fiduciaria S.p.A. recorded net value adjustments in the period for 62 thousand euros, therefore the allowance for doubtful receivables at 31 December 2016 amounted to 855 thousand euros, while gross impaired loans of 1,036 thousand euros.

Item 7. "Other loans" refers to the Parent Company (23,026 thousand euros) (of which Deposits for margins with the Cassa di Compensazione e Garanzia amounting to 20,132 thousand euros), to InvestiRE SGR S.p.A., (25,093 thousand euros), and the difference refers to the other companies of the group.

Item 9. "Other debt securities" refers to the Parent Company's Senior Fin.Re SPV bonds, with a nominal value of 1,700 thousand euros and issued within the securitisation of an unsecured non-performing loan.

7.2 Due from customers: breakdown by debtor/issuer

Type of transaction/Amount	Total 31.12.2016			Total 31.12.2015		
	Non impaired	Impaired		Non impaired	Impaired	
		Purchased	Other		Purchased	Other
1. Debt securities:	**627**	**–**	**–**	**563**	**–**	**–**
a) Governments	–	–	–	–	–	–
b) Other public authorities	–	–	–	–	–	–
c) Other issuers	627	–	–	563	–	–
- non-financial companies	–	–	–	–	–	–
- financial companies	627	–	–	563	–	–
- insurance companies	–	–	–	–	–	–
- other	–	–	–	–	–	–
2. Loans to:	**326,541**	**–**	**8,597**	**283,668**	**–**	**8,413**
a) Governments	–	–	–	–	–	–
b) Other public authorities	–	–	–	–	–	–
c) Other entities	326,541	–	8,597	283,668	–	8,413
- non-financial companies	156,634	–	4,574	138,445	–	4,562
- financial companies	95,799	–	162	71,836	–	150
- insurance companies	–	–	–	–	–	–
- other	74,108	–	3,861	73,387	–	3,701
Total	**327,168**	**–**	**8,597**	**284,231**	**–**	**8,413**

A breakdown of time distribution of amounts due from customers by residual duration can be found under Part E Section 1.3 - Banking group - liquidity risk.

Section 8 – Hedging derivatives – Item 80

8.1 Hedging derivatives: breakdown by type of hedge and by level

Items/Amounts	FV 31.12.2016			NV 31.12.2016	FV 31.12.2015			NV 31.12.2015
	L1	L2	L3		L1	L2	L3	
A. Financial derivatives								
1) Fair value		391		17,520		215		20,437
2) Cash flows								
3) Foreign investment								
B. Credit derivatives								
1) Fair value								
2) Cash flows								
Total	**–**	**391**	**–**	**17,520**	**–**	**215**	**–**	**20,437**

Key:
FV = fair value
NV = notional value
L1 = Level 1
L2 = Level 2
L3 = Level 3

8.2 Hedging derivatives: breakdown by hedged portfolios and type of hedge

Transactions/Type of hedge	Fair value						Cash flows		Foreign investments
	Specific					Generic	Specific	Generic	
	interest rate risk	exchange rate risk	credit risk	price risk	more risks				
1. Available-for-sale financial assets		391				X		X	X
2. Receivables				X		X		X	X
3. Financial assets held to maturity	X			X		X		X	X
4. Portfolio	X	X	X	X	X		X		X
5. Other transactions						X		X	
Total assets		**391**							
1. Financial liabilities				X		X		X	X
2. Portfolio	X	X	X	X	X		X		X
Total liabilities									
1. Expected transactions	X	X	X	X	X	X		X	X
2. Portfolio of financial assets and liabilities	X	X	X	X	X		X		

The item, referring exclusively to the Bank, was commented in the corresponding Section of the separate financial statements.

Section 10 – Equity investments – Item 100

10.1 Equity investments information on investment relationships

Company name	Registered office	Principal place of business	Type of relationship	Investment relationship		Voting rights %
				Investor company	Ownership %	
A. Jointly controlled companies						
B. Companies subject to significant influence						
1. Prévira Invest SIM S.p.A. in liquidation	Rome	Rome	Significant influence	Banca Finnat	20.00	
2. Imprebanca S.p.A.	Rome	Rome	Significant influence	Banca Finnat	20.00	

The share ownership also represents the percentage of voting rights at the shareholders' meetings.

10.2 Significant equity investments: book value, fair value and dividends received

10.3 Significant equity investments: accounting information

At 31 December 2016, the Group did not hold significant equity investments in associated companies.

10.4 Non significant equity investments: accounting information

Company name	Book value of the equity investments	Total assets	Total liabilities	Total revenues	Profit (loss) from current operations after tax	Income (loss) from groups of assets being disposed after tax	Profit (loss) for the year (1)	Other income items after tax (2)	Compre-hensive income (3) = (1)+(2)
Jointly controlled companies									
Companies under considerable control	8,264	36,965	36,965	1,050	(146)	–	(213)	–	(213)

Data referred to the latest available situations

The posted data are shown cumulatively and referred to the shareholding percentage held by the Group.

10.5 Equity investments: annual changes

	Total 31.12.2016	Total 31.12.2015
A. Opening balance	**10,549**	**10,822**
B. Increases	**787**	**143**
B.1 Purchases	–	–
B.2 Write-backs	–	–
B.3 Revaluations	–	143
B.4 Other changes	787	–
C. Decreases	**3,072**	**416**
C.1 Sales	2,840	–
C.2 Value adjustments	199	416
C.3 Other changes	33	–
D. Closing balance	**8,264**	**10,549**
E. Total revaluations	**–**	**143**
F. Total adjustments	**199**	**416**

Item B.4 Other changes comprises (572 thousand euros) the profit realised from the sale of the interest in Revalo S.p.A., from the final liquidation division of the associate Sigefi Italia Private Equity S.r.l. (2 thousand euros) and the difference from the change in consolidation reserves.

Item C.1 Sales refers to the price collected on the sale of the investment in the associate Revalo S.p.A.

Section 12 – Tangible assets – Item 120

12.1 Tangible assets for functional use: breakdown of the assets carried at cost

Assets/Amounts	Total 31.12.2016	Total 31.12.2015
1. Owned assets	**5,304**	**5,501**
a) land	1,308	1,308
b) buildings	2,441	2,544
c) furniture	924	970
d) electronic equipment	540	553
e) other	91	126
2 Assets acquired under finance lease	**–**	**–**
a) land	–	
b) buildings	–	
c) furniture	–	
d) electronic equipment	–	
e) other	–	
Total	**5,304**	**5,501**

12.5 Tangible assets for functional use: annual changes

	Land	Buildings	Furniture	Electronic equipment	Other	Total
A. Gross opening balance	**1,308**	**5,761**	**2,800**	**4,576**	**460**	**14,905**
A.1 Net total impairment	–	3,217	1,830	4,023	334	9,404
A.2 Net opening balance	**1,308**	**2,544**	**970**	**553**	**126**	**5,501**
B. Increases:	**–**	**53**	**49**	**201**	**20**	**323**
B.1 Purchases	–	53	49	188	14	304
B.2 Capitalised improvement expenses	–	–	–	–	–	–
B.3 Write-backs	–	–	–	–	–	–
B.4 Positive changes in fair value allocated to	–	–	–	–	–	–
a) net equity	–	–	–	–	–	–
b) income statement	–	–	–	–	–	–
B.5 Positive exchange differences	–	–	–	–	–	–
B.6 Transfers from properties held for investment	–	–	–	–	–	–
B.7 Other changes	–	–	–	13	6	19
C. Decreases:	**–**	**156**	**95**	**214**	**55**	**520**
C.1 Sales	–	–	–	15	6	21
C.2 Depreciation	–	156	95	199	49	499
C.3 Value adjustments for impairment allocated to	–	–	–	–	–	–
a) net equity	–	–	–	–	–	–
b) income statement	–	–	–	–	–	–
C.4 Negative changes in fair value allocated to	–	–	–	–	–	–
a) net equity	–	–	–	–	–	–
b) income statement	–	–	–	–	–	–
C.5 Negative exchange differences	–	–	–	–	–	–
C.6 Transfers to:	–	–	–	–	–	–
a) tangible assets held for investment	–	–	–	–	–	–
b) assets being disposed	–	–	–	–	–	–
C.7 Other changes	–	–	–	–	–	–
D. Net closing balance	**1,308**	**2,441**	**924**	**540**	**91**	**5,304**
D.1 Net total impairment	–	3,373	1,925	4,207	377	9,882
D.2 Gross closing balance	1,308	5,814	2,849	4,747	468	15,186
E. Valuation at cost						

Section 13 – Intangible assets – Item 130

13.1 Intangible assets: breakdown by asset

Assets/Amounts	Total 31.12.2016		Total 31.12.2015	
	Definite life	Indefinite life	Definite life	Indefinite life
A.1 Goodwill:	**X**	**37,729**	**X**	**37,729**
A.1.1 pertaining to the Group	X	19,074	X	19,074
A.1.2 pertaining to minority interests	X	18,655	X	18,655
A.2 Other intangible assets	**567**	**2,726**	**464**	**3,764**
A.2.1 Assets carried at cost:	567	2,726	464	3,764
a) Intangible assets generated internally	–	–	–	–
b) Other assets	567	2,726	464	3,764
A.2.2 Assets carried at fair value:	–	–	–	–
a) Intangible assets generated internally	–	–	–	–
b) Other assets	–	–	–	–
Total	**567**	**40,455**	**464**	**41,493**

Item A.1 Goodwill amounting to 37,729 thousand euros refers:

- 300 thousand euros to a part of the goodwill resulting from the merger in 2003 of Banca Finnat Euramerica S.p.A. into Terme Demaniali di Acqui S.p.A.
- 37,429 thousand euros referred to the goodwill recognised by the subsidiary InvestiRE SGR S.p.A. as a result of the merger by absorption, in 2015, of Beni Stabili Gestioni SGR S.p.A. and Polaris RE SGR S.p.A. The adequacy assessment was based on the estimate of the projected cash flows to be discounted according to the Discounted Free Cash Flow to the Firm method, adopted taking into account both the characteristics of the business and the current and prospective situation of the company. For the purposes of discounting the cash flows and the terminal value, a rate representing the weighted average cost of the capital invested in the Company (WACC) which, in this specific case, matches the cost of capital Ke, inasmuch as InvestiRE SGR S.p.A. is characterised by the current and expected absence of financial payables. The financial parameters used to calculate the WACC were defined on the basis of average market values, measured also by sample testing comparable entities.

Item A.2 Other intangible assets - Indefinite life consists of the positive consolidation differences of the following companies:

- Finnat Fiduciaria S.p.A., 984 thousand euros;
- Investire SGR S.p.A., 1,693 thousand euros.

As it regards an intangible asset whose useful life cannot be defined, an impairment test was carried out in accordance with the provisions of IAS 36. This evaluation did not show any loss in value to record in the income statement.

13.2 Intangible assets: annual changes

	Goodwill	Other intangible assets: generated internally		Other intangible assets: other		Total
		DEF	INDEF	DEF	INDEF	
A. Opening balance	**37,729**	**–**	**–**	**3,930**	**4,748**	**46,407**
A.1 Net total impairment	–	–	–	3,466	984	4,450
A.2 Net opening balance	37,729	–	–	464	3,764	41,957
B. Increases	**–**	**–**	**–**	**257**	**–**	**257**
B.1 Purchases	–	–	–	257	–	257
B.2 Increases in internal intangible assets	X	–	–	–	–	–
B.3 Write-backs	X	–	–	–	–	–
B.4 Positive changes in fair value	–	–	–	–	–	–
- on net equity	X	–	–	–	–	–
- on income statement	X	–	–	–	–	–
B.5 Positive exchange rate differences	–	–	–	–	–	–
B.6 Other changes	–	–	–	–	–	–
C. Decreases	**–**	**–**	**–**	**154**	**1,038**	**1,192**
C.1 Sales	–	–	–	–	–	–
C.2 Value adjustments	–	–	–	154	–	154
(-) Amortisation	X	–	–	154	–	154
(-) Write-downs	–	–	–	–	–	–
(+) net equity	X	–	–	–	–	–
(+) income statement	–	–	–	–	–	–
C.3 Negative changes in fair value	–	–	–	–	–	–
- on net equity	X	–	–	–	–	–
- on income statement	X	–	–	–	–	–
C.4 Transfers to non-current assets being disposed	–	–	–	–	–	–
C.5 Negative exchange differences	–	–	–	–	–	–
C.6 Other changes	–	–	–	–	1,038	1,038
D. Net closing balance	**37,729**	**–**	**–**	**567**	**2,726**	**41,022**
D.1 Total net value adjustments	–	–	–	3,620	984	4,604
E. Gross closing balance	**37,729**	**–**	**–**	**4,187**	**3,710**	**45,626**
F. Valuation at cost	–	–	–	–	–	

Section 14 – Tax assets and liabilities – Items 140 (assets) and 80 (liabilities)

Current tax assets total 1,802 thousand euros (2,992 thousand euros at 31 December 2015) and mainly concern Ires tax credits for the domestic consolidated tax system of 134 thousand euros, Irap tax credits of 492 thousand euros and receivables for requested tax refunds of 1,171 thousand euros. This latter amount comprises:

- 1,033 thousand euros (of which 829 thousand euros referred to the Bank and 204 thousand euros referred to the other companies participating in the consolidated tax system) as a result of the request for refund for the recovery of the deduction for Ires purposes, of Irap referred to staff costs, for the years from 2007 to 2011 (Article 2 of Italian Law Decree no. 201/2011 supplemented by Italian Law Decree no. 16/2012);
- 134 thousand euros for taxes paid by the Bank on tax assessment, referred to tax year 2003, for which appeal is pending;
- one thousand euros for Bank VAT;
- 3 thousand euros for taxes pertaining to Finnat Gestioni S.A.

Current tax liabilities totalled 565 thousand euros (6,302 thousand euros at 31 December 2015) and concerned:

- 325 thousand euros for current Irap payables;
- 26 thousand euros for VAT payables;
- 183 thousand euros for assessments pertaining to the Bank, for which appeal is pending;
- 31 thousand euros for taxes pertaining to Finnat Gestioni S.A.

14.1 Advance tax assets: breakdown

	Total 31.12.2016	Total 31.12.2015
a) Of which per Italian Law 214/2011	**12,594**	**14,329**
Goodwill	12,009	13,713
Write-down of receivables set forth in Article 106 par. 3 of the TUIR	585	616
b) Other	**1,607**	**3,944**
Write-down of securities	1,056	3,071
Write-down of receivables	195	233
Staff severance fund – IAS change	160	128
Other	196	512
Total	**14,201**	**18,273**

Advance taxes refer primarily to a lower tax burden in perspective, related to the amortisation of goodwill in the forthcoming years. Of these, 942 thousand euros pertain to the Bank for the goodwill recognised in 2003 on the occasion of the merger by absorption of Banca Finnat Euramerica S.p.A. and of Finnat Corporate S.p.A. into Terme Demaniali di Acqui S.p.A., and 11,067 thousand euros referred to the subsidiary InvestiRE SGR. for the goodwill recognised in 2015 as a result of the merger by absorption of Beni Stabili Gestioni SGR S.p.A. and Polaris RE SGR S.p.A.

14.2 Deferred tax liabilities: breakdown

	Total 31.12.2016	Total 31.12.2015
Revaluation of securities	2,763	3,427
Allocation of merger deficit on securities	40	40
Placement commissions	215	374
Other	19	85
Total	**3,037**	**3,926**

Prepaid and deferred taxes have been determined applying the IRES rate and, where applicable, the IRAP rate in force from 1 January 2017 onwards. Therefore, they were determined applying the new IRES rate - prescribed by the 2016 Stability Law - which changed from 27.5% to 24%. With regard instead to banks, on the same date the additional rate of 3.5% was introduced, thus maintaining the total IRES rate for the Bank unchanged at 27.5%.
Article 2 of Italian Law Decree no. 225/2010 (the "mille proroghe" or "thousand extensions" decree), subsequently amended by Article 9 of Italian Law Decree no. 201/2011 (the so-called "Monti" decree) converted by Italian Law no. 214/2011 introduced the possibility of transforming into tax credits the deferred tax assets recorded in the financial statements and related to the value of the goodwill and to the write-down of receivables pursuant to Article 106, paragraph 3, of the TUIR (Consolidated Income Tax Act) in force through 31 December 2013.

In particular, the transformation into tax receivables can be realised upon the occurrence of some cases identified by the regulation itself and more specifically in case of: a) statutory loss; b) tax loss; c) voluntary liquidation; d) subjecting to bankruptcy proceedings. Advance tax assets calculated pursuant to Italian Law 214/2011, for the recognition in the financial statements, should not be subject to the test in accordance with IAS 12.

14.3 Changes in advance taxes (with corresponding item in the income statement)

	Total 31.12.2016	Total 31.12.2015
1. Opening balance	**16,872**	**2,570**
2. Increases	**21**	**15,009**
2.1 Advance taxes recognised in the year	21	12,927
a) relating to previous years	–	–
b) due to the change in the accounting policies	–	–
c) write-backs	–	–
d) other	21	12,927
2.2 New taxes or increases in tax rates	–	–
2.3 Other increases	–	2,082
- of which business combinations	–	2,082
3. Decreases	**3,400**	**707**
3.1 Advance taxes cancelled during the year	2,044	707
a) reallocations	2,044	707
b) write-downs due to irrevocability	–	–
c) change in the accounting policies	–	–
d) other	–	–
3.2 Reductions in tax rates	1,356	–
3.3 Other decreases	–	–
a) transformation into tax receivables set forth in Italian Law no. 214/2011	–	–
b) other	–	–
4. Closing balance	**13,493**	**16,872**

The figures indicated in table 14.3 comprise the amounts shown in table 14.3.1.

14.3.1 Changes in advance taxes set forth in Italian Law 214/2011 (with corresponding item in the income statement)

	Total 31.12.2016	Total 31.12.2015
1. Opening balance	**14,329**	**2,221**
2. Increases	**–**	**12,503**
3. Decreases	**1,735**	**395**
3.1 Reallocations	1,735	395
3.2 Transformation into tax receivables	–	–
a) deriving from losses for the year	–	–
b) deriving from tax losses	–	–
3.3 Other decreases	–	–
4. Closing balance	**12,594**	**14,329**

14.4 Changes in deferred taxes (with corresponding item in the income statement)

	Total 31.12.2016	Total 31.12.2015
1. Opening balance	**2,953**	**2,646**
2. Increases	**8**	**799**
2.1 Deferred taxes recorded in the year	8	634
a) relating to previous years	–	–
b) due to the change in the accounting policies	–	–
c) other	8	634
2.2 New taxes or increases in tax rates	–	–
2.3 Other increases	–	165
- of which business combinations	–	165
3. Decreases	**684**	**492**
3.1 Deferred taxes cancelled during the year	658	492
a) reallocations	658	492
b) due to the change in the accounting policies	–	
c) other	–	–
3.2 Reductions in tax rates	26	–
3.3 Other decreases	–	–
4. Closing balance	**2,277**	**2,953**

14.5 Changes in advance taxes (with corresponding item in the net equity)

	Total 31.12.2016	Total 31.12.2015
1. Opening balance	**1,401**	**807**
2. Increases	**265**	**1,261**
2.1 Advance taxes recognised in the year	239	92
a) relating to previous years	–	–
b) due to the change in the accounting policies	–	–
c) other	239	92
2.2 New taxes or increases in tax rates	–	–
2.3 Other increases	26	1,169
- of which business combinations	–	1,169
3. Decreases	**958**	**667**
3.1 Advance taxes cancelled during the year	54	667
a) reallocations	54	667
b) write-downs due to irrevocability	–	–
c) due to the change in the accounting policies	–	–
d) other	–	–
3.2 Reductions in tax rates	54	–
3.3 Other decreases	850	–
4. Closing balance	**708**	**1,401**

14.6 Changes in deferred taxes (with corresponding item in net equity)

	Total 31.12.2016	Total 31.12.2015
1. Opening balance	**973**	**1,205**
2. Increases	**318**	**731**
2.1 Deferred taxes recorded in the year	318	731
a) relating to previous years	–	–
b) due to the change in the accounting policies	–	–
c) other	318	731
2.2 New taxes or increases in tax rates	–	–
2.3 Other increases	–	–
3. Decreases	**531**	**963**
3.1 Deferred taxes cancelled during the year	531	963
a) reallocations	531	963
b) due to the change in the accounting policies	–	–
c) other	–	–
3.2 Reductions in tax rates	–	–
3.3 Other decreases	–	–
4. Closing balance	**760**	**973**

For further information on changes to prepaid and deferred taxes, please see: for those recorded in the income statement, Part C - Section 20 Income taxes for the year and for those recorded in the net equity Part D – Comprehensive income.

* * *

With regard to tax-related disputes, it should be pointed out that, for the Bank, the following appeals are pending before the Supreme Court, without a hearing date yet set for them:

- appeal against unfavourable decision no. 253/07/10 of the Regional Tax Commission of Rome. The dispute pertains to assessment notice no. RCB030302029/2005, whereby the Revenue Agency argued that certain operating costs relating to the year 2002 were non-deductible for IRPEG and IRAP purposes (costs for advisory services and costs pertaining to a lease agreement). The amounts of the higher taxes assessed (55 thousand euro) and related penalties and interests were expensed in the income statement by the Bank in the previous years;
- appeal against partially unfavourable decision no. 150/09/2012 of the Regional Tax Commission of Rome. The dispute pertains to assessment notice no. RCB030302784/2008, whereby the Revenue Agency argued, in relation to the 2003 tax year, that Article 96-bis of the Consolidated Income Tax Act (taxation of 5% of the value of dividends) did not apply to the dividends distributed by the Luxembourg investee New Millenium Advisory S.A. The 2nd level decision, now being appealed before the Supreme Court, partially allowed the Bank's arguments. In accordance with the 2nd level decision, the amounts of the higher taxes assessed (83 thousand euro) and related penalties and interests were expensed in the income statement by the Bank in the previous years.

Section 16 – Other assets – Item 160

16.1 Other assets: breakdown

	Total 31.12.2016	Total 31.12.2015
Receivables for guarantee deposits	475	474
Deposits with Cassa Compensazione e Garanzia	8,572	6,324
Due from counterparties and brokers	35	82
Tax credits as withholding tax	2,427	3,315
Sundry receivables	6,687	8,485
Total	**18,196**	**18,680**

LIABILITIES

Section 1 – Due to banks – Item 10

1.1 Due to banks: breakdown by product

Type of transactions/Group components	Total 31.12.2016	Total 31.12.2015
1. Due to Central Banks	**–**	**–**
2. Due to banks	**1,203**	**11,496**
2.1 Current accounts and demand deposits	533	11,496
2.2 Fixed-term deposits	–	–
2.3 Loans	670	–
2.3.1 reverse repos	–	–
2.3.2 other	670	–
2.4 Amounts due under repurchase agreements of own equity instruments	–	–
2.5 Other liabilities	–	–
Total	**1,203**	**11,496**
Fair value - level 1	–	
Fair value - level 2	–	
Fair value - level 3	1,203	11,496
Total Fair value	**1,203**	**11,496**

Payables due to banks refer only to the Parent Company.

Item 2.3.2 Other loans relates to guarantee margins on derivatives.

Section 2 – Due to customers – Item 20

2.1 Due to customers: breakdown by product

Type of transactions/Group components	Total 31.12.2016	Total 31.12.2015
1. Current accounts and demand deposits	491,938	362,724
2. Fixed-term deposits	62,905	54,911
3. Loans	940,168	627,955
3.1 reverse repos	940,168	627,955
3.2 Other	–	–
4. Amounts due under repurchase agreements of own equity instruments	–	–
5. Other payables	1,308	226
Total	**1,496,319**	**1,045,816**
Fair value - level 1		
Fair value - level 2		
Fair value - level 3	1,496,319	1,045,816
Total Fair value	**1,496,319**	**1,045,816**

Item 3.1 Reverse repos concerns the transactions between the Bank and Cassa di Compensazione e Garanzia.

Section 3 – Outstanding securities – Item 30

3.1 Outstanding securities: breakdown by product

Type of securities/ Amount	Total 31.12.2016				Total 31.12.2015			
	Book value	Fair value			Book value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Securities	**23,825**	**–**	**–**	**23,791**	**26,122**	**–**	**–**	**26,095**
1. bonds	23,825	–	–	23,791	26,122	–	–	26,095
1.1 structured	–			–				
1.2 other	23,825			23,791	26,122			26,095
2. other securities	–	–	–	–	–	–	–	–
2.1 structured	–			–				
2.2 other	–			–				
Total	**23,825**	**–**	**–**	**23,791**	**26,122**	**–**	**–**	**26,095**

The item represents the bonds issued by the Bank, including the accrued coupon. The amount is shown net of the securities held for trading present in its portfolio, with a nominal amount of 1,177 thousand euros.

Section 4 – Financial liabilities held for trading – Item 40

4.1 Financial liabilities held for trading: breakdown by product

Type of transaction/ Amount	Total 31.12.2016					Total 31.12.2015				
	NV	FV			FV*	NV	FV			FV*
		L1	L2	L3			L1	L2	L3	
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	**–**	**–**	**10,772**	**–**			**–**	**9,733**	**–**	
1. Financial derivatives		–	10,772	–			–	9,733	–	
1.1 Held for trading	X	–	10,772	–	X	X	–	9,733	–	X
1.2 Related 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 Related to the fair value option	X	–	–	–	X	X	–	–	–	X
2.3 Other	X	–	–	–	X	X	–	–	–	X
Total B	**X**	**–**	**10,772**	**–**	**X**	**X**	**–**	**9,733**	**–**	**X**
Total (A + B)	**X**	**–**	**10,772**	**–**	**X**	**X**	**–**	**9,733**	**–**	**X**

Key:
FV = fair value
FV* = fair value calculated excluding the changes in value due to the change in the credit rating of the issuer with respect to the issue date
NV = face or notional value

L1 = Level 1
L2 = Level 2
L3 = Level 3

Financial liabilities are exclusively ascribable to the Bank.
Item B. Derivatives includes the measurement of currency forwards of 10,662 thousand euros and the fair value measurement of an Interest Rate Swap Amortising of 110 thousand euros. This derivative is a hedging transaction for managing the interest rate risk.

Section 8 – Tax liabilities – Item 80

See Section 14 of the assets.

Section 10 – Other liabilities – Item 100

10.1 Other liabilities: breakdown

	Total 31.12.2016	Total 31.12.2015
Social security and insurance contributions to be paid	1,359	1,509
Payables to employees and contractors	1,786	2,943
Emoluments to be paid to the Directors	83	37
Emoluments to be paid to the Board of Statutory Auditors	124	139
Due to suppliers	881	1,248
Shareholders for dividends to be paid	1,189	1,052
Payables to brokers and institutional counterparties	29	65
Tax payables as withholding tax	2,093	2,323
Other payables	4,557	3,861
Total	**12,101**	**13,177**

Section 11 – Staff severance fund – Item 110

11.1 Staff severance fund: annual changes

	Total 31.12.2016	Total 31.12.2015
A. Opening balance	**4,405**	**3,993**
B. Increases	**1,704**	**1,692**
B.1 Allocation for the year	1,704	995
B.2 Other changes	-	697
- of which Business combinations	-	697
C. Decreases	**1,270**	**1,280**
C.1 Severance indemnities paid out	362	478
C.2 Other changes	908	802
D. Closing balance	**4,839**	**4,405**

Item B.1 Allocation for the year, includes the actuarial loss of 252 thousand euros recognised among valuation reserves - net of the tax effect - in accordance with IAS 19. In 2015, an actuarial gain of 236 thousand euros was recorded.

Item C.2 Other changes includes payments made to supplementary Social Security Institutes and the INPS Treasury – net of disbursements carried out – as established by Italian Law no. 296/06.

The actuarial assumptions used to calculate the liabilities as at the balance sheet date are set out below:

Demographic assumption

As regards the demography data used, life expectancy was assessed using the RG48 demographic table on population activity ratios ("Tavola di permanenza nella posizione di attivo) (processed by the General Accounting Office, by reference to the 1948 generation), "selected, projected and subdivided by gender", supplemented by internal statistics concerning the probability of staff leaving employment.

Economic-financial assumptions

Technical evaluations were made on the basis of the following assumptions:

- technical discount rate between 0.2706% and 2.1718%, determined on the basis of the rate curve built on the basis of the effective yield rate of the bonds in Euro of leading companies rated AA or higher;
- annual inflation rate 1.25%.

Section 12 - Provisions for risks and charges - Item 120

12.1 Provisions for risks and charges: breakdown

Items/Components	Total 31.12.2016	Total 31.12.2015
1. Company pension funds	-	-
2. Other provisions for risks and charges	448	1,067
2.1 Legal disputes	-	-
2.2 Staff costs	-	-
2.3 Other	448	1,067
Total	**448**	**1,067**

12.2 Provisions for risks and charges: annual changes

Items/Components	Pension funds	Other provisions	Total
A. Opening balance		**1,067**	**1,067**
B. Increases		**-**	**-**
B.1 Allocation for the year	-	-	-
B2. Changes due to the passing of time	-	-	-
B.3 Changes due to discount rate variations	-	-	-
B.4 Other changes	-	-	-
C. Decreases		**619**	**619**
C.1 Use in the year	-	619	619
C.2 Changes due to discount rate variations	-	-	-
C.3 Other changes	-	-	-
D. Closing balance	**-**	**448**	**448**

12.4 Provisions for risks and charges - other provisions

The item, referring exclusively to the Bank, was commented in the corresponding Section of the separate financial statements.

Section 15 – Group equity – Items 140, 170, 190, 200 and 220

15.1 "Share capital" and "Own shares": Breakdown

At 31 December 2016, the share capital paid up by the Bank was 72,576,000 euros, divided into 362,880,000 ordinary shares with a face value of 0.20 euros each, and the Bank holds 29,492,710 own shares, amounting to 8.1% of the share capital (28,320,718 at 31 December 2015).

In application of IAS 32 and of the provisions contained in the Circular Letter no. 262/2005, the own shares held exclusively at 31 December 2016 were used to adjust the net equity for an amount of 14,392 thousand euros, which corresponds to their purchase price.

15.2 Capital - Number of shares of the parent company: annual changes

Items/Types	Ordinary	Other
A. Number of shares at the beginning of the year	**362,880,000**	
– fully paid-up	362,880,000	
– partly paid-up		
A.1 Own shares (-)	(28,320,718)	
A.2 Outstanding shares: opening balance	334,559,282	
B. Increases	–	
B.1 New issues		
– against payment:		
- business combinations		
- conversion of bonds		
- exercise of warrants		
- other		
– on a free basis:		
- in favour of staff		
- in favour of directors		
- other		
B.2 Sale of own shares	–	
B.3 Other changes		
C. Decreases	**1,171,992**	
C.1 Cancellation		
C.2 Purchase of own shares	1,171,992	
C.3 Disposal of companies		
C.4 Other changes		
D. Outstanding shares: closing balance	**333,387,290**	
D.1 Own shares (+)	29,492,710	
D.2 Number of shares at the end of the year	362,880,000	
– fully paid-up	362,880,000	
– partly paid-up		

15.3 Share capital: additional information

During the year, the Bank's share capital was not subject to change.

15.4 Retained earnings: other information

The "Reserves" item amounts to 121,601 thousand euros (117,203 thousand euros at 31 December 2015) and is broken down as follows:

- Retained earnings of the Bank of 89,309 thousand euros consisting of the legal reserve of 9,168 thousand euros, extraordinary reserve of 56,143 thousand euros, the dividend adjustment reserve of 6,725 thousand euros, restated IAS 19 retained earnings reserve of 179 thousand euros, the reserve for merger surplus of 525 thousand euros, own shares purchased of 14,392 thousand euros and the residual amount of reserve for purchase of own shares of 2,177 thousand euros;
- other reserves of 32,292 thousand euros consisting of the reserve for the gains on the sale of own shares for 4,337 thousand euros and the consolidation reserve for the difference.

Section 16 – Equity of minority interests – Item 210

16.1 Breakdown of Item 210 "Net equity of minority interests"

Company names	Total 31.12.2016	Total 31.12.2015
Equity investments in consolidated companies with significant interests in third parties		
1. Investire SGR S.p.A.	40,403	38,451
Other equity investments	567	580
Total	**40,970**	**39,031**

The item other equity investments refers exclusively to Finnat Gestioni S.A.

OTHER INFORMATION

1. Guarantees given and commitments

Transactions	Amount 31.12.2016	Amount 31.12.2015
1) Financial guarantees given	8,126	7,341
a) Banks	502	420
b) Customers	7,624	6,921
2) Commercial guarantees given	164	164
a) Banks	–	–
b) Customers	164	164
3) Irrevocable commitments to disburse funds	21,269	16,539
a) Banks	200	2,897
i) for certain use	200	2,897
ii) for uncertain use	–	–
b) Customers	21,069	13,642
i) for certain use	14,166	460
ii) for uncertain use	6,903	13,182
4) Commitments underlying credit derivatives: sales for protection	–	–
5) Assets pledged as guarantee of the obligations of third parties	–	–
6) Other commitments	1,064	1,327
Total	**30,623**	**25,371**

Item 1) a) Banks shows the Bank's commitment towards the Interbank Fund for the Protection of Deposits, updated recently.

2. Assets pledged as guarantee of own liabilities and commitments

Portfolios	Amount 31.12.2016	Amount 31.12.2015
1. Financial assets held for trading	–	–
2. Financial assets carried at fair value	–	–
3. Available-for-sale financial assets	943,762	630,233
4. Financial assets held to maturity	–	–
5. Due from banks	–	–
6. Due from customers	–	–
7. Tangible assets	–	–

5. Management and brokerage on behalf of third parties

Type of service	Amount
1. Execution of orders on customers' behalf	
a) purchases	2,384,489
1. settled	2,367,932
2. unsettled	16,557
b) sales	2,246,354
1. settled	2,228,465
2. unsettled	17,889
2. Portfolio management	
a) individual	614,515
b) collective	5,181,440
3. Custody and administration of securities	
a) third-parties securities on deposit related to depository services (excluding portfolio management)	–
1. securities issued by companies included in the consolidation	–
2. other securities	–
b) third-party securities on deposit (excluding portfolio management): other	1,597,146
1. securities issued by companies included in the consolidation	80,113
2. other securities	1,517,033
c) third-party securities lodged with third parties	1,587,925
d) own securities lodged with third parties	1,215,539
4. Other transactions	**1,374,990**

Item 2 Portfolio management - b) collective refers to the NAV of the assets managed by Investire SGR.

Part C – Information on the consolidated income statement

Section 1 – Interest – Items 10 and 20

1.1 Interest income and similar income: breakdown

Items/Categories	Debt securities	Loans	Other transactions	Total FY 2016	Total FY 2015
1. Financial assets held for trading	107	–	–	107	284
2. Financial assets carried at fair value	–	–	–	–	–
3. Available-for-sale financial assets	1,114	–	–	1,114	4,419
4. Financial assets held to maturity	45	–	–	45	49
5. Due from banks	–	(212)	–	(212)	81
6. Due from customers	63	5,435	–	5,498	6,367
7. Hedging derivatives	X	X	–	–	–
8. Other assets	X	X	(158)	(158)	(90)
Total	**1,329**	**5,223**	**(158)**	**6,394**	**11,110**

1.4 Interest expense and similar expense: breakdown

Items/Categories	Payables	Securities	Other transactions	Total FY 2016	Total FY 2015
1. Due to Central Banks	–	X	–	–	16
2. Due to banks	(8)	X	–	(8)	21
3. Due to customers	(1,389)	X	–	(1,389)	1,330
4. Outstanding securities	X	51	–	51	140
5. Financial liabilities held for trading	–	–	–	–	–
6. Financial liabilities carried at fair value	–	–	–	–	–
7. Other liabilities and funds	X	X	–	–	–
8. Hedging derivatives	X	X	–	–	–
Total	**(1,397)**	**51**	**–**	**(1,346)**	**1,507**

Interest margin totals 7,740 thousand euros, versus 9,603 thousand euros in the previous financial year. The decrease by 1,863 thousand euros is mainly due to the reduction in the yields.

Section 2 – Commissions – Items 40 and 50

2.1 Commission income: breakdown

Type of services/Amounts	Total FY 2016	Total FY 2015
a) guarantees given	104	115
b) credit derivatives	–	–
c) administration, brokerage and consultancy services:	52,091	45,426
1. trading in financial instruments	4,310	4,758
2. trading in currencies	–	–
3. portfolio management	40,032	33,527
3.1. individual	4,571	4,769
3.2. collective	35,461	28,758
4. custody and administration of securities	1,942	1,963
5. custodian bank	–	–
6. securities placement	4,024	3,724
7. acceptance of trading orders	–	–
8. consulting	1,352	1,159
8.1. investments	500	425
8.2. financial structure	852	734
9. distribution of third-party services	431	295
9.1. portfolio management	–	–
9.1.1. individual	–	–
9.1.2. collective	–	–
9.2. insurance policies	431	295
9.3. other products	–	–
d) collection and payment services	187	192
e) servicing of securitisation operations	–	–
f) factoring services	–	–
g) rate and tax collection office services	–	–
h) multilateral trading systems management	–	–
i) current account keeping and management	247	208
j) other services	623	584
Total	**53,252**	**46,525**

2.2 Commission expense: breakdown

Services/Amounts	Total FY 2016	Total FY 2015
a) guarantees received	–	–
b) credit derivatives	–	–
c) management and brokerage services:	1,352	1,253
1. trading in financial instruments	423	403
2. trading in currencies	–	–
3. portfolio management:	281	277
3.1 own portfolio	25	25
3.2 third-party portfolio	256	252
4. custody and administration of securities	227	159
5. placement of financial instruments	421	414
6. sales of financial instruments, products and services through other outlets	–	–
d) collection and payment services	59	52
e) other services	736	776
Total	**2,147**	**2,081**

Net commissions amount to 51,105 thousand euros versus 44,444 thousand euros in the previous financial year. The increase by 6,661 thousand euros refers to the Bank (137 thousand euros), to the subsidiary InvestiRE SGR S.p.A. (6,721 thousand euros, due mainly to performance fees), whilst the other companies of the group experienced a decrease of 197 thousand euros.

Section 3 – Dividends and similar income – Item 70

3.1 Dividends and similar income: breakdown

Items/Income	Total FY 2016		Total FY 2015	
	Dividends	Income from UCI units	Dividends	Income from UCI units
A. Financial assets held for trading	17	–	24	–
B. Available-for-sale financial assets	1,183	1,803	1,426	2,002
C. Financial assets carried at fair value	–	–	–	–
D. Equity investments	–	X	–	X
Total	**1,200**	**1,803**	**1,450**	**2,002**

Section 4 – Net income from trading activities – Item 80

4.1 Net income from trading activities: breakdown

Transactions/Income items	Gains (A)	Profit from trading activities (B)	Losses (C)	Losses from trading activities (D)	Net income [(A+B) - (C+D)]
1. Financial assets held for trading	**121**	**759**	**823**	**478**	**(421)**
1.1 Debt securities	31	46	80	34	(37)
1.2 Equity securities	51	711	673	430	(341)
1.3 UCI units	39	2	70	14	(43)
1.4 Loans	–	–	–	–	–
1.5 Other	–	–	–	–	–
2. Financial liabilities held for trading	**–**	**–**	**–**	**–**	**–**
2.1 Debt securities	–	–	–	–	–
2.2 Payables	–	–	–	–	–
2.3 Other	–	–	–	–	–
3. Financial assets and liabilities: exchange differences	**X**	**X**	**X**	**X**	**1,626**
4. Derivatives	**132**	**2,045**	**10**	**1,700**	**691**
4.1 Financial derivatives:	132	2,045	10	1,700	691
- On debt securities and interest rates	79	–	–	89	(10)
- On equity securities and stock indices	53	2,045	10	1,611	477
- On currencies and gold	X	X	X	X	224
- Other	–	–	–	–	–
4.2 Credit derivatives	–	–	–	–	–
Total	**253**	**2,804**	**833**	**2,178**	**1,896**

Net income from trading activities, referring exclusively to the Bank, features a positive balance of 1,896 thousand euros, compared to a negative balance of 1,711 thousand euros in the same period of the previous financial year, and may be broken down as follows:

- A positive balance between profits and losses on exchange transactions totalling 1,626 thousand euros. The balance includes the gain of 1,395 thousand euros on the forward sale of Pound Sterling against euros to hedge against exposure to exchange risks, with respect to a part of the LSEG shares, which does not meet the requirements of IAS 39 on hedging transactions;
- 626 thousand euros for the positive balance between gains and losses realised relating to trading activities on securities and derivatives (of which 408 thousand euros for positive margins on derivatives representing greenhouse gas emissions allowances);
- Negative difference between unrealised capital gains and losses, in connection with the fair value measurement of the trading portfolio, totalling 659 thousand euros;
- Positive difference of 303 thousand euros between unrealised capital gains and losses in connection with the fair value measurement of currency forwards and of Interest Rate Swap Amortising.

Section 5 - Net income from hedging activities - Item 90

5.1 Net income from hedging activities: breakdown

Income items/Amounts	Total FY 2016	Total FY 2015
A. Income relating to:		
A.1 Fair value hedging derivatives	2,918	215
A.2 Hedged financial assets (fair value)	–	–
A.3 Hedged financial liabilities (fair value)	–	–
A.4 Financial derivatives hedging cash flows	–	–
A.5 Assets and liabilities denominated in a foreign currency	–	–
Total income from hedging activities (A)	**2,918**	**215**
B. Expense referred to:		
B.1 Fair value hedging derivatives	–	–
B.2 Hedged financial assets (fair value)	2,918	215
B.3 Hedged financial liabilities (fair value)	–	–
B.4 Financial derivatives hedging cash flows	–	–
B.5 Assets and liabilities denominated in a foreign currency	–	–
Total costs of hedging activities (B)	**2,918**	**215**
C. Net income from hedging activities (A - B)	**–**	**–**

The item, referring exclusively to the Bank, was commented in the corresponding Section of the separate financial statements, referenced herein.

Section 6 – Profit (loss) from disposal/repurchase – Item 100

6.1 Profit (Loss) from disposal/repurchase: breakdown

Items/Income items	Total FY 2016			Total FY 2015		
	Profit	Losses	Net income	Profit	Losses	Net income
Financial assets						
1. Due from banks	–	–	–	–	–	–
2. Due from customers	–	–	–	–	–	–
3. Available-for-sale financial assets	2,999	211	2,788	5,590	9	5,581
3.1 Debt securities	516	36	480	411	9	402
3.2 Equity securities	2,483	–	2,483	5,179	–	5,179
3.3 UCI units	–	175	(175)	–	–	–
3.4 Loans	–	–	–	–	–	–
4. Financial assets held to maturity	–	–	–	–	–	–
Total assets	**2,999**	**211**	**2,788**	**5,590**	**9**	**5,581**
Financial liabilities						
1. Due to banks	–	–	–	–	–	–
2. Due to customers	–	–	–	–	–	–
3. Outstanding securities	–	–	–	–	–	–
Total liabilities	**–**	**–**	**–**	**–**	**–**	**–**

Item 3.1 Debt securities includes the gain realised by the Bank on Government Bonds.

Item 3.2 Equity securities relates to the capital gain realised by the Bank from the sale of 94,750 London Stock Exchange Group plc shares for 2,479 thousand euros.

Section 8 - Net value adjustments/write-backs for impairment – Item 130

8.1 Net value adjustments for impairment of loans: breakdown

Transactions/ Income items	Value adjustments (1)			Write-backs (2)				Total FY 2016 (1) - (2)	Total FY FY 2015
	Specific		Portfolio	Specific		Portfolio			
	Derecognition	Other		A	B	A	B		
A. Due from banks	–	–	–	–	–	–	–	–	–
- Loans	–	–	–	–	–	–	–	–	–
- Debt securities	–	–	–	–	–	–	–	–	–
B. Due from customers	478	248	82	128	495	–	–	185	1,816
Purchased impaired loans	–	–	–	–	–	–	–	–	–
- Loans	–	–	X	–	–	X	X	–	–
- Debt securities	–	–	X	–	–	X	X	–	–
Other receivables	478	248	82	128	495	–	–	185	1,816
- Loans	478	248	82	128	495	–	–	185	1,816
- Debt securities	–	–	–	–	–	–	–	–	–
C. Total	**478**	**248**	**82**	**128**	**495**	**–**	**–**	**185**	**1,816**

Key: A = from interest B = other write-backs

The net value adjustments for impairment, amounting to 185 thousand euros, refer to the Bank (123 thousand euros) and to Finnat Fiduciaria (62 thousand euros).

8.2 Net value adjustments for impairment of available-for-sale financial assets: breakdown

Transactions/Income items	Value adjustments (1)		Write-backs (2)		Total FY 2016 (1) - (2)	Total FY 2015
	Specific		Specific			
	Derecognition	Other	A	B		
A. Debt securities	–	–	–	–	–	–
B. Equity securities	–	1,522	X	X	1,522	–
C. UCI units	–	4,135	X	–	4,135	2,498
D. Loans to banks	–	–	–	–	–	–
E. Loans to customers	–	–	–	–	–	–
F. Total	**–**	**5,657**	**–**	**–**	**5,657**	**2,498**

Key: A = from interest B = other write-backs

The adjustments on equity securities refer to Net Insurance S.p.A. shares (1,139 thousand euros) and Cassa di Risparmio di Cesena S.p.A. (383 thousand euros), owned by the Bank. The adjustments on UCI units refer almost exclusively to the subsidiary InvestiRE SGR S.p.A.

Section 11 – Administrative expenses – Item 180

11.1 Staff costs: breakdown

Type of expense/Segments	Total FY 2016	Total FY 2015
1) Staff	29,059	28,971
a) wages and salaries	20,916	20,788
b) social security charges	5,354	5,409
c) staff severance fund	615	589
d) welfare charges	–	–
e) allocation for staff severance fund	427	261
f) allocation to pensions and similar commitments:	–	–
- defined contribution	–	–
-defined benefit	–	–
g) allocation to external supplementary retirement benefit plans:	421	390
-defined contribution	421	390
-defined benefit	–	–
h) costs due to payment agreements based on own capital instruments	–	–
i) other benefits in favour of employees	1,326	1,534
2) Other active staff	384	370
3) Directors and statutory auditors	1,653	1,643
4) Inactive staff	–	–
Total	**31,096**	**30,984**

The item increased by 112 thousand euros compared to the previous year. The change consists of the increase by 650 thousand euros referred to InvestiRE SGR S.p.A., of the decrease by 567 thousand euros referred to the Bank and of the increase of the other subsidiaries by 29 thousand euros.
Item 1) e) does not include the actuarial component referred to IAS staff severance fund, recognised among Valuation reserves - net of the tax effect.

11.2 Average number of employees by category

	Total FY 2016	Total FY 2015
Staff	**321**	**310**
(a) senior managers	51	46
(b) executives	104	98
(c) rest of staff	166	166
Other staff	**9**	**8**

11.4 Other benefits in favour of employees

Employee benefits amount to 1.326 thousand euros (versus 1.534 thousand euros last year) and concern luncheon voucher, collective health care policies, professional training, cars and other benefits.

11.5 Other administrative expenses: breakdown

Type of expense/Segments	Total FY 2016	Total FY 2015
Rentals and condominium fees	2,885	3,155
Membership fees	206	171
EDP materials	98	154
Stationery and printing supplies	134	119
Consulting and outsourced professional services	1,740	2,790
Outsourcing services	1,833	2,718
Auditing company fees	216	219
Maintenance	886	529
Utilities and connections	1,789	1,951
Postal, transport and shipment fees	84	113
Insurance companies	229	157
Public relations and advertising expenses	312	450
Office cleaning	308	287
Books, newspapers and magazines	80	54
Entertainment expenses	331	325
Travel expenses and mileage based reimbursements	510	547
Other duties and taxes	3,628	3,779
Security charges	164	147
Contributions to National Resolution Fund and Interbank Fund for the Protection of Deposits	1,279	1,045
Other	1,606	611
Total	**18,318**	**19,321**

The other administrative expenses decreased by 1,003 thousand euros compared to the previous financial year. The decrease refers to the Bank (573 thousand euros) and to the subsidiary InvestiRE SGR S.p.A. (504 thousand euros), whilst the other companies of the group experienced an increase of 74 thousand euros.

Auditing company fees

In accordance with the requirements of art. 149-duodecies of Consob Resolution no. 15915 of 3 May 2007, we list the fees paid for 2016 for the various services provided to the Group by the auditing firm.
There were no services provided by entities belonging to its network.

(in thousands of euros)	Party who provided the service	Payments due in 2016
Auditing services	EY S.p.A.	143
Auditing services	Dreieck Fiduciaria SA	4
Auditing services	PwC	7
Declaration of compliance services	EY S.p.A.	8
Other services	Dreieck Fiduciaria SA	2
Total		**164**

The auditing activities include the auditing of financial statements, the accounting auditing of the Group as well as the consolidated financial statements and the consolidated half-yearly report of the Parent Company.

The declaration of compliance services refer to the controls carried out on the Unico tax return form, Irap, CNM (domestic consolidation) and the ordinary and simplified 770 forms.

Payments do not include VAT, expense repayments and supervisory contribution. The total expense amounts to 216 thousand euros.

Section 12 - Net allocations to provisions for risks and charges - Item 190

12.1 Net allocations to provisions for risks and charges: breakdown

	Total FY 2016	Total FY 2015
Allocations	–	1,067
Utilisation	619	381
Total	**(619)**	**686**

The item, referring exclusively to the Bank, was commented in Section 12 - "Provisions for risks and charges - Item 120" of the liabilities in the separate Financial Statements.

Section 13 – Net value adjustments/write-backs on tangible assets – Item 200

13.1 Net value adjustments on tangible assets: breakdown

Assets/Income items	Depreciation (a)	Value adjustment for impairment (b)	Write-backs (c)	Net income (a+b-c)
A. Tangible assets				
A.1 Owned assets	499	–	–	499
- Functional use	499	–	–	499
- For investment	–	–	–	–
A.2 Acquired under finance lease	–	–	–	–
- Functional use	–	–	–	–
- For investment	–	–	–	–
Total	**499**	**–**	**–**	**499**

Section 14 – Net value adjustments/write-backs on intangible assets – Item 210

14.1 Net value adjustments on intangible assets: breakdown

Assets/Income items	Amortisation (a)	Value adjustment for impairment (b)	Write-backs (c)	Net income (a+b-c)
A. Intangible assets				
A.1 Owned assets	154	–	–	154
- Generated internally by the company	–	–	–	–
- Other	154	–	–	154
A.2 Acquired under finance lease	–	–	–	–
Total	**154**	**–**	**–**	**154**

Section 15 – Other operating income/expenses – Item 220

15.1 Other operating expense: breakdown

	Total FY 2016	Total FY 2015
Amounts reimbursed to customers	7	14
Amortisation for improvements to third party assets	54	139
Other expense	764	775
Total	**825**	**928**

15.2 Other operating income: breakdown

	Total FY 2016	Total FY 2015
Rental income	132	171
Recovery of stamp duty	3,164	3,300
Recovery of substitute tax	156	75
Recovery of other expenses	562	643
Dividend and prescription waiver	158	115
Other income	401	561
Total	**4,573**	**4,865**

Other operating income and expenses show a positive balance of 3,748 thousand euros versus 3,937 thousand euros of 2015. The item comprises the recoveries of costs from customers, amounting to 3,882 thousand euros (4,018 thousand euros in the past year).

Section 16 – Profit (loss) from equity investments – Item 240

16.1 Profit (loss) from equity investments: breakdown

Income items/Segments	Total FY 2016	Total FY 2015
1) Jointly controlled companies		
A. Income	–	–
1. Revaluations	–	–
2. Profit from disposals	–	–
3. Write-backs	–	–
4. Other income	–	–
B. Expense	–	–
1. Write-downs	–	–
2. Value adjustments for impairment	–	–
3. Losses from disposals	–	–
4. Other expense	–	–
Net income	**–**	**–**
2) Companies subject to significant influence		
A. Income	574	556
1. Revaluations	–	556
2. Profit from disposals	572	–
3. Write-backs	–	–
4.Other income	2	–
B. Expense	199	231
1. Write-downs	199	231
2. Value adjustments for impairment	–	–
3. Losses from disposals	–	–
4. Other expense	–	–
Net income	**375**	**325**
Total	**375**	**325**

Section 20 – Income tax for the year on current operations – Item 290

20.1 Income tax for the year on current operations: breakdown

Income items/Segments		Total FY 2016	Total FY 2015
1.	Current taxes (-)	(3,401)	(7,853)
2.	Changes in current taxes compared with previous years (+/-)	689	2
3.	Reduction in current taxes (+)	–	–
3.bis	Reduction in current taxes for tax receivables set forth in Italian Law No. 214/2011		
4.	Change in advance taxes (+/-)	(3,379)	12,220
5.	Change in deferred taxes (+/-)	676	(142)
6.	**Income taxes for the year (-) (-1+/-2+3+3bis+/-4+/-5)**	**(5,415)**	**4,227**

Current taxes refer to InvestiRE SGR S.p.A. (3,296 thousand euros), to the other companies of the group (118 thousand euros), while the Bank had positive taxes of 13 thousand euros.

The change in the current taxes of the previous years includes lower taxes by 796 thousand euros of the subsidiary InvestiRE SGR S.p.A. as a result of the use in the tax return (Unico 2016 - Year 2015), of the tax losses of 2,892 thousand euros, arising from the merged company Polaris, following the authorisation obtained from the Italian Revenue Agency, for the waiver of the provisions of Article 172 of the TUIR (Consolidated Income Tax Act).

The change in advance and deferred taxes refers (1,329 thousand euros, of which InvestiRE SGR S.p.A. 1,316 thousand euros), to the change of the Ires rate starting from 1 January 2017, as previously commented in section 14 - Tax assets and liabilities.

20.2 Reconciliation of the theoretical tax charge with the actual tax charge

	FY 2016		
	IRES	IRAP	TOTAL
Pre-tax profit (loss)	15,365	15,365	
Applicable tax rate	27.50	5.57	
THEORETICAL TAX CHARGE	**(4,225)**	**(856)**	**(5,081)**
Effect of income that is exempt or taxed with concessional rates	2,080	882	2,962
Effect of charges that are fully or partially non-deductible	(1,581)	(406)	(1,987)
Effect of income/charges that are not included in the IRAP taxable income	–	(1,066)	(1,066)
Change in deferred taxes	89	356	445
Changes in current taxes compared with previous years	641	–	641
Rate change on advance/ deferred taxes	(1,329)	–	(1,329)
CURRENT TAX CHARGE	**(4,325)**	**(1,090)**	**(5,415)**

Section 22 – Profit (loss) for the year for minority interests – Item 330

22.1 Breakdown of Item 330 "Profit (loss) for the year for minority interests”

Company names	Total FY 2016	Total FY 2015
Consolidated equity investments with significant interests in third parties		
1. InvestiRE SGR S.p.A.	2,561	5,177
Other equity investments	93	131
Total	**2,654**	**5,308**

The item Other equity investments refers exclusively to Finnat Gestioni S.A.

Section 24 – Earnings per share

24.1 Average number of ordinary shares with diluted capital

The basic and diluted earnings (loss) per share, at consolidated level, are given below, in accordance with IAS 33. As no Group company holds any Parent Company shares, the consolidated figures coincide with those relating to the Bank.

The basic earnings (loss) per share are calculated by dividing the consolidated net income (in euros) of the holders of the Bank's ordinary shares (the numerator) by the weighted average of the ordinary shares outstanding during the period (the denominator).
For the purpose of calculating the basic earnings (loss) per share, the weighted average of the ordinary shares outstanding during the period is calculated based on the ordinary shares outstanding at the beginning of the period, adjusted by the amount of ordinary shares purchased or issued or sold during the period multiplied by the number of days that the shares were outstanding, in proportion to the total days in the period. Outstanding shares do not include own shares.
The diluted earnings (loss) per share is calculated by adjusting the consolidated earnings (loss) of ordinary shareholders, and likewise the weighted average of the outstanding shares, to take account of any impact by circumstances with diluted effects.

The following table shows the basic earnings (loss) per share.

	31.12.2016	31.12.2015
Profit (loss) for the year (in euros)	7,295,788	8,319,557
Weighted average of ordinary shares	333,521,822	336,337,676
Basic earnings (loss) per share	0.021875	0.024736

The following table shows the diluted earnings (loss) per share.

	31.12.2016	31.12.2015
Adjusted profit (loss) for the year (in euros)	7,295,788	8,319,557
Weighted average of ordinary shares with diluted capital	333,521,822	336,337,676
Diluted earnings (loss) per share	0.021875	0.024736

Since the Bank has no transactions under way that might determine changes to the number of outstanding shares and the earnings (loss) of ordinary shareholders, the diluted earnings (loss) per share coincides with the basic earnings per share and it is unnecessary to perform the reconciliation provided for by paragraph 70 of IAS 33.

24.2 Other information

At the date of the financial statements, no financial instruments had been issued that could lead to the dilution of the basic earnings (loss) per share.

Part D – Consolidated statement of comprehensive income

ANALYTICAL CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Items	Gross amount	Income tax	Net amount
10. Profit (loss) for the year	X	X	9,950
Other income items without reallocation to income statement			
20. Tangible assets			
30. Intangible assets			
40. Defined-benefit plans	(252)	61	(191)
50. Non-current assets being disposed			
60. Share of valuation reserves of equity investments valued by equity method	27	-	27
Other income items with reallocation to income statement			
70. Foreign investment hedge:			
a) changes in fair value			
b) reallocation to income statement			
c) other changes			
80. Exchange differences:			
a) changes in value			
b) reallocation to income statement			
c) other changes			
90. Cash flow hedge:			
a) changes in fair value			
b) reallocation to income statement			
c) other changes			
100. Available-for-sale financial assets:	(2,378)	(493)	(2,871)
a) changes in fair value	(3,433)	316	(3,117)
b) reallocation to income statement	1,088	(767)	321
- adjustments from impairment	4,519	(938)	3,581
- profits/losses from disposal	(3,431)	171	(3,260)
c) other changes	(33)	(42)	(75)
110. Non-current assets being disposed:			
a) changes in fair value			
b) reallocation to income statement			
c) other changes			
120. Share of valuation reserves of equity investments valued by equity method:			
a) changes in fair value			
b) reallocation to income statement			
- adjustments from impairment			
- profits/losses from disposal			
c) other changes			
130. Total other income items	(2,603)	(432)	(3,035)
140. Comprehensive income (Item 10+130)	(2,603)	(432)	6,915
150. Consolidated comprehensive income pertaining to minority interests			3,595
160. Consolidated comprehensive income pertaining to the Parent Company			3,320

The positive change of 2,871 thousand euros in Item 100 Available for sale financial assets was caused by the following investments:

of the Parent Company

(-) 3,088 thousand euros, to the London Stock Exchange Group plc shares as a result of the reversal of the positive reserve related to the 94,750 shares sold during the year (-2,917 thousand euros) and to the use of -171 thousand euros consequent to the negative change in fair value at the end of 2016 compared to those at 31 December 2015;

(-) 1,254 thousand euros to the Anima Holding S.p.A. shares referred to the use as a result of the decrease in prices at the end of 2016 compared to those at 31 December 2015;

(+) 16 thousand euros to the Cassa Risparmio di Cesena shares as a result of the reversal of the negative reserves for impairment;

(-) 5 thousand euros, to other shares as a result of the negative change of fair value;

(-) 334 thousand euros to units of funds as a result of the negative change in fair value;

(-) 231 thousand euros to debt securities, as a result of the reversal of the reserve referred to the sold securities (-351 thousand euros) and of the positive change in fair value of +120 thousand euros;

of the other Companies in the Group

(+) 2,019 thousand euros to units of funds owned by InvestiRE SGR S.p.A.

(+) 6 thousand euros for debt securities owned by Finnat Fiduciaria S.p.A.

The valuation reserves of the Group relating to "Available-for-sale financial assets" at 31 December 2016 show a positive balance of 29,362 thousand euros whereas third-party valuation reserves show a negative balance of 542 thousand euros.

The reserves of the Group are broken down as follows:

Parent company		
London Stock Exchange Group plc shares	28,422	euros
Anima Holding S.p.A. shares	1,216	euros
CSE S.r.l. shares	(633)	euros
Other shares	(34)	euros
UCI units	216	euros
Debt securities	719	euros
	29,906	euros
Other Group Companies		
Fund units (InvestiRE SGR S.p.A.)	(544)	euros
Debt securities (Finnat Fiduciaria S.p.A.)	–	euros
	29,362	euros

Part E - Information on risks and related hedging policies

Foreword

The Parent Company Banca Finnat and the companies that are included in the consolidation carry out their activities according to criteria of prudence and reduced exposure to risks, applying the principle of sound and prudent management.

Banca Finnat has defined the Group's Risk Appetite identifying a TIER1 to be held in the medium term; consistently with the maintenance of this level, the bank constantly pursues the following objectives:

- the creation of added value for shareholders;
- an accurate assessment of new initiatives and of the connected risks;
- continuous monitoring in relation to the emergence of new types of risk;
- the development of ever more accurate risk monitoring methodologies:
- the active management of corporate risks by the application of hedging and mitigation techniques;
- growing transparency towards the market about exposure to risks and the conditions of capital adequacy;
- capital balance, even in situations of stress, through the definition of financial leverage targets.

The risk management and monitoring strategy is thus founded on an overall vision of the risks by the management of the Bank and by the company's Bodies and all its functions.

Within Banca Finnat, a fundamental role in risk management and monitoring is played by the Corporate Bodies which, each for the part of its competence, assure continuous monitoring, identify the strategic guidelines and the management and risk policies. The Risk Control organisational unit instead has been assigned, among others, the task of supporting the corporate bodies and monitoring the level of risk assumed.

The widespread acceptance of the risk culture within the Bank is assured by keeping the internal regulations constantly updated, having specialised personnel participate in courses and conferences and disseminating documents and information at various levels.

Section 1 - Banking group risks

1.1 – Banking group - Credit risk

Qualitative information

General aspects

Credit risk mitigation techniques

- *Organisational aspects*

The Group defined the credit risk as the risk to incur losses due to the unexpected worsening of the creditworthiness of a customer, also following contractual default.

Receivables include:

- receivables due from customers and from banks that required fixed or otherwise determinable payments
- trade receivables
- repurchase agreements.

After their initial recognition, which matches the amount recorded at the time of issue, receivables are measured at their amortised cost, which is equal to the initial recognition value reduced/increased by capital repayments, by any value adjustment/write-back and by the amortisation calculated with the effective interest rate method.

In order to mitigate credit risk and avoid situations that would imply losses and write-downs on the loan portfolio, the Bank carries out credit activities that privilege receivables guaranteed by collateral securities or those guaranteed by liens on securities, asset management and property mortgages. Well-known customers are occasionally granted credit lines based on the creditworthiness of the customer in question.

Moreover, the company structure and organisation – which are characterised by the reduced size and accurate formalisation of credit line/loan disbursement procedures – enable to offer customers primary services, granted with rapid appraisal processes.

The adopted operating strategy ensured that:

- transactions carried out have low-risk exposures;
- the amount of non-performing loans (net of write-downs) represent less than 2% of the total shown in table "A.1.1 Distribution of financial assets by portfolio and credit quality" in the following pages. The non-performing loans consist mainly of receivables secured by ample first mortgages on property;
- lending activities provided positive image and prestige feedback for the Bank and the Group, with a positive impact on "traditional" activities.

- *Management, measurement and control systems*

The valuation of credit risk and creditworthiness of customers is carried out by delegated bodies, which operate by means of proper proxies. The delegated bodies receive all information necessary to evaluate the creditworthiness of the customers, so that they can readily express their opinion on credit line transactions.

The Bank's credit process is illustrated below.

Evaluation of the creditworthiness of credit line applicants

Creditworthiness evaluation, which is performed according to a specific procedure, is mainly aimed at verifying that credit line applicants have the ability to repay as well as verifying the compatibility of the individual credit line applications and the company's strategies with regard to the chosen size and composition of the credit portfolio. With the exception of Senior Fin.Re SPV bonds, purchased during the year, with a nominal value of 1,700 thousand euros and issued within the securitisation of an unsecured non-performing loan, the Bank did not acquire impaired loans.

The company functions that are involved in the creditworthiness assessment procedure act as follows:

- they accept the loan application of customers;
- they gather the documents required to examine the asset, financial and economic situation of the loan applicant and any guarantor to start filling in all the credit line forms;
- they analyse the qualitative information concerning the new customers and update the information of former customers whose creditworthiness has already been assessed;
- they verify the reliability of the data included in the document and in the information required;
- they formulate, by reference to the files set up, a creditworthiness score of the loan applicant;
- they examine all the various relationships that the Bank has in place with the same loan applicant, both credit and debit ones, and compare loans granted with guarantees offered and guarantees received with proposed guarantors;
- they prepare a summary of the assessments based on the creditworthiness of the customer and formulate an opinion with regard to the amount of the loan that could be granted, the technical use of the loan by the customer, and specify the guarantees to be received based on both qualitative and quantitative information.

Credit granting

Credit granting is performed by the Deliberative Body, taking all the reasons supporting the definition of the amount that could be granted and the guarantees requested into due consideration, based on the risk inherent in the transaction.

Once the loan proposal has been positively resolved upon:

- the guarantees are requested and the loan granting process takes place;
- the credit line/loan is granted;
- the transaction is input in the IT system so that it can be regularly verified: instalments due, review of the interest rate, if contractually provided for, and/or of the associated guarantees.

Management of anomalous loans

The management of anomalous loans is carried out through a careful and periodic analysis of expired positions by the company functions and with the supervision of the General Management. In particular, the General Management of the Bank receives, at a predetermined frequency, appropriate reports containing the trend of impaired loans, broken down by customer with or without loans.

"Impaired" loans of the Bank and of the other companies of the Group, the latter being exclusively trade receivables, net of write-downs, totalled 8,597 thousand euros, of which 4,444 thousand euros were non-performing loans, 752 thousand euros were likely defaults and 3,401 thousand euros were past due exposures.

To this end, it should be stressed that impaired loans at the end of 2016 were equal to 3% of the total amount of the item due from customers detailed in table A.1.1 Distribution of financial assets by portfolio and credit quality below.

During the year ended 31 December 2016, valuation activities continued to be carried out on the Bank's loans portfolio by the internal working group which, in accordance with the principle of proportionality and with limited operational complexity, is assessing the implementation of more refined credit evaluation techniques to supplement those traditionally used by the Bank.

Carrying out stress tests

The Bank performs stress tests every six months on credit risk in order to quantify the absorption of capital and to determine the related capital ratios. Stress tests are carried out on the basis of decline rates present in the Bank of Italy's Public Database, assuming as worst case scenario the one present in the last decade. Despite the presence of the stress scenario above, it is clear how the equity strength of the Bank is not significantly affected.

- *Credit risk mitigation techniques*

Credit risk mitigation is carried out by privileging almost exclusively transactions guaranteed by collateral securities. Credit lines and disbursements are granted, by the corporate bodies, only after a careful analysis of the creditworthiness and the validity and consistency of the guarantees given. Preventive analyses are implemented by controls subsequent to disbursement, which are carried out to monitor the change in the creditworthiness of customers. Having taken into account the structure of the controls carried out by the Bank for loan hedging and the empirical evidence, it should be underlined that the Bank's credit risk can be rated as "modest".

- *Impaired financial assets*

The monitoring of receivables to customers carried out by the Risk Control Organisation Unit, which, with the support of automated IT instruments, prepares on an established basis appropriate reports for the Senior Management. Subsequent measurement and classification of impaired loans are carried out by special committees set up within the Bank, which assess each time single credit exposures, the customers' creditworthiness, guarantees and all other relevant factors that may affect the assessment of credit exposures.
With reference to impaired financial assets of the trust companies controlled by the Bank, the Risk Control Organisational Unit of the Parent Company analyses on a regular basis the maturity of past due receivables and prepares an adequate reporting for the Senior Management of the Bank and of the Subsidiary.

* * *

Quantitative information

A. Credit quality

A.1 Impaired and non-impaired exposures: balances, value adjustments, changes, breakdown by type and geographical area

A.1.1 Distribution of financial assets by portfolio and credit quality (book values)

Portfolio/Quality	Non-performing loans	Likely defaults	Past due exposures impaired	Past due exposures not impaired	Non impaired exposures	Total
1. Available-for-sale financial assets	–	–	–	–	1,105,420	1,105,420
2. Financial assets held to maturity	–	–	–	–	1,999	1,999
3. Due from banks	–	–	–	–	170,728	170,728
4. Due from customers	4,444	752	3,401	3,185	323,983	335,765
5. Financial assets carried at fair value	–	–	–	–	–	–
6. Financial assets being disposed	–	–	–	–	–	–
Total 2016	**4,444**	**752**	**3,401**	**3,185**	**1,602,130**	**1,613,912**
Total 2015	**4,916**	**2,298**	**1,199**	**12,376**	**1,121,809**	**1,142,598**

A.1.2 Distribution of credit exposures by portfolio and credit quality (gross and net amounts)

Portfolio/Quality	Impaired assets			Non impaired assets			Total
	Gross exposure	Specific adjustments	Net exposure	Gross exposure	Portfolio adjustments	Net exposure	(Net exposure)
1. Available-for-sale financial assets	–	–	–	1,105,420	–	1,105,420	1,105,420
2. Financial assets held to maturity	–	–	–	1,999	–	1,999	1,999
3. Due from banks	–	–	–	170,728	–	170,728	170,728
4. Due from customers	16,092	7,495	8,597	329,059	1,891	327,168	335,765
5. Financial assets carried at fair value	–	–	–	X	X		–
6. Financial assets being disposed	–	–	–	–	–	–	–
Total 2016	**16,092**	**7,495**	**8,597**	**1,607,206**	**1,891**	**1,605,315**	**1,613,912**
Total 2015	**16,282**	**7,869**	**8,413**	**1,135,994**	**1,809**	**1,134,185**	**1,142,598**

Portfolio/Quality	Assets with evident poor credit quality		Other assets
	Cumulated losses	Net exposure	Net exposure
1. Financial assets held for trading	–	8	34,041
2. Hedging derivatives	–	–	391
Total 2016	**–**	**8**	**34,432**
Total 2015	**–**	**–**	**50,618**

Gross impaired assets of 16,092 thousand euros consist of non-performing loans (9,553 thousand euros), likely defaults (3,111 thousand euros) and past due receivables (3,428 thousand euros).

At 31 December 2016, there are 11 “forborne” exposures of the Bank of which:

- 3 non-performing positions totalling 787 thousand euros (of which 2 positions included among likely defaults for 149 thousand euros and 1 position included among past due loans for 638 thousand euros).
- 8 not impaired positions, amounting to 2,246 thousand euros.

A.1.3 Banking group - Cash and off-balance sheet loan exposures to banks: gross and net amounts and maturity brackets

Type of exposures/Amounts	Gross exposure					Specific value adjustments	Portfolio value adjustments	Net exposure
	Impaired assets				Non impaired assets			
	Up to 3 months	From over 3 months to 6 months	From over 6 months to 1 year	More than 1 year				
A. CASH EXPOSURES								
a) Non-performing loans	–	–	–	–	X	–	X	–
- of which: forborne exposures	–	–	–	–	X	–	X	–
b) Likely defaults	–	–	–	–	X	–	X	–
- of which: forborne exposures	–	–	–	–	X	–	X	–
c) Past due exposures impaired	–	–	–	–	X	–	X	–
- of which: forborne exposures	–	–	–	–	X	–	X	–
d) Past due exposures not impaired	X	X	X	X	–	X	–	–
- of which: forborne exposures	X	X	X	X	–	X	–	–
e) Other non impaired exposures	X	X	X	X	193,753	X	–	193,753
- of which: forborne exposures	X	X	X	X	–	X	–	–
TOTAL A	**–**	**–**	**–**	**–**	**193,753**	**–**	**–**	**193,753**
B. OFF-BALANCE SHEET EXPOSURES								
a) Impaired	–	–	–	–	X		X	
b) Not impaired	X	X	X	X	2,058	X	–	2,058
TOTAL B	**–**				**2,058**	**–**	**–**	**2,058**
TOTAL A + B	**–**	**–**	**–**	**–**	**195,811**	**–**	**–**	**195,811**

A.1.6 Banking group - Cash and off-balance sheet loan exposures to customers: gross and net amounts and maturity brackets

Type of exposures/Amounts	Gross exposure					Specific value adjustments	Portfolio value adjustments	Net exposure
	Impaired assets				Non impaired assets			
	Up to 3 months	From over 3 months to 6 months	From over 6 months to 1 year	More than 1 year				
A. CASH EXPOSURES								
a) Non-performing loans	–	–	–	9,553	X	5,109	X	4,444
- of which: forborne exposures	–	–	–	–	X	–	X	–
b) Likely defaults	364	19	71	2,657	X	2,359	X	752
- of which: forborne exposures	–	19	–	130	X	51	X	98
c) Past due exposures impaired	36	209	2,375	808	X	27	X	3,401
- of which: forborne exposures	–	–	638	–	X	5	X	633
d) Past due exposures not impaired	X	X	X	X	3,204	X	19	3,185
- of which: forborne exposures	X	X	X	X	17	X	–	17
e) Other non impaired exposures	X	X	X	X	1,433,228	X	1,872	1,431,356
- of which: forborne exposures	X	X	X	X	2,229	X	13	2,216
TOTAL A	**400**	**228**	**2,446**	**13,018**	**1,436,432**	**7,495**	**1,891**	**1,443,138**
B. OFF-BALANCE SHEET EXPOSURES								–
a) Impaired	1,414	–	–	–	X	–	X	1,414
b) Not impaired	X	X	X	X	24,243	X	–	24,243
TOTAL B	**1,414**	**–**	**–**	**–**	**24,243**	**–**	**–**	**25,657**
TOTAL A + B	**1,814**	**228**	**2,446**	**13,018**	**1,460,675**	**7,495**	**1,891**	**1,468,795**

A.1.7 Banking group - Credit cash exposures to customers: changes in gross impaired exposures

Reason/Category	Non-performing loans	Likely defaults	Past due exposures impaired
A. Gross opening balance	**10,415**	**4,639**	**1,228**
- of which: exposures sold and not derecognised	–	–	–
B. Increases	**117**	**306**	**3,231**
B.1 inflows from performing loans	–	3	2,278
B.2 transfers from other categories of impaired loans	30	239	601
B.3 other increases	87	64	352
C. Decreases	**979**	**1,834**	**1,031**
C.1 outflows to performing loans	–	1,068	296
C.2 derecognition	421	2	1
C.3 collection	550	133	504
C.4 gains from disposals	–	–	–
C.5 losses from disposals	–	–	–
C.6 transfers to other categories of impaired loans	8	631	230
C.7 other decreases	–	–	–
D. Gross closing balance	**9,553**	**3,111**	**3,428**
- of which: exposures sold and not derecognised			

A.1.7 bis Banking group - Credit cash exposures to customers: changes in gross forborne exposures by credit quality

Reasons/Quality	Forborne exposures: impaired	Forborne exposures: not impaired
A. Gross opening balance	**1,822**	**954**
- of which: exposures sold and not derecognised	–	–
B. Increases	**36**	**1,373**
B.1 inflows from non forborne performing loans	–	266
B.2 inflows from forborne performing loans	–	X
B.3 inflows from impaired forborne loans	X	1,037
B.4 other increases	36	70
C. Decreases	**1,071**	**81**
C.1 outflows to non forborne performing loans	X	–
C.2 outflows to forborne performing loans	1,037	X
C.3 outflows to impaired forborne loans	X	–
C.4 derecognition	–	–
C.5 collection	34	81
C.6 gains from disposals	–	–
C.7 losses from disposals	–	–
C.8 other decreases	–	–
D. Gross closing balance	**787**	**2,246**
- of which: exposures sold and not derecognised	–	–

A.1.8 Banking group - Credit cash exposures to customers: changes in overall value adjustments

Reason/Category	Non-performing loans		Likely defaults		Past due exposures impaired	
	Total	Of which: forborne exposures	Total	Of which: forborne exposures	Total	Of which: forborne exposures
A. Total opening adjustments	**5,499**	**–**	**2,341**	**74**	**29**	**–**
- of which: exposures sold and not derecognised	–	–	–	–	–	–
B. Increases	**173**	**–**	**87**	**7**	**23**	**5**
B.1 value adjustments	152	–	79	7	18	–
B.2 losses from disposals	–	–	–	–	–	–
B.3 transfers from other categories of impaired loans	21	–	8	–	5	5
B.4 other increases	–	–	–	–	–	–
C. Decreases	**563**	**–**	**69**	**30**	**25**	**–**
C.1 valuation write-backs	123	–	29	12	16	–
C.2 cash write-backs	65	–	14	13	2	–
C.3 profit from disposals	–	–	–	–	–	–
C.4 derecognition	374	–	–	–	–	–
C.5 transfers to other categories of impaired loans	1	–	26	5	7	–
C.6 other decreases	–	–	–	–	–	–
D. Total closing adjustments	**5,109**	**–**	**2,359**	**51**	**27**	**5**
- of which: exposures sold and not derecognised	–	–	–	–	–	–

A.2 Classification of exposures based on external and internal ratings

A.2.1 Banking group - Distribution of on- and off-balance sheet exposures by external rating class

Considering the Bank's customer base, there are no ordinary customers that are assessed through "external ratings" with significant credit lines. Conversely, the majority of the exposures towards banks is assessed through "external ratings".

A.2.2 Banking group - Distribution of on- and off-balance sheet exposures by internal rating class

The table in question is not filled out as, to date, also having regard to the specific type of credit lines granted, the Bank does not use credit risk measurement models in a complete and systematic manner, according to which a rating is given to counterparties.

A.3. Distribution of guaranteed exposures by type of guarantee

The data shown are exclusively ascribable to the bank.

A.3.2 Banking group - Exposures to guaranteed customers

	Value of net exposures	Collateral (1)			
		Real estate - mortgages	Real estate - finance lease	Securities	Other collateral
1. Guaranteed credit cash exposures:	239,863	120,105	–	51,565	60,285
1.1 fully guaranteed	233,544	120,105	–	51,205	58,341
- of which impaired	7,890	9,144	–	–	–
1.2 partly guaranteed	6,319	–	–	360	1,944
- of which impaired	16	–	–	12	–
2. Guaranteed “off balance sheet” credit exposures:	10,846	2,492	–	2,283	4,583
2.1 fully guaranteed	7,749	2,492	–	1,252	3,897
- of which impaired	514	–	–	–	514
2.2 partly guaranteed	3,097	–	–	1,031	686
- of which impaired	900	–	–	–	164

	Personal guarantees (2)									
	Credit derivatives					Unsecured loans				
		Other derivatives								
	CLN	Governments and Central Banks	Other public authorities	Banks	Other entities	Governments and Central Banks	Other public authorities	Banks	Other entities	Total (1)+(2)
	–	–	–	–	–	–	–	–	5,851	237,806
	–	–	–	–	–	–	–	–	5,851	235,502
	–	–	–	–	–	–	–	–	328	9,472
	–	–	–	–	–	–	–	–	–	2,304
	–	–	–	–	–	–	–	–	–	12
	–	–	–	–	–	–	–	–	734	10,092
	–	–	–	–	–	–	–	–	109	7,750
	–	–	–	–	–	–	–	–	–	514
	–	–	–	–	–	–	–	–	625	2,342
	–	–	–	–	–	–	–	–	–	164

B. Distribution and concentration of credit exposures

B.1 Banking Group - Segment distribution of cash and "off-balance sheet" loan exposures to customers (book value)

Exposures/Counterparties	Governments			Other public authorities		
	Net exposure	Specific value adjustments	Portfolio value adjustments	Net exposure	Specific value adjustments	Portfolio value adjustments
A. Cash exposures						
A.1 Non-performing loans	–	–	X	–	–	X
- of which: forborne exposures	–	–	X	–	–	X
A.2 Likely defaults	–	–	X	–	–	X
- of which: forborne exposures	–	–	X	–	–	X
A.3 Past due exposures impaired	–	–	X	–	–	X
- of which: forborne exposures	–	–	X	–	–	X
A.4 Non impaired exposures	1,104,376	X	–	–	X	–
- of which: forborne exposures	–	X	–	–	X	–
TOTAL A	**1,104,376**	–	–	–	–	–
B. Off-balance sheet exposures						
B.1 Non-performing loans	–	–	X	–	–	X
B.2 Likely defaults	–	–	X	–	–	X
B.3 Other impaired assets	–	–	X	–	–	X
B.4 Non impaired exposures	–	X	–	–	X	–
TOTAL B	–	–	–	–	–	–
TOTAL (A + B) 2016	**1,104,376**	–	–	–	–	–
TOTAL (A + B) 2015	**779,453**	–	–	–	–	–

Financial companies			Insurance companies			Non-financial companies			Other entities		
Net exposure	Specific value adjustments	Portfolio value adjustments	Net exposure	Specific value adjustments	Portfolio value adjustments	Net exposure	Specific value adjustments	Portfolio value adjustments	Net exposure	Specific value adjustments	Portfolio value adjustments
–	–	X	–	–	X	3,753	4,163	X	691	946	X
–	–	X	–	–	X	–	–	X	–	–	X
153	3	X	–	–	X	69	246	X	530	2,110	X
–	–	X	–	–	X	1	18	X	97	33	X
7	–	X	–	–	X	752	6	X	2,642	21	X
–	–	X	–	–	X	–	–	X	633	5	X
73,824	X	207	–	X	–	157,138	X	1,450	99,203	X	234
–	X	–	–	X	–	920	X	9	1,313	X	4
73,984	**3**	**207**	**–**	**–**	**–**	**161,712**	**4,415**	**1,450**	**103,066**	**3,077**	**234**
–	–	X	–	–	X	–	–	X	–	–	X
–	–	X	–	–	X	–	–	X	–	–	X
–	–	X	–	–	X	1,414	–	X	–	–	X
11,452	X	–	–	X	–	6,708	X	–	6,083	X	3
11,452	**–**	**–**	**–**	**–**	**–**	**8,122**	**–**	**–**	**6,083**	**–**	**3**
85,436	**3**	**207**	**–**	**–**	**–**	**169,834**	**4,415**	**1,450**	**109,149**	**3,077**	**237**
73,747	**24**	**248**	**–**	**–**	**–**	**159,895**	**4,474**	**1,351**	**96,321**	**3,371**	**213**

B.2 Banking group - Geographical distribution of cash and "off-balance sheet" loan exposures to customers (book value)

Exposures/Geographic area	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments
A. Cash exposures										
A.1 Non-performing loans	4,444	5,086	–	23	–	–	–	–	–	–
A.2 Likely defaults	737	2,359	–	–	15	–	–	–	–	–
A.3 Past due exposures impaired	3,399	27	–	–	–	–	2	–	–	–
A.4 Non impaired exposures	1,427,741	1,869	6,798	22	2	–	–	–	–	–
TOTAL A	**1,436,321**	**9,341**	**6,798**	**45**	**17**	**–**	**2**	**–**	**–**	**–**
B. Off-balance sheet exposures										
B.1 Non-performing loans	–	–	–	–	–	–	–	–	–	–
B.2 Likely defaults	–	–	–	–	–	–	–	–	–	–
B.3 Other impaired assets	1,414	–	–	–	–	–	–	–	–	–
B.4 Non impaired exposures	22,451	–	792	–	–	–	–	–	1,000	–
TOTAL B	**23,865**	**–**	**792**	**–**	**–**	**–**	**–**	**–**	**1,000**	**–**
TOTAL A+B 2016	**1,460,186**	**9,341**	**7,590**	**45**	**17**	**–**	**2**	**–**	**1,000**	**–**
TOTAL A+B 2015	**1,097,638**	**9,574**	**11,763**	**103**	**15**	**1**	**–**	**–**	**–**	**–**

B.3 Banking group - Geographical distribution of cash and "off-balance sheet" loan exposures to banks (book value)

Exposures/Geographic area	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments
A. Cash exposures										
A.1 Non-performing loans	–	–	–	–	–	–	–	–	–	–
A.2 Likely defaults	–	–	–	–	–	–	–	–	–	–
A.3 Past due exposures impaired	–	–	–	–	–	–	–	–	–	–
A.4 Non impaired exposures	162,347	–	29,407	–	1,999	–	–	–	–	–
TOTAL A	**162,347**	**–**	**29,407**	**–**	**1,999**	**–**	**–**	**–**	**–**	**–**
B. Off-balance sheet exposures										
B.1 Non-performing loans	–	–	–	–	–	–	–	–	–	–
B.2 Likely defaults	–	–	–	–	–	–	–	–	–	–
B.3 Other impaired assets	–	–	–	–	–	–	–	–	–	–
B.4 Non impaired exposures	1,862	–	196	–	–	–	–	–	–	–
TOTAL B	**1,862**	**–**	**196**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
TOTAL A+B 2016	**164,209**	**–**	**29,603**	**–**	**1,999**	**–**	**–**	**–**	**–**	**–**
TOTAL A+B 2015	**98,223**	**–**	**10,569**	**–**	**2,004**		**–**	**–**	**–**	**–**

B.4 Major exposures

a) Amount (book value) 2,416,372 thousand euros

b) Amount (weighted value) 188,401 thousand euros

c) Number 15

The provisions contained in Regulation (EU) no. 575/2013 establish that a major exposure is the exposure of an entity towards a customer or a group of connected customers whose value is equal to or greater than 10% of the entity's admissible capital.

The same provisions that the amount of the exposure of an entity towards an individual customer or a group of connected customers may not exceed 25% of the entity's admissible capital. Obviously, the amount of 25% takes into account credit risk attenuation techniques, the type of guarantee acquired and the debtor counterparty.

The corporate control functions, at a predetermined frequency, audit the total exposure of the customers or groups of connected customers that fall under the category of major exposures and provide adequate information to the Corporate Bodies.

C. Securitisation

The Group has not carried out any securitisation transaction. At the reporting date, no such transactions, issued by the Group, were in place.

E. Disposal of companies

A. Financial assets sold and not derecognised in full

Qualitative information

Financial assets sold and not derecognised in full refer Government Bonds used in repos carried out exclusively with Cassa di Compensazione e Garanzia.

Quantitative information

E.1 Banking group - Financial assets sold and not derecognised: book value and full value

Categories/Portfolio	Financial assets held for trading			Financial assets carried at fair value		
	A	B	C	A	B	C
A. Cash assets	–	–	–	–	–	–
1. Debt securities	–	–	–	–	–	–
2. Equity securities	–	–	–	–	–	–
3. UCI	–	–	–	–	–	–
4. Loans	–	–	–	–	–	–
B. Derivatives	–	–	–	X	X	X
Total 31/12/2016	–	–	–	–	–	–
- of which impaired						
Total 31/12/2015						
- of which impaired						

Key:

A = financial assets sold recognised in full (book value)

B = financial assets sold recognised in part (book value)

C = financial assets sold recognised in part (full value)

Available-for-sale financial assets			Financial assets held to maturity			Due from banks			Due from customers			Total	
A	B	C	A	B	C	A	B	C	A	B	C	31.12.2016	31.12.2015
943,762	**–**	**–**										**943,762**	**630,233**
943,762	–	–	–	–	–	–	–	–	–	–	–	943,762	630,233
–	–	–	X	X	X	X	X	X	X	X	X	–	
–	–	–	X	X	X	X	X	X	X	X	X	–	
–	–	–	–	–	–	–	–	–	–	–	–	–	
X	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**–**	
943,762	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**943,762**	**X**
													X
630,233												**X**	**630,233**
												X	

E.2 Banking group - Financial liabilities for assets sold and not derecognised: book value

Liabilities/ Asset portfolio	Financial assets held for trading	Financial assets carried at fair value	Available-for-sale financial assets	Financial assets held to maturity	Due from banks	Due from customers	Total
1. Due to customers	**–**	**–**	**940,168**	**–**	**–**	**–**	**940,168**
a) relating to fully recognised assets	–	–	940,168	–	–	–	940,168
b) relating to partially recognised assets	–	–	–	–	–	–	–
2. Due to banks	**–**	**–**	**–**	**–**	**–**	**–**	**–**
a) relating to fully recognised assets	–	–	–	–	–	–	–
b) relating to partially recognised assets	–	–	–	–	–	–	–
Total 31.12.2016	**–**	**–**	**940,168**	**–**	**–**	**–**	**940,168**
Total 31.12.2015	**–**		**627,955**				**627,955**

F. Banking group - Credit risk measurement models

In order to assess the Credit Risk, the Bank uses a standardised method for the quantification of (current and perspective) internal capital in compliance with the guidelines set out in the budgeting and multi-year planning process.

In compliance with the supervisory provisions, the method adopted by the Bank to quantify internal capital enables to use collateral (pledge and mortgage) and personal guarantees as a form of credit risk mitigation. The bank prefers the acquisition of collateral characterised by high liquidity (listed financial instruments) and low price volatility (Sovereign debt Securities).

With a view to verifying the suitability of the internal capital, also in the event of adverse outlooks linked to the negative trend of loans, the Bank carries out stress testing during ICAAP reporting on the credit risk. To carry out these tests, reference is made to the statistics given in the public information of the Bank of Italy, in view of the limited historical series in the Bank’s possession, which has only made investments in this area for the last few years.

1.2 – Banking group - market risk

1.2.1 Interest rate risk and price risk – Regulatory trading portfolio

Qualitative information

General aspects

The Bank defined the market risk as the risk of an unfavourable change in the value of a position in financial instruments – included in the trading portfolio for regulatory purposes – due to the adverse performance of interest, exchange and inflation rates, volatility, share prices, credit spreads, price of goods (generic risk) and creditworthiness of the issuer (specific risk).

Management processes and measurement methods for the interest rate risk and the price risk

Interest rate risk

The "trading portfolio" – as defined in the supervisory regulations – includes all financial instruments subject to capital requirements for market risks.

The trading portfolio includes:

- debt securities;
- shares;
- UCI units;
- derivatives held for trading.

Most of the debt securities in the portfolio at 31 December 2016 consist of government bonds whose overall duration is short. Share investments mainly refer to securities listed on the Italian Stock Exchange, with high liquidity. The portfolio instruments are denominated in euro.

The Managing Director and the General Management of the Bank provide strategic guidelines on market risk acceptance with regard to the purchase and dealing in trading securities.

With regard to the interest rate risk, the Bank monitors the changes in market rates and prepares a proper report that is sent to the Management.

Price risk

Price risk is the risk of capital losses on listed financial assets or assets that are similar to listed instruments due to fluctuations in the price of securities or to factors attributable to the peculiar situation of the issuer.

The Bank adopted special internal regulations that govern and limit the risk assumption with regard to some types of financial instruments and allow the continuous monitoring of the main risk indicators (VAR – Expected Shortfall – Volatility etc.)

In addition, limits were identified and prescribed in stress conditions, considering simultaneous shocks on the credit risk - spread increases and stock price contraction.

The method adopted to calculate VaR is historical; the bank uses a holding period of 2 years, a confidence interval of 99% and a daily time horizon for the quantification of the expected risk.

The trading portfolio is mainly represented by Government debt securities. As a result, price risk is associated with the specific situation of the issuer.
With regard to the share capital securities portfolio, it should be underlined that it almost exclusively includes listed shares with a high degree of liquidity.

Lastly, with reference to market risk management, it should be specified that transactions with similar characteristics in terms complexity, type of issuer or risk are screened by the Managing Director and by the General Management, which performs a specific evaluation also with regard to the risk profiles associated with them.

Quantitative information

1. Regulatory trading portfolio: distribution of financial assets and liabilities for cash and financial derivatives by residual duration (repricing date)

Currency: Euro

Type/Residual duration	On demand	Up to 3 months	From over 3 months to 6 months	From over 6 months to 1 year	From over 1 year to 5 years	From over 5 years to 10 years	More than 10 years	Undated
1. Cash assets	**–**	**12,476**	**5,030**	**–**	**5,443**	**3**	**–**	**–**
1.1 Debt securities	–	12,476	5,030	–	5,443	3	–	–
- with the option of early redemption	–	2,470	–	–	–	–	–	–
- other	–	10,006	5,030	–	5,443	3	–	–
1.2 Other assets	–	–	–	–	–	–	–	–
2. Cash liabilities	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
2.1 Reverse repos	–	–	–	–	–	–	–	–
2.2 Other liabilities	–	–	–	–	–	–	–	–
3. Financial derivatives	**–**	**528,353**	**8,581**	**437**	**27,185**	**114**	**–**	**–**
3.1 With underlying security	–	27,859	1,874	–	25,806	114	–	–
- Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
- Other derivatives	–	27,859	1,874	–	25,806	114	–	–
+ Long positions	–	13,946	937	–	12,903	57	–	–
+ Short positions	–	13,913	937	–	12,903	57	–	–
3.2 Without underlying security	–	500,494	6,707	437	1,379	–	–	–
- Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
- Other derivatives	–	500,494	6,707	437	1,379	–	–	–
+ Long positions	–	250,248	4,262	–	–	–	–	–
+ Short positions	–	250,246	2,445	437	1,379	–	–	–

1. Regulatory trading portfolio: distribution of financial assets and liabilities for cash and financial derivatives by residual duration (repricing date)

Currency: Other currencies

Type/Residual duration	On demand	Up to 3 months	From over 3 months to 6 months	From over 6 months to 1 year	From over 1 year to 5 years	From over 5 years to 10 years	More than 10 years	Undated
1. Cash assets	**2**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1.1 Debt securities	2	–	–	–	–	–	–	–
- with the option of early redemption	2	–	–	–	–	–	–	–
- other	–	–	–	–	–	–	–	–
1.2 Other assets	–	–	–	–	–	–	–	–
2. Cash liabilities	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
2.1 Reverse repos	–	–	–	–	–	–	–	–
2.2 Other liabilities	–	–	–	–	–	–	–	–
3. Financial derivatives	**–**	**500,682**	**4,038**	**–**	**–**	**–**	**–**	**–**
3.1 With underlying security	–	–	–	–	–	–	–	–
- Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
- Other derivatives	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
3.2 Without underlying security	–	500,682	4,038	–	–	–	–	–
- Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
- Other derivatives	–	500,682	4,038	–	–	–	–	–
+ Long positions	–	250,340	2,019	–	–	–	–	–
+ Short positions	–	250,342	2,019	–	–	–	–	–

2. Regulatory trading portfolio: distribution of exposures in equity securities and stock indices in the main countries of the market.

Transaction type/Listing index	Listed			Unlisted
	Italy	Germany	Other	
A. Equity securities				
- Long positions	1,732	14	75	14
- Short positions	–	–	–	–
B. Sales not yet settled on equity securities				
- Long positions	58	3	–	–
- Short positions	61	3	–	–
C. Other derivatives on equity securities				
- Long positions	7	–	1	–
- Short positions	–	–	–	–
D. Derivatives on stock indices				
- Long positions	–	–	–	–
- Short positions	–	–	–	–

1.2.2 Interest rate risk and price risk – Banking book

Qualitative information

A. General aspects, management processes and measurement methods for interest rate risk and price risk

Interest rate risk

The interest rate risk for the banking book is defined as the current and prospective risk of profit/capital volatility due to unfavourable fluctuations in interest rates. From the definition of the interest rate risk, it is readily apparent that said risk is generated by the imbalances deriving from core business activities as a consequence of the difference in maturity and in the periods of redefinition of the interest rate conditions of assets and liabilities. The Bank's policy for managing the interest rate risk on the banking book is directed at stabilising the interest margin on the banking book.

The internal structures of the Bank monitor on a regular basis and provide adequate reporting of the interest rate risk on the banking book to the Senior Management and to the Board of Directors of the Bank. Stress tests are also carried out on a regular basis on the interest rate risk of the Repricing Gap and Duration Gap banking book. The operating limits to risk assumption were defined by the Board of Directors of the Bank and are reviewed by it on a regular basis.

The banking book comprises financial instruments (assets and liabilities) that are not in the trading portfolio. It is mainly made up of due to/from banks and customers as well as hedge accounting and hedging derivatives.

As regards the banking book, attention is drawn to the following aspects concerning interest rate risk:

- due from banks and due from customers include:
  - loans to banks, totalling 171 million euros, of which 166 million euros in deposits to banks, mainly with variable rate and 5 million euros in compulsory variable rate reserve;
  - loans to customers, totalling 335 million euros, mainly consisting of current account credit lines of 116 million euros and loans to customers of 146 million euros, mostly with variable rate;
- available-for-sale securities include (in addition to equity securities and UCI units not exposed to interest rate risk) bonds including Government Bonds totalling a nominal value of 1,080 million euros (720 million euros with maturity on or before 2017, 300 million euros with maturity in 2018 and 60 million with maturity on or before 2024);
- securities held to maturity (which were reclassified in 2008 from the HFT category) only include a variable-rate bond, listed in a regulated market, for a total face value of 2 million euros, with maturity in January 2017;
- due to banks and due to customers include:
  - loans and deposits to banks, totalling 1 million euros;
  - loans, fixed-term deposits and current accounts with customers, totalling 1,496 million euros, comprising: 64 million euros in fixed-rate loans (of which 45 million euros with maturity in 2017, 13 million euros in 2018 and 6 million euros in 2019); 492 million euros in current accounts at floating rate or at revisable fixed rate; 940 million euros in repos on securities listed in regulated markets;
- among outstanding securities totalling 24 million euros are variable-rate bonds (Euribor plus 30 b.p.) with maturity in November 2017.

Given the above, it may be concluded that the interest rate risk is low.

Price risk

Price risk is the risk of capital losses on listed financial assets or assets that are similar to listed instruments due to fluctuations in the price of securities or to factors attributable to the peculiar situation of the issuer.

The Bank adopted special internal regulations that govern and limit the risk assumption with regard to some types of financial instruments and allow the continuous monitoring of the main risk indicators (VAR – Expected Shortfall – Volatility etc.).

Quantitative information

1. Banking portfolio: distribution of financial assets and liabilities by residual duration (repricing date)

Currency: Euro

Type/Residual duration	On demand	Up to 3 months	From over 3 months to 6 months	From over 6 months to 1 year	From over 1 year to 5 years	From over 5 years to 10 years	More than 10 years	Undated
1. Cash assets	**200,023**	**656,453**	**152,118**	**246,138**	**336,621**	**381**	**113**	**–**
1.1 Debt securities	–	392,389	151,667	245,417	318,570	–	3	
- with the option of early redemption	–	5,734	–	–	7,021	–	–	–
- other	–	386,655	151,667	245,417	311,549	–	3	–
1.2 Loans to banks	60,583	89,887	–	–	–	–	–	–
1.3 Loans to customers	139,440	174,177	451	721	18,051	381	110	–
- current accounts	114,040	–	–	–	–	–	–	–
- other loans	25,400	174,177	451	721	18,051	381	110	–
with the option of early redemption	1,807	140,842	451	500	1,783	361	110	–
other	23,593	33,335	–	221	16,268	20	–	–
2. Cash liabilities	**475,675**	**308,968**	**199,758**	**211,114**	**307,689**	**–**	**–**	**–**
2.1 Due to customers	474,522	308,968	175,933	211,114	307,689	–	–	–
- current accounts	474,270	7,985	24,732	11,942	17,821	–	–	–
- other payables	252	300,983	151,201	199,172	289,868	–	–	–
with the option of early redemption	–	–	–	–	–	–	–	–
other	252	300,983	151,201	199,172	289,868	–	–	–
2.2 Due to banks	1,153	–	–	–	–	–	–	–
- current accounts	1,153	–	–	–	–	–	–	–
- other payables	–	–	–	–	–	–	–	–
2.3 Debt securities	–	–	23,825	–	–	–	–	–
- with the option of early redemption	–	–	–	–	–	–	–	–
- other	–	–	23,825	–	–	–	–	–
2.4 Other liabilities	–	–	–	–	–	–	–	–
- with the option of early redemption	–	–	–	–	–	–	–	–
- other	–	–	–	–	–	–	–	–
3. Financial derivatives	**–**	**16,017**	**–**	**17,520**	**–**	**–**	**–**	**–**
3.1 With underlying security	–	–	–	–	–	–	–	–
- Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
- Other derivatives	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
3.2 Without underlying security	–	16,017	–	17,520	–	–	–	–
- Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
- Other derivatives	–	16,017	–	17,520	–	–	–	–
+ Long positions	–	16,017	–	17,520	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
4. Other off-balance sheet transactions	**14,868**	**–**	**–**	**–**	**900**	**162**	**–**	**–**
+ Long positions	6,903	–	–	–	900	162	–	–
+ Short positions	7,965	–	–	–	–	–	–	–

1. Banking portfolio: distribution of financial assets and liabilities by residual duration (repricing date)

Currency: Other currencies

Type/Residual duration	On demand	Up to 3 months	From over 3 months to 6 months	From over 6 months to 1 year	From over 1 year to 5 years	From over 5 years to 10 years	More than 10 years	Undated
1. Cash assets	**22,065**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1.1 Debt securities	–	–	–	–	–	–	–	
- with the option of early redemption								
- other								
1.2 Loans to banks	20,258							
1.3 Loans to customers	1,807	–	–	–	–	–	–	–
- current accounts	1,667							
- other loans	140							
with the option of early redemption								
other	140							
2. Cash liabilities	**18,143**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
2.1 Due to customers	18,093							
- current accounts	18,093							
- other payables	–							
with the option of early redemption								
other	–							
2.2 Due to banks	50							
- current accounts	50	–	–	–	–	–	–	–
- other payables	–	–	–	–	–	–	–	–
2.3 Debt securities								
- with the option of early redemption	–	–	–	–	–	–	–	–
- other	–	–	–	–	–	–	–	–
2.4 Other liabilities								
- with the option of early redemption	–	–	–	–	–	–	–	–
- other	–	–	–	–	–	–	–	–
3. Financial derivatives	**–**	**16,017**	**–**	**17,520**	**–**	**–**	**–**	**–**
3.1 With underlying security								
- Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
- Other derivatives								
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
3.2 Without underlying security	–	16,017	–	17,520	–	–	–	–
- Options								
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
- Other derivatives	–	16,017	–	17,520	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	16,017	–	17,520	–	–	–	–
4. Other off-balance sheet transactions	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–

Item 3.2 financial derivatives - Others - (maturity class from 6 months to 1 year) refers to the hedge accounting of 15 million Pounds carried out by the Bank on a part of the LSEG shares and thoroughly discussed in the asset item Hedging derivatives.
The maturity class up to 3 months includes mainly the hedge of 12.5 million Pounds, also referred to the LSEG shares.

1.2.3 Exchange rate risk

Qualitative information

A. General aspects, management processes and measurement methods for exchange rate risk
Exchange rate risk management is the responsibility of the General Management and the Finance Department carries out trading, hedging and brokering activities within specific operating limits (amounts) with regard to both financial assets and liabilities denominated in foreign currencies in its own account or on behalf of customers.

Generally, the exposure to exchange rate risk is quite low and limited to temporary misalignments in opposite sign positions. The Bank keeps this risk to a minimum by monitoring the treasury exposure due to the time mismatching between asset and liability items.

B. Exchange rate risk hedging activity
In December 2015, partial Hedge Accounting of 15 million Pounds was carried out to neutralise the impact deriving from the change in the Euro/GBP exchange rate on a part of the book value, i.e. 26.9 million Pounds, of the 921,900 London Stock Exchange Group plc shares held by the Bank in the Available-for-sale financial assets portfolio.
This partial hedging was carried out with a forward sale transaction of 15 million Pounds with maturity 21 December 2016 and renewed for an equal amount on 21 December 2017, whose positive fair value at 31 December 2016 was 391 thousand euros.

In addition to the hedge described above, the Bank also carried out a management hedging of the exchange rate risk, also connected with the LSEG shares, for additional 12.5 million Pounds, to eliminate the exchange rate risk on this equity investment.

Quantitative information

1. Distribution by currency of assets, liabilities and derivatives

Items	Currencies					
	US Dollars	Pound sterling	Yen	Canadian dollars	Swiss Franc	Other currencies
A. Financial assets	**14,922**	**34,309**	**536**	**89**	**3,378**	**226**
A.1 Debt securities	2	–	–	–	–	–
A.2 Equity securities	–	31,377	–	–	17	–
A.3 Loans to banks	14,771	1,416	536	89	3,221	224
A.4 Loans to customers	149	1,516	–	–	140	2
A.5 Other financial assets	–	–	–	–	–	–
B. Other assets	**24**	**19**	**–**	**–**	**2**	**–**
C. Financial liabilities	**14,742**	**1,238**	**8**	**–**	**2,134**	**21**
C.1 Due to banks	47	–	–	–	–	3
C.2 Due to customers	14,695	1,238	8	–	2,134	18
C.3 Debt securities	–	–	–	–	–	–
C.4 Other financial liabilities	–	–	–	–	–	–
D. Other liabilities	**–**	**–**	**–**	**–**	**–**	**–**
E. Financial derivatives	**344,797**	**182,521**	**7,374**	**864**	**2,701**	**–**
- Options	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–
- Other derivatives	344,797	182,521	7,374	864	2,701	–
+ Long positions	172,399	75,201	3,444	431	885	–
+ Short positions	172,398	107,320	3,930	433	1,816	–
Total assets	**187,345**	**109,529**	**3,980**	**520**	**4,265**	**226**
Total liabilities	**187,140**	**108,558**	**3,938**	**433**	**3,950**	**21**
Imbalance (+/-)	**205**	**971**	**42**	**87**	**315**	**205**

1.2.4 Derivative instruments

A. Financial derivatives

A.1 Regulatory trading portfolio: end-of-period notional values

Underlying assets/Type of derivatives	Total 31.12.2016		Total 31.12.2015	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates	**2,242**	**–**	**3,063**	**–**
a) Options	–	–		
b) Swaps	2,242	–	3,063	
c) Forwards	–	–		
d) Futures	–	–		–
e) Other	–	–		
2. Share capital securities and stock indices	**944**	**–**	**–**	**3,507**
a) Options	944	–		3,505
b) Swaps	–	–		–
c) Forwards	–	–		–
d) Futures	–	–		2
e) Other	–	–		–
3. Currencies and gold	**504,318**	**–**	**571,929**	**–**
a) Options	–	–	–	
b) Swaps	–	–	–	
c) Forwards	504,318	–	571,929	
d) Futures	–	–	–	
e) Other	–	–	–	
4. Goods	**–**	**–**		**200**
5. Other underlying assets	**–**	**–**		
Total	**507,504**	**–**	**574,992**	**3,707**

A.2 Banking portfolio: end-of-period notional values

A.2.1 Hedging

Underlying assets/Type of derivatives	31.12.2016		31.12.2015	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates				
a) Options				
b) Swaps				
c) Forwards				
d) Futures				
e) Other				
2. Share capital securities and stock indices				
a) Options				
b) Swaps				
c) Forwards				
d) Futures				
e) Other				
3. Currencies and gold	**17,520**		**20,437**	
a) Options				
b) Swaps				
c) Forwards	17,520		20,437	
d) Futures				
e) Other				
4. Goods				
5. Other underlying assets				
Total	**17,520**		**20,437**	

A.2.2 Other derivatives

Underlying assets/Type of derivatives	31.12.2016		31.12.2015	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates				
a) Options				
b) Swaps				
c) Forwards				
d) Futures				
e) Other				
2. Share capital securities and stock indices				
a) Options				
b) Swaps				
c) Forwards				
d) Futures				
e) Other				
3. Currencies and gold	**16,017**			
a) Options				
b) Swaps				
c) Forwards	16,017			
d) Futures				
e) Other				
4. Goods				
5. Other underlying assets				
Total	**16,017**			

A.3 Financial derivatives: gross positive fair value - breakdown by product

Derivative types/Portfolios	Positive fair value			
	Total 31.12.2016		Total 31.12.2015	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Regulatory trading portfolio	10,846	–	9,579	251
a) Options	183	–	–	251
b) Interest rate swaps	–	–	–	–
c) Cross currency swaps	–	–	–	–
d) Equity swaps	–	–	–	–
e) Forwards	10,663	–	9,579	–
f) Futures	–	–	–	–
g) Others	–	–	–	–
B. Banking portfolio - hedging	391	–	215	–
a) Options	–	–	–	–
b) Interest rate swaps	–	–	–	–
c) Cross currency swaps	–	–	–	–
d) Equity swaps	–	–	–	–
e) Forwards	391	–	215	–
f) Futures	–	–	–	–
g) Others	–	–	–	–
C. Banking portfolio - other derivatives	223	–	–	–
a) Options	–	–	–	–
b) Interest rate swaps	–	–	–	–
c) Cross currency swaps	–	–	–	–
d) Equity swaps	–	–	–	–
e) Forwards	223	–	–	–
f) Futures	–	–	–	–
g) Others	–	–	–	–
Total	**11,460**	**–**	**9,794**	**251**

A.4 Financial derivatives: gross negative fair value - breakdown by product

Derivative types/Portfolios	Negative fair value			
	Total 31.12.2016		Total 31.12.2015	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Regulatory trading portfolio	10,772	–	9,656	77
a) Options				77
b) Interest rate swaps	110		189	
c) Cross currency swaps				
d) Equity swaps				
e) Forwards	10,662		9,467	
f) Futures				
g) Others				
B. Banking portfolio - hedging	–	–	–	–
a) Options				
b) Interest rate swaps				
c) Cross currency swaps				
d) Equity swaps				
e) Forwards				
f) Futures				
g) Others				
C. Banking portfolio - other derivatives	–	–	–	–
a) Options				
b) Interest rate swaps				
c) Cross currency swaps				
d) Equity swaps				
e) Forwards				
f) Futures				
g) Others				
Total	**10,772**	**–**	**9,656**	**77**

A.5 OTC financial derivatives - regulatory trading portfolio: notional values, gross positive and negative fair values for counterparties - contracts not covered by offset agreements

Contracts not covered by offset agreements	Governments and Central Banks	Other public authorities	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities
1) Debt securities and interest rates							
- notional value	–	–	2,242	–	–	–	–
- positive fair value	–	–	–	–	–	–	–
- negative fair value	–	–	110	–	–	–	–
- future exposure	–	–	7	–	–	–	–
2) Equity securities and stock indices							
- notional value	–	–	45	65	–	834	–
- positive fair value	–	–	–	2	–	181	–
- negative fair value	–	–	–	–	–	–	–
- future exposure	–	–	4	7	–	27	–
3) Currencies and gold							
- notional value	–	–	252,159	252,159	–	–	–
- positive fair value	–	–	943	9,720	–	–	–
- negative fair value	–	–	9,720	942	–	–	–
- future exposure	–	–	2,522	2,522	–	–	–
4) Other values							
- notional value	–	–	–	–	–	–	–
- positive fair value	–	–	–	–	–	–	–
- negative fair value	–	–	–	–	–	–	–
- future exposure	–	–	–	–	–	–	–

A.7 OTC financial derivatives - banking portfolio: notional values, gross positive and negative fair values for counterparties - contracts not covered by offset agreements

Contracts not covered by offset agreements	Governments and Central Banks	Other public authorities	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities
1) Debt securities and interest rates							
- notional value	–	–	–	–	–	–	–
- positive fair value	–	–	–	–	–	–	–
- negative fair value	–	–	–	–	–	–	–
- future exposure	–	–	–	–	–	–	–
2) Equity securities and stock indices							
- notional value	–	–	–	–	–	–	–
- positive fair value	–	–	–	–	–	–	–
- negative fair value	–	–	–	–	–	–	–
- future exposure	–	–	–	–	–	–	–
3) Currencies and gold							
- notional value	–	–	33,537	–	–	–	–
- positive fair value	–	–	614	–	–	–	–
- negative fair value	–	–	–	–	–	–	–
- future exposure	–	–	335	–	–	–	–
4) Other values							
- notional value	–	–	–	–	–	–	–
- positive fair value	–	–	–	–	–	–	–
- negative fair value	–	–	–	–	–	–	–
- future exposure	–	–	–	–	–	–	–

A.9 Residual life of OTC financial derivatives: notional values

Underlying/Residual life	Up to 1 year	From over 1 year to 5 years	More than 5 years	Total
A. Regulatory trading portfolio	**505,802**	**1,595**	**107**	**507,504**
A.1 Financial derivatives on debt securities and interest rates	863	1,379	–	2,242
A.2 Financial derivatives on equity securities and stock indices	621	216	107	944
A.3 Financial derivatives on exchange rates and gold	504,318	–	–	504,318
A.4 Financial derivatives on other values	–	–	–	–
B. Banking portfolio	**33,537**	**–**	**–**	**33,537**
B.1 Financial derivatives on debt securities and interest rates	–	–	–	–
B.2 Financial derivatives on equity securities and stock indices	–	–	–	–
B.3 Financial derivatives on exchange rates and gold	33,537	–	–	33,537
B.4 Financial derivatives on other values	–	–	–	–
Total 2016	**539,339**	**1,595**	**107**	**541,041**
Total 2015	**593,187**	**2,242**	**–**	**595,429**

1.3 Banking group - Liquidity risk

Qualitative information

A.General aspects, management processes and measurement methods for the liquidity risk
The Group defined the liquidity risk as the inability to meet own payment commitments. This risk is linked to the inability to raise funds (funding liquidity risk) or to the existence of limits for the disinvestment of assets (market liquidity risk).
Funding liquidity risk means the risk according to which the Bank and the companies of the Group are not able to meet their own payment commitments and obligations efficiently (compared to the “desired” risk profile and/or “fair” economic conditions) due to the inability to raise funds without compromising their core business activities and/or financial situation.
Market liquidity risk means the risk according to which the Group is able to dispose of an asset only by incurring capital losses due to the low liquidity of the reference market and/or due to the timing with which the transaction will be carried out.

The analysis of the Group’s financial instruments (assets and liabilities) highlights that, overall, liquidity risk is quite low. In fact, the loans portfolio is mostly made up of short-term funding sources both on the interbank market and with regard to customers (as it comprises mainly on-demand loans that are directly connected with the private banking activity). Most of the securities trading portfolio is made up of highly liquid debt securities issued by countries of the Eurozone.
Concerning the sources of funding, they comprise current accounts, fixed-term deposits, repos and the issue of floating rate bonds. The concentration of the funding sources, present on primary and consolidated customers, is the consequence of the business model adopted by the Bank that entails issuing loans and providing services to highly selected customers.

The Group’s overall exposure to liquidity risk is therefore maintained at modest levels thanks to the structure of the financial portfolio described above.

The ability to meet commitments promptly and economically is guaranteed by carefully monitoring the position through the use of information systems that ensure the ongoing monitoring of the liquidity requirements that are managed, where necessary, by resorting to the interbank deposits and, alternatively, to the repos market.

On the basis of the supervisory provisions, the Bank has defined the guidelines on the governance and management of liquidity risk and the methods of stress tests to be carried out. More specifically, the roles and responsibilities have been defined by the company bodies involved, the calculation methods of the LCR (Liquidity Coverage Ratio) and NSFR (Net Stable Funding Ratio) and the criteria to be applied in carrying out stress testing.
The short-term liquidity management policy, monitoring using the LCR indicator, includes all limits and alert thresholds that allow, both in normal market conditions and in stressful periods, for the measurement of the liquidity risk to which it is exposed. The liquidity needed to cope with any structural imbalance in the breakdown of assets and liabilities along a one-year timeframe, instead, is monitored through the NSFR indicator.

Within the liquidity risk management process, the Bank's Risk Control organisational unit:

- periodically carries out the stress tests identified by the Bank for risk measurement, performing the measurements necessary to determine the value of the LCR (liquidity Coverage ratio) indicator (aimed at assuring that the Bank holds an amount of high quality liquid assets that enables it to withstand stress situations on the funding market for a time horizon of 30 days) and the NSFR (Net Stable Funding Ratio) (aimed at assuring a structural balance of the financial statements of the bank);
- prepare the reports to be sent to the Senior Management, illustrated the exposure to liquidity risk, also determined on the basis of the stress tests.

The analyses carried out at 31 December 2016 show that the potential outgoing cash flows are entirely covered by the inflows and by the liquidity buffer held by the Bank, and therefore no risk situations are noted.

Quantitative information

1. Time distribution of financial assets and liabilities by residual duration

Currency: Euro

Item/Time frame	On demand	From over 1 day to 7 days	From over 7 days to 15 days	From over 15 days to 1 month	From over 1 month to 3 months	From over 3 months to 6 months	From over 6 months to 1 year	From over 1 year to 5 years	More than 5 years	Undated
Cash assets	**201,594**	**80,389**	**90,343**	**5,985**	**287,570**	**158,429**	**256,511**	**460,359**	**105,613**	**4,889**
A.1 Treasury Bonds	–	–	75,138	–	261,183	151,495	245,253	305,135	65,005	–
A.2 Other debt securities	–	–	205	5,121	48	–	616	19,363	1,132	–
A.3 UCI units	33,195	–	–	–	–	–	–	–	–	–
A.4 Loans	168,399	80,389	15,000	864	26,339	6,934	10,642	135,861	39,476	4,889
- Banks	60,582	59,999	15,000	–	10,000	–	–	–	–	4,889
- Customers	107,817	20,390	–	864	16,339	6,934	10,642	135,861	39,476	–
Cash liabilities	**475,760**	**180**	**50,216**	**51,531**	**205,995**	**176,069**	**235,006**	**308,396**	**–**	**–**
B.1 Deposit and current accounts	474,452	180	335	670	6,811	24,858	12,001	18,527	–	–
- Banks	1,153	–	–	–	–	–	–	–	–	–
- Customers	473,299	180	335	670	6,811	24,858	12,001	18,527	–	–
B.2 Debt securities	–	–	–	–	–	10	23,833	–	–	–
B.3 Other liabilities	1,308	–	49,881	50,861	199,184	151,201	199,172	289,869	–	–
Off-balance sheet transactions	**8,769**	**28,073**	**33,622**	**334,333**	**148,437**	**6,031**	**17,745**	**32,182**	**1,583**	**–**
C.1 Financial derivatives with exchange of capital	–	28,073	33,622	334,331	148,344	5,908	17,520	26,120	120	–
- Long positions	–	14,054	16,811	175,174	74,172	2,954	17,520	13,060	60	–
- Short positions	–	14,019	16,811	159,157	74,172	2,954	–	13,060	60	–
C.2 Financial derivatives without exchange of capital	293	–	–	–	–	–	–	–	–	–
- Long positions	183	–	–	–	–	–	–	–	–	–
- Short positions	110	–	–	–	–	–	–	–	–	–
C.3 Deposits and loans to be received	–	–	–	–	–	–	–	–	–	–
- Long positions	–	–	–	–	–	–	–	–	–	–
- Short positions	–	–	–	–	–	–	–	–	–	–
C.4 Irrevocable commitments to disburse funds	8,476	–	–	2	93	123	225	5,548	1,463	–
- Long positions	511	–	–	2	93	123	225	5,548	1,463	–
- Short positions	7,965	–	–	–	–	–	–	–	–	–
C.5 Financial guarantees issued	–	–	–	–	–	–	–	514	–	–
C.6 Financial guarantees received	–	–	–	–	–	–	–	–	–	–
C.7 Credit derivatives with exchange of capital	–	–	–	–	–	–	–	–	–	–
- Long positions	–	–	–	–	–	–	–	–	–	–
- Short positions	–	–	–	–	–	–	–	–	–	–
C.8 Credit derivatives without exchange of capital	–	–	–	–	–	–	–	–	–	–
- Long positions	–	–	–	–	–	–	–	–	–	–
- Short positions	–	–	–	–	–	–	–	–	–	–

Bank "Undated Loans" refer to the deposit in the Obligatory reserve.

Item C.1 includes the value of the purchases and sales of securities not yet settled.

1. Time distribution of financial assets and liabilities by residual duration

Currency: Other currencies

Item/Time frame	On demand	From over 1 day to 7 days	From over 7 days to 15 days	From over 15 days to 1 month	From over 1 month to 3 months	From over 3 months to 6 months	From over 6 months to 1 year	From over 1 year to 5 years	More than 5 years	Undated
Cash assets	**22,072**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
A.1 Treasury Bonds	–	–	–	–	–	–	–	–	–	–
A.2 Other debt securities	2	–	–	–	–	–	–	–	–	–
A.3 UCI units	–	–	–	–	–	–	–	–	–	–
A.4 Loans	22,070	–	–	–	–	–	–	–	–	–
- Banks	20,258	–	–	–	–	–	–	–	–	–
- Customers	1,812	–	–	–	–	–	–	–	–	–
Cash liabilities	**18,144**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
B.1 Deposit and current accounts	18,144	–	–	–	–	–	–	–	–	–
- Banks	50	–	–	–	–	–	–	–	–	–
- Customers	18,094	–	–	–	–	–	–	–	–	–
B.2 Debt securities	–	–	–	–	–	–	–	–	–	–
B.3 Other liabilities	–	–	–	–	–	–	–	–	–	–
Off-balance sheet transactions	**–**	**402**	**33,622**	**334,331**	**148,344**	**4,038**	**17,520**	**–**	**–**	**–**
C.1 Financial derivatives with exchange of capital	–	402	33,622	334,331	148,344	4,038	17,520	–	–	–
- Long positions	–	200	16,811	159,157	74,172	2,019	–	–	–	–
- Short positions	–	202	16,811	175,174	74,172	2,019	17,520	–	–	–
C.2 Financial derivatives without exchange of capital	–	–	–	–	–	–	–	–	–	–
- Long positions	–	–	–	–	–	–	–	–	–	–
- Short positions	–	–	–	–	–	–	–	–	–	–
C.3 Deposits and loans to be received	–	–	–	–	–	–	–	–	–	–
- Long positions	–	–	–	–	–	–	–	–	–	–
- Short positions	–	–	–	–	–	–	–	–	–	–
C.4 Irrevocable commitments to disburse funds	–	–	–	–	–	–	–	–	–	–
- Long positions	–	–	–	–	–	–	–	–	–	–
- Short positions	–	–	–	–	–	–	–	–	–	–
C.5 Financial guarantees issued	–	–	–	–	–	–	–	–	–	–
C.6 Financial guarantees received	–	–	–	–	–	–	–	–	–	–
C.7 Credit derivatives with exchange of capital	–	–	–	–	–	–	–	–	–	–
- Long positions	–	–	–	–	–	–	–	–	–	–
- Short positions	–	–	–	–	–	–	–	–	–	–
C.8 Credit derivatives without exchange of capital	–	–	–	–	–	–	–	–	–	–
- Long positions	–	–	–	–	–	–	–	–	–	–
- Short positions	–	–	–	–	–	–	–	–	–	–

1.4 – Banking group - Operating risk

Qualitative and quantitative information

A. General aspects, management processes and measurement methods for operating risk

Operating risk is defined as the risk to incur losses arising from the inadequacy or weakness in procedures, human resources and internal systems, or from external events. These include losses arising from frauds, human errors, interruptions in business activities, unavailability of systems, contractual default, natural and/or geopolitical disasters. The operating risk includes the legal risk, while it does not include strategic and reputational risks.

The Bank, albeit adopting a standardised calculation method of the operating risks, carried out an analysis/assessment of operating risks on the "core" procedures. In order to standardise the quantification process of operating risks, the Bank has also formalised the adopted method in the document called "Management of operating risks in Banca Finnat". At 31 December 2016, the organisational unit tasked with monitoring operating risks started the activities necessary for their revision according to the method identified by the corporate Bodies of the Bank.

In particular, the analysis focused on the identification, within the above-mentioned operating procedures, of the activities that may generate operating risks for the Bank and of the related controls to mitigate the risks themselves.

During the year ended 31 December 2016, periodic meetings continued to be held between the Parent Company and the subsidiaries InvestiRE SGR S.p.A. and Finnat Fiduciaria S.p.A.; during the meetings, the controls applied by the subsidiaries were analysed without observing any anomalies.

With regards to the quantification of internal capital supporting the operating risk, as previously indicated, the Bank uses the basic approach under the scope of determining prudential equity requirements, as envisaged by the supervisory provisions per Regulation 575/2013.

In this context, the internal control function verifies that said procedures, and any revisions thereof, are correctly implemented and are observed, as well as ensuring that they comply with regulations in force.

Section 3 - Risks of other companies

As at 31 December 2016, all the subsidiaries of the Parent Company belong to the Group; therefore, there are no risks of other companies.

Part F – Information on the consolidated net equity

Section 1 – Consolidated net equity

Qualitative and quantitative information

The Group net equity comprises the Capital, Reserves, Own Shares, Valuation Reserves and Profit for the year. All financial instruments that are not classified as financial assets or liabilities according to the IAS/IFRS are considered part of the equity.

For supervisory purposes, the relevant aggregate equity is calculated based on the applicable regulations laid down by the Bank of Italy and constitutes the reference control data of the prudential supervisory regulations.

Pursuant to the above-mentioned regulations, the Bank is required to comply with a minimum capital ratio of 8%, calculated by reference to credit and market prices.

The consolidated net equity totals 258,474 thousand euros. It is detailed in the table below.

B.1 Consolidated equity: breakdown by company type

Net equity items	Banking group	Insurance companies	Other companies	Consolidation cancellations and adjustments	Total
Share capital	72,576	–	–	–	72,576
Share issue premiums	–	–	–	–	–
Reserves	160,526	–	–	–	160,526
Capital instruments	–	–	–	–	–
(Own shares)	(14,392)	–	–	–	(14,392)
Valuation reserves:	29,814	–	–	–	29,814
- Available-for-sale financial assets	28,822	–	–	–	28,822
- Tangible assets	–	–	–	–	–
- Intangible assets	–	–	–	–	–
- Foreign investment hedge	–	–	–	–	–
- Cash flow hedge	–	–	–	–	–
- Exchange differences	–	–	–	–	–
- Non-current assets being disposed	–	–	–	–	–
- Actuarial profit (loss) on defined benefit social security plans	(334)	–	–	–	(334)
- Share of valuation reserves of equity investments valued by equity method	(38)	–	–	–	(38)
- Special revaluation regulations	1,364	–	–	–	1,364
Profit (loss) for the year (+/-) of the Group and third parties	9,950	–	–	–	9,950
Net equity	**258,474**	**–**	**-**	**-**	**258,474**

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

Assets/Amounts	Banking group		Insurance companies		Other companies		Consolidation cancellations and adjustments		Total 31.12.2016	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	957	238	–	–	–	–	–	–	957	238
2. Equity securities	29,637	666	–	–	–	–	–	–	29,637	666
3. UCI units	392	720	–	–	–	–	–	–	392	720
4. Loans	–	–	–	–	–	–	–	–	–	–
Total 31.12.2016	**30,986**	**1,624**	**–**	**–**	**–**	**–**			**30,986**	**1,624**
Total 31.12.2015	**35,568**	**2,329**	**–**	**–**	**–**	**–**			**35,568**	**2,329**

The breakdown of the valuation reserves refers to the Group. Third-party valuation reserve is negative by the amount of 540 thousand euros.

The reserve of item 1. Debt securities concerns almost exclusively the fair value adjustment, after taxes, of the securities held by the Bank.

The reserve of item 2. Equity securities concerns the fair value adjustment, after taxes, of the securities held by the Bank.

The reserve of item 3. UCI units comprises the adjustment to fair value, net of taxes, of units held by the Bank, amounting to +216 thousand euros and units held by the subsidiary InvestiRE SGR S.p.A., amounting to -544 thousand euros.

B.3 Valuation reserves of available-for-sale financial assets: annual changes

	Debt securities	Equity securities	UCI units	Loans
1. Opening balance	**943**	**33,302**	**(1,006)**	**-**
2. Positive changes	**634**	**3,804**	**1,166**	**-**
2.1 Increases in fair value	627	2,378	18	-
2.2 Reallocation of negative reserve to income statement	7	1,426	1,148	-
- from impairment	-	1,426	1,148	-
- from disposal	7	-	-	-
2.3 Other changes	-	-	-	-
3. Negative changes	**858**	**8,135**	**488**	**-**
3.1 Decreases in fair value	507	5,211	420	-
3.2 Adjustments from impairment	-	-	-	-
3.3 Reallocation to income statement from positive reserves: from disposal	351	2,917	-	-
3.4 Other changes	-	7	68	-
4. Closing balance	**719**	**28,971**	**(328)**	**-**

The comment to the changes is illustrated in part D – Consolidated comprehensive Income.

B.4 Valuation reserves related to defined benefit plans: annual changes

Negative Reserves related to defined benefit plans totalled 334 thousand euros (of which the Group's amounted to 265 thousand euros and third parties' reserves amounted to 69 thousand euros).
At 31 December 2015, these Reserves were negative by 142 thousand euros (of which the Group's reserves were negative by 140 thousand euros and third parties' reserves were negative by 2 thousand euros).

Section 2 – Own funds and capital ratios

2.1 Scope of the regulations

The Regulatory Capital is determined based on the harmonised regulations for Banks and the Investment companies contained in the Regulation ("CRR") and in the EU Directive ("CRD IV") of 26 June 2013 which transfer to the European Union the standards defined by the Basel Committee on Banking Supervision (the so-called Basel 3).
In order to enact the regulations, the Bank of Italy issued, on 17 December 2013, Circular no. 285 "Prudential Supervision Provisions for Banks".

2.2 Banks' own funds

Own funds at 31 December 2016 amounted to 154,634 thousand euros (148,600 thousand euros at 31 December 2015), whereas the Total capital ratio stands at 30.1% (31.7% at 31 December 2015) versus the 8% minimum requirement set forth in the current regulations for Credit Institutions.
The Total capital ratio, like the CET1 ratio and the Tier1 ratio, widely exceed minimum capital requirements mandated for us by the Bank of Italy at the conclusion of the supervisory review and evaluation process (SREP) established by Directive 2013/36/EU (CRD IV).

A. Qualitative information

The own funds represent the first safeguard against the risks associated with overall bank activities and the main reference parameter for an assessment of the solidity of the bank.
They comprise the sum of:

Common Equity Tier 1 ("Common Equity Tier 1" or "CET1")	152,483	euros
Additional Tier 1 ("Additional Tier 1" or "AT1")	–	euros
Tier 2 ("Tier 2" or "T2")	2,151	euros

B. Quantitative information

		Total 31.12.2016	Total 31.12.2015
A.	**Common Equity Tier 1 ("Common Equity Tier 1" - "CET1") before the application of prudential filters**	**228,267**	**228,869**
	of which CET 1 instruments subject to transitional provisions	–	–
B.	**Prudential filters for CET 1 (+/-)**	–	–
C.	**CET 1 including deductions and the effects of the transitional regulations (A+/-B)**	**228,267**	**228,869**
D.	**Deductions from CET1**	**(83,717)**	**(93,685)**
E.	**Transitional regulations - Impact on CET 1 (+/-)**	**7,933**	**11,739**
F.	**Total Common Equity Tier 1 (Common Equity Tier 1 - CET1) (C - D+/-E)**	**152,483**	**146,923**
G.	**Additional Tier 1 (Additional Tier 1 - AT1) including deductions and the effects of the transitional regulations**	–	–
	of which AT 1 instruments subject to transitional provisions	–	–
H.	**Deductions from AT1**	–	–
I.	**Transitional regulations - Impact on AT 1 (+/-)**	–	–
L.	**Total Additional Tier 1 (Additional Tier 1 - AT1) (G-H +/-I)**	–	–
M.	**Tier 2 (Tier 2 - T2) including deductions and the effects of the transitional regulations**	–	–
	of which T2 instruments subject to transitional provisions	–	–
N.	**Deductions from T2**	–	–
O.	**Transitional regulations - Impact on T2 (+/-)**	**2,151**	**1,677**
P.	**Total Tier 2 (Tier 2 - T2) (M-N +/-O)**	**2,151**	**1,677**
Q.	**Total own funds (F+L+P)**	**154,634**	**148,600**

With reference to the transitional provisions applied to own funds, as set forth in Circular no. 285 issued by the Bank of Italy, the Group has adopted, starting on 1 January 2014 and until the full entry into force of the new accounting standard IFRS 9, the option of excluding from own funds the unrealised gains and losses pertaining to exposures to Central Administrations, classified among Financial assets available for sale.
IFRS 9 entered into force on 19 December 2016 (twentieth day following publication on the Official Journal of the European Union) and it shall be adopted no later than 1 January 2018. In light of the indications, the Bank of Italy with its notice of 26 January 2017, awaiting a formal clarification by the European authorities, prescribed that this option will continue to be applied to "less significant banks" such as Banca Finnat.

The impact of this sterilisation on Own Funds at 31 December 2016 was positive by 605 thousand euros and Own Funds would have amounted to 155,239 thousand euros.
At 31 December 2015, said impact was positive by 721 thousand euros and own funds would have amounted to 149,321 thousand euros.

2.3 Capital adequacy

A. Qualitative information

Italian banks must maintain a minimum CET 1 ratio of 4.5%, Tier 1 ratio of 6% and Total Capital Ratio of 8%.

As shown in the table on the breakdown of risk assets and on the capital ratios, the Group's CET 1 Capital Ratio and Tier 1 Capital Ratio are both equal to 29.7%, whilst its Total Capital Ratio is 30.1%. These parameters widely exceed minimum capital requirements mandated for us by the Bank of Italy at the conclusion of the supervisory review and evaluation process (SREP) established by Directive 2013/36/EU (CRD IV).

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 and counterparty risk				
1. Standard methodology	2,634,144	1,891,113	368,985	339,629
2. Methodology based on internal ratings				
2.1 Basic				
2.2 Advanced				
3. Securitisation	627	563	7,836	7,042
B. CAPITAL REQUIREMENTS FOR SUPERVISORY PURPOSES				
B.1 Credit and counterparty risk			30,146	27,734
B.2 Risk of adjustment of the credit measurement			2	1
B.3 Settlement risk				
B.4 Market risks			2,214	2,268
1. Standard methodology			2,214	2,268
2. Internal models				
3. Concentration risk				
B.5 Operating risk			8,757	7,467
1. Basic method			8,757	7,467
2. Standardised method			-	-
3. Advanced method				
B.6 Other calculation elements				
B7. Total prudential requirements			41,119	37,470
C. RISK ASSETS AND ADEQUACY RATIOS				
C.1 Risk-weighted assets			513,985	468,375
C.2 Common Equity Tier 1 /Weighted risk assets (CET1 capital ratio)			29.7%	31.4%
C.3 Tier 1 capital/Weighted risk assets (Tier 1 capital ratio)			29.7%	31.4%
C.4 Total own funds/Weighted risk assets (Total capital ratio)			30.1%	31.7%

Part G - Business combinations pertaining to entities or business units

Section 1 - Combinations completed during the year

No business combinations were completed during the year, as regulated by IFRS 3, which would have entailed the acquisition of control over businesses or legal entities.

Section 2 - Combinations completed after the end of the year

In the period spanning the end of the 2016 financial year and the date on which these financial statements were prepared, no business combinations regulated by IFRS 3 were carried out.

Part H – Related party transactions

In terms of related party transactions, the Bank has complied with the Regulations for related party transactions, approved by the Board of Directors on 2 August 2013.

For further information on related party transactions carried out during the financial year, please refer to the paragraph in the Report on Operations.

As required by IAS 24, information on related party transactions is provided below.

1. Information on remuneration of key executives

As a result of the latest amendments made by Consob to its resolution no. 11971 of 14 May 1999 for the aforesaid information, please refer to the “Report on Remuneration” prepared in accordance with Article 123-ter of the Italian Consolidated Financial Law and according to form 7-bis of Annexe 3A of the Issuers’ Regulation.

2. Information on transactions with related parties

The following table shows the assets, the liabilities and the guarantees and commitments at 31 December 2016 separately for different types of related parties under IAS 24.

BALANCE SHEET	Financial receivables (Payables)	Other receivables (Payables)	Sureties issued
ASSOCIATED COMPANIES			
Imprebanca S.p.A.	(140)	–	10
MANAGEMENT WITH STRATEGIC RESPONSIBILITIES AND COMPANY REPRESENTATIVES	**(2,326)**	**–**	**–**
OTHER RELATED PARTIES	**(1,868)**	**406**	**37**

Other Receivables (Payables) are included in the financial statement items "Other assets" and "Other liabilities".

With regard to associated companies, there are no income statement items above one thousand euros.

Part L – Segment Reporting

A – Primary reporting

For the purpose of identifying operating segments and establishing the figures to be allocated, the segment reporting of the Banca Finnat Group is based on its organisation and management structure, along with the internal auditing system used to support the management's operating decisions.

The Banca Finnat Group operates primarily in Italy, where it carries out conventional credit brokerage activities and provides asset management and administration services.

For IAS segment reporting purposes, the Group has adopted the "business approach", selecting as the primary representative base, for the breakdown of its balance sheet and income statement figures, the main business sectors through which it carries out its consolidated activities and which constitute the internal reporting segments used by the Management for allocating resources and analysing the related performances.

The segments identified for providing an operation-based description of the Group results, also defined on the basis of business representativeness/prevalence criteria, are:

- assets under management
- assets under administration
- trusteeship
- banking services holding and other.

Income statement calculation criteria by business segment

The calculation of before-tax profit by business segment is based on the following criteria:

- The Bank's interest margin also takes into account the figurative performance of the owned capital and has been reclassified in the "Banking Services Holding and Other" segment, while, as regards the other Group entities, the various differences between interest income and similar income and interest expense and similar expense have been allocated to the relevant Business Area, minus the consolidation adjustments.
- Net commissions have been identified through the direct allocation of the commission components to the various business segments.
- The dividends received by the Bank, minus the consolidation adjustments, have been reclassified in the "Banking Services Holding and Other"; while those received by the other Group companies were assigned on the basis of the type of business activities performed.
- The net income from trading activities generated by the Bank has been attributed to the business segment that generated effectively the profit; while the profit generated by the other Group entities has been allocated directly on the basis of the business activities performed.
- The Operating costs item represents an aggregate and includes Administrative expenses, Other operating income and expenses and Provisions for risks and charges. The expenses incurred by the Bank were apportioned according to a model that envisages the direct or indirect allocation of the costs to organisational services and, subsequently, their allocation through specific drivers to the business segments. The expenses incurred by subsidiaries, minus the intra-group entries, were directly allocated

to the segments on the basis of the business activities performed. Costs that cannot be reasonably allocated and residual costs were allocated to the "Banking Services Holding and Other" segment.
- The aggregate figure for value adjustments includes Value adjustments for impairment and Value adjustments on tangible and intangible assets due to the amortisation process. Items regarding non-divisionalised entities (single segment) were directly allocated based on the relevant business segment, while the Bank's divisionalised ones were indirectly allocated through suitable drivers.

Criteria for calculating the balance sheet aggregates by business segment

Balance sheet aggregates were calculated according to the matching concept, with costs/revenues allocated to the single segments.

In particular:
- Receivables from customers are the assets directly employed in the operating activities of the segment and directly attributable thereto.
- Payables to managed customers were reclassified in the "Assets under management" segment, the remaining payables were allocated to the "Banking Services Holding and Other" segment.

Assets/liabilities that cannot be reasonably attributed were allocated to the "Banking Services Holding and Other" segment.

Transactions between business segments

In each business segment, the revenues, costs, assets and liabilities are calculated before the intra-group balances and intra-group transactions are eliminated within the consolidation process. When intra-group transactions take place between entities belonging to the same business segment, the relevant balances are eliminated within the segment in question.

Consolidated aggregate income statement values by business segment

BUSINESS SEGMENTS	ASSETS UNDER MANAGEMENT	ASSET UNDER ADMINISTRATION	TRUSTEESHIP	BANKING SERVICES HOLDING AND OTHER	TOTAL
Interest margin	34	–	30	7,676	7,740
Net commissions	40,015	6,159	1,704	3,227	51,105
Dividends	–	–	–	3,003	3,003
Net income from trading activities	34	–	–	1,862	1,896
Profit (loss) from AFS acquisition	(175)	–	(35)	2,998	2,788
EARNINGS MARGIN	**39,908**	**6,159**	**1,699**	**18,766**	**66,532**
Operating costs	(25,162)	(5,035)	(2,339)	(13,164)	(45,700)
Net value adjustments for impairment of:					
- receivables	–	–	(62)	(123)	(185)
- available-for-sale financial assets	(4,124)	–	–	(1,533)	(5,657)
Profit from equity investments	–	–	–	375	375
PRE-TAX PROFIT	**10,622**	**1,124**	**(702)**	**4,321**	**15,365**

Consolidated aggregate balance sheet values by business segment

BUSINESS SEGMENTS	ASSETS UNDER MANAGEMENT	ASSET UNDER ADMINISTRATION	TRUSTEESHIP	BANKING SERVICES HOLDING AND OTHER	TOTAL
Financial assets	**2,848**	–	**3**	**1,212,584**	**1,215,435**
Due from customers	**25,233**	–	**513**	**310,019**	**335,765**
Due from banks	**7,394**	–	–	**163,334**	**170,728**
Due to customers	**82,883**	–	–	**1,413,436**	**1,496,319**
Due to banks	–	–	–	**1,203**	**1,203**
Outstanding securities	–	–	–	**23,825**	**23,825**
Financial liabilities	–	–	–	**10,772**	**10,772**

B – Secondary reporting

The distribution of balance sheet and income statement figures by geographical area is not shown, due to the fact that the Group operates almost exclusively in Italy.

Significant non-recurring operations and positions or transactions descending from atypical and/or unusual operations

Pursuant to the Consob Communication DEM/6064293 of 28 July 2006, it should be noted that:

- in 2016, no non-recurring events occurred or were carried out, meaning events or operations that do not usually take place, in connection with ordinary business operations;
- no atypical and/or unusual transactions took place during 2016, either within the Group or with related or third parties. Atypical and/or unusual transactions are those operations which, due to their magnitude/importance, to the nature of the counterparty, to the subject matter of the transaction and to the method for determining the transfer price and time frame (whether close to the year-end or not), may give rise to doubts as to: the accuracy/completeness of the information set out in the financial statements, any conflict of interest, the safeguarding of the company's net worth and the protection of minority interests.

The most significant Group transactions in the 2016 financial year are commented on in a special section of the Report on Operations.

Building a better working world

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INDEPENDENT AUDITORS' REPORT PURSUANT TO ARTICLES 14 AND 16 OF ITALIAN LEGISLATIVE DECREE NO. 39 OF 27 JANUARY 2010

To the Shareholders of Banca Finnat Euramerica S.p.A.

Report on the financial statements

We have audited the annexed financial statements of Banca Finnat Euramerica S.p.A., consisting of the balance sheet at 31 December 2016, the income statement and statement of comprehensive income, from the statement of changes in net equity, the cash flow statement for the year ending on said date and the related explanatory notes.

Responsibility of the Directors for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards adopted by the European Union and the measures implementing Art. 9 of Italian Legislative Decree no. 38 of 28 February 2005 and Art. 43 of Italian Legislative Decree no. 136 of 18 August 2015

Responsibility of the auditing company

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA Italy) established pursuant to Art. 11 of Italian Legislative Decree no. 39 of 27 January 2010. Said standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatements.

The 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 opinion, including the assessment of risks of significant material misstatements in the financial statements due to fraud or unintentional events. In making said risk assessments, the auditor considers internal control relevant to the preparation of the company's financial statements that give a true and fair view in order to design audit procedures appropriate to the circumstances and not to express an opinion on the effectiveness of the company's internal control. The audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the presentation of the financial statements as a whole.

We believe we have obtained sufficient appropriate audit evidence on which to base our opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the statement of assets and liabilities and financial position of Banca Finnat Euramerica group as at 31 December 2016, of the financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards adopted by the European Union and the measures implementing Art. 9 of Italian Legislative Decree no. 38 of 28 February 2005 and Art. 43 of Italian Legislative Decree no. 136 of 18 August 2015.

Report on other legal and regulatory provisions

Opinion on the consistency of the management report and the information contained in the report on corporate governance and ownership structure with the financial statements.

We have performed the procedures required under ISA (AS Italy) no. 720B in order to express, as required by law, an opinion on the consistency of the management report and the information in the report on corporate governance and ownership structure indicated in Art. 123-bis, Paragraph 4, of Italian Legislative Decree no. 58 of 24 February 1998, which is the responsibility of the Directors of Banca Finnat Euramerica S.p.A., with the consolidated financial statements of Banca Finnat Euramerica group as at 31 December 2016. In our opinion, the above-mentioned management report and the information in the report on corporate governance and ownership structures are consistent with the consolidated financial statements of Banca Finnat Euramerica group as at 31 December 2016.

Milan, 29 March 2017

EY S.p.A

Wassim Abou Said
(Partner)

CERTIFICATION OF THE CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO ARTICLE 81-TER OF CONSOB REGULATION NO. 11971 OF 14 MAY 1999 AS AMENDED

1. The undersigned Arturo Nattino, acting in the capacity of Managing Director, and Giulio Bastia, acting in the capacity of Manager in charge of preparing the accounting documents of Banca Finnat Euramerica S.p.A., hereby certify, also with regard to the provisions of Article 154-bis, paragraphs 3 and 4, of Italian Legislative Decree No. 58 of 24 February 1998:
   - the adequacy, as regards the characteristics of the company, and
   - the effective application

   of the administrative and accounting procedures for preparing the consolidated financial statements as at 31 December 2016.

2. No significant matters emerged, with respect thereto.

3. The undersigned also certify that:

   3.1. the consolidated Financial Statements:

   a. have been prepared in accordance with the applicable international accounting standards approved by the European Community, pursuant to Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002;
   b. correspond to the entries in the accounting books and records;
   c. provide a true and fair account of the equity, performance and financial situation of the issuing company and of the set of companies included in the consolidation.

   3.2. The report on operations includes a reliable analysis of the performance and operating income, as well as of the situation of the issuer and of the companies included in the consolidation, together with the description of the main risks and uncertainties to which they are exposed.

Rome, 10 March 2017

The Managing Director	**The Manager in charge of preparing the accounting documents**
(Arturo Nattino)	(Giulio Bastia)

ABSTRACT OF SHAREHOLDERS' GENERAL MEETING RESOLUTIONS

On 27 April 2017, the ordinary General Meeting of the shareholders of Banca Finnat Euramerica S.p.A.

with reference to item one on the agenda of the meeting, has approved:

i. the Directors' Report on the situation of the Group and the management's performance;

ii. the Balance Sheet, Income Statement and Notes to the financial statements at 31 December 2016 and related attachments of Banca Finnat Euramerica S.p.A., as presented by the Board of Directors, as a whole and based on the make-up of the single items;

iii. the allocation of the operating profit as follows:

operating profit	**3,990,100**	**euros**
– 5% to the legal reserve, appropriated in accordance with the law and the articles of association,	199,505	euros
– to the 362,880.000 ordinary shares a gross dividend of 0.010 euro per share equal to 5% of the nominal value of the shares	3,628,800	euros
(pursuant to art. 2357 ter of the Civil Code, the profit due to the treasury shares held at the date of payment of the dividend shall be proportionally assigned to the other shares)		
– to the extraordinary reserve	161,795	euros
Total	**3,990,100**	**euros**

Pursuant to art. 1 of D.M. 2 April 2008, the dividend referred to in this proposal, and exclusively for tax measurement purposes, is assumed to be made up of the profit produced in the financial periods prior to 31 December 2007, having determined the existence of adequate reserves formed with the profit generated produced up until the financial period under way at that date.

Furthermore, the above mentioned appropriation of the operating profit conforms to article 6 of Legislative Decree 38/2005.

Finally, the following should also be noted: (i) the ordinary general meeting of shareholders held on 29 April 2016 had decided to authorise the purchase of treasury shares, for a maximum amount of 2,177,280 euros, at the same time setting up a "Reserve for purchasing treasury shares" for the same amount; (ii) the above mentioned treasury share purchase plan, however, was never carried out.

This having been said, please note that the financial statements approved here no longer feature the said "Reserve for purchasing treasury shares", the relevant amount having been recognised to the "Extraordinary Reserve".

Therefore, the General Meeting is therefore required to ratify and approve the transfer of the "Reserve for purchasing treasury shares" – totalling 2,177,280 euros – to the "Extraordinary Reserve".

With reference to item two on the agenda, has approved:

i. the membership of the Board of Directors as composed of 11 (eleven) members;

ii. the appointment to the position of Director, for the entire remaining term of the Board of Directors, scheduled to expire on 31 December 2017, following the approval of the financial statements at that date, Mr. Marco Tofanelli, born in Rome on 22 August 1962, tax identification no. TFNMRC62M22H501T

With reference to item three on the agenda, has approved:

i. to revoke the resolution passed by the ordinary general meeting on 29 April 2016, with reference to item three on the agenda relating to the determination of the annual gross remuneration of 85,000 euros to the Deputy President, in addition to the annual gross remuneration – pro rata temporis – of 10,000.00 euros, as a member of the Board of Directors;

ii. to revoke the resolution passed by the ordinary general meeting on 29 April 2016, with reference to item three on the agenda relating to the determination of the annual gross remuneration of 230,000 euros to the President;

iii. to establish the annual gross remuneration – pro rata temporis – of 50,000.00 euros to the Chairperson of the Board of Directors, in addition to the annual gross remuneration – pro rata temporis – of 10,000.00 euros, as a member of the Board of Directors;

iv. to confirm, as far as necessary, the other resolutions approved by the ordinary general meeting held on 29 April 2016, with reference to item three on the agenda.

With reference to item four on the agenda, has approved:

i. to approve the remuneration policy of Banca Finnat Euramerica S.p.A., as illustrated;

i. to vest the Board of Directors with the authority to sub-delegate the CEO to implement the said policy, also by taking into account any requests made by the Supervisory Authority on the matter."

Rome, 27 April 2017

DESIGN BY

Ape Communication Srl

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Share capital	Euro 72,576,000 (fully paid-up)	Telephone	+39 06 69933.1
Headquarters	00186 Rome – Palazzo Altieri - Piazza del Gesu', 49	Fax	+39 06 6791984
REA Reg. No.	444286	Website	www.bancafinnat.it
Tax Identification No.	00168220069	Email	banca@finnat.it
VAT Registration No.	00856091004	Investor Relations	investor.relator@finnat.it

The Company is listed on the official market and its shares are admitted to trading on the STAR segment.
The above data refer to the Parent Company Banca Finnat Euramerica S.p.A.

www.bancafinnat.it