

ALWAYS INVESTING IN THE MOST
ADVANCED TECHNOLOGY
WE KNOW.
PEOPLE.



FINECO. SIMPLIFYING BANKING.

In 2016 Annual Report, FinecoBank still confirms its approach to Banking providing customers with advanced but easy to use products and services, able to meet their needs, even the most sophisticated.

Our mission is to simplify our customers' lives and anticipate the trends of our world, offering products and services with a strong technological touch and designed on a fair and transparent approach.

Everyday Fineco strives to propose solutions aimed to make our customers' experience even more satisfying, responding efficiently to their needs of proper and efficient management of their savings in order to make them achieve their life goals and also reach new challenges.

FINECO

B A N K

IT'S THE MOST RECOMMENDED BANK IN THE WORLD.

Thanks to one million
customers talking about us.

BCG

THE BOSTON CONSULTING GROUP

A 2015 Report of The Boston Consulting Group
awards Fineco as the most recommended bank
in the world through word of mouth

FINECO. SIMPLIFYING BANKING.

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99%
CUSTOMER
SATISFACTION.

Simplifying our customers' life is our mission. Numbers confirm we're on the right way: 99% of customers are satisfied with Fineco and suggest it to family and friends.

Data source: TNS Infratest 2015 survey.

FINECO. SIMPLIFYING BANKING.

Board of Directors, Board of Statutory Auditors and External Auditors

Board of Directors

Enrico Cotta Ramusino

Chairman

Francesco Saita

Vice Chairman

Alessandro Foti

**Chief Executive Officer
and General Manager**

Gianluigi Bertolli

Directors

Girolamo Ielo

Laura Stefania Penna

Mariangela Grosoli

Manuela D'Onofrio

Pietro Angelo Guindani

Board of Statutory Auditors

Gian-Carlo Noris Gaccioli

Chairman

Barbara Aloisi

Standing Auditors

Marziano Viozzi

Federica Bonato

Alternate Auditors

Marzio Duilio Rubagotti

Deloitte & Touche S.p.A.

External Auditors

Lorena Pellicciari

**Nominated Official in charge of
drawing up company accounts**

On October 28, 2016, the Director Ms. Marina Natale submitted her resignation from the office. On November 8, 2016, the Board of Directors of the Bank co-opted Ms. Manuela D'Onofrio, until the next available Shareholders' Meeting, as the new Board Director to replace the resigning Ms. Marina Natale.

Registered office

20131 Milan - Piazza Durante, 11

"FinecoBank Banca Fineco S.p.A."

in abbreviated form "FinecoBank S.p.A.", or "Banca Fineco S.p.A." or

"Fineco Banca S.p.A."

Company controlled by UniCredit S.p.A., Gruppo Bancario UniCredit,
Register of Banking Groups no. 2008.1, Member of the National Guarantee
Fund and National Interbank Deposit Guarantee Fund, Italian Banking
Association Code 03015, Tax Code and Milan Company Register no.
01392970404 – R.E.A. (Economic and Administrative Index) no. 1598155,
VAT No. 12962340159

OVER

1

**MILLION
CUSTOMERS**

**A MILLION
THANKS**

FINECO. SIMPLIFYING BANKING.

Introduction to the Annual Report and Accounts

In implementation of Legislative Decree no. 38 of February 28, 2005, these Accounts of FinecoBank Banca Fineco S.p.A. as at December 31, 2016 (below FinecoBank or Fineco) have been prepared in accordance with the IAS/IFRS issued by the International Accounting Standards Board (IASB), including the SIC and IFRIC interpretation documents, as endorsed by the European Commission until December 31, 2016, pursuant to EU Regulation 1606/2002 of July 19, 2002 and applicable to financial reports for the periods starting on January 1, 2016.

In its circular 262 of December 22, 2005 as amended, the Bank of Italy laid down the formats for the financial statements and explanatory notes to the accounts of banks and regulated financial companies that are parents of banking groups, which have been used to prepare these Accounts.

The Annual Report and Accounts includes:

- the **Financial Statements** comprise the Balance Sheet, the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Shareholders' Equity, the Cash Flow Statement, presented with a comparison to those of 2015;
- the **Notes to the Accounts**.

It is accompanied by:

- the **Report on Operations**, which includes the condensed accounts, the main results of the various business areas, and comments on the results for the period;
- the Certification of the Annual Financial Statements pursuant to Article 81 -ter of Consob Regulation no. 11971 of May 14, 1999 and subsequent amendments.

The annual report also includes:

- the Report of the Board of Statutory Auditors
- the Report of the External Auditors.

As of January 1, 2016, within the securities lending transactions collateralised by cash, the income component connected to the service provided (received) for the provision of the securities is recognised under fee and commission income (expense), whereas it was previously in interest income (expense). The corresponding figures for the previous year have been restated to enable like-for-like comparison.

Any lack of correspondence between the figures shown in the Report on operations and Financial Statements is solely due to roundings.



ADVISORY TAILOR-MADE

FINECO. SIMPLIFYING BANKING.

Report on Operations

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Summary data

FinecoBank is the direct, multi-channel Bank of the UniCredit Group, with one of the largest advisory networks in Italy. It is the leading bank in Italy for equity trades in terms of volume of orders and the top online broker in Europe for number of orders executed.

The Bank offers an integrated business model combining direct banking and financial advice, with a single free-of-charge account including a full range of banking, credit, trading and investment services, which are also available through applications for smartphone and tablet. To complete the offering, from the end of November 2016, and in line with the “One-Stop Solution” model, through which all customer financial needs can be managed through a single account, the range of loan products was extended with the launch of the new mortgage loans. The mortgage offering is aimed at retail customers to finance the purchase of first or second homes or subrogations, for the transfer to Fineco of existing mortgages held at other banks.

With its fully integrated platform, FinecoBank is the benchmark for modern investors and is able to satisfy all the financial needs of its customers.

In 2016, total financial assets (direct and indirect) amounted to €60,195 million, up 8.8% on €55,327 million at the end of 2015. The Bank continued its process of redirecting its Total Financial Assets (TFA) towards higher value-added products and services, in an environment of continued strong sales. In detail, the Bank recorded total net sales of €5,036 million (-8.3% compared to the same period in 2015), while net sales through the PFA network came to €4,338 million (-12.2%). There was also an increase in the sales of Guided Products & Services, of €3,877 million, with a consequent rise in its proportion of total Assets under Management up to 56.4% compared to 45% at the end of December 2015.

During the year 109,715 new customers were acquired, bringing the total to 1,117,876.

Net profit for the year 2016 amounted to €211.8 million, an increase of 10.9% over the prior year. The cost/income ratio fell to 40.49% compared to 42.72% for the previous year, confirming the Bank's excellent operating leverage.

The results for 2016 confirmed the Bank's solidity and the strength of its highly balanced and diversified business model, capable of fully capturing the structural trends in Italian society, such as the growing demand for advisory services and digitisation.

The Bank's offering is split into the following three areas of activity: (i) banking: including current account and deposit services, payment services, and issuing debit, credit and prepaid cards, mortgages and personal loans; (ii) brokerage: providing order execution services on behalf of customers, with direct access to major global equity markets and the ability to trade CFDs (on currencies, indices, shares, bonds and commodities), futures, options, bonds, ETFs and certificates; (iii) investing: including placement and distribution services of more than 6,000 products, including mutual funds and SICAV sub-funds managed by 70 leading Italian and international investment firms, insurance and pension products, as well as consulting services in the investment field.

Since April 1, 2016, FinecoBank has been listed on the Borsa Italiana FTSE MIB, a fundamental step in the Bank's process of growth and a significant milestone confirming the appreciation of a diversified business model, capable of meeting the increasingly complex needs of modern investors.

The listing on the FTSE MIB also provides greater visibility towards an increasingly vast audience of international investors, to support the Bank's development. This result represents an additional springboard for the Bank's growth.

Summary data (CONTINUED)

Condensed Accounts

Balance Sheet

(Amounts in € thousand)

ASSETS	AMOUNTS AS AT		CHANGES	
	12.31.2016	12.31.2015	AMOUNT	%
Cash and cash balances	5	6	(1)	-16.7%
Financial assets held for trading	6,044	3,983	2,061	51.7%
Loans and receivables with banks	15,735,540	14,648,904	1,086,636	7.4%
Loans and receivables with customers	1,016,798	922,774	94,024	10.2%
Financial investments	3,757,529	2,245,982	1,511,547	67.3%
Hedging instruments	9,211	10,573	(1,362)	-12.9%
Property, plant and equipment	14,451	12,419	2,032	16.4%
Goodwill	89,602	89,602	-	-
Other intangible assets	7,731	8,212	(481)	-5.9%
Tax assets	13,165	15,424	(2,259)	-14.6%
Other assets	336,300	370,070	(33,770)	-9.1%
Total assets	20,986,376	18,327,949	2,658,427	14.5%

(Amounts in € thousand)

LIABILITIES AND SHAREHOLDERS' EQUITY	AMOUNTS AS AT		CHANGES	
	12.31.2016	12.31.2015	AMOUNT	%
Deposits from banks	1,111,106	1,423,459	(312,353)	-21.9%
Deposits from customers	18,801,073	15,822,459	2,978,614	18.8%
Financial liabilities held for trading	2,626	4,100	(1,474)	-36.0%
Hedging instruments	11,371	31,319	(19,948)	-63.7%
Provisions for risks and charges	111,756	120,534	(8,778)	-7.3%
Tax liabilities	10,048	37,445	(27,397)	-73.2%
Other liabilities	257,097	255,835	1,262	0.5%
Shareholders' Equity	681,299	632,798	48,501	7.7%
- capital and reserves	476,249	430,119	46,130	10.7%
- revaluation reserves (available-for-sale financial assets and actuarial gains (losses) for defined benefits plans)	(6,794)	11,626	(18,420)	-158.4%
- net profit (loss)	211,844	191,053	20,791	10.9%
Total liabilities and shareholders' equity	20,986,376	18,327,949	2,658,427	14.5%

Balance Sheet - Quarterly data

(Amounts in € thousand)

ASSETS	AMOUNTS AS AT				
	12.31.2016	09.30.2016	06.30.2016	03.31.2016	12.31.2015
Cash and cash balances	5	8	11	7	6
Financial assets held for trading	6,044	5,547	6,879	6,996	3,983
Loans and receivables with banks	15,735,540	14,441,864	15,299,291	15,404,458	14,648,904
Loans and receivables with customers	1,016,798	971,888	880,232	827,395	922,774
Financial investments	3,757,529	3,586,682	2,926,175	2,622,251	2,245,982
Hedging instruments	9,211	7,559	9,018	6,682	10,573
Property, plant and equipment	14,451	14,366	13,896	13,471	12,419
Goodwill	89,602	89,602	89,602	89,602	89,602
Other intangible assets	7,731	7,557	7,608	7,691	8,212
Tax assets	13,165	5,578	5,880	11,775	15,424
Other assets	336,300	321,867	322,264	274,182	370,070
Total assets	20,986,376	19,452,518	19,560,856	19,264,510	18,327,949

(Amounts in € thousand)

LIABILITIES AND SHAREHOLDERS' EQUITY	AMOUNTS AS AT				
	12.31.2016	09.30.2016	06.30.2016	03.31.2016	12.31.2015
Deposits from banks	1,111,106	1,139,241	1,361,666	1,503,755	1,423,459
Deposits from customers	18,801,073	17,249,625	17,133,049	16,693,126	15,822,459
Financial liabilities held for trading	2,626	4,822	6,300	4,218	4,100
Hedging instruments	11,371	15,304	17,657	20,441	31,319
Provisions for risks and charges	111,756	117,360	119,258	120,515	120,534
Tax liabilities	10,048	47,409	23,046	62,222	37,445
Other liabilities	257,097	222,813	296,926	167,984	255,835
Shareholders' Equity	681,299	655,944	602,954	692,249	632,798
- capital and reserves	476,249	474,255	471,789	624,119	430,119
- revaluation reserves (available-for-sale financial assets and actuarial gains (losses) for defined benefits plans)	(6,794)	19,316	13,383	16,908	11,626
- net profit (loss)	211,844	162,373	117,782	51,222	191,053
Total liabilities and shareholders' equity	20,986,376	19,452,518	19,560,856	19,264,510	18,327,949

Summary data (CONTINUED)

Income Statement

(Amounts in € thousand)

	YEAR		CHANGES	
	2016	2015	AMOUNT	%
Net interest	249,388	240,762	8,626	3.6%
Dividends and other income from equity investments	6	-	6	n.c.
Net fee and commission income	242,881	252,610	(9,729)	-3.9%
Net trading, hedging and fair value income	69,054	53,867	15,187	28.2%
Net other expenses/income	(2,211)	(2,974)	763	-25.7%
OPERATING INCOME	559,118	544,265	14,853	2.7%
Staff expenses	(73,698)	(75,049)	1,351	-1.8%
Other administrative expenses	(228,119)	(232,870)	4,751	-2.0%
Recovery of expenses	85,395	84,347	1,048	1.2%
Impairment/write-backs on intangible and tangible assets	(9,952)	(8,951)	(1,001)	11.2%
Operating costs	(226,374)	(232,523)	6,149	-2.6%
OPERATING PROFIT (LOSS)	332,744	311,742	21,002	6.7%
Net write-downs of loans and provisions for guarantees and commitments	(4,199)	(6,706)	2,507	-37.4%
NET OPERATING PROFIT (LOSS)	328,545	305,036	23,509	7.7%
Provisions for risks and charges	(9,981)	(15,714)	5,733	-36.5%
Integration costs	(5,503)	(1,246)	(4,257)	341.7%
Net income from investments	(6,724)	(1)	(6,723)	n.c.
NET PROFIT (LOSS) BEFORE TAX FROM CONTINUING OPERATIONS	306,337	288,075	18,262	6.3%
Income tax for the year	(94,493)	(97,022)	2,529	-2.6%
NET PROFIT (LOSS) AFTER TAX FROM CONTINUING OPERATIONS	211,844	191,053	20,791	10.9%
NET PROFIT (LOSS) FOR THE YEAR	211,844	191,053	20,791	10.9%

Income statement - Quarterly data

(Amounts in € thousand)

	2016			
	4 TH QUARTER	3 RD QUARTER	2 ND QUARTER	1 ST QUARTER
Net interest	63,412	62,527	61,200	62,249
Dividends and other income from equity investments	6	-	-	-
Net fee and commission income	65,786	59,274	59,660	58,161
Net trading, hedging and fair value income	11,343	10,785	27,281	19,645
Net other expenses/income	(2,176)	(793)	669	89
OPERATING INCOME	138,371	131,793	148,810	140,144
Staff expenses	(16,633)	(19,349)	(19,003)	(18,713)
Other administrative expenses	(57,254)	(53,141)	(57,169)	(60,555)
Recovery of expenses	21,311	21,747	21,107	21,230
Impairment/write-backs on intangible and tangible assets	(2,733)	(2,610)	(2,436)	(2,173)
Operating costs	(55,309)	(53,353)	(57,501)	(60,211)
OPERATING PROFIT (LOSS)	83,062	78,440	91,309	79,933
Net write-downs of loans and provisions for guarantees and commitments	(678)	(720)	(1,361)	(1,440)
NET OPERATING PROFIT (LOSS)	82,384	77,720	89,948	78,493
Provisions for risks and charges	3,914	(11,342)	(1,114)	(1,439)
Integration costs	(5,493)	(3)	(4)	(3)
Net income from investments	(6,724)	-	-	-
NET PROFIT (LOSS) BEFORE TAX FROM CONTINUING OPERATIONS	74,081	66,375	88,830	77,051
Income tax for the period	(24,610)	(21,784)	(22,270)	(25,829)
NET PROFIT (LOSS) AFTER TAX FROM CONTINUING OPERATIONS	49,471	44,591	66,560	51,222
NET PROFIT (LOSS) FOR THE PERIOD	49,471	44,591	66,560	51,222

Summary data (CONTINUED)

(Amounts in € thousand)

	2015			
	4 TH QUARTER	3 RD QUARTER	2 ND QUARTER	1 ST QUARTER
Net interest	62,142	62,876	59,254	56,490
Net fee and commission income	63,591	62,030	64,212	62,777
Net trading, hedging and fair value income	12,587	13,207	11,014	17,059
Net other expenses/income	(1,486)	1,601	(3,447)	358
OPERATING INCOME	136,834	139,714	131,033	136,684
Staff expenses	(18,883)	(18,984)	(18,797)	(18,385)
Other administrative expenses	(59,238)	(53,097)	(60,134)	(60,401)
Recovery of expenses	21,728	20,231	21,376	21,012
Impairment/write-backs on intangible and tangible assets	(2,550)	(2,211)	(2,163)	(2,027)
Operating costs	(58,943)	(54,061)	(59,718)	(59,801)
OPERATING PROFIT (LOSS)	77,891	85,653	71,315	76,883
Net write-downs of loans and provisions for guarantees and commitments	(2,576)	(1,436)	(1,111)	(1,583)
NET OPERATING PROFIT (LOSS)	75,315	84,217	70,204	75,300
Net provisions for risks and charges	(10,474)	(1,311)	(814)	(3,115)
Integration costs	(1,246)	-	-	-
Net income from investments	(1)	-	-	-
NET PROFIT (LOSS) BEFORE TAX FROM CONTINUING OPERATIONS	63,594	82,906	69,390	72,185
Income tax for the period	(21,373)	(27,778)	(23,468)	(24,403)
NET PROFIT (LOSS) AFTER TAX FROM CONTINUING OPERATIONS	42,221	55,128	45,922	47,782
PROFIT (LOSS) FOR THE YEAR	42,221	55,128	45,922	47,782

Main balance sheet figures

(Amounts in € thousand)

	AMOUNTS AS AT		CHANGES	
	12.31.2016	12.31.2015	AMOUNT	%
Loans ⁽¹⁾	813,589	614,000	199,589	32.5%
Total assets	20,986,376	18,327,949	2,658,427	14.5%
Direct deposits ⁽²⁾	18,509,497	15,630,645	2,878,852	18.4%
Assets under administration ⁽³⁾	41,685,609	39,696,024	1,989,585	5.0%
Total financial assets (direct and indirect)	60,195,106	55,326,669	4,868,437	8.8%
Shareholders' equity	681,299	632,798	48,501	7.7%

(1) Loans refer solely to loans granted to customers (current account overdrafts, credit cards, personal loans, mortgages and unsecured loans);

(2) Direct deposits include overdrawn current accounts, Supersave repos and the Cash Park deposit account;

(3) Assets under administration consist of products placed online or through the sales networks of FinecoBank

Key figures

Operating Structure

	FIGURES AS AT	
	12.31.2016	12.31.2015
No. of Employees	1,086	1,059
No. Workers ⁽¹⁾	1,096	1,067
No. Personal financial advisors	2,628	2,622
No. Financial shops ⁽²⁾	358	343

(1) Number of workers: includes permanent employees, atypical employees, Directors and Group employees seconded to FinecoBank, net of FinecoBank employees seconded to the Group.

(2) Number of operating financial

Profitability, productivity and efficiency ratios

(Amounts in € thousand)

	FIGURES AS AT	
	12.31.2016	12.31.2015
Net interest/Operating income	44.60%	44.24%
Income from brokerage and other income/Operating income	55.40%	55.76%
Income from brokerage and other income/Operating costs	136.82%	130.53%
Cost/income ratio	40.49%	42.72%
Operating costs/TFA	0.39%	0.44%
Cost of risk	43 bp	83 bp
Adjusted cost of risk	43 bp	52 bp
ROE	43.07%	42.72%
Return on assets	1.01%	1.04%
EVA	190.093	167.890
RARORAC	55.51%	57.25%
ROAC	64.27%	65.86%
Total customer sales/Average employees	55.659	52.970
Total customer sales/(Average employees + average PFAs)	16.240	15.275

Key

Income from brokerage and other income: Net fee and commission income, Net trading, hedging and fair value income and Net other expenses/income.

Cost/income ratio: Operating Costs divided by Operating Income.

Operating costs/TFA: ratio of operating costs to Total Financial Assets. The TFA used for the ratio is the average for the period, calculated as the average between the period-end balance and the balance as at the previous December 31.

Cost of risk: is the ratio of Net write-downs of loans and provisions for guarantees and commitments to Loans and receivables with customers (average of the balance at period end and the balance at December 31 of the previous year). The methods of calculation for this indicator have been changed starting from the year 2016 and the relevant indicators at December 31, 2015 have been restated for comparative purposes. The cost of risk has been calculated by excluding the write-downs applied to exposures to customers, who made a loss on leveraged Forex positions due to the extraordinary drop in the value of the Euro versus the Swiss Franc on January 15, 2015, of €2.5 million, from the net write-downs of loans and provisions for guarantees and commitments as at December 31, 2015.

ROE: the denominator used to calculate this ratio is the average book shareholders' equity for the period (excluding dividends and any donations expected to be distributed and the revaluation reserves).

Return on assets: ratio of net profit after tax to total assets.

EVA (Economic Value Added): shows the firm's ability to create value; calculated as the difference between net operating profit and the figurative cost of the allocated capital.

RARORAC (Risk adjusted Return on Risk adjusted Capital): which is the ratio between EVA and Allocated/Absorbed Capital and expresses, in percentage, the capacity to create value for unit of risk taken.

ROAC (Return on Allocated Capital): is the ratio of Net Operating Profit and Allocated Capital. Allocated Capital means the greater of internally calculated capital based on shared UniCredit Group models (Economic Capital) and regulatory capital.

For the calculation of EVA, RARORAC and ROAC indicators as at December 31, 2016, internal capital is that as at September 30, 2016, the latest available provided by the Parent Company.

Key figures (CONTINUED)

Balance Sheet indicators

	FIGURES AS AT	
	12.31.2016	12.31.2015
Loans/Total assets	3.88%	3.35%
Loans and receivables with banks/Total assets	74.98%	79.93%
Financial assets/Total assets	17.93%	12.28%
Direct sales/Total liabilities and Shareholders' equity	88.20%	85.28%
Shareholders' equity (including profit)/Total liabilities and Shareholders' equity	3.25%	3.45%
Loans/Direct deposits	4.40%	3.93%

CREDIT QUALITY	FIGURES AS AT	
	12.31.2016	12.31.2015
Impaired loans/Loans	0.45%	0.79%
Non-performing loans/Loans	0.33%	0.57%
Coverage ⁽¹⁾ - Non-performing loans	86.23%	83.96%
Coverage ⁽¹⁾ - Unlikely to pay	79.07%	63.59%
Coverage ⁽¹⁾ - Impaired past-due exposures	47.08%	51.21%
Coverage ⁽¹⁾ - Total impaired loans	83.64%	80.64%

(1) Calculated as the ratio between the amount of impairment losses and gross exposure.

Own funds and capital ratios

	FIGURES AS AT	
	12.31.2016	12.31.2015
Total own funds (€ thousand)	438,121	393,903
Total risk-weighted assets (€ thousand)	1,909,713	1,828,007
Ratio - Common Equity Tier 1 Capital	22.94%	21.39%
Ratio - Tier 1 Capital	22.94%	21.39%
Ratio - Total Own Funds	22.94%	21.55%

	FIGURES AS AT	
	12.31.2016	12.31.2015
Tier 1 Capital (€ thousand)	438,121	390,977
Exposure for leverage (€ thousand)	5,302,244	3,717,157
Transitional leverage ratio	8.26%	10.52%

Own funds and capital ratios were determined applying the current Supervisory Regulations, in line with Basel III standards, including transitional adjustments. The figures shown include the profit for the year 2016 that will not be distributed, assuming the conditions established Article 26.2 of the EU Regulation 575/2013 (CRR) are satisfied.

The leverage ratio was calculated in accordance with EU Delegated

Regulation 2015/62 of October 10, 2014. As required by Circular No. 285 of the Bank of Italy, Part Two, Chapter 12, Section III Exercise of national discretion, exposures to the UniCredit Group companies based in Italy and weighted at 0% pursuant to Article 113, par. 6 of the CRR have not been included in the calculation of total exposure, in accordance with Article 429 (7) of the CRR amended by the Delegated Regulation (EU) 2015/62.

Market share

TRADING ON ITALIAN STOCK MARKET (ASSOSIM)	12.31.2016	12.31.2015
Third party volumes traded on MTA	19.79%	20.84%
Classification of third party volumes traded on MTA	1°	1°

PERSONAL FINANCIAL ADVISERS NETWORK (ASSORETI)	12.31.2016	12.31.2015
Stock reclassification	3°	3°

PERSONAL FINANCIAL ADVISERS NETWORK (ASSORETI)	12.31.2016	12.31.2015
Net sales classification	4°	2°

TOTAL DEPOSITS (BANK OF ITALY)	30.09.2016	12.31.2015
Market share - Total Financial Assets	1.46%	1.43%
Market share - Direct Deposits	1.20%	1.12%
Market share - Assets under Administration	1.63%	1.64%

The figures for "Total financial assets" (Bank of Italy) refer to September 30, 2016, the latest figures available.

Business performance

Performance of total financial assets

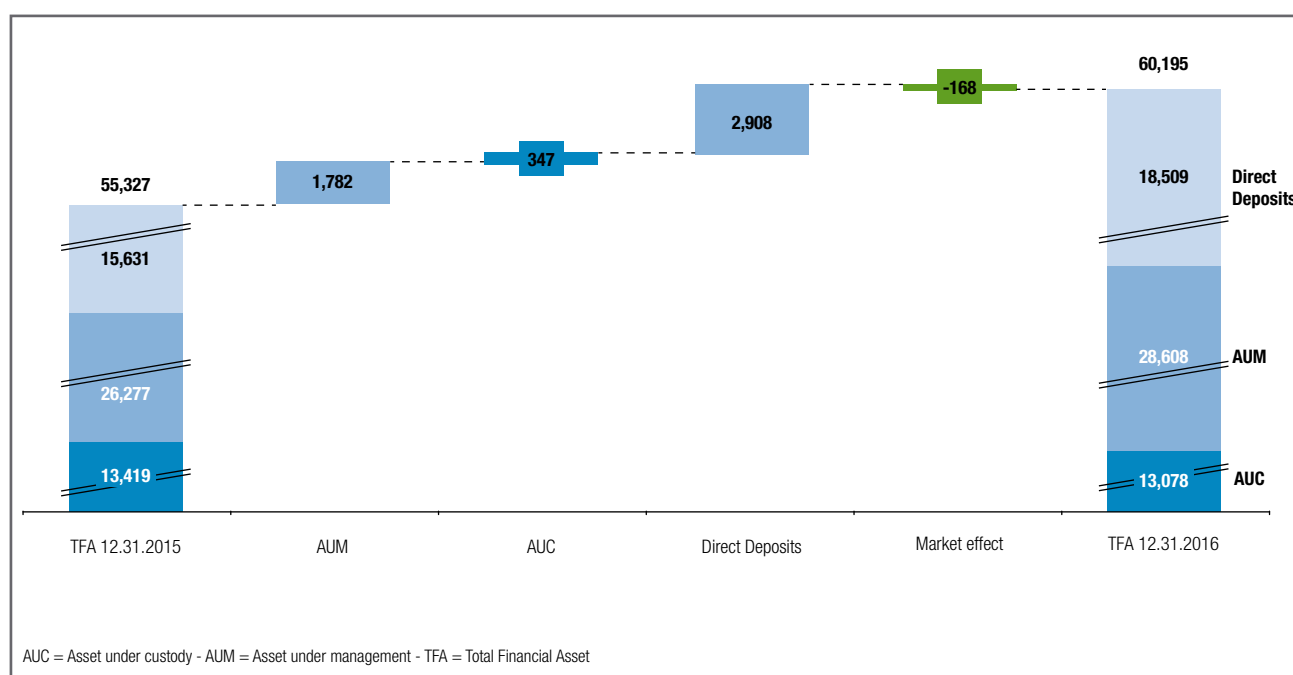
Direct deposits showed growth of 18.4% completed the end of the previous year, to reach €18,509 million and confirming the high level of appreciation of the quality of the services.

Direct deposits mainly consist of “transactional” deposits, supporting all customer transactions, whose growth confirmed the high and increasing degree of customer loyalty, which in turn contributes to improving the quality and stability of direct sales.

Assets under administration (Assets under Management-AUM plus

Assets under Custody-AUC) came to €41,686 million, representing an increase of 5% on December 31, 2015.

Total financial assets (direct and indirect) thus reached €60,195 million, up 8.8% compared to the end of 2015, thanks to net sales of €5,036 million. The steady growth and continued improvement in the quality of sales was reflected in the growth of guided products & services¹, which continued to increase as a percentage of the TFA, up from 21.4% as at December 31, 2015 to 26.8% as at December 31, 2016, and of Assets under Management, up from 45.01% as at December 31, 2015 to 56.4% as at December 31, 2016.



The table below shows the figures for the balance of direct deposits, assets under management and assets under custody of the Bank's customers, including both those linked to a personal financial advisor and those operating through the online channel.

Total financial assets

(Amounts in € thousand)

	AMOUNTS AS AT		AMOUNTS AS AT		CHANGES	
	12.31.2016	%	12.31.2015	%	AMOUNT	%
Current accounts and demand deposits	18,296,238	30.4%	14,985,438	27.1%	3,310,800	22.1%
Time deposits and reverse repos	213,259	0.4%	645,207	1.2%	(431,948)	-66.9%
DIRECT DEPOSITS	18,509,497	30.7%	15,630,645	28.3%	2,878,852	18.4%
Segregated accounts	10,882	0.0%	14,112	0.0%	(3,230)	-22.9%
UCITS and other investment funds	24,257,876	40.3%	23,100,072	41.8%	1,157,804	5.0%
Insurance products	4,339,162	7.2%	3,163,241	5.7%	1,175,921	37.2%
ASSETS UNDER MANAGEMENT	28,607,920	47.5%	26,277,425	47.5%	2,330,495	8.9%
Government securities, bonds and stocks	13,077,689	21.7%	13,418,599	24.3%	(340,910)	-2.5%
ASSETS UNDER CUSTODY	13,077,689	21.7%	13,418,599	24.3%	(340,910)	-2.5%
TOTAL FINANCIAL ASSETS	60,195,106	100.0%	55,326,669	100.0%	4,868,437	8.8%
of which Guided products & services	16,135,018	26.8%	11,828,072	21.4%	4,306,946	36.4%

1. Respectively, the Bank's products and/or services developed by investing in UCITs selected from among those distributed for each asset class taking into account customers' different risk profiles and offered to the Bank's customers under the guided open architecture model. At the date of this report, the guided products category included the "Core Series" umbrella fund of funds and the "Core Unit", "Advice Unit", "Core Multiramo" and "Advice Top Valor", unit-linked policies, while the "Fineco Advice" and "Fineco Stars" advanced advisory services (for investment) fall under the guided service category.

Business performance (CONTINUED)

The table below shows the figures for direct deposits, assets under management and assets under custody solely for the personal financial advisors network. Total financial assets, amounting to €51,434 million, increased by 9.5% compared to December 31, 2015.

Total financial assets - Personal Financial Advisors Network - Assoreti figures

(Amounts in € thousand)

	AMOUNTS AS AT		AMOUNTS AS AT		CHANGES	
	12.31.2016	%	12.31.2015	%	AMOUNT	%
Current accounts and demand deposits	13,442,242	26.1%	10,898,766	23.2%	2,543,476	23.3%
Time deposits and reverse repos	150,773	0.3%	438,741	0.9%	(287,968)	-65.6%
DIRECT DEPOSITS	13,593,015	26.4%	11,337,507	24.1%	2,255,508	19.9%
Segregated accounts	10,882	0.0%	14,112	0.0%	(3,230)	-22.9%
UCITS and other investment funds	23,843,218	46.4%	22,663,576	48.3%	1,179,642	5.2%
Insurance products	4,251,107	8.3%	3,070,003	6.5%	1,181,104	38.5%
ASSETS UNDER MANAGEMENT	28,105,207	54.6%	25,747,691	54.8%	2,357,516	9.2%
Government securities, bonds and stocks	9,736,101	18.9%	9,866,169	21.0%	(130,068)	-1.3%
ASSETS UNDER CUSTODY	9,736,101	18.9%	9,866,169	21.0%	(130,068)	-1.3%
TOTAL FINANCIAL ASSETS	51,434,323	100.0%	46,951,367	100.0%	4,482,956	9.5%
of which Guided products & services	16,104,815	31.3%	11,805,963	25.1%	4,298,852	36.4%

The table below shows the figures for direct deposits, assets under management and assets under custody for 2016 compared with the same period of the previous year, for both customers linked to a personal financial advisor and online-only customers.

Net sales came to €5,036 million, with a heavy concentration in direct deposits and assets under management.

Net sales

(Amounts in € thousand)

	YEAR 2016		YEAR 2015		CHANGES	
	AMOUNT	%	AMOUNT	%	AMOUNT	%
Current accounts and demand deposits	3,342,566	66.4%	2,738,356	49.9%	604,210	22.1%
Time deposits and reverse repos	(435,045)	-8.6%	(879,556)	-16.0%	444,511	-50.5%
"DIRECT DEPOSITS"	2,907,521	57.7%	1,858,800	33.9%	1,048,721	56.4%
Segregated accounts	(2,688)	-0.1%	(450)	0.0%	(2,238)	497.3%
UCITS and other investment funds	693,813	13.8%	1,960,589	35.7%	(1,266,776)	-64.6%
Insurance products	1,090,893	21.7%	693,277	12.6%	397,616	57.4%
ASSETS UNDER MANAGEMENT	1,782,018	35.4%	2,653,416	48.3%	(871,398)	-32.8%
Government securities, bonds and stocks	346,708	6.9%	977,304	17.8%	(630,596)	-64.5%
ASSETS UNDER ADMINISTRATION	346,708	6.9%	977,304	17.8%	(630,596)	-64.5%
NET SALES	5,036,247	100.0%	5,489,520	100.0%	(453,273)	-8.3%
of which Guided products & services	3,876,685	77.0%	3,410,816	62.1%	465,869	13.7%

The table below shows the figures for direct deposits, assets under management and assets under custody of the PFA network for 2016 compared to the same period of the previous year.

Net sales – Personal Financial Advisors Network – Assoreti figures

(Amounts in € thousand)

	YEAR 2016		YEAR 2015		CHANGES	
	AMOUNT	%	AMOUNT	%	AMOUNT	%
Current accounts and demand deposits	2,543,475	58.6%	2,293,650	46.4%	249,825	10.9%
Time deposits and reverse repos	(295,013)	-6.8%	(656,428)	-13.3%	361,415	-55.1%
DIRECT SALES	2,248,462	51.8%	1,637,222	33.1%	611,240	37.3%
Segregated accounts	(2,688)	-0.1%	(450)	0.0%	(2,238)	497.3%
Investment funds and other funds	714,089	16.5%	1,911,557	38.7%	(1,197,468)	-62.6%
Insurance products	1,090,769	25.1%	699,083	14.2%	391,686	56.0%
ASSETS UNDER MANAGEMENT	1,802,170	41.5%	2,610,190	52.8%	(808,020)	-31.0%
Government securities, bonds and stocks	287,526	6.6%	692,453	14.0%	(404,927)	-58.5%
ASSETS UNDER ADMINISTRATION	287,526	6.6%	692,453	14.0%	(404,927)	-58.5%
NET SALES	4,338,158	100.0%	4,939,865	100.0%	(601,707)	-12.2%
of which Guided products & services	3,869,695	89.2%	3,399,876	68.8%	469,819	13.8%

Performance of income statement aggregates

Net profit (loss) before tax from continuing operations amounted to €306.3 million, up 6.3% compared to the previous year.

This result reflected an improvement of 2.7% in operating income thanks to the increase in **net interest income** and **net trading, hedging and fair value income**, which offset the fall in **net fee and commission income**.

The increase in net interest income, of €8.6 million over the same period of the previous year, was due to the increase in sales volume and the reduction in the cost of sales, which offset the fall in interest income linked to the decline in market interest rates.

Net fee and commission income fell by €9.7 million compared to the same period of the previous year, mainly due to:

- lower securities trading and order collection commissions, as a result of the progressive shift by customers towards over-the-counter products and the lower market volatility than in 2015;
- lower commissions for collection and payment services, mainly related to transactions with credit and debit cards. In this regard, it is important to note that Regulation (EU) 2015/751 of the European Parliament and of the Council, which came into force from December 9, 2015, set a cap on interbank commissions for transactions via debit and credit cards;
- lower fee expense paid to personal financial advisors under the incentive plans;
- lower commissions for the placement and management of managed asset products, offset by higher investment advisory commissions.

The **Net trading, hedging and fair value income** benefitted from the gains realised from the sale of government securities recognised in the "Available-for-sale financial assets" portfolio totalling €5 million, carried out as part of the measures to mitigate the exposure to interest rate risk and optimise profitability, and the gain of €15.3 million realised from the sale of the investment in Visa Europe Limited, the main aspects of which are described in the sub-section "Financial investments" of this Report on operations.

Operating costs fell by €6 million compared to the same period of the previous year, mainly due to lower costs from the incentive plans for the PFA Network and lower expenditure for mass media communications and marketing and promotional costs.

Net profit (loss) after tax from continuing operations amounted to €211.8 million, up 10.9% compared to the same period in the previous year. It should be noted that **Income tax for the period** benefitted from a positive change in current taxes of €6.5 million relating to provisions for several disputes relating to previous years that were definitively settled during 2016.

Communications and external relations

"The bank that simplifies banking" is the unique positioning that the Bank has continued to develop also in 2016.

During the year, three major advertising flights were conducted using all means of communication (TV, financial press, digital media and posters), in addition to the creative *"Risposte semplici a domande complesse"* (simple answers to complex needs) campaign, in the first half of the year, which has strengthened the notion of a bank capable of providing simple answers to increasingly sophisticated customer needs.

The last communication flight of the year, planned in December, was dedicated to the launch of the new communication campaign that will be continued and strengthened in 2017. The position is still centred on simplicity, but this time the focus of the communication will be concentrated on the importance of people and their ability to govern the technology and innovation that Fineco has always offered to its customers. It also highlights the increasingly key role played by advisory services (particularly Private Banking services) in the Bank's offering. The new claim of the Human Capital campaign is *"Da sempre investiamo sulla tecnologia più evoluta che esista: l'uomo"*. (We have always invested in the most advanced technology that exists: human beings).

All flights were supported by a "Member Gets Member" campaign to maximise their effectiveness, not only in terms of communications but also in business terms of new qualified assets acquired.

The campaigns incentivising potential customers to transfer securities and funds were the business driver of communications activities.

These were also accompanied by communication flights dedicated to trading, mainly through digital media and radio, thanks to the annual sponsorship of a programme on the station Radio24, but also on TV, although solely on channels particularly related to the target.

Numerous events were also organised throughout the country for the private banking segment, thanks to partnerships with major brands. This year, the Fineco Golf Club circuit reached a record of 56 legs, organised at prestigious clubs throughout Italy.

In April, a restyling of the Fineco logo was initiated to bring it more into line with the new positioning and to remove the "new bank" wording, used during the launch stage, leaving just FinecoBank.

Fineco also won numerous awards this year in various fields. In the early months of the year, the Global Brands Magazine recognised FinecoBank as the "Most Innovative Financial Brand Italy", "Best Financial Brand Italy" and "Most Innovative Financial Advisory Brand Italy". Global Financial, international finance magazine, recognised Fineco as the Best Digital Bank, Best Online Deposit, Credit and Investment Product Offerings, and Best in Social Media. Lastly, in November, the Bank received the recognition as the "best website" and "most popular website" in the finance category for the seventh consecutive year.

Business performance (CONTINUED)

Incentive plans

On February 8, 2016, the Board of Directors launched the plans approved by the Shareholders' Meeting on June 5, 2014 and the 2015 Incentive Systems approved by the Shareholders' Meeting of April 23, 2015. In particular:

- for the "2014 Key People Plan", considering the positive outcome of the verification of the entry conditions and the individual conditions (compliance of conduct and continued employment) and the favourable opinion of the Remuneration and Appointments Committee, it approved the allocation of the second tranche corresponding to 289,703 free ordinary shares to 79 beneficiaries and, as a consequence, it approved a free capital increase for a total amount of €95,601.99. The dilution effect resulting from the above free capital increase to service the stock granting plans is calculated as a maximum of 0.05% of the fully diluted capital;
- for the "2014-2017 Top Management Multi-Year Plan", considering the positive outcome of the verification of the entry conditions and the individual conditions (compliance of conduct and continued employment) and the favourable opinion of the Remuneration and Appointments Committee, it approved the allocation to 6 beneficiaries for the year 2016 of a total of 335,624 free ordinary shares, a smaller amount than the amount established on April 15, 2014 to ensure that the ratio between the fixed and variable remuneration is kept in line with the applicable regulations;
- for the "2015 Incentive System", considering the positive outcome of the verification of the entry conditions (at Group and level and local level) and the individual conditions (compliance of conduct and continued employment), the individual performances of the beneficiaries and the favourable opinion of the Remuneration and Appointments Committee, it approved the allocation of 210,288 free ordinary shares of FinecoBank;
- for the "2015 PFA Incentive System", considering the positive outcome of the verification of the entry conditions at local level, the due application of the "conformity assessment" and the favourable opinion of the Remuneration and Appointments Committee, it approved the allocation of 45,171 Phantom shares.

With regard to the 2016 Incentive System for personal financial advisors identified as "Key personnel", the Shareholders' Meeting of April 12, 2016 authorised the purchase and disposition of a maximum of 250,000 treasury shares, with a nominal value of € 0.33 each, on the condition that the buybacks of own shares could be made subject to receiving the necessary authorization from the Supervisory Authority, pursuant to Articles 77-78 of EU Regulation 575/2013 (CRR) of June 26, 2013. The buyback authorisation was issued by the Supervisory Authority on July 8, 2016.

FinecoBank Shares

Share information

The FinecoBank shares showed variable performance during the 2016, impacted by the macroeconomic environment, amplified by “railroad” events like the result of the Brexit referendum. The second half of the year was also affected by the uncertainty in the Italian banking world, which involved all the market players with very poor performance for banking shares.

As at December 31, 2016 price of the shares was €5.33, with an average value of €5.91 in 2016, but with partial recovery compared to the minimum price for the year (€4.62) due to the removal of the ongoing uncertainty about future market scenarios.

The company's market capitalisation amounted to €3,234 million as at December 31, 2016.

	YEAR 2014	YEAR 2015	YEAR 2016
Official price of ordinary shares (€)			
- maximum	4,750	7,805	7,180
- minimum	3,808	4,438	4,622
- average	4,168	6,479	5,909
- period end	4,668	7,625	5,330
Number of shares (millions)			
- outstanding at period end	606,3	606,5	606,8

You are reminded that on July 12, 2016, UniCredit announced that it had successfully completed the accelerated bookbuilding for the sale to institutional investors of around 60.7 million ordinary shares held in FinecoBank, corresponding to 10% of the Bank's existing share capital, at a price of €5.40 per share.

In addition, on October 13, 2016, UniCredit announced that it had successfully completed another accelerated bookbuilding for the sale

to institutional investors of around 121.4 million ordinary shares held in FinecoBank, corresponding to 20% of the Bank's existing share capital, at a price of €4.55 per share.

Following the conclusion of the offering, UniCredit will continue to consolidate Finecobank with a majority shareholding of 35.479% of the existing share capital.

Results achieved in the main areas of activity

The following pages contain the main indicators and results of the main business segments: Brokerage, Banking and Investing.

Given the Bank's specific business model that provides for a high level of integration among its different activities, these segments are interdependent. Indeed, the Bank offers its services (banking and investment services) through a network of personal financial advisors and online and mobile channels that operate in a coordinated and integrated manner.

All the activities were carried out with the aim of obtaining economic results from the "industrial" management of the businesses, to minimise their financial risk. The Bank's financial management approach is to manage risks with a view to protecting the industrial returns on the various businesses while not assuming risk positions on its own account.

Brokerage

In 2016 the Bank further strengthened its leadership in the Italian brokerage market.

The first half of the year benefited from the high volatility of the markets mainly due to the introduction of the bail-in directive and the surprising result of the referendum on the United Kingdom remaining within the European Union. After several months of static markets, the second half of the year was characterized by heavy trading days, with record results close to the US elections and the Italian referendum, and by the strong performance in December in terms of numbers of orders executed on shares, worth €1.5 million. The strengthening of the Bank's leadership in the online trading business was also confirmed by the Assosim report, which identified Fineco as the top bank in terms of shares brokered on the Borsa Italiana stock exchange with a share of 19.63%.

The gradual shift continued towards from traditional asset classes to OTCs, also including the binary options that were recently added to the family of CFDs and are already top performers.

The year 2016 confirmed once again that Fineco's well-balanced and

diversified business model is able to produce solid and sustainable results, whilst also satisfying all the financial needs of its customers.

The strategy to expand, innovate and develop the offering continued with the introduction of new services and features, in particular:

- overnight trading on CFDs on US shares;
- a new index bar with a new expandable area to display a selection of core business instruments and provide easier and more direct access to trading in those instruments;
- expansion of the basket of binary options with around 50 new instruments and over 200 tradable maturities;
- new iPhone and Android apps with access to real-time prices for thousands of products, also with the addition of binary options trading and simpler and more immediate use.

The table below shows the number of orders on financial instruments recorded in 2016 compared to the previous year, which increased 1.2%, with a shift, as already noted, from the traditional asset classes to OTCs, and CFDs in particular.

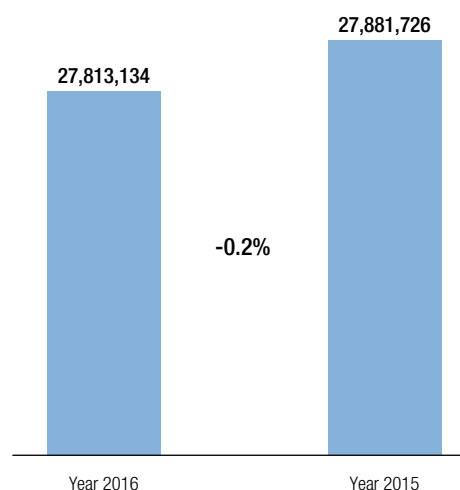
	YEAR 2016	YEAR 2015	CHANGES	
			AMOUNT	%
Orders - Equity Italia (including internalised orders)	8,188,863	8,553,503	(364,640)	-4.3%
Orders - Equity USA (including internalised orders)	830,153	1,082,918	(252,765)	-23.3%
Orders - Equity other markets (including internalised orders)	526,246	603,623	(77,377)	-12.8%
<i>Total equity orders</i>	<i>9,545,262</i>	<i>10,240,044</i>	<i>(694,782)</i>	<i>-6.8%</i>
Orders - Bonds	541,466	631,411	(89,945)	-14.2%
Orders - Derivatives	3,796,392	3,547,912	248,480	7.0%
Orders - Forex	955,865	1,585,120	(629,255)	-39.7%
Orders - CFDs	4,072,187	2,336,099	1,736,088	74.3%
Orders - Funds	2,184,073	2,500,870	(316,797)	-12.7%
Orders- Repo	11,551	21,139	(9,588)	-45.4%
TOTAL ORDERS	21,106,796	20,862,595	244,201	1.2%

The table below shows the volume of trades carried out as direct counterparty in orders placed by customers, resulting from the internalisation of orders received on shares, CFDs and Logos products, recorded in 2016 compared to the same period of the previous year.

(Amounts in € thousand)

	YEAR 2016	YEAR 2015	CHANGES	
			AMOUNT	%
Equity (internalisation)	44,385,213	65,098,298	(20,713,085)	-31.8%
Forex	47,629,033	102,253,275	(54,624,242)	-53.4%
CFDs and Logos	54,798,595	65,076,048	(10,277,453)	-15.8%
Total "internalised" volumes	146,812,841	232,427,621	(85,614,780)	-36.8%

Total number of orders executed



The total number of orders executed refers to transactions carried out by retail and institutional customers for the purchase and sale of shares, bonds, derivatives, forex, CFDs, funds and reverse repos.

Results achieved in the main areas of activity (CONTINUED)

Banking

Banking

The Bank offers its customers a full range of direct banking services (mainly through online and mobile channels) that are comparable to those offered by traditional banks and competitors in this segment.

In 2016 the main changes in the banking area were:

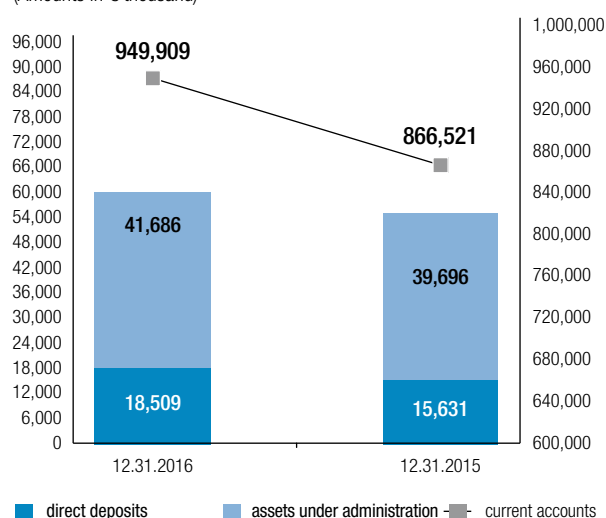
- the launch of the new iOS and Android apps. In addition to the complete overhaul of the graphics, the new apps offer new features compared to the previous version, including finger print access for Android, full mobile management of payment cards, the ability to make international bank transfers, payment of payments slips through photographic capture, push price quotes, new securities sheets, trading of binary options, and the order protection service with stop loss and take profit;
- the reformulation of the pricing for the multicurrency service for new contracts;
- the expansion of the execution methods for international bank transfers through the international online channel;
- the launch of the new Fineco Debit Card. The new Fineco Debit Card is the only one of its kind in Italy that can operate on the Visa Debit, BANCOMAT, PagoBANCOMAT and FASTpay circuits. The new card, which has no annual fee, is accepted throughout the world, including online and for contactless transactions;
- update of the processes for compliance with the guidelines issued by the European Banking Authority (EBA). To align the Bank's processes to the EBA directives, compulsory confirmation, via SMS PIN (Fineco's Strong Customer Authentication), has been introduced for the following instructions: bank transfers over a set amount and not in the white list; release of the use limits for payment cards for non-EU and internet transactions; amendment of the monthly maximum use limits for the Fineco Debit Card; online purchases considered potentially risky at traders subscribing to the 3D Secure protocol; domiciliation of SDD mandates and amendment of operating limits on SEPA Direct Debit mandates; online amendment of domiciliation address;
- the extension and improvement of the digital signature service. In order to increase the efficiency and effectiveness of the processes for managing the signing of subscription forms for the products and services offered by the Bank, the digital signature has been added for credit card applications within the restricted area of the Bank's

website and the possibility of a certificate for the digital signature together with the application for the Personal Loan, Fineco Debit Card, and Fineco Card Credit products;

- the complete overhaul of the F24 tax return payment service with the addition of features such as the taxpayers' address book and predictive searching of tax codes;
- the migration of fixed amount direct debits to the SEPA circuit;
- new automatic alerts for incoming bank transfers on accounts;
- the launch of rechargeable cards also on the VISA circuit;
- introduction of the obligation to certify contacts (email and mobile phone) during first access to current accounts by customers;
- the possibility of updating identity documents directly online;
- the digitisation of the process of regeneration of the PIN device used by customers to confirm current account transactions.

No. current accounts, direct deposits, and assets under administration

(Amounts in € thousand)



Credit

Credit cards

In 2016, there was an increase of 3.3% in holders of active valid credit cards, for a total of 722,533 cards. The portfolio currently consists of 46% of cards operating on the Mastercard circuit, with the remaining 54% operating on the VISA circuit. The spending figure for credit cards, increased by 9% compared to the prior year, for a total value of €2.7 billion. The spending of revolving cards represented 1.7% of the total.

In this regard, it should be noted that recent Regulation (EU) 2015/751, which came into force in Italy on December 9, 2015, set a cap on interbank commissions for transactions via debit and credit cards. The introduction of this Regulation led the Bank to change its strategy regarding payment cards, with a revision of the pricing for credit cards and the introduction of a new debit card product. In January 2016, a new Fineco international debit card was introduced, as mentioned above, which in addition to substituting the previous Vpay card, is being offered to new customers as the main free payment card, as an alternative to the classic credit card, for which an annual fee has been introduced that can be removed if the card is used on a revolving basis and for Apex customers. The Fineco Debit Card will progressively replace the Vpay products over the next three years. There were a total of 170,541 holders of active Visa debit cards at the end of 2016.

Mortgages and personal loans

The progressive re-engineering of the digital lending platform led to the marketing, from March, of the innovative service for personal loans with immediate assessment for amounts up to €15,000. Thanks to a sophisticated rating system, capable of reassessing the applicant's reliability and income capacity, the loan application is assessed within moments and the loan is credited in real-time on the customer's account – also on Saturdays and Sundays – without the need to provide the bank any documentation, not even financial. In December 2016, the maximum lending amount of the Personal Loans with Ordinary Assessment was increased from €30 thousand to €50 thousand.

From March 2016, two new credit lines were also launched for holders of the Advice and Stars securities accounts, enabling them to obtain additional current account liquidity, of up to €500 thousand, by using the financial instruments held in their securities accounts as collateral for loans without losing ownership of the securities. These products are only offered through the personal financial advisors network.

In November, in line with the “One-Stop Solution” model, through which all customers' financial needs can be managed through a single account, the range of Fineco loan products was extended with the launch of the new mortgage loans. The mortgage offering is aimed at retail customers to finance the purchase of first or second homes or subrogations, for the transfer to Fineco of existing mortgages held at other banks, without cost, for a maximum amount equal to 80% of the value of the property. Customers can choose between a fixed rate and a variable rate, with a duration of 10 to 25 years and spreads that vary according to the duration and the loan to value, i.e., the relationship between the amount of the loan and the value of the property. The mortgage offering is accompanied by two types of insurance: the Fire and Explosion policy, to cover the damage to the property, which is compulsory and offered free of charge by the Bank, and the Fineco mortgage policy, an optional and financeable payment protection insurance, designed to protect customers from adverse events, such as loss of employment, that can limit their ability to repay the loan. The mortgage application can be made independently, through the mortgage simulator available in the private area of the Fineco website, or with the aid of the customer's personal financial advisor. Following the application, the customers are taken care of by mortgage specialists who are specifically assigned to them and are available throughout each stage of the application up to signature.

In 2016, the application processes were thoroughly reviewed and the area dedicated to loan products was restyled, leading to the creation of the new mortgages and loans area and the development of “smart” and easy-to-use estimate generators

Results achieved in the main areas of activity (CONTINUED)

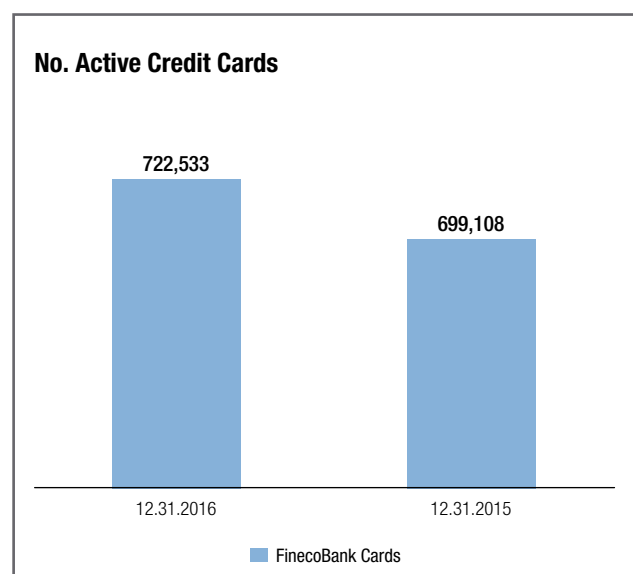
Banking (CONTINUED)

capable of showing customers the financial feasibility of the loan application, already at the simulation stage, and helping them to make rapid and responsible choices regarding their financial commitments.

The increase in volumes dispersed and the improvement in the performance of lending products achieved in 2016 was also due to the careful segmentation and personalisation of the offering and effective digital communication campaigns, which involved the coordinated use of all the web advertising tools and the progressive engagement of customers, also through social networks.

(Amounts in € thousand)

CREDIT PRODUCTS	2016		2015		CHANGES			
	DISBURSEMENTS	CARRYING AMOUNT	DISBURSEMENTS	CARRYING AMOUNT	DISBURSEMENTS		CARRYING AMOUNT	
					AMOUNT	%	AMOUNT	%
Personal loans and unsecured loans	183,226	243,025	87,371	136,681	95,855	109.7%	106,344	77.8%
Current account credit facilities (agreed amount)	271,299	299,372	145,403	215,038	125,896	86.6%	84,334	39.2%
Revolving credit cards (spending)	2,706,194	39,812	2,472,788	36,734	233,406	9.4%	3,078	8.4%
Credit cards full payment of balance (spending)	52,692	228,826	50,496	224,776	2,196	4.3%	4,050	1.8%
Mortgages	843	884	-	46	843	n.d.	838	1821.7%
Total	3,214,254	811,919	2,756,058	613,275	458,196	16.6%	198,644	32.4%



Investing

The Bank uses a guided open architecture business model to offer customers an extremely wide range of asset management products - comprising collective asset management products, such as units of UCITS and SICAV shares - from carefully selected Italian and international investment firms.

In 2016, the range of asset management products was further enhanced with the addition to the platform of over 450 new ISINs available to customers. With a view to expanding diversified management offering, 4 new Core Series funds together with the new class accumulation shares of the Core Income Opportunity fund, have been introduced. In particular, the Core Aggressive fund was launched at the beginning of April, which has completed the range of funds with a risk profile, to meet the various needs of customers. Later, around mid-April, three Core Target Allocation new funds were introduced, which are completely new with respect to the other Core Series funds, as they allow a gradual increase of the equity exposure of the portfolio while reducing the risk associated with market volatility. The three Core Target Allocation funds have in fact been designed to meet two fundamental needs arising at the beginning of the year: dealing with volatility and managing liquidity.

In 2016, net sales were also very strong for the advisory services², at around €4 billion, most of which deriving from new customers.

The main initiatives involving the Advice (fee only) advisory service included the expansion of the range of monitorable products with the addition of the new "ramo 1" policy. Processes were also further improved, with the introduction of the option for applicants to use a digital signature when opening the advisory contract. The Fineco Stars advisory services also achieved highly positive results, continuing its growth and development: net sales since the beginning of the year reached around €1 billion, with an increase in the range of selected funds. In 2016 several developments were made to Fineco Stars in order to increasingly tailor the advisory service to customer needs, including: the amendment of the access threshold, the possibility of opening Stars securities accounts in the Apricono system using a digital signature, the possibility of activating mandates to sell on Stars securities account in off-line mode, and the release of the multi-objective option, which offers the possibility of opening several Stars securities accounts based on the different objectives of the individual customers.

Lastly, in 2016, the strong interest in advisory services in the form of insurance coverage continued.

(Amounts in € thousand)

	AMOUNTS AS AT		AMOUNTS AS AT		CHANGES	
	12.31.2016	%	12.31.2015	%	AMOUNT	%
UCITS and other investment funds	24,257,876	84.8%	23,100,072	87.9%	1,157,804	5.0%
Insurance products	4,339,162	15.2%	3,163,241	12.0%	1,175,921	37.2%
Segregated accounts	10,882	0.0%	14,112	0.1%	(3,230)	-22.9%
Total assets under management	28,607,920	100.0%	26,277,425	100.0%	2,330,495	8.9%

2. Core Series, Advice, Stars, Advice Unit, Core Unit, Core Multiramio, and Advice Top Valor.

The network of personal financial advisors

The year 2016 was characterised by market uncertainty that led to periods of high instability. Once again, the Bank's business model demonstrated its strength, continuing to achieve significant results in terms of growth of sales, particularly in the Private segment, and the acquisition of new customers.

At the same time, the ability to promptly and effectively meet the long-term planning needs of customers, through advanced advisory services, enabled the Bank to further strengthen its leadership with its customers. Net sales came to €4,338 million, of which €1,802 million for net assets under management. In 2016 the personal financial advisors network opened 80,978 new current accounts.

Net sales - Personal Financial Advisors Network - Assoreti figures

(Amounts in € thousand)

	YEAR 2016	%	YEAR 2015	%	CHANGES	
					AMOUNT	%
Current accounts and demand deposits	2,543,475	58.6%	2,293,650	46.4%	249,825	10.9%
Time deposits and reverse repos	(295,013)	-6.8%	(656,428)	-13.3%	361,415	-55.1%
"DIRECT DEPOSITS"	2,248,462	51.8%	1,637,222	33.1%	611,240	37.3%
Segregated accounts	(2,688)	-0.1%	(450)	0.0%	(2,238)	497.3%
UCITS and other investment funds	714,089	16.5%	1,911,557	38.7%	(1,197,468)	-62.6%
Insurance products	1,090,769	25.1%	699,083	14.2%	391,686	56.0%
ASSETS UNDER MANAGEMENT	1,802,170	41.5%	2,610,190	52.8%	(808,020)	-31.0%
Government securities, bonds and stocks	287,526	6.6%	692,453	14.0%	(404,927)	-58.5%
ASSETS UNDER ADMINISTRATION	287,526	6.6%	692,453	14.0%	(404,927)	-58.5%
NET SALES	4,338,158	100.0%	4,939,865	100.0%	(601,707)	-12.2%
of which Guided products & services	3,869,695	89.2%	3,399,876	68.8%	469,819	13.8%

Net sales of the more advanced advisory services (guided products and services) came to €3,870 million, reflecting the awareness of the importance of financial advisory services, the planning approach, and risk monitoring and control, for offering customers detailed and diversified management of their portfolios.

Advisory services are and continue to be the focus for the future, as an approach that is increasingly spreading and particularly appreciated by customers, especially those in the private banking segment. This

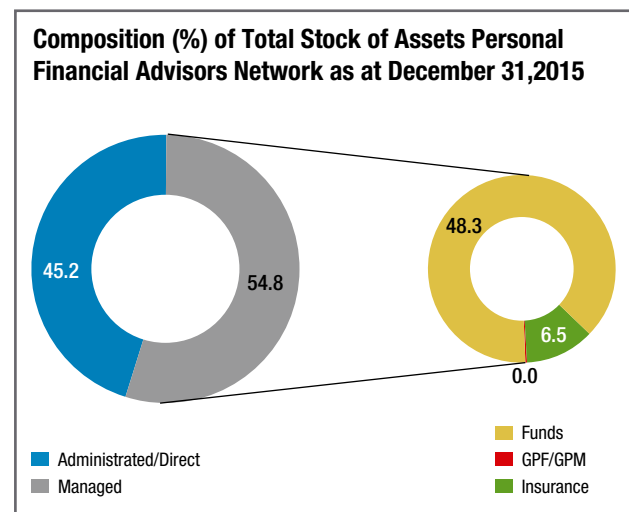
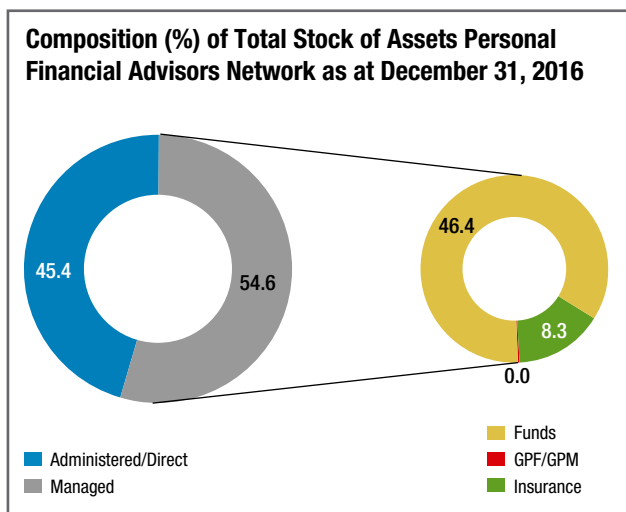
segment is growing steadily (2.2% in terms of customers and 39% in terms of assets managed against the total assets managed by the network), confirming the Bank's status as one of the top Italian private banking providers. In 2016 the Bank also registered with the industry association AIPB.

The table below shows the breakdown of sales attributable to the PFA network as at December 31, 2016. Total financial assets, amounting to €51,434 million, increased by 9.5% compared to December 31, 2015.

Total financial assets - Personal Financial Advisors Network - Assoreti figures

(Amounts in € thousand)

	AMOUNTS AS AT		AMOUNTS AS AT		CHANGES	
	12.31.2016	%	12.31.2015	%	AMOUNT	%
Current accounts and demand deposits	13,442,242	26.1%	10,898,766	23.2%	2,543,476	23.3%
Time deposits and reverse repos	150,773	0.3%	438,741	0.9%	(287,968)	-65.6%
DIRECT DEPOSITS	13,593,015	26.4%	11,337,507	24.1%	2,255,508	19.9%
Segregated accounts	10,882	0.0%	14,112	0.0%	(3,230)	-22.9%
UCITS and other investment funds	23,843,218	46.4%	22,663,576	48.3%	1,179,642	5.2%
Insurance products	4,251,107	8.3%	3,070,003	6.5%	1,181,104	38.5%
ASSETS UNDER MANAGEMENT	28,105,207	54.6%	25,747,691	54.8%	2,357,516	9.2%
Government securities, bonds and stocks	9,736,101	18.9%	9,866,169	21.0%	(130,068)	-1.3%
ASSETS UNDER CUSTODY	9,736,101	18.9%	9,866,169	21.0%	(130,068)	-1.3%
TOTAL FINANCIAL ASSETS	51,434,323	100.0%	46,951,367	100.0%	4,482,956	9.5%
of which Guided products & services	16,104,815	31.3%	11,805,963	25.1%	4,298,852	36.4%



From the beginning, in view of the high volatility in the financial markets, events were organised to inform and educate customers about new regulations, such as the bail-in, on behavioural finance issues and on the correct approach to be used in times of market turbulence. A total of 1,341 events were organised during the year throughout Italy.

Investment also continued in high-level training to develop the skills of the personal financial advisors, particularly in relation to the advanced advisory services, with over 1,450 days of classroom training.

The training was aimed at promoting the development of performance and role awareness. The main subjects covered included the role of the advisor, the scenario, and the advisory services proposition. For the wealth advisors, focus groups were introduced as a forum for dialogue and examining specific issues related to the development of the business. Lastly, the GM Academy managerial training programme has now involved almost all the group managers.

Investment also continued in sales facilities of the personal financial advisors, which contribute to enhancing the Bank's image and spreading our presence throughout the country.

Recruitment was very selective with a strong focus on the quality and standing of the candidates: since the beginning of the year 85 new personal financial advisors have been hired, with a background in sales networks and private banking. The "youth programme" also continued to recruit young graduates to the profession (66 "beginners"). The recruitment activities provided a major contribution to total net sales, which, however, are still driven primarily by the existing network, reflecting the unique strength of our model which enables healthy and organic growth.

As at December 31, 2016, the network was made up of 2,628 personal financial advisors, who operate countrywide through 358 financial shops (Fineco Centers), managed directly by the Company or by the personal financial advisors themselves.

Human resources

As at December 31, 2016, the Bank's total workforce consisted of 1,096 employees compared to 1,067 as at December 31, 2015. The breakdown was as follows:

HUMAN RESOURCES	DECEMBER 31 2016	DECEMBER 31 2015
FinecoBank employees	1,086	1,059
Workers with atypical contracts (+)	-	-
Group employees seconded to FinecoBank (+)	3	2
FinecoBank employees seconded to the Group (-)	(1)	(2)
Total human resources excluding Directors	1,088	1,059
Directors (+)	8	8
Total human resources	1,096	1,067

During 2016, activities continued to strengthen and optimise the areas dedicated to business development, organisational support and risk control and management. This led to the hiring of 82 workers, of which:

- 9 from other Group Companies;
- 73 from the market.

Of the 73 new recruits from the market, around half were employed in the Customer Relationship Management area, confirming the strong and ongoing focus on young graduates. Customer Relationship Management forms the starting point of a pathway of professional development that can lead to different roles in the business.

During the year, 26 temporary contracts were converted into permanent contracts in the Customer Relationship Management area, thereby not only guaranteeing business continuity, but also capitalising on the skills and expertise already present within the business.

In 2016, there was significant internal job rotation, involving 32 employees, through which vacant positions within the company were filled, while also ensuring the continued professional development of staff.

In 2016, a total of 55 employees left the bank, of which:

- 16 resignations;
- 16 transfers to Group companies;
- 23 for other reasons.

The Bank's employees can be broken down as follows:

CATEGORY	MEN		WOMEN		TOTAL	
	12.31.2016	12.31.2015	12.31.2016	12.31.2015	12.31.2016	12.31.2015
Executives	22	22	4	4	26	26
Managers	229	218	98	94	327	312
Professional Areas	364	352	369	369	733	721
Total	615	592	471	467	1,086	1,059

As at December 31, 2016, part-time staff in the Bank amounted to 88, accounting for 8% of employees, with women employees representing around 43% of the workforce. The average length of service was 8 years and the average age was around 39.

Employee training

During 2016, employee training involved the acquisition and consolidation of staff skills based on the company's needs, as well as on the continuous professional development of individual abilities, with specific focus on mandatory, management, technical and foreign language training.

The breakdown is shown below:

TRAINING AREA	HOURS OF TRAINING
Mandatory	3,404
Technical	11,299
Foreign Language	8,707
Conduct – Management	1,560
Total	24,970

Mandatory training

The Bank works continuously to promote and improve its risk and compliance culture, across the organisation, which enable our business to be sustainable, as well as profitable, over time. For this reason, the Bank paid significant attention to mandatory training for all employees, who attended the courses both in e-learning mode, using the Group My Learning Platform, and through live seminars for specific subjects.

Staff attendance at the courses was monitored in order to ensure that all employees acquired full understanding of the mandatory subjects, thereby protecting the Bank against operational, legal and reputational risk.

Technical and behavioural training

In 2016, training sessions were organised for the acquisition of technical skills needed to improve business productivity and the level of employee specialisation.

In the Customer Care area, a total of 8,499 hours of training courses were held for “new recruits” on technical subjects, as well as “ongoing” training courses on technical and conduct-related subjects (with a special focus on Communication and Service), with a view to maintaining high quality service standards and a constant customer focus.

Training in support of the Bank's Business Continuity plan also continued, through coaching that is certified in a register of activities.

Foreign language training

Foreign language training in 2016 involved 344 employees in English courses (classroom-based or via telephone). In some cases (e.g. for Executives), “one-to-one” training courses in Business English were provided.

A specific focus on language training was initiated in the customer care area, in order to provide a high level of assistance to potential English-speaking customers, following the launch of the plan to expand the business in the UK.

Employees are assigned to participate in foreign language training courses based on requests made by the individual unit managers, based on the specific professional needs of colleagues.

Technology infrastructure

There are essentially six elements to the Bank's information system:

- Banking application software;
- Online Trading system (dedicated applications for the real-time sale/purchase of securities and financial instruments on the main European and American markets);
- A management system for the operations room and for institutional investors, and access to the information/order sections of Italian/foreign markets;
- A management system for investment services such as Funds, SICAVs and Bank Insurance;
- A credit and debit card management system, with the issue of cards for VISA and MasterCard circuits;

- A personal financial advisors network management system, enabling advisors to work with all the Bank's products through a single portal.

In 2016, the ICT Area carried out its usual activities for the technological upgrading, consolidation and development of the Information System in order to provide new and more versatile added value services to customers.

Specifically, from an architectural perspective, work continued on optimising infrastructure and applications, as well as the continuous improvement and fine-tuning of the applications security architecture.

Internal control system

The internal control system is a fundamental part of the overall governance system of banks; it ensures that operations are carried out in line with the Bank strategies and policies and based on principles of sound and prudent management.

Circular no. 285 of December 17, 2013 as amended - defines the principles and guidelines to which the internal control system of banks must conform. The circular defines the general principles of organisation, identifies the role and responsibilities of governing bodies, and sets out the characteristics and roles of corporate control functions.

The internal control system must provide protective measures that cover all types of business risk. The primary responsibility for these tasks lies with the bank's bodies, each in accordance with its specific duties. The structure of tasks and lines of responsibility of corporate functions and bodies must be clearly specified.

Banks must apply the provisions according to the proportionality principle, i.e. taking into account the operating scale and organisational complexity, the nature of the activities carried out, and the type of services provided.

As part of the supervisory review and evaluation process, the European Central Bank or the Bank of Italy verify the internal control system in terms of completeness, suitability, functionality (in terms of efficiency and effectiveness) and reliability of banks. In accordance with the provisions laid down by the Regulatory Authorities, the Bank's internal control system consists of a set of

rules, functions, organisational structures, resources, processes and procedures aimed at ensuring the achievement of the following objectives, in compliance with the principles of sound and prudent management:

- verifying the implementation of the Bank's strategies and policies;
- containing risk within the limits set out in the Bank Risk Appetite Framework - "RAF";
- preventing the Bank's involvement, even if unintentional, in unlawful activities (with specific reference to money laundering, usury and the financing of terrorism);
- protecting the value of assets and preventing losses;
- ensuring the effectiveness and efficiency of corporate processes;
- ensuring the security and reliability of the Bank information and ICT procedures;
- ensuring compliance of transactions with the law and supervisory regulations, as well as internal policies, procedures and regulations.

In terms of the methods applied, the Bank's internal control system is based on four types of controls:

- level one controls ("line controls"): these are controls for individual activities and are carried out according to specific operational procedures based on a specific internal regulation. Monitoring and continuously updating these processes is entrusted to "process supervisors" who are charged with devising controls able to ensure the proper performance of daily activities by the staff concerned, as well as the observance of

any delegated powers. The processes subject to control relate to units that have contact with customers, as well as completely internal Bank units;

- level two controls: these are controls related to daily operations connected with the process to measure quantifiable risks and are carried out by units other than operating units, on an ongoing basis. The Risk Management function controls market, credit and operational risks, as regards compliance with limits assigned to operating functions and the consistency of operations of individual production areas with established risk/return objectives; the Compliance unit is responsible for controls on non-compliance risks; for regulatory areas which already have types of control performed by the Bank's specialised structures, monitoring of compliance risk is assigned to these structures based on the "Indirect Coverage" operating model, also adopted by the Parent Company;
- level three controls: these controls are typical of internal auditing, based on analysis of information obtained from databases or company reports, as well as on-site controls. The purpose of these controls is to check the functioning of the overall internal control system and information communication technology system (ICT audit) and identify any anomalous trends, or infringements of procedures or regulations. These controls are assigned to the Internal Audit function, which operates at central level, at UniCredit, based on a specific service agreement;
- institutional supervisory controls: these refer to controls by the Bank's bodies, including in particular the Board of Statutory Auditors and the Supervisory Body pursuant to Legislative Decree no. 231 of 8 June 2001.

Considering the functions and units involved, the Internal Control System is based on:

- control bodies and functions including, according to their respective responsibilities, the Board of Directors, the Audit and Related Parties Committee, the Remuneration and Appointments Committee, the Chief Executive Officer and General Manager³,

the Board of Statutory Auditors, the Supervisory Body set up pursuant to Legislative Decree 231/01 and the corporate control functions (Risk Management, Compliance⁴, Internal Audit) as well as other company functions with specific internal control duties⁵;

- procedures for the coordination of entities involved in the internal control and risk management system, which provide for:
 - cooperation and coordination among control functions, through specific information flows that are formalised in internal regulations and through managerial committees dedicated to control issues;
 - application of the Group coordination model defined as part of the management and coordination activity carried out by the Parent Company;
 - definition of information flows both between corporate bodies and control functions within the Bank, and with the Parent Company, in order to enable the latter to properly carry out its management and coordination activities.

Finally, it should be noted that, under Article 49, paragraph 1, of the Regulation (EU) No. 468/2014 of the European Central Bank (ECB/2014/17) (the SSM - single supervisory mechanism - Framework Regulation), the ECB published a list on September 4, 2014, which was updated on November 15, 2016, containing the names of supervised entities and groups that fall under the direct supervision of the ECB ("significant supervised entities" and "significant supervised groups", as defined in Article 2, points 16) and 22) of the SSM Framework Regulation), indicating the specific reason for direct supervision for each of them, and, if classified as significant based on size, the total value of the assets of the entity or group supervised.

The Bank, as a "credit institution established in a participating Member State" belonging to the UniCredit Group (classified as a "significant supervised group"), is included in the list of "significant supervised entities".

3. Also appointed as "Director responsible for the internal control and risk management system" in accordance with principle 7.P.3 of the Corporate Governance Code of listed companies.

4. This function includes the Anti Money Laundering Service, responsible for managing the correct application of regulations on anti-money laundering and combating the financing of terrorism.

5. The legislative framework and the codes of conduct assign control tasks to specific functions - other than corporate control functions - whose work should be seen as being a functional part of the Internal Control System. For the Bank in particular, these include the Local Control System for legislation concerning related-party transactions carried out with associated persons in a conflict of interest situation (under the responsibility of the Corporate Affairs Unit of the Legal & Corporate Affairs Department), the Nominated Official in charge of drawing up company accounts pursuant to Article 154-bis of the Consolidated Finance Act (identified as the Bank's CFO), the Occupational Health and Safety Officer; the Human Resources function, the Head of Business Continuity & Crisis Management, and the Head of Outsourcing Management. All corporate functions, other than corporate control functions, also participate in the Internal Control System by carrying out the level-one controls included in the business processes under their responsibility.

Main risks and uncertainties

For more details of the risks and uncertainties faced by the Bank in the current market situation, see Part E – Information on risks and hedging policies of the Notes to the Accounts.

Organisational structure

The organisational structure of the Bank is consistent with the Group Organisation Guidelines issued by the Parent Company UniCredit S.p.A.

The Guidelines set out organisational principles and rules designed to ensure their uniform application across all Group Legal Entities, through:

- clear organisational principles and criteria;
- specific organisational documents;
- suitable processes for organisational changes.

The Group Organisation Guidelines set out structured organisational rankings on four levels (Division, Department, Unit and Team) based on their size and the organisational complexity of the operations overseen.

In 2016, several changes were made to the organisational structure. Specifically, following the decision to start the marketing of property mortgages to retail customers, as a complement to the product range of the credit area, organisational safeguards were identified for the management for the new product, involving:

- the creation of the Mortgage team, within the Chief Risk Officer (CRO) Department, reporting directly to the Credit unit;
- the allocation of the post-sales operations for the mortgage product to the Bank's Organisation and Operations Department.

In addition, during 2016, several organisational changes were made within the Chief Financial Officer (CFO) Department in order to create a single point of reference for financial reporting, accounting and supervisory reporting, by establishing the new Administration and Supervisory Reporting Unit, which oversees the Financial Reporting, Administration and Suppliers and Administration Trading and Brokerage Units. Also within the CFO Department, a technical Tax Compliance unit has been created, which reports to the Tax Affairs and Advisory units, and is responsible for controlling non-compliance risk in tax operations (i.e. both in terms of tax compliance and tax advisory services), in order to prevent breaches of the applicable tax regulations and to prevent risks related to situations that could represent abuses of rights, thereby avoiding or minimising the consequences resulting from the incorrect application of tax regulations. The unit has therefore been identified as a "specialist control function" in accordance with the provisions

of the Group's Indirect Coverage Model, pursuant to the Bank of Italy circular 285 of 2013, which oversees the work carried out by the Compliance function under the direct model, according to the methods and procedures provided/validated by it.

It was also necessary to create the Investor Relations technical unit, reporting directly to the CFO Department, following the insourcing of the Investor Relations function upon the termination of the outsourcing agreements between the Bank and UniCredit S.p.A. on October 6, 2016. This technical unit handles communications to the financial community and relations with "Institutional Investors" (Financial Institutions, Funds, etc.) and financial analysts, providing the market transparent, timely and consistent information to support the fair valuation of the Bank.

In addition, with effect from April 2016, the insourcing was approved of the Compliance function, previously centralised at the Parent Company UniCredit based on a specific outsourcing agreement and with a centre (the Compliance Officer unit) at the Bank responsible for applying the methods for assessing and monitoring non-compliance risk.

In this regard, the Compliance Officer unit was reorganised was renamed the Compliance unit.

Lastly, in order to improve the focus and uniformity of the controls relating to the investment platforms (i.e., guided products), the marketing communications to the Sales Network and the product and behavioural training, the following was approved:

- the transfer, to the units reporting directly to the Deputy General Manager Direct Banking, of the activities relating to: (i) the implementation and management of the platforms of the Investment Services and Wealth Management Department and (ii) the product training and marketing communications of the PFA Sales Network Department;
- the change of the name of the Direct Banking Department to the Global Business Department;
- the change of the name of the Investment and Wealth Management Services Department to the Investment and Private Banking Services Department.

Organisational Model

The Bank's current organisational model is based on a functional model, which favours economies of scale and facilitates the development of vertical skills and knowledge within each area. The model guarantees the necessary decision-making mechanisms, whilst maintaining the "horizontal link" between the various functions. Although the current arrangement applies the concept of "functional specialisation", a project-based approach is maintained for every phase of definition and release of products and services.

The horizontal links are guaranteed by the work of specific committees that monitor business lines and the progress of the most important projects, also to guarantee the necessary synergies of distribution channels.

The following organisational units report to the Chief Executive Officer and General Manager: Network PFA Department, Investment Services and Private Banking Services Department, Global Business Department, CFO Department (Chief Financial Officer), CRO Department (Chief Risk Officer), Network Controls, Monitoring And Services Department, Legal & Corporate Affairs Department, GBS Department (Global Banking Services), Human Resources Unit, Compliance Unit, and the Identity & Communication Team.

The organisational model identifies four main functional lines, which govern:

- the sales network (Network PFA Department);
- investment services (Investment Services and Private Banking Services Department);
- Trading, Banking and Credit products and the investment platforms (Global Business Department);
- operational functioning (GBS Department).

In summary:

- The PFA Network Department is responsible for overseeing the management and development of the personal financial advisors network;

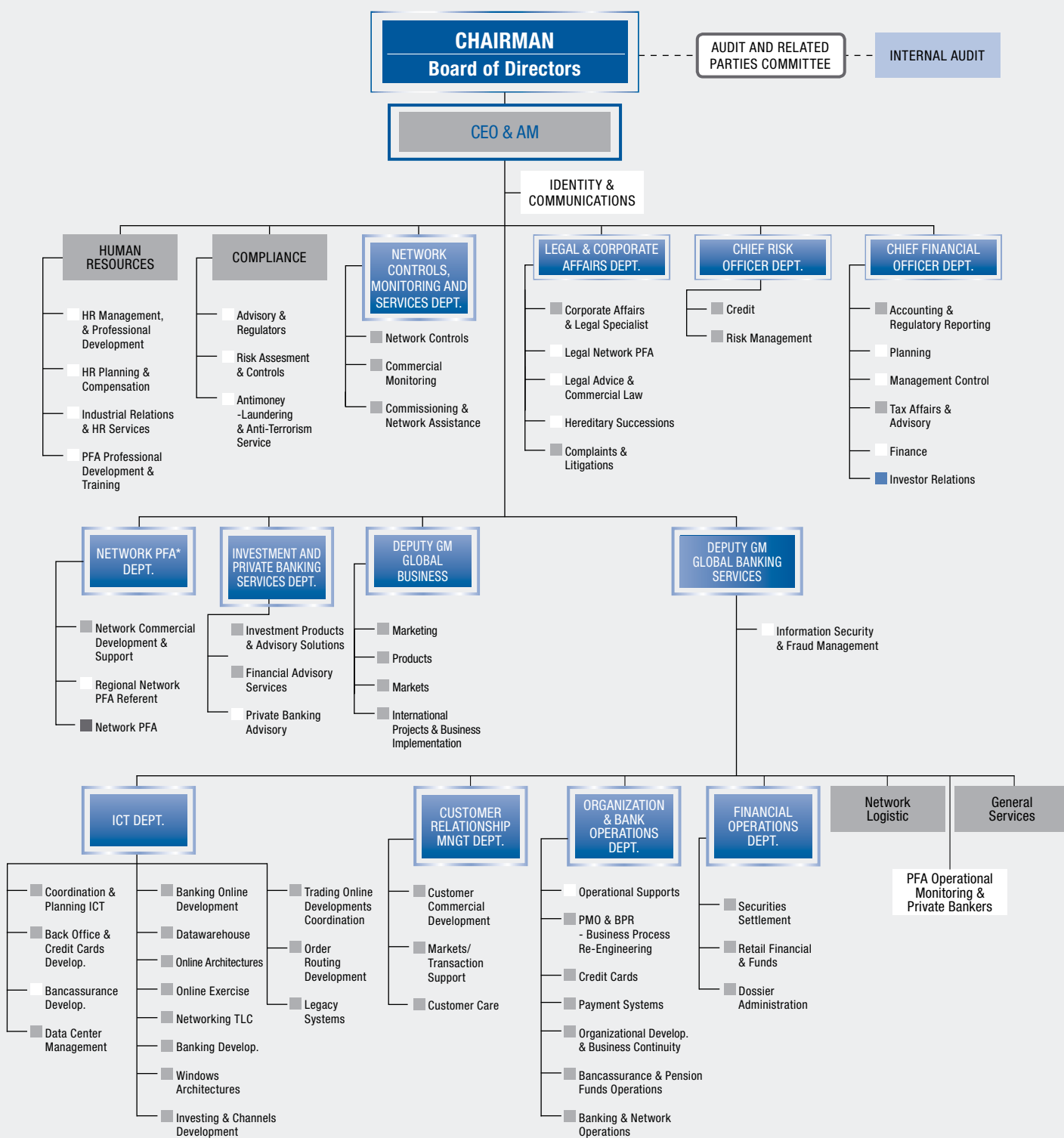
- The Investment Services and Private Banking Department is responsible for monitoring the development of products placed by the Bank and the financial advisory services provided to all the Bank's customers;
- the Global Business Department is responsible for overseeing the development of Trading, Banking and Credit products and the platforms for the investment products and for the PFA network. The Investment and Private Banking Department and the Global Business Department work closely with each other in order to develop a combined and synergistic offering of products and services to customers, in line with the Bank's marketing and business strategies;
- The GBS (Global Banking Services) Department coordinates the organisational units in charge of monitoring the organisational/operating processes and the ICT and logistics systems needed to ensure the effective and efficient operation of business support systems. The following organisational units report to the GBS Department: information Security & Fraud Management Team, ICT – Information & Communication Technology Department, CRM – Customer Relationship Management Department, Organisation & Bank Operations Department, Financial Operations Department, Network Services Unit, General Services Unit, and the PFA Operational Monitoring & Private Bankers team.

The synergies between the distribution channels and the monitoring of decision-making processes that cut across the Departments are ensured by a Management Committee.

As regards audit activities, the Bank, in line with the instructions of the Parent Company, has adopted an outsourcing model based on a specific service agreement signed with UniCredit S.p.A.. Under the model, the Audit and Related Parties Committee (a committee established within the Board of Directors) is responsible for liaising with the Bank and the outsourcer, in addition to supporting the Board of Directors – with information, advisory, recommendation and investigation functions – using a risk-oriented approach to identify the guidelines for the entire internal control system and the assessment of its effectiveness and efficiency.

Organisational structure (CONTINUED)

The organizational structure of Fineco is as follows:



Business continuity plan (BCP)

As required by the applicable regulations, the Bank has adopted a model that comprises organisational units dedicated to managing Business Continuity and Crises, both in normal operating conditions and in emergency situations.

The Bank's Business Continuity and Crisis Management framework includes the management plan for events, incidents and crises, and the business continuity plan. These plans are an integral part

of the disaster recovery plan (which establishes the measures for the restoration of applications and information technology systems affected by disasters) and of the cyber attack plan (which sets out the strategies – for systemic processes – for handling large scale computer attacks).

These Plans describe the crisis management procedures and are checked regularly to ensure that their effectiveness and adequacy.

Main balance sheet aggregates

(Amounts in € thousand)

ASSETS	AMOUNTS AS AT		CHANGES	
	12.31.2016	12.31.2015	AMOUNT	%
Cash and cash balances	5	6	(1)	-16.7%
Financial assets held for trading	6,044	3,983	2,061	51.7%
Loans and receivables with banks	15,735,540	14,648,904	1,086,636	7.4%
Loans and receivables with customers	1,016,798	922,774	94,024	10.2%
Financial investments	3,757,529	2,245,982	1,511,547	67.3%
Hedging instruments	9,211	10,573	(1,362)	-12.9%
Property, plant and equipment	14,451	12,419	2,032	16.4%
Goodwill	89,602	89,602	-	-
Other intangible assets	7,731	8,212	(481)	-5.9%
Tax assets	13,165	15,424	(2,259)	-14.6%
Other assets	336,300	370,070	(33,770)	-9.1%
Total assets	20,986,376	18,327,949	2,658,427	14.5%

(Amounts in € thousand)

LIABILITIES AND SHAREHOLDERS' EQUITY	AMOUNTS AS AT		CHANGES	
	12.31.2016	12.31.2015	AMOUNT	%
Deposits from banks	1,111,106	1,423,459	(312,353)	-21.9%
Deposits from customers	18,801,073	15,822,459	2,978,614	18.8%
Financial liabilities held for trading	2,626	4,100	(1,474)	-36.0%
Hedging instruments	11,371	31,319	(19,948)	-63.7%
Provisions for risks and charges	111,756	120,534	(8,778)	-7.3%
Tax liabilities	10,048	37,445	(27,397)	-73.2%
Other liabilities	257,097	255,835	1,262	0.5%
Shareholders' Equity	681,299	632,798	48,501	7.7%
- capital and reserves	476,249	430,119	46,130	10.7%
- revaluation reserves (available-for-sale financial assets and actuarial gains (losses) for defined benefits plans)	(6,794)	11,626	(18,420)	-158.4%
- net profit	211,844	191,053	20,791	10.9%
Total liabilities and shareholders' equity	20,986,376	18,327,949	2,658,427	14.5%

Financial assets held for trading

Financial assets held for trading consist of:

- bonds, equities, and UCIT units classified as HFT (held for trading), amounting to €1.2 million, held in the Bank's portfolio as a result of trading activity, or used for the operational hedging of CFD positions on shares open with customers, and intended to be traded in the short term;
- the positive valuation of spot contracts for securities in the HFT portfolio and currencies to be settled in time frames established by market practices ("regular way") for €1.9 million, which correspond to negative valuations booked under item 40 "Financial liabilities held for trading";

- the positive valuation of CFDs on indices, shares, interest rates and futures on indices and interest rates and of CFDs on Forex for €3 million.

CFDs are "Over the counter" derivative contracts that require the payment of a spread generated by the difference between the opening and closing price of the financial instrument. The bank in operational terms covers the imbalance of customer positions, by underwriting futures or the purchase/sale of equity securities on the same underlyings, or through Forex transactions with institutional counterparties to hedge CFD transactions in open currencies with customers' currency.

Loans and receivables with banks

(Amounts in € thousand)

	AMOUNTS AS AT		CHANGES	
	12.31.2016	12.31.2015	AMOUNT	%
Current accounts and demand deposits	2,336,579	1,251,070	1,085,509	86.8%
Time deposits	1,285,414	1,914,662	(629,248)	-32.9%
Other loans:				
1 Reverse repos	53	1,906	(1,853)	-97.2%
2 Others	58,563	36,917	21,646	58.6%
Debt securities	12,054,931	11,444,349	610,582	5.3%
Total	15,735,540	14,648,904	1,086,636	7.4%

Loans and receivables with banks for "Current accounts and demand deposits" mainly consist of accounts held with UniCredit, with a book value of €2,302.7 million (€1,224.2 million as at December 31, 2015), and to a lesser extent, of current accounts held with other banks not belonging to the UniCredit group for transactions in securities.

"Time deposits" consist of the deposit held with UniCredit for compulsory reserves, which stood at €172.5 million (€151.5 million as at December 31, 2015), in addition to time deposits held with UniCredit for an amount of €1,113 million (€1,763.2 million as at December 31, 2015), opened to invest the liquidity collected through repos and CashPark transactions with retail customers and through repos with credit institutions, with the same maturities.

The item "Other loans: Other" consists of €55.7 million for the amount

of the initial and variance margins placed with credit institutions for derivative transactions and repos (€31.4 million as at December 31, 2015), of which €3 million with UniCredit AG Monaco and €48.6 million with UniCredit (€21.6 million with UniCredit AG Monaco and €8.2 million with UniCredit as at December 31, 2015), and €2.9 million for current receivables associated with the provision of financial services (€5.5 million as at December 31, 2015).

The "Debt securities" included in the category "Loans and Receivables" mainly consist of debt securities issued by UniCredit for an amount of €12,054.9 million (€11,444.3 million at December 31, 2015). In 2016, three bonds issued by UniCredit S.p.A. were subscribed for a total nominal amount of €1,050 million. The bonds have a term of 7 years and are indexed to the 3 month Euribor rate plus a spread.

Main balance sheet aggregates (CONTINUED)

Loans and receivables with customers

(Amounts in € thousand)

	AMOUNTS AS AT		CHANGES	
	12.31.2016	12.31.2015	AMOUNT	%
Current accounts	299,372	215,038	84,334	39.2%
Reverse repos	87,349	198,951	(111,602)	-56.1%
Mortgages	884	46	838	1821.7%
Credit cards and personal loans	504,699	396,750	107,949	27.2%
Other loans	124,494	111,989	12,505	11.2%
Total	1,016,798	922,774	94,024	10.2%

Loans and receivables with customers, amounting to €1,016.8 million, can essentially be broken down as follows:

- €813.6 million in loans;
- €87.3 million in reverse repos;
- €34.1 million in collateral deposits and initial and variation margins with clearing houses for derivative contract transactions;
- €81.8 million relating to current receivables associated with the provision of financial services.

“Reverse repos” consist of “Multiday leverage” with retail customers and stock lending transactions with transactions institutional customers, securities lending transactions guaranteed by sums of money readily available to the lender and which are basically the equivalent of repos on securities.

Other loans mainly consist of collateral deposits and initial and variation margins for derivative contract transactions, and current receivables associated with the provision of financial services.

(Amounts in € thousand)

LOANS AND RECEIVABLES WITH CUSTOMERS (MANAGEMENT RECLASSIFICATION)	AMOUNTS AS AT		CHANGES	
	12.31.2016	12.31.2015	AMOUNT	%
Current accounts	296,927	211,273	85,654	40.5%
Credit card use	268,497	259,171	9,326	3.6%
Mortgages	860	-	860	n.c.
Personal loans	235,036	136,550	98,486	72.1%
Other loans	8,612	2,139	6,473	302.6%
<i>Performing loans</i>	<i>809,932</i>	<i>609,133</i>	<i>200,799</i>	<i>33.0%</i>
Current accounts	2,445	3,765	(1,320)	-35.1%
Mortgages	24	46	(22)	-47.8%
Credit card use	142	67	75	111.9%
Personal loans	1,024	962	62	6.4%
Other loans	22	27	(5)	-18.5%
<i>Impaired loans</i>	<i>3,657</i>	<i>4,867</i>	<i>(1,210)</i>	<i>-24.9%</i>
Loans	813,589	614,000	199,589	32.5%
Reverse repos	87,348	198,941	(111,593)	-56.1%
Reverse repos - impaired	1	10	(9)	-90.0%
Collateral deposits and initial and variation margins	34,059	26,721	7,338	27.5%
Current receivables associated with the provision of financial services	81,801	83,102	(1,301)	-1.6%
Current receivables and other receivables	203,209	308,774	(105,565)	-34.2%
Loans and receivables with customers	1,016,798	922,774	94,024	10.2%

The portfolio of loans mainly consists of receivables for personal loans, current accounts and credit card use. Overall, loans increased by 10.2%.

Impaired assets

(Amounts in € thousand)

CATEGORY	GROSS AMOUNT		TOTAL IMPAIRMENT		NET AMOUNT		COVERAGE RATIO	
	AMOUNTS AS AT		AMOUNTS AS AT		AMOUNTS AS AT		FIGURES AS AT	
	12.31.2016	12.31.2015	12.31.2016	12.31.2015	12.31.2016	12.31.2015	12.31.2016	12.31.2015
Non-performing loans	19,334	21,819	(16,672)	(18,319)	2,662	3,500	86.23%	83.96%
Unlikely to pay	1,906	2,181	(1,507)	(1,387)	399	794	79.07%	63.59%
Past-due loans	1,130	1,195	(532)	(612)	598	583	47.08%	51.21%
Total	22,370	25,195	(18,711)	(20,318)	3,659	4,877	83.64%	80.64%

The amount of impaired loans net of impairment losses was €3.7 million, €2.7 million of which in non-performing loans, €0.4 million in unlikely to

pay exposures and €0.6 million in past-due loans. Impaired loans mostly relate to current account overdrafts, credit card use and personal loans.

Financial investments

(Amounts in € thousand)

	AMOUNTS AS AT		CHANGES	
	12.31.2016	12.31.2015	AMOUNT	%
Available-for-sale financial assets	1,319,752	2,245,982	(926,230)	-41.2%
Held-to-maturity investments	2,437,777	-	2,437,777	n.c.
Total	3,757,529	2,245,982	1,511,547	67.3%

In the fourth quarter of 2016, the Bank reclassified the “Available-for-sale financial assets” consisting of Italian and Spanish government securities to the “Held-to-maturity investments portfolio”. The reclassification was consistent with the Bank’s objective of obtaining stable income flows over the medium/long-term and in line with the business and financial outlooks stated by the Bank in its planning. See section A.3 Disclosure on transfers between portfolios of financial assets of this Part A of the Notes to the Accounts for more details.

As at December 31, 2016, “Held-to-maturity investments” consisted of debt securities issued by the Italian Government, for a book value of €1,499.3 million, and issued by the Spanish Government, for a book value of €938.5 thousand.

“Available-for-sale financial assets” consisted of debt securities issued by governments and equity instruments not listed on an active market.

Investments in debt securities consisted of:

- Italian government securities, with a book value of €982.4 million (€1,639 million as at December 31, 2015);
- French government securities, with a book value of €10.3 million (€10.4 million as at December 31, 2015);
- Spanish government securities, with a book value of €249.9 million (€586.1 million as at December 31, 2015);
- US government securities, with a book value of €73.5 million (not present as at December 31, 2015).

A part of the debt securities classified in the “Available-for-sale financial assets portfolio” is entirely used as collateral for bankers’ drafts or guarantees with third parties for a book value of €128.9 million (€131.4 million as at December 31, 2015).

Equity instruments consisted of equity investments in companies in which the Bank does not exercise control or have a significant influence, for an amount of €3.5 million, primarily consisting of the Visa INC class “C” preferred shares. In this regard, you are reminded that the details of the merger between Visa Inc. and Visa Europe Limited were defined in the final months of 2015, because of which the Bank received an offer from Visa Inc. for the purchase of the shares of Visa Europe Limited. This offer included the distribution to the consortium members of Visa Europe Limited of compensation in the form of cash, deferred cash and Visa INC class “C” preferred shares. The transaction was closed in June 2016 and the Bank received €11.2 million in cash and 4,057 Visa INC class “C” preferred shares, whose fair value was calculated, on the closing date (June 21, 2016), at €3.3 million. In June 2019 (three years after the closing date), the Bank will also have the right to receive a deferred cash amount of around €0.9 million. The Bank has therefore recognised a gain on sale of €15.3 million under the income statement item 100 “Gains (losses) on disposal or repurchase of: b) available-for-sale financial assets”, accompanied by the recognition of the Visa INC Class “C” preferred shares at their fair value, in the amount of €3.3 million, and a receivable from Visa INC for a present value of €0.9 million. The measurement as at December 31, 2016 of the Visa INC class C shareholding generated an unrealised gain of €271 thousand (€252 thousand after tax) recognised under the Revaluation reserves for Available-for-sale financial assets.

The “Available-for-sale financial assets” portfolio also includes the recognition of the exposure in equity instruments recognised because of the contribution made to the Interbank Deposit Guarantee Fund - Voluntary Scheme for the subscription of the capital increase of Cassa di Risparmio di Cesena of €6.7 million.

The Voluntary Scheme is an instrument for resolving bank crises through support measures in favour of banks subscribing to it, when specific

Main balance sheet aggregates (CONTINUED)

conditions established by the regulations apply. The Voluntary Scheme has its own independent financial resources and the banks subscribing to it have committed to provide funds on request for implementation of the measures. On June 17, 2016, the General Meeting of the IDGF strengthened the financial resources of the Voluntary Scheme from €300 million to €700 million. With value date of September 20, 2016, the Voluntary Scheme of the IDGF made a payment for the capital increase of Cassa di Risparmio di Cesena and at the same time debited the amount pertaining to the member. The Bank incurred costs of €6.7 million, with a resulting reduction in the commitment to the Voluntary Scheme of €10 million as at December 31, 2016.

As at December 31, 2016, the Bank made a full impairment write-down on the above-mentioned exposure, recognised in item "Net income

from investments" of the reclassified income statement. In this regard, it should be noted that above decision was taken based on a valuation, made internally, using the market multiples method (in line with the identification of the contribution as AFS) that took account of the prices stated in the market for comparable listed companies and the fact that the investment related to an unlisted company. The decision also took into account the present and future conditions of the market for banking investments, which led the results of the valuation to be considered prudentially. At the end of the valuation conducted internally, the Bank decided, from among the other possible reasonably applicable valuation options, to adopt the option of full impairment write-down, based on the principles of prudence, in view of the numerous and significant elements of uncertainty at the present time.

Hedging instruments

(Amounts in € thousand)

	AMOUNTS AS AT		CHANGES	
	12.31.2016	12.31.2015	AMOUNT	%
Asset hedging derivatives - positive valuations	-	-	-	-
Liability hedging derivatives - positive valuations	552	-	552	n.c.
Adjustments to the value of assets under portfolio hedge	8,659	10,573	(1,914)	-18.1%
Total assets	9,211	10,573	(1,362)	-12.9%
of which:				
Positive valuations	452	-	452	n.c.
Accrued interest	100	-	100	n.c.
Adjustments to the value of hedged assets	8,659	10,573	(1,914)	-18.1%
Total assets	9,211	10,573	(1,362)	-12.9%
Asset hedging derivatives - negative valuations	10,914	31,319	(20,405)	-65.2%
Liability hedging derivatives - negative valuations	-	-	-	-
Adjustments to the value of liabilities under portfolio hedge	457	-	457	n.c.
Total liabilities	11,371	31,319	(19,948)	-63.7%
of which:				
Negative valuations	11,274	24,240	(12,966)	-53.5%
Accrued interest	(360)	7,079	(7,439)	-105.1%
Adjustments to the value of hedged liabilities	457	-	457	n.c.
Total liabilities	11,371	31,319	(19,948)	-63.7%

(Amounts in € thousand)

Summary of hedging derivatives valuations as at December 31, 2016	Assets	Liabilities	Difference
Valuation of hedging derivatives for assets and liabilities	452	11,274	(10,822)
Change in fair value of hedged assets/liabilities	8,659	457	8,202
Revaluation reserve before related taxation	-	(2,542)	2,542
Total	9,111	9,189	(78)

Hedged assets consist of bonds issued by UniCredit belonging to the "Loans and Receivables" category and securities issued by the Italian Central Government and classified as "Available-for-sale financial assets". The hedged liabilities consisted of direct deposits. Positive and negative valuations of hedging derivatives related solely

to derivative contracts that the Bank has entered into to hedge against interest rate risk inherent in the above-mentioned assets and liabilities, whose income statement effect, net of €0.5 million of accrued interest income included in the net interest margin, was a negative amount of €78 thousand.

Property, plant and equipment

As in previous financial years, investments in electronic equipment were made to guarantee the ongoing update of the hardware used by all the Bank's departments, and in particular by the IT department.

Investments in office furniture and fittings and equipment are primarily intended for use in new financial shops.

(Amounts in € thousand)

PROPERTY, PLANT AND EQUIPMENT	BALANCE 01.01.2016	INVESTMENTS YEAR 2016	OTHER CHANGES AND SALES YEAR 2016	DEPRECIATION AND IMPAIRMENT YEAR 2016	BALANCE 12.31.2016
Properties	2,509	-	-	(112)	2,397
Electronic equipment	7,575	5,297	-	(3,312)	9,560
Office furniture and fittings	1,064	1,071	1	(1,005)	1,131
Plant and machinery	1,271	516	-	(424)	1,363
Total	12,419	6,884	1	(4,853)	14,451

Goodwill

The Goodwill recognised in the financial statements derives from transactions carried out in the years from 2001 to 2008, involving acquisitions and mergers by absorption of business units and businesses engaged in trading operations or the distribution of financial, banking and insurance products through the personal financial advisors (Fineco On Line Sim S.p.A., Trading and Banking business unit of Banca della Rete, personal financial advisors business unit of the former FinecoGroup S.p.A., and UniCredit Xelion Banca S.p.A.).

These activities have been fully integrated with the Bank's ordinary operations. As a result, it is no longer possible to isolate the contribution of each company/business division from the Bank's overall income. This means that to establish the reasonableness of the value of goodwill recognised in the financial statements it is necessary to take account of the Bank's comprehensive income. The cash-generating unit (CGU) is therefore the Bank as a whole.

In fact, in view of the specific business model adopted by the Bank, which envisages a high level of integration between personal financial advisors and the trading and banking platform, the allocation of costs/

revenues to the macro areas of activity is not considered relevant or meaningful; the personal financial advisors network is an integral part of the overall offer, along with banking, brokerage and investing services.

Impairment testing on goodwill, performed on December 31, 2016, did not identify any impairment. For all other information on the impairment testing, see Part B) – Balance Sheet Information in the Notes to the Accounts.

Other intangible assets

Other intangible assets mainly include purchases and the implementation of information technology procedures with useful lives of several years, required in order to manage the development and ongoing provision by the Bank of new and more versatile high-added-value services for customers, as well as infrastructure and application optimizations, enhancements to architecture for application security, and the developments needed to meet the new regulatory requirements.

(Amounts in € thousand)

INTANGIBLE ASSETS	BALANCE 01.01.2016	INVESTMENTS YEAR 2016	AOTHER CHANGES AND SALES YEAR 2016	AMORTISATION AND IMPAIRMENT YEAR 2016	BALANCE 12.31.2016
Software	7,157	4,287	-	(4,610)	6,834
Other intangible assets	1,055	331	-	(489)	897
Total	8,212	4,618	-	(5,099)	7,731

Main balance sheet aggregates (CONTINUED)

Tax Assets and Other Assets

(Amounts in € thousand)

	AMOUNTS AS AT		CHANGES	
	12.31.2016	12.31.2015	AMOUNT	%
Tax assets				
Current assets	1,571	1,733	(162)	-9.3%
Deferred tax assets	36,660	37,063	(403)	-1.1%
Deferred tax assets pursuant to Law 214/2011	4,180	4,401	(221)	-5.0%
<i>Total before IAS 12 offsetting</i>	<i>42,411</i>	<i>43,197</i>	<i>(786)</i>	<i>-1.8%</i>
Offset against deferred tax liabilities - IAS 12	(29,246)	(27,773)	(1,473)	5.3%
Total Tax assets	13,165	15,424	(2,259)	-14.6%
Other assets				
Items in processing	27	17	10	58.8%
Items awaiting settlement	11,558	10,021	1,537	15.3%
Definitive items not recognised under other items	42,213	43,039	(826)	-1.9%
Current receivables not related with the provision of financial services	2,290	3,163	(873)	-27.6%
Tax items other than those included in the item "Tax liabilities"	250,077	285,875	(35,798)	-12.5%
Prepayments	22,754	19,950	2,804	14.1%
Improvement and incremental expenses incurred on leasehold assets	7,262	7,849	(587)	-7.5%
Other items	119	156	(37)	-23.7%
Total other assets	336,300	370,070	(33,770)	-9.1%

The decrease in "Tax assets", of €2.3 million, was mainly due to:

- the reduction in "Deferred Tax Assets" of around €0.6 million, resulting from the use of the provisions for risks and charges;
- the increase in "Deferred tax liabilities" of €1.5 million, mainly due to the revaluation of debt securities held in the Bank's portfolio.

"Deferred tax assets" are shown in the balance sheet net of the related "Deferred tax liabilities", when the requirements of IAS 12 are met.

For the item Other assets, there was a decrease of €35.8 million in the "Tax items other than those recorded under the Tax Assets item", due to lower amount of advance tax paid as substitute tax for stamp duty, substitute tax on other income and withholding tax on interest, partly offset by higher advance payments made for stamp duty.

Deposits from banks

(Amounts in € thousand)

	AMOUNTS AS AT		CHANGES	
	12.31.2016	12.31.2015	AMOUNT	%
Deposits from central banks	-	-	-	-
Deposits from banks				
Current accounts and demand deposits	52,309	68,848	(16,539)	-24.0%
Loans				
Repos	1,058,565	1,313,191	(254,626)	-19.4%
Other liabilities	232	41,420	(41,188)	-99.4%
Total	1,111,106	1,423,459	(312,353)	-21.9%

The item "Current accounts and demand deposits" mainly consisted of reciprocal current accounts and loans with UniCredit, amounting to €49.4 million (€58.8 million as at December 31, 2015), as well as reciprocal current accounts and loans with banks outside the Group of €2.9 million.

"Repos" included €977.8 million in transactions effected with UniCredit

(€1,186.3 million as at December 31, 2015) and €6.6 million of securities lending transactions guaranteed by cash carried out with UniCredit Bank AG Monaco (€41.7 million as at December 31, 2015).

As at December 31, 2015, the item "Other liabilities" included margin variations received for trading in repos with UniCredit, with a book value of €40.6 million.

Deposits from customers

Deposits from customers, mainly consisting of current accounts, the Cash Park deposit account and repos, totalled €18,801 million, up 18.8% compared to December 31, 2015.

(Amounts in € thousand)

	AMOUNTS AS AT		CHANGES	
	12.31.2016	12.31.2015	AMOUNT	%
Current accounts and demand deposits	18,319,307	14,985,275	3,334,032	22.2%
Time deposits	159,124	560,114	(400,990)	-71.6%
Loans				
Repos	231,376	199,817	31,559	15.8%
Other liabilities	91,266	77,253	14,013	18.1%
Deposits from customers	18,801,073	15,822,459	2,978,614	18.8%

There was an increase of €3,334 million in the cash deposited in current accounts, which was also driven by the transfer of the sales of Cash Park time deposits and Supersave repos, which recorded a decrease as a result of the progressive reduction in the remuneration rates.

The item "Other liabilities" comprises current payables related to the provision of financial services, totalling €28.1 million (€32.5 million as at December 31, 2015), initial and variance margins for derivative transactions, which came to €38.5 million (€24.4 million as at December 31, 2015) and other liabilities for rechargeable credit cards and bankers' drafts, amounting to €24.7 million (€20.4 million at December 31, 2015).

- the negative valuation of spot contracts for securities in the HFT portfolio and currencies to be settled in time frames established by market practices ("regular way") of around €1.8 million, which correspond to positive valuations booked under item 20 "Financial assets held for trading";
- the negative valuation of CFDs on indices, shares, interest rates and futures on indices and interest rates and of CFDs on Forex for €0.6 million.

CFDs are "Over the counter" derivative contracts that require the payment of a spread generated by the difference between the opening and closing price of the financial instrument. The bank in operational terms covers the imbalance of customer positions, by underwriting futures or the purchase/sale of equity securities on the same underlyings, or through Forex transactions with institutional counterparties to hedge CFD transactions in open currencies with customers' currency.

Financial liabilities held for trading

Financial liabilities held for trading consist of:

- technical overdrafts classified as HFT used for the operational hedging of CFD positions on shares open with customers, amounting to €0.2 million, and intended to be traded in the short term;

Main balance sheet aggregates (CONTINUED)

Provisions for risks and charges

Provisions for risks and charges include allowances for a total of €111.8 million, for which, given a liability of uncertain amount and expiry, a current obligation was identified as the result of a past event and it was possible to make a reliable estimate of the amount resulting from the fulfilment of said obligation. The disbursements, with estimated maturity exceeding 18 months, were discounted to present value using a rate equal to the time value of money.

"Staff expenses" include the provisions made for the variable

remuneration to be paid to employees in subsequent years, which have an uncertain due date and/or amount. This item also includes the estimated integration costs for the Bank in relation to the Business Plan of the UniCredit group recognised in the financial statements for the years ended December 31, 2016 and December 31, 2015. In 2016, following the signing of the agreement of February 5, 2016, these costs recognised in the financial statements for the year ended December 31, 2015 were partially reallocated to "Other liabilities" for the part relating to the subscriptions accepted.

(Amounts in € thousand)

	AMOUNTS AS AT		CHANGES	
	12.31.2016	12.31.2015	AMOUNT	%
Legal disputes	33,699	43,458	(9,759)	-22.5%
- Pending proceedings	26,673	35,225	(8,552)	-24.3%
- Claims	7,026	8,233	(1,207)	-14.7%
Staff expenses	10,043	9,570	473	4.9%
Other	68,014	67,506	508	0.8%
- Supplementary customer indemnity provision	56,054	51,139	4,915	9.6%
- Contractual payments and payments under non-competition agreements	2,184	2,270	(86)	-3.8%
- Tax disputes	4,078	7,034	(2,956)	-42.0%
- Other provisions	5,698	7,063	(1,365)	-19.3%
Total provisions for risks and charges	111,756	120,534	(8,778)	-7.3%

Tax liabilities and Other liabilities

(Amounts in € thousand)

	AMOUNTS AS AT		CHANGES	
	12.31.2016	12.31.2015	AMOUNT	%
Tax liabilities				
Current liabilities	10,048	37,445	(27,397)	-73.2%
Deferred tax liabilities	29,246	27,773	1,473	5.3%
<i>Total before IAS 12 offsetting</i>	<i>39,294</i>	<i>65,218</i>	<i>(25,924)</i>	<i>-39.7%</i>
Offset against deferred tax assets - IAS 12	(29,246)	(27,773)	(1,473)	5.3%
Total Tax liabilities	10,048	37,445	(27,397)	-73.2%
Other liabilities				
Impairment of financial guarantees given	-	1,416	(1,416)	-100.0%
Items in processing	1,521	2,966	(1,445)	-48.7%
Items awaiting settlement	59,164	46,681	12,483	26.7%
Definitive items not recognised under other items	34,984	39,448	(4,464)	-11.3%
Payables for share-based payments or shares of the Parent Company UniCredit	957	2,491	(1,534)	-61.6%
Payables to employees and other personnel	7,259	6,611	648	9.8%
Payables to Directors and statutory auditors	140	187	(47)	-25.1%
Current payables not associated with the provision of financial services	18,941	21,804	(2,863)	-13.1%
Tax items other than those included in the item "Tax liabilities"	103,467	106,060	(2,593)	-2.4%
Social security contributions payable	5,944	5,829	115	2.0%
Illiquid items for portfolio transactions	18,486	16,569	1,917	11.6%
Other items	981	927	54	5.8%
Employee severance pay provision	5,253	4,846	407	8.4%
Total Other Liabilities	257,097	255,835	1,262	0.5%

The decrease of €25.9 million in "Tax liabilities" (before IAS 12 offset), was attributable to the reduction in the item "Current liabilities" due to the offsetting of the tax for the year against advance tax payments made and the reduction in tax provisions following the settlement of several disputes that were definitively concluded during the first half of 2016. It is also noted that, when the requirements of IAS 12 are met, the "Deferred tax liabilities" are offset against "Deferred tax assets" in the balance sheet.

With regard to the Other liabilities there was:

- a decrease of €2.6 million in "Tax items other than those included in the item Tax liabilities", as a result of lower payables recognised towards the tax authorities for withholdings on interest;
- a decrease of €2.9 million in "Current payables not associated financial services", due to the reduction in payables for invoices to be paid to and received from suppliers;
- an increase of €12.5 million in "Items awaiting settlement" mainly attributable to outgoing bank transfers and POS transactions to be settled;
- and a decrease of €4.5 million in "Definitive items not recognised under other items".

Shareholders' equity

As at December 31, 2016, the Bank's share capital came to €200.2 million, comprising 606,805,436 ordinary shares with a par value of €0.33 each.

The reserves consisted of the:

- Share premium reserve, amounting to €1.9 million;
- Legal reserve, amounting to €40 million;
- Extraordinary reserve, amounting to €205.9 million;
- Reserve for treasury shares held, amounting to €4.3 million;
- Reserve related to equity-settled plans, amounting to €28.2 million.

Following the Board of Directors' resolution of February 8, 2016, for the execution of the "2014 Key People Plan" approved by the Shareholders' Meeting of June 5, 2014, the share capital was increased through a bonus issue by an amount of €95,601.99, corresponding to 289,703 ordinary shares, with consequent reduction of the available retained earnings.

The "Reserve related to equity-settled plans" was increased by around €10.5 million, due to the recognition during the year of the income statement and balance sheet effects of the payment plans based on FinecoBank ordinary shares during the vesting period for the instruments, and was used in the amount of €4.2 million following the allocation of FinecoBank ordinary shares to the Bank's Personal Financial Advisors and Network Managers under the second tranche of the stock granting "2014 PFA Plan". At the same time, the "Reserve for treasury shares held" was released and reclassified to the "Extraordinary reserve" for the same amount.

As a result of the allocation described above, the treasury shares held as at December 31, 2016 amounted 714,325, for an amount of €4.3 million. The shares were purchased in implementation of the stock granting "2014 PFA Plan" for the Bank's Personal Financial Advisors and Network Managers, approved by the Board of Directors on May 15, 2014 and by the Shareholders' Meeting on June 5, 2014, starting from September 16, 2015, after receipt of the authorisation from the Supervisory Authority, in accordance with Articles 77-78 of EU Reg. 575/2013 of June 26, 2013 (CRR), and ended on October 12, 2015.

The Shareholders' Meeting of April 12, 2016 approved the allocation of profit for the year 2015, amounting to €191 million, as follows:

- €0.02 million to the **Legal reserve**;
- €35.7 million to the **Extraordinary reserve**;
- €154.4 million, equal to €0.255 per share, to Shareholders;
- €1 million to social, charity and cultural causes, pursuant to Article 26, paragraph 5, of the Articles of Association.

The Revaluation reserves consisted of:

- €4.7 million from the net positive reserve for debt securities issued by central governments of EU member countries, held in the "Available-for-sale financial assets" portfolio;
- €1.8 million from the net negative reserve for debt securities, other than those mentioned above, held in the "Available-for-sale financial assets" portfolio;
- €0.3 million from the positive reserve for equity instruments held in the "Available-for-sale financial assets" portfolio, relating exclusively to the change in the fair value of the Visa INC class "C" preferred shares;
- €6.3 million to the negative IAS19 Reserve;
- €3.7 million for the net negative reserve for debt securities issued by central governments of EU member countries, transferred from the "Available-for-sale financial assets" portfolio to the "Held-to-maturity investments" portfolio in 2016.

Main balance sheet aggregates (CONTINUED)

Shareholders' equity

(Amounts in € thousand)

ITEMS/VALUES	AMOUNTS AS AT		CHANGES	
	12.31.2016	12.31.2015	AMOUNT	%
Share capital	200,246	200,150	96	0.0%
Share premium reserve	1,934	1,934	-	-
Reserves				
- Legal reserve	40,049	40,030	19	0.0%
- Extraordinary reserve	205,860	166,081	39,779	24.0%
- Treasury shares reserve	4,338	8,555	(4,217)	-49.3%
- Other reserves	28,160	21,924	6,236	28.4%
(Treasury Shares)	(4,338)	(8,555)	4,217	-49.3%
Revaluation reserves	(6,794)	11,626	(18,420)	n.c.
Net Profit (Loss) for the year	211,844	191,053	20,791	10.9%
Total	681,299	632,798	48,501	7.7%

Own funds and prudential requirements

(Amounts in € thousand)

	FIGURES AS AT	
	12.31.2016	12.31.2015
Common Equity Tier 1 Capital - CET1	438,121	390,976
Tier 1 Capital	438,121	390,976
Total Own Funds	438,121	393,903
Total risk-weighted assets	1,909,713	1,828,007
Ratio - Common Equity Tier 1 Capital	22.94%	21.39%
Ratio - Tier 1 Capital	22.94%	21.39%
Ratio - Total Own Funds	22.94%	21.55%

(Amounts in € thousand)

	FIGURES AS AT	
	12.31.2016	12.31.2015
Tier 1 Capital	438,121	390,977
Exposure for leverage ratio	5,302,244	3,717,157
Transitional leverage ratio	8.26%	10.52%

Own funds as at December 31, 2016 amounted to a €438.1 million. Own funds and Capital ratios were determined applying the current Supervisory Regulations, in line with Basel III standards including transitional adjustments.

The figures shown include the profit for the year 2016 that will not be distributed, assuming the conditions established Article 26.2 of the EU Regulation 575/2013 (CRR) are satisfied. For more details, see Part F - Shareholders' Equity of the Notes to the Accounts.

The leverage ratio was calculated in accordance with EU Delegated Regulation 2015/62 of October 10, 2014. As required by Circular No. 285 of the Bank of Italy, Part Two, Chapter 12, Section III Exercise of national discretion, exposures to the UniCredit Group companies based in Italy and weighted at 0% pursuant to Article 113, par. 6 of the CRR have not been included in the calculation of total exposure, in accordance with Article 429 (7) of the CRR amended by the Delegated Regulation (EU) 2015/62.

Shareholders

The share capital, fully subscribed and paid up, totalled €200,245,793.88 divided into 606,805,436 ordinary shares with a par value of €0.33. As at December 31, 2016, the major shareholders were:

MAJOR SHAREHOLDERS	% OWNED
UniCredit S.p.A.	35.479%
Wellington Management Company LLP	5.199%

Income statement figures

Condensed Income Statement

(Amounts in € thousand)

	YEAR		CHANGES	
	2016	2015	AMOUNT	%
Net interest	249,388	240,762	8,626	3.6%
Dividends and other income from equity investments	6	-	6	n.c.
Net fee and commission income	242,881	252,610	(9,729)	-3.9%
Net trading, hedging and fair value income	69,054	53,867	15,187	28.2%
Net other expenses/income	(2,211)	(2,974)	763	-25.7%
OPERATING INCOME	559,118	544,265	14,853	2.7%
Staff expenses	(73,698)	(75,049)	1,351	-1.8%
Other administrative expenses	(228,119)	(232,870)	4,751	-2.0%
Recovery of expenses	85,395	84,347	1,048	1.2%
Impairment/write-backs on intangible and tangible assets	(9,952)	(8,951)	(1,001)	11.2%
Operating costs	(226,374)	(232,523)	6,149	-2.6%
OPERATING PROFIT (LOSS)	332,744	311,742	21,002	6.7%
Net write-downs of loans and provisions for guarantees and commitments	(4,199)	(6,706)	2,507	-37.4%
NET OPERATING PROFIT (LOSS)	328,545	305,036	23,509	7.7%
Net provisions for risks and charges	(9,981)	(15,714)	5,733	-36.5%
Integration costs	(5,503)	(1,246)	(4,257)	341.7%
Net income from investments	(6,724)	(1)	(6,723)	n.c.
NET PROFIT (LOSS) BEFORE TAX FROM CONTINUING OPERATIONS	306,337	288,075	18,262	6.3%
Income tax for the year	(94,493)	(97,022)	2,529	-2.6%
NET PROFIT (LOSS) AFTER TAX FROM CONTINUING OPERATIONS	211,844	191,053	20,791	10.9%
NET PROFIT (LOSS) FOR THE YEAR	211,844	191,053	20,791	10.9%

Net interest margin

The Net interest margin for 2016 amounted to €249.4 million, up by 3.6% on the same period of the previous year, due to the increase in sales volume and the reduction in the cost of sales that offset the fall in interest income linked to the decline in market interest rates. In this regard it should be noted that the structure of the investments

carried out by the Bank contributed to keep a flow of interest income resulting from the investment of deposits, even against a backdrop of significant reduction of credit spreads and market interest rates. The average lending rate for the investment of all deposits (both demand and term) amounted to 1.33% in 2016 compared to 1.50% in 2015.

(Amounts in € thousand)

INTEREST INCOME	YEAR		CHANGES	
	2016	2015	AMOUNT	%
Financial assets held for trading	1	2	(1)	-50.0%
Available-for-sale financial assets	20,658	20,362	296	1.5%
Held-to-maturity investments	1,575	-	1,575	n.c.
Loans and receivables with banks	198,814	216,737	(17,923)	-8.3%
Loans and receivables with customers	29,109	29,786	(677)	-2.3%
Hedging derivatives	3,080	1,945	1,135	58.4%
Other assets	69	66	3	4.5%
Total interest income	253,306	268,898	(15,592)	-5.8%

(Amounts in € thousand)

INTEREST EXPENSE	YEAR		CHANGES	
	2016	2015	AMOUNT	%
Deposits from banks	3,006	240	2,766	1152.5%
Deposits from customers	(6,924)	(14,337)	7,413	-51.7%
Debt securities in issue	-	(14,039)	14,039	-100.0%
Total interest expense	(3,918)	(28,136)	24,218	-86.1%
Net interest	249,388	240,762	8,626	3.6%

The following table provides a breakdown of interest income associated with banks and customers:

(Amounts in € thousand)

BREAKDOWN OF INTEREST INCOME	YEAR		CHANGES	
	2016	2015	AMOUNT	%
Interest income on loans and receivables with banks	198,814	216,737	(17,923)	-8.3%
- current accounts	3,042	1,516	1,526	100.7%
- reverse repos	385	124	261	210.5%
- time deposit for compulsory reserves	16	73	(57)	-78.1%
- time deposits	1,224	10,151	(8,927)	-87.9%
- other loans	(70)	(11)	(59)	536.4%
- debt securities	194,217	204,884	(10,667)	-5.2%
Interest income on loans and receivables with customers	29,109	29,786	(678)	-2.3%
- current accounts	5,843	5,566	277	5.0%
- reverse repos	6,649	10,825	(4,176)	-38.6%
- credit cards	4,516	3,882	634	16.3%
- personal loans	12,149	9,393	2,756	29.3%
- other loans	(48)	121	(169)	-139.7%

Interest income on loans and receivables with banks amounted to €198.8 million, down 8.3% on the same period of the previous year. The decrease was attributable to lower interest on time deposits of €8.9 million, mainly due to a fall in volumes and the trend in market interest rates, and lower interest on debt securities of €10.7 million, due to the trend in market interest rates.

Interest income on loans and receivables with customers amounted to €29.1 million, essentially unchanged on the same period of the previous year. The higher interest on personal loans, thanks to the increase in distributions, and on revolving credit cards, was offset by the decrease in interest on securities lending transactions guaranteed by multi-day leverage cash due to the reduction in volumes, linked to the decrease in market volatility compared to the previous year.

The following table provides a breakdown of interest expense related to banks and customers:

(Amounts in € thousand)

BREAKDOWN OF INTEREST EXPENSE	YEAR		CHANGES	
	2016	2015	AMOUNT	%
Interest expense on deposits from banks	3,006	240	2,766	1152.5%
- current accounts	(213)	(64)	(149)	232.8%
- demand and collateral deposits	68	22	46	209.1%
- other loans	(19)	(24)	5	-20.8%
- reverse repos	3,170	306	2,864	935.9%
Interest expense on deposits from customers	(6,924)	(14,337)	7,413	-51.7%
- current accounts	(4,777)	(4,340)	(437)	10.1%
- collateral deposits	(5)	(51)	46	-90.2%
- time deposits	(1,839)	(8,741)	6,902	-79.0%
- reverse repos	(303)	(1,205)	902	-74.9%

Interest expense on deposits from banks showed a positive amount of €3 million due to the changes in market rates, which resulted in the recording of positive interest expense on reverse repos and, to a lesser extent, on collateral deposits.

Interest expense on deposits from customers came to €6.9 million, down €7.4 million over the same period of the prior year, because of the reduction volumes and the interest rate for "Cash Park" time deposits. The cost of deposits went from 0.08% in 2015 to 0.03% in 2016.

Income statement figures (CONTINUED)

Income from brokerage and other income

(Amounts in € thousand)

	YEAR		CHANGES	
	2016	2015	AMOUNT	%
Net interest	249,388	240,762	8,626	3.6%
Dividends and other income from equity investments	6	-	6	-
Net fee and commission income	242,881	252,610	(9,729)	-3.9%
Net trading, hedging and fair value income	69,054	53,867	15,187	28.2%
Net other expenses/income	(2,211)	(2,974)	763	-25.7%
Operating income	559,118	544,265	14,853	2.7%

Net fee and commission income

(Amounts in € thousand)

MANAGEMENT RECLASSIFICATION	YEAR		CHANGES	
	2016	2015	AMOUNT	%
Management, brokerage and consulting services:				
1. securities trading and order collection	78,334	86,703	(8,369)	-9.7%
2. currency trading	-	(140)	140	-100.0%
3. custody and administration of securities	(3,162)	(3,488)	326	-9.3%
4. placement and management of managed asset products	141,860	148,044	(6,184)	-4.2%
5. investment advisory services	35,479	28,252	7,227	25.6%
6. distribution of other products	(196)	(159)	(37)	23.3%
Collection and payment services	2,736	11,598	(8,862)	-76.4%
Holding and management of current/deposit accounts	29	(1,557)	1,586	n.c.
Other fee expense personal financial advisors	(19,510)	(24,034)	4,524	-18.8%
Securities lending	1,916	2,463	(547)	-22.2%
Other services	5,395	4,928	467	9.5%
Total net fee and commission income	242,881	252,610	(9,729)	-3.9%

Net fee and commission income amounted to €242.9 million, decreasing by 3.9% compared to the same period of the previous year mainly due to:

- lower securities trading and order collection commissions, as a result of the progressive shift by customers towards over-the-counter products and the lower market volatility than in 2015;
- lower commissions for collection and payment services, mainly related to transactions with credit and debit cards. In this regard, it is important to note that Regulation (EU) 2015/751 of the European Parliament and of the Council, which came into force from December 9, 2015, set a cap on interbank commissions for transactions via debit and credit cards;
- lower fee expense paid to personal financial advisors under the incentive plans;
- lower commissions for the placement and management of managed asset products, offset by higher investment advisory commissions.

Starting from the year 2016, the item "investment advisory services" does not include the commissions repaid to customers as a rebate, which have been allocated to the item "placement and management of managed asset products". The figures for the previous year have been restated to enable like-for-like comparison.

The commissions for securities lending include the income component relating to the service provided (received) for the provision of the security both for transactions with guarantee consisting of cash and for transactions with guarantee consisting of other securities. In order to assess the transaction as a whole, the income component recognised within the net interest margin must also be taken into account.

Dividends and other income from equity investments consisted exclusively of the dividends received on the Visa INC class "C" preferred shares.

Net trading, hedging and fair value income was mainly generated by gains realised from the internalisation of securities and CFDs, financial instruments used for the operational hedging of CFDs, the exchange differences on assets and liabilities denominated in currency, and gains on the sale of securities recognised in the "Available-for-sale financial assets" portfolio. In 2016 there was an increase of €15.2 million in Net trading, hedging and fair value income attributable to the gains realised on the sale of government securities recognised in the "Available-for-sale financial assets" portfolio totalling €5 million, carried out as part of the measures to mitigate the exposure to interest rate risk and optimise profitability,

in addition to a gain of €15.3 million realised from the sale of the investment in Visa Europe Limited described above, partly offset by the reduction in positive exchange differences of €4.9 million on assets and liabilities denominated in currency.

Net other expenses/income showed expenses of €2.2 million, representing an improvement of €0.8 million compared to the same period of the previous year.

Operating costs

(Amounts in € thousand)

BREAKDOWN OF OPERATING COSTS	YEAR		CHANGES	
	2016	2015	AMOUNT	%
Staff expenses	(73,698)	(75,049)	1,351	-1.8%
Other administrative expenses	(228,119)	(232,870)	4,751	-2.0%
Recovery of expenses	85,395	84,347	1,048	1.2%
Impairment/write-backs on intangible and tangible assets	(9,952)	(8,951)	(1,001)	11.2%
Total operating costs	(226,374)	(232,523)	6,149	-2.6%

(Amounts in € thousand)

STAFF EXPENSES	YEAR		CHANGES	
	2016	2015	AMOUNT	%
1) Employees	(72,611)	(74,077)	1,466	-2.0%
- wages and salaries	(49,621)	(48,664)	(957)	2.0%
- social security contributions	(13,061)	(13,184)	123	-0.9%
- provision for employee severance pay	(918)	(978)	60	-6.1%
- allocation to employee severance pay provision	(106)	(99)	(7)	7.1%
- payment to supplementary external pension funds:				
a) defined contribution	(2,861)	(2,686)	(175)	6.5%
- costs related to share-based payments*	(3,471)	(4,785)	1,314	-27.5%
- other employee benefits	(2,573)	(3,681)	1,108	-30.1%
2) Other staff	-	(152)	152	-100.0%
3) Directors and statutory auditors	(1,136)	(991)	(145)	14.6%
4) Early retirement costs	-	-	-	n.c.
5) Recovery of expenses for employees seconded to other companies	267	235	32	13.6%
6) Recovery of expenses for employees seconded to the company	(218)	(64)	(154)	240.6%
Total staff expenses	(73,698)	(75,049)	1,351	-1.8%

(*) Note that item "costs related to share-based payments" includes the costs incurred by the Bank for payments involving financial instruments issued by FinecoBank and financial instruments issued by UniCredit S.p.A..

Staff expenses amounted to €73.7 million, down 1.8% compared to the same period in the previous year.

Income statement figures (CONTINUED)

(Amounts in € thousand)

OTHER ADMINISTRATIVE EXPENSES AND RECOVERY OF EXPENSES	YEAR		CHANGES	
	2016	2015	AMOUNT	%
1) INDIRECT TAXES AND DUTIES	(90,568)	(90,797)	229	-0.3%
2) MISCELLANEOUS COSTS AND EXPENSES				
A) Advertising expenses - Marketing and communication	(16,840)	(19,584)	2,744	-14.0%
Mass media communications	(12,340)	(14,035)	1,695	-12.1%
Marketing and promotions	(4,251)	(5,317)	1,066	-20.0%
Sponsorships	(182)	(205)	23	-11.2%
Conventions and internal communications	(67)	(27)	(40)	148.1%
B) Expenses related to credit risk	(1,403)	(1,572)	169	-10.8%
Credit recovery expenses	(520)	(728)	208	-28.6%
Commercial information and company searches	(883)	(844)	(39)	4.6%
C) Expenses related to personnel	(28,851)	(32,745)	3,894	-11.9%
Staff training	(320)	(437)	117	-26.8%
Car rental and other staff expenses	(75)	(40)	(35)	87.5%
Personal financial advisor expenses	(27,822)	(31,696)	3,874	-12.2%
Travel expenses	(564)	(508)	(56)	11.0%
Premises rentals for personnel	(70)	(64)	(6)	9.4%
D) ICT expenses	(31,501)	(29,749)	(1,752)	5.9%
Lease of ICT equipment and software	(3,017)	(3,318)	301	-9.1%
Software expenses: lease and maintenance	(6,847)	(6,712)	(135)	2.0%
ICT communication systems	(5,078)	(3,935)	(1,143)	29.0%
ICT services: external personnel	(7,416)	(7,090)	(326)	4.6%
Financial information providers	(9,143)	(8,694)	(449)	5.2%
E) Consultancies and professional services	(2,641)	(3,258)	617	-18.9%
Consultancy on ordinary activities	(1,578)	(896)	(682)	76.1%
Consultancy for strategy, business development and organizational optimization	(216)	(698)	482	-69.1%
Legal expenses	(25)	(5)	(20)	400.0%
Legal disputes	(822)	(1,659)	837	-50.5%
F) Real estate expenses	(19,793)	(20,104)	311	-1.5%
Real estate services	(801)	(800)	(1)	0.1%
Repair and maintenance of furniture, machinery, and equipment	(459)	(200)	(259)	129.5%
Maintenance of premises	(1,491)	(1,741)	250	-14.4%
Premises rentals	(14,289)	(14,322)	33	-0.2%
Cleaning of premises	(495)	(546)	51	-9.3%
Utilities	(2,258)	(2,495)	237	-9.5%
G) Other functioning costs	(32,796)	(31,672)	(1,124)	3.5%
Security and surveillance services	(412)	(410)	(2)	0.5%
Money counting services and transport	-	(1)	1	-100.0%
Postage and transport of documents	(3,428)	(2,946)	(482)	16.4%
Administrative and logistic services	(16,160)	(15,732)	(428)	2.7%
Insurance	(3,630)	(3,629)	(1)	0.0%
Printing and stationery	(794)	(621)	(173)	27.9%
Association dues and fees	(8,080)	(7,889)	(191)	2.4%
Other administrative expenses	(292)	(444)	152	-34.2%
H) Adjustments of leasehold improvements	(3,726)	(3,389)	(337)	9.9%
I) Recovery of costs	85,395	84,347	1,048	1.2%
Recovery of ancillary expenses	442	369	73	19.8%
Recovery of taxes	84,953	83,978	975	1.2%
Total other administrative expenses and recovery of expenses	(142,724)	(148,523)	5,799	-3.9%

The total of **Other administrative expenses** net of **Recovery of expenses** came to €142.7 million, down €5.8 million compared to the same period in the previous year. Specifically:

- **Indirect taxes and duties** net of **Recovery of taxes** decreased by €1.2 million, compared to the same period of the previous year due to lower costs related to the “Tobin Tax”;
- **Advertising expenses – Marketing and communication** fell by €2.7 million due to lower expenditure for mass media communications and marketing and promotional costs;
- **Other administrative expenses**, not included in those mentioned above, showed an increase of €1.8 million in “ICT expenses” and €1.1 million in “Other functioning costs” as a result of the Bank's

continued growth, and a decrease of €3.9 million in personal financial advisor expenses mainly due to the lower costs from incentive plans.

The cost/income ratio stood at 40.49%, representing a decrease compared to 42.72% as at December 31, 2015, thanks to the continued efficiency improvement of the operational structure and the business support functions.

Impairment/write-backs on intangible and tangible assets increased by €1 million, mainly due to the depreciation charged on electronic equipment and office furniture and fittings as a result of higher capital expenditure.

Net profit (loss) before tax from continuing operations

(Amounts in € thousand)

	YEAR		CHANGES	
	2016	2015	AMOUNT	%
Operating profit (loss)	332.744	311.742	21.002	6,7%
Net write-downs of loans and provisions for guarantees and commitments	(4.199)	(6.706)	2.507	-37,4%
Net operating profit (loss)	328.545	305.036	23.509	7,7%
Net provisions for risks and charges	(9.981)	(15.714)	5.733	-36,5%
Integration costs	(5.503)	(1.246)	(4.257)	341,7%
Net income from investments	(6.724)	(1)	(6.723)	n.c.
Profit (loss) before tax from continuing operations	306.337	288.075	18.262	6,3%

Net write-downs of loans and provisions for guarantees and commitments came to €4.2 million, down €2.5 million on the previous year.

Net provisions for risks and charges amounted to €10 million, down 36.5% on €15.7 million recorded as at December 31, 2015. This item included the ordinary contribution for the year 2016 paid to the Deposit Guarantee Schemes, amounting to €8.2 million (reduced due to the allocations from the Banca Network liquidation procedure), and the contribution made to the Solidarity Fund established by the 2016 Stability Law, totalling €2.4 million, net of the reallocation to profit or loss of the amount allocated by the Bank in the financial statements for the year ended December 31, 2015 for the Solidarity Fund, of around €2.3 million. In 2016, there was also reduction in the provisions for legal disputes and claims and a write-back of €1.4 million due to the termination of the remaining commitment for the measure in favour Banca Tercas.

Net provisions for risks and charges as at December 31, 2015 included the ordinary contribution of €4.7 million made to the Deposit Guarantee Schemes, and the allocation referred to above for the contribution to the Solidarity Fund, of around €2.3 million.

Integration costs consisted of the costs estimated for the Bank for the Business Plan of the UniCredit Group and the interest from the present value discounting for those costs recognised in the financial statements for the year ended December 31, 2015.

Net income from investments consisted exclusively of the impairment loss recorded on the exposure in equity instruments recognised in the “Available-for-sale financial assets” portfolio as result of the contribution made to the Interbank Deposit Guarantee Fund - Voluntary Scheme for the subscription of the capital increase of Cassa di Risparmio di Cesena of €6.7 million. For more details, see the “Financial investments” subsection of this Report on operations.

Net profit (loss) before tax from continuing operations amounted to a profit of €306.3 million, increasing by 6.3% on the same period of the previous year, due to the positive contribution from **Net interest** and **Net trading, hedging and fair value income**, and the reduction in **Operating costs**, which offset the fall in **Net fee and commission income**, the increase in **Integration costs** and the write-downs recorded in **Net income from investments**.

Income statement figures (CONTINUED)

Income tax for the period

(Amounts in € thousand)

BREAKDOWN OF TAX FOR THE YEAR	YEAR		CHANGES	
	2016	2015	AMOUNT	%
Current IRES income tax charges	(76,889)	(77,115)	226	-0.3%
Current IRAP corporate tax charges	(18,190)	(18,147)	(43)	0.2%
Adjustment to current tax of prior years	6,518	-	6,518	n.c.
Total current tax	(88,561)	(95,262)	6,701	-7.0%
Changes in deferred tax assets	(5,086)	(297)	(4,789)	1612.5%
Changes in deferred tax liabilities	(400)	(1,017)	617	-60.7%
Total deferred tax liabilities	(5,486)	(1,314)	(4,172)	317.5%
Redemption income depreciation and amortization	(446)	(446)	-	-
Income tax for the period	(94,493)	(97,022)	2,529	-2.6%

Current income taxes were calculated according to the legal provisions introduced by Legislative Decree no. 38 of February 28, 2005, issued following the incorporation of IAS/IFRS into Italian legislation and of Decree no. 48 of April 1, 2009, which established provisions for the implementation and coordination of tax requirements for IAS Adopter parties.

Current taxes were determined applying an IRES income tax rate of 27.5% and an IRAP corporate tax rate of 5.57%.

The Income tax for the year 2016 benefited from a positive change in current tax of around €6.5 million, referring to provisions for several disputes relating to previous years, which were definitively settled during the first half 2016.

Law no. 2/2009 introduced the option, through the payment of a substitute tax, to recalculate the tax-deductible amounts of goodwill. On the instructions of the Parent Company, in 2008 the Bank realigned the goodwill recognised following the merger of UniCredit Xelion Sim into UniCredit Xelion Banca S.p.A.. The redeemed goodwill may be amortised off the books for an amount not exceeding one ninth for 2010 and one tenth from 2011 onwards. In 2008, the tax benefit expected from the future deductibility of off-the-book amortization, corresponding to €4 million, was recognized in the accounts. A tenth of this amount will be recognized through profit or loss for each year of the tax deduction of tax-related amortization of goodwill.

In addition, following the accelerated building carried out by UniCredit on October 13, 2016 for the sale to institutional investors of around 121.4 million ordinary shares held in FincoBank, corresponding to 20% of the Bank's existing share capital, UniCredit S.p.A.'s shareholding in FincoBank S.p.A. fell below the limit established by the combined provisions of Articles 117 and 120 of the Italian Income Tax Code for participation in the national tax consolidation.

As a result, UniCredit S.p.A., in accordance with Article 124 of the Italian Income Tax Code, stopped applying the Group taxation – with effect from January 1, 2016 – relatively Finco by sending the relevant electronic notification to the Italian Revenue Agency. There are no particular effects to report, other than the removal of the mitigation of the non-deductibility of interest expense, a benefit that would moreover have lost its effects in 2016, because interest expense will be fully deductible for banks from 2017.

Profit (loss) for the year

The net profit for the year amounted to €211.8 million, an increase of 10.9% on the same period of the previous year.

Related-party transactions

In order to ensure continued compliance with applicable legal and regulatory provisions on corporate disclosure on transactions with related parties, during the Board of Directors' Meeting of September 22, 2015 and with the prior positive opinion of the Audit and Related Parties Committee and the Board of Statutory Auditors, the Bank approved the current "Procedures for the management of transactions with persons in conflict of interest" which governs transactions with related parties, and associated persons.

The above-mentioned procedures include the provisions to be complied with when managing:

- Related-Party transactions pursuant to the Consob Regulation adopted by resolution 17221 of March 12, 2010 as amended by resolution 17389 of June 23, 2010;
- Transactions with Associated Persons pursuant to the regulations on "Risk activities and conflicts of interest with Associated Persons", laid down by Bank of Italy Circular 263/2006, Title V, Chapter 5 ("New regulations for the prudential supervision of banks", as amended);
- Obligations of Bank Officers pursuant to Article 136 of Legislative Decree 385 of September 1, 1993, "Consolidated Law on Banking".

Given that the Bank belongs to the UniCredit Group, the aforementioned Procedures are also based on the "UniCredit Global Policy for the management of transactions with persons in conflict of interest" and the relevant "Global Operational Instructions" issued by UniCredit to subsidiaries as part of its management and co-ordination.

Considering the above, the following transactions were approved during 2016:

1. on February 8, 2016 the Board of Directors, upon recommendation by the Audit and Related Parties Committee, approved the renewal of the "Framework Resolution related to the entering into of hedging derivative contracts with the Parent Company or companies in the UniCredit Group" (valid up to April 20, 2016), an ordinary Significant Transaction at market conditions that can be carried out up to February 8, 2017, which enables the Bank to enter into hedging derivatives with the Parent Company and with UniCredit Bank AG for commercial assets or liabilities that, for ALM purposes, require interest rate hedging for a maximum amount of €500 million with the Parent Company and €2,500 million with UniCredit Bank AG; it was approved by the Parent Company's Related Parties and Equity Investments Committee with the issue of a favourable, non-binding opinion on the matter;
2. the Board of Directors' meeting of May 9, 2016, upon recommendation by the Audit and Related Parties Committee, approved an ordinary Significant Transaction at market conditions with the related party UniCredit S.p.A., consisting of the renewal of the "Framework Agreement - Repurchase Agreements and Term Deposits with the Parent Company", (valid up to May 11, 2017) that can be carried out up to until May 9, 2016, concerning (i)

Repurchase Agreements with the Parent Company for an amount of €7.2 billion, calculated as the sum of the individual transactions in absolute value (either repos or reverse repos) and (ii) Term deposits with the Parent Company for an amount of €8.7 billion, calculated as the sum of the individual transactions in absolute value;

3. the Board of Directors' meeting of July 6, 2016, upon recommendation by the Audit and Related Parties Committee, approved:
 - an ordinary Significant Transaction at market conditions with related parties UniCredit Bank AG and Mediobanca S.p.A., consisting of the renewal of the "Framework Resolution - Trading of financial instruments with related-party institutional counterparties" (valid up to June 18, 2016), regarding the trading of financial instruments with related-party institutional counterparties, through which FinecoBank may implement those transactions until July 5, 2017, up to a maximum permitted limit of: (i) €1 billion with UniCredit Bank AG and (ii) €500 million with Mediobanca S.p.A.;
 - an ordinary Significant Transaction at market conditions with the related party UniCredit S.p.A., consisting of a "Framework Agreement for the transactions on current accounts held with UniCredit" (valid up to July 30, 2016) that can be carried out up to July 6, 2017, which will enable the Bank to manage its liquidity in euro and in foreign currencies through specific current accounts already held with UniCredit S.p.A. for an amount of less than €1,000 million understood as a single transaction (single payment and single withdrawal);
4. on September 20, 2016 the Board of Directors, upon recommendation by the Audit and Related Parties Committee, approved an ordinary Significant Transaction at market conditions with the related parties UniCredit Bank AG and Mediobanca S.p.A., consisting of the renewal of the "Framework Resolution - Securities Lending Transactions with Institutional Counterparties" (valid up to September 21, 2016), regarding the Securities Lending Transactions with institutional counterparties, through which Finecobank may implement those transactions until July 19, 2017, up to a maximum permitted limit of: (i) €500 million with UniCredit Bank AG and (ii) €200 million with Mediobanca S.p.A..
5. the Board of Directors' meeting of December 6, 2016, upon recommendation by the Audit and Related Parties Committee, approved an ordinary Significant Transaction at market conditions with the related party UniCredit S.p.A. consisting of the renewal of the "Framework resolution – Investment of medium-long term liquidity with the Parent Company" (valid up to November 10, 2016), that can be carried out up to December 6, 2017, involving the subscription of UniCredit bonds with a ceiling of around €3.5 billion.

In relation to the above transactions, the Bank provided a simplified disclosure to CONSOB pursuant to Art. 13, paragraph 3, letter c) of CONSOB Regulation 17221/2010.

Related-party transactions (CONTINUED)

In the year ended December 31, 2016, no other transactions were undertaken with related parties that could significantly affect the Bank's asset situation and results, or atypical and/or unusual transactions, including intercompany and related party transactions.

Minor transactions were carried out with the Parent Company, other Group Companies and/or with related parties in general, both Italian and foreign, within the ordinary course of business and related financial activities of the Bank, at market or standard conditions.

Lastly, with regard to transactions of significant financial and economic relevance, during 2012, the Bank issued 5 bank guarantees in favour of the Italian Revenue Agency upon (guaranteed) request by UniCredit, with indefinite duration (specifically, valid until the Italian Revenue Agency issues a declaration of receipt of the payment by UniCredit at the end of the collection process, in the event of an

unfavourable outcome for UniCredit, or until a ruling is issued in favour of the Bank by means of final judgement), for a total amount of €256 million, plus interest accrued and accruing until request for payment from the Italian Revenue Agency. The bank guarantees were issued to secure the obligations assumed by UniCredit in relation to five VAT refund suspension orders issued by the Italian Revenue Agency, and entail the assumption by the Bank of an irrevocable payment commitment on demand, within 30 days and without any exceptions. In 2013, following the settlement of an overall assessment notice issued by the Regional Department of Liguria, for €4.5 million, replaced by another assessment notice issued by the same Department up to the amount settled, a guarantee already issued by the Bank was replaced, with amounts unchanged; this transaction did not change the commitments undertaken according to the forms, procedures and risks already assessed during 2012, which remain unchanged.

Transactions with Group companies

The Bank is subject to the direction and coordination of UniCredit S.p.A. and, consequently, pursuant to Article 2497 bis paragraph 4 of the Italian Civil Code, the key figures from the last approved financial statements of UniCredit S.p.A. are provided in Part C – Section 20 of the Notes to the Accounts.

The following table provides a summary of outstanding assets, liabilities, guarantees and commitments as at December 31, 2016 in relation to Group companies.

(Amounts in € thousand)

	ASSETS	LIABILITIES	GUARANTEES AND COMMITMENTS
Transactions with Parent Company UniCredit S.p.A.	15,695,566	1,041,514	1,274,070
Transactions with companies controlled by UniCredit S.p.A.	22,356	9,796	-

For detailed information on transactions with group companies and other related parties see the comments in this regard in Part H of the Notes to the Accounts.

Other information

Report on corporate governance and proprietary structures

Pursuant to Article 123-bis, paragraph 3 of Legislative Decree no. 58 of February 24, 1998, the Report on Corporate Governance and Proprietary Structures is available at the "Governance" section of the FinecoBank website (<http://www.fineco.it>).

Report on remuneration

Pursuant to Art. 84-quater, paragraph 1, of the Issuers' Regulations implementing the Legislative Decree no. 58 of February 24, 1998, the "Report on remuneration" is available on FinecoBank's website (<http://www.fineco.it>).

Research and development

To promote technical solutions in line with the company mission, research and development is focused on developing software that enables the provision of increasingly innovative financial advice together with exclusive own-account trading.

More specifically, the main software applications that have been developed over the years are:

- Advice, a computer program through which the Bank enables its personal financial advisors to offer a professional advisory service to customers who want a personalised financial plan;
- Internaliser, a computer program through which the Bank executes customer orders in its own account relating to trading on financial markets as an alternative counterparty to the market;

- Powerdesk and Webtrading, software that allows the Bank to, respectively, offer customers sophisticated and efficient tools for online trading on the main international financial markets and simple solutions to complement the direct banking services.

The activities were split between developing new applications and strengthening/maintaining existing features to meet customer needs increasingly efficiently.

Lastly, during 2016, extensive work was also carried out on the development of the X-net platform. This platform, which is used by the personal financial advisors network, is designed to give the advisors access to a system of new services that simplify their work, enabling them to manage more customers and to strengthen their relationship with the customer. The key elements included reorganising and optimising the content, the graphic overhaul of the existing tools, improving and enhancing the features of the existing tools, and the release of the tool for customer needs, which can be personalised based on the specific needs of each individual customer.

Information on the time limits for convening the ordinary Shareholders' Meeting

Pursuant to Article 2364, paragraph 2, of the Italian Civil Code and Art. 6, paragraph 4, of FinecoBank's Articles of Association, the draft Accounts will be submitted to the Ordinary Shareholders' Meeting for approval within 120 days from the end of the financial year.

Subsequent events and outlook

Subsequent events

On February 7, 2017, in view of the positive outcome of the verification of the entry conditions (at Bank level and Group level, where applicable) and the individual conditions (compliance of conduct and continued employment) and the favourable opinion provided by the Remuneration and Appointments Committee in its meeting of February 2, 2017, the Board of Directors approved:

- for the “Group Executive Incentive System - Bonus Pool 2014” plan:
 - the execution of the plan;
 - the allocation of the first share tranche of the plan, awarded in 2014, corresponding to 15,872 free ordinary shares, in line with the maximum amount approved by the Board of Directors on May 15, 2014;
 - a free capital increase, for a total amount of €5,237.76 corresponding to a total of 15,872 FinecoBank ordinary shares with a nominal value of €0.33 each (with the same characteristics as those in circulation and with regular dividend entitlement), impartial exercise of the authority granted to the Board of Directors by the Extraordinary Shareholders’ Meeting of June 5, 2014, in accordance with Article 2443 of the Italian Civil Code. The dilution effect resulting from the above free capital increase has been quantified as 0.003% of the fully diluted capital.
 - for the “2014-2017 Top Management Multi-Year Plan”:
 - the allocation of the fourth and final tranche for the year 2017 to 6 beneficiaries of a total of 422,779 free ordinary shares, representing a lower number than the quantity established on April 15, 2014, to ensure compliance of the ratio of fixed to variable remuneration in accordance with the applicable regulations;
 - the allocation of 630,850 free ordinary shares to the beneficiaries of the first share tranche of the plan, awarded in 2014, in line with the maximum amount approved by the Board of Directors on May 15, 2014;
 - a free capital increase, for a total amount of €208,180.50 corresponding to a total of 630,850 FinecoBank ordinary shares with a nominal value of €0.33 each (with the same characteristics as those in circulation and with regular dividend entitlement), in partial exercise of the authority granted to the Board of Directors
- by the Extraordinary Shareholders’ Meeting of June 5, 2014, in accordance with Article 2443 of the Italian Civil Code. The dilution effect resulting from the above free capital increase has been quantified as 0.10% of the fully diluted capital.
- for the “2014 Key People Plan”:
 - the allocation of the third tranche corresponding to 261,187 free ordinary shares to the 79 beneficiaries, in line with the number of shares established on April 15, 2014, amounting to a maximum of 796,390 ordinary shares to service the entire three-year period;
 - a consequent free capital increase, for a total amount of €86,191.71 corresponding to a total of 261,187 FinecoBank ordinary shares with a nominal value of €0.33 each (with the same characteristics as those in circulation and with regular dividend entitlement), in partial exercise of the authority granted to the Board of Directors by the Extraordinary Shareholders’ Meeting of June 5, 2014, in accordance with Article 2443 of the Italian Civil Code. The dilution effect resulting from the above free capital increase has been quantified as 0.04% of the fully diluted capital.
 - for the “2016 PFA Incentive System” plan:
 - The proposal for determination of the 2016 Bonus Pool for the personal financial advisors;
 - the proposals for the determination of the 2016 bonus for personal financial advisors identified as key personnel;
 - the allocation of 57,740 FinecoBank shares, to be given free of charge to the above-mentioned personal financial advisors in accordance with the provisions of the Rules;
 - the purchase of Treasury shares, after having obtained the authorisation from the Supervisory Authority, pursuant to Articles 77-78 EU 575/2013 of June 26, 2013 (CRR), in accordance with the shareholder meeting resolutions.
 - for the “Group Executive Incentive System 2016 (Bonus Pool)” plan:
 - the FinecoBank “2016 Bonus Pool”;
 - the proposals for the determination of the 2016 bonus for the Chief Executive Officer and General Manager and other Key Management Personnel and other Key Personnel;
 - the allocation of 152,034 FinecoBank shares, to be given free of charge to the above-mentioned Personnel in accordance with the provisions of the Rules.

Subsequent events and outlook (CONTINUED)

Number of treasury shares or shares of the parent company

As at December 31, 2016, the Bank held 714,325 treasury shares, corresponding to 0.12% of the share capital, for an amount of €4.3 million. The shares were purchased in implementation of the stock granting "2014 PFA Plan" for the Bank's Personal Financial Advisors and Network Managers, approved by the Board of Directors on May 15, 2014 and by the Shareholders' Meeting on June 5, 2014, for a total number of 1,408,834, starting from September 16, 2015, after receipt of the authorisation from the Supervisory Authority, in accordance with Articles 77-78 of EU Reg. 575/2013 of June 26, 2013 (CRR), and ended on October 12, 2015. During 2016, the Bank's Personal Financial Advisors and Network Managers were allocated 694,509 FinecoBank ordinary shares held as treasury shares, under the stock granting "2014 PFA Plan".

The Bank does not hold shares of its Parent Company, even through other companies or third parties.

Outlook

To respond to the main trends that are reshaping Italian society, the Bank is continuing to focus on digitising its offering and on advanced financial advisory services. This includes the cyborg advisory model offered by the Bank, aimed at improving the productivity of the Network and increasing the quality of the service provided to customers.

FinecoBank is continuing to develop the Credit area, with an increasing focus on personal loans and first and second home mortgages.

Lastly, the Bank continued with its plan to launch its offering of banking, investing and brokerage operations within the United Kingdom under the freedom to provide services. The project will target retail customers resident in the United Kingdom, building on Fineco's distinctive strong operating efficiency.

Proposal for the approval of the accounts and allocation of profit for the year

The Bank closed the year 2016 with a net profit of €211,843,793.79.

It is proposed to allocate the net profit for the year as follows:

- €59,921.99 to the Legal reserve, corresponding to 0.03% of the profit of the year, having reached the limit of a fifth of the share capital;
- €41,624,135.20 to the Extraordinary Reserve;
- €170,159,736.60 to Shareholders, corresponding to a dividend of €0.28 for each of the 607,713,345 ordinary shares with a par value of €0.33 euro, constituting the share capital including the 907,909 shares relating to the capital increase approved by the Board of Directors on February 7, 2017.

The dividends not distributed in relation to any treasury shares held by the Bank at the record date will be transferred to the Extraordinary reserve.

The Board of Directors

Milan, February 7, 2017

FinecoBank S.p.A.
Chief Executive Officer and General Manager
Alessandro Foti



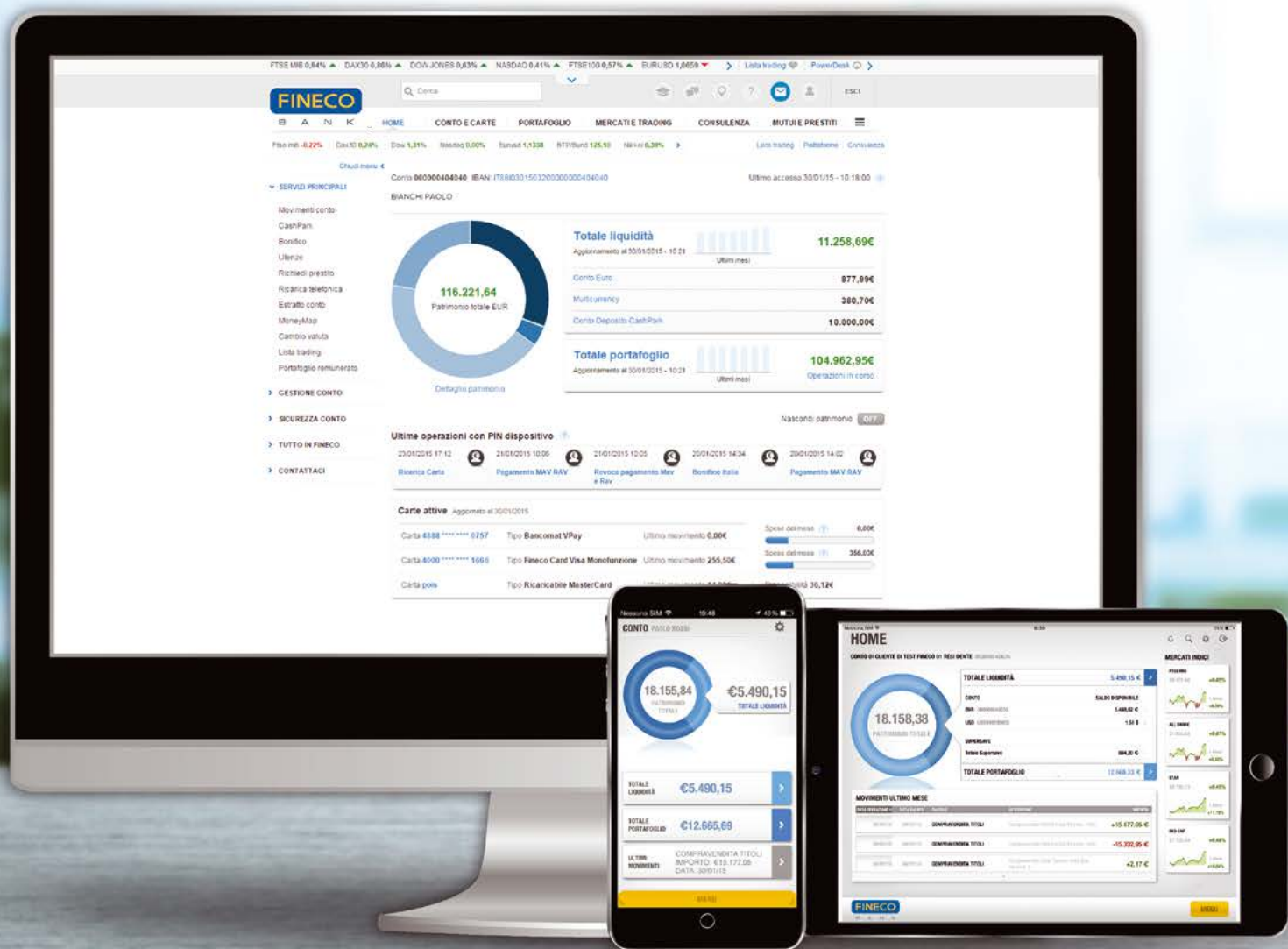
In conclusion, the Shareholders Meeting is invited to approve:

- the Annual Report and Accounts for the year 2016 in their entirety;
- The allocation of the profit for the year of €211,843,793.79 as follows:
 - €59,921.99 to the Legal reserve, corresponding to 0.03% of the profit of the year, having reached the limit of a fifth of the share capital;
 - €41,624,135.20 to the Extraordinary Reserve;
 - €170,159,736.60 to Shareholders, corresponding to a dividend of €0.28 for each of the 607,713,345 ordinary shares with a par value of €0.33 euro, constituting the share capital including the 907,909 shares relating to the capital increase approved by the Board of Directors on February 7, 2017.

Payment of the previously mentioned dividend amount, in accordance with legal regulations, will take place with the value date of April 26, 2017.

FinecoBank S.p.A.
Chairman
Enrico Cotta Ramusino





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Bank Financial Statements

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Balance sheet

TOTAL ASSETS	12.31.2016	12.31.2015
10. Cash and cash balances	5,077	6,285
20. Financial assets held for trading	6,044,381	3,983,184
40. Available-for-sale financial assets	1,319,752,248	2,245,982,088
50. Held-to-maturity investments	2,437,777,200	-
60. Loans and receivables with banks	15,735,539,575	14,648,904,038
70. Loans and receivables with customers	1,016,798,235	922,773,794
80. Hedging derivatives	552,163	-
90. Changes in fair value of portfolio hedged financial assets (+/-)	8,658,970	10,573,434
110. Property, plant and equipment	14,450,553	12,418,792
120. Intangible assets	97,333,284	97,814,087
of which		
- <i>goodwill</i>	89,601,768	89,601,768
130. Tax assets	13,165,245	15,423,666
<i>a) current tax assets</i>	1,570,652	1,732,934
<i>b) deferred tax assets</i>	11,594,593	13,690,732
<i>pursuant to Law 214/2011</i>	4,179,663	4,400,831
150. Other assets	336,298,929	370,069,607
Total assets	20,986,375,860	18,327,948,975

LIABILITIES AND SHAREHOLDERS' EQUITY ITEMS	12.31.2016	12.31.2015
10. Deposits from banks	1,111,106,252	1,423,459,247
20. Deposits from customers	18,801,073,396	15,822,458,746
40. Financial liabilities held for trading	2,625,818	4,099,512
60. Hedging derivatives	10,913,534	31,318,669
70. Changes in fair value of portfolio hedged financial liabilities (+/-)	457,488	-
80. Tax liabilities	10,048,263	37,445,058
<i>a) current tax liabilities</i>	10,048,263	37,445,058
100. Other liabilities	251,843,036	250,989,832
110. Provisions for employee severance pay	5,253,109	4,846,165
120. Provisions for risks and charges:	111,755,540	120,534,113
<i>b) other provisions</i>	111,755,540	120,534,113
130. Revaluation reserves	(6,794,389)	11,626,244
160. Reserves	278,407,921	236,589,577
170. Share premium reserve	1,934,113	1,934,113
180. Capital	200,245,794	200,150,192
190. Treasury Shares (-)	(4,337,809)	(8,555,284)
200. Net Profit (Loss) for the year	211,843,794	191,052,791
Total liabilities and shareholders' equity	20,986,375,860	18,327,948,975

Income statement

INCOME STATEMENT	2016	2015
10. Interest income and similar revenues	253,306,254	268,897,659
20. Interest expenses and similar charges	(3,918,420)	(28,135,682)
30. Net interest margin	249,387,834	240,761,977
40. Fee and commission income	472,840,353	491,936,337
50. Fee and commission expense	(229,959,174)	(239,301,304)
60. Net fee and commission income	242,881,179	252,635,033
70. Dividend income and similar revenue	19,805	4,990
80. Gains (losses) on financial assets and liabilities held for trading	48,590,105	53,704,715
90. Fair value adjustments in hedge accounting	68,969	(147,476)
100. Gains (losses) on disposal or repurchase of:	20,382,021	304,506
<i>a) loans and receivables</i>	34	34
<i>b) available-for-sale financial assets</i>	20,381,987	304,472
120. Operating income	561,329,913	547,263,745
130. Impairment losses/writebacks on:	(9,507,033)	(6,706,077)
<i>a) loans and receivables</i>	(4,206,369)	(6,713,191)
<i>b) available-for-sale financial assets</i>	(6,724,389)	-
<i>d) other financial assets</i>	1,423,725	7,114
140. Net profit from financial activities	551,822,880	540,557,668
150. Administrative costs	(314,208,394)	(310,491,777)
<i>a) staff expenses</i>	(79,201,124)	(76,295,083)
<i>b) other administrative expenses</i>	(235,007,270)	(234,196,694)
160. Net provisions for risks and charges	(783,846)	(11,022,754)
170. Net impairment/write-backs on property, plant and equipment	(4,853,453)	(3,962,603)
180. Net impairment/write-backs on intangible assets	(5,098,895)	(4,988,533)
190. Other net operating income	79,458,523	77,983,585
200. Operating costs	(245,486,065)	(252,482,082)
240. Gains (losses) on disposal of investments	234	(1,011)
250. Net profit (loss) before tax from continuing operations al lordo delle imposte	306,337,049	288,074,575
260. Tax expense (income) related to profit or loss from continuing operations	(94,493,255)	(97,021,784)
270. Net profit (loss) after tax from continuous operations	211,843,794	191,052,791
290. Net Profit (Loss) for the year	211,843,794	191,052,791

	2016	2015
Earnings per share (euro)	0.35	0.32
Diluted earnings per share (euro)	0.35	0.31

Note:

For further information on "Earnings per share" and "Diluted earnings per share" please see Notes to the Accounts, Part C - Information on the Income Statement, Section 21.

Statement of comprehensive income

	2016	2015
10. Net Profit (Loss) for the year	211,843,794	191,052,791
Other comprehensive income after tax without reclassification through profit or loss		
40. Defined benefit plans	(1,061,600)	(2,210,716)
Other comprehensive income with reclassification through profit or loss		
100. Available-for-sale financial assets	(17,359,033)	11,575,140
130. Total of other comprehensive income after tax	(18,420,633)	9,364,424
140. Comprehensive income (item 10+130)	193,423,161	200,417,215

Statement of changes in shareholders' equity

Statement of changes in shareholders' equity 12.31.2016

	BALANCE AS AT 12.31.2015	CHANGE IN OPENING BALANCE	BALANCE AS AT 01.01.2016	ALLOCATION OF PRIOR YEAR PROFIT/(LOSS)		CHANGE DURING THE YEAR								SHAREHOLDERS' EQUITY AS AT 12.31.2016
				RESERVES	DIVIDENDS AND OTHER DISTRIBUTIONS	CHANGES IN RESERVES	SHAREHOLDERS' EQUITY TRANSACTIONS						COMPREHENSIVE INCOME YEAR 2016	
							ISSUES OF NEW SHARES	PURCHASE OF OWN SHARES	DISTRIBUTION OF EXTRAORDINARY DIVIDENDS	CHANGES IN EQUITY INSTRUMENTS	OWN SHARE DERIVATIVES	STOCK OPTIONS		
Share capital:														
a) ordinary shares	200,150,192		200,150,192				95,062							200,245,794
b) other shares														
Share premium reserve	1,934,113		1,934,113											1,934,113
Reserves:														
a) from profits	214,666,022		214,666,022	35,676,658		493						(95,602)		250,247,571
b) other	21,923,555		21,923,555									6,236,795		28,160,350
Revaluation reserves	11,626,244		11,626,244										(18,420,633)	(6,794,389)
Equity instruments														
Treasury Shares	(8,555,284)		(8,555,284)				4,217,475							(4,337,809)
Net Profit (Loss) for the year	191,052,791		191,052,791	(35,676,658)	(155,376,133)								211,843,794	211,843,794
Shareholders' equity	632,797,633	-	632,797,633	-	(155,376,133)	493	4,313,077	-	-	-	-	6,141,193	193,423,161	681,299,424

The amount of the dividend paid to shareholders in 2016, totalling €154,376,133.61, corresponds to €0.255 per share. The column "Stock options" includes the incentives plans serviced by FinecoBank shares.

Statement of changes in shareholders' equity

Statement of changes in shareholders' equity as at 12.31.2015

	BALANCE AS AT 12.31.2014	CHANGE IN OPENING BALANCE	BALANCE AS AT 01.01.2015	ALLOCATION OF PRIOR YEAR PROFIT/(LOSS)		CHANGE DURING THE YEAR								SHAREHOLDERS' EQUITY AS AT 12.31.2015
				RESERVES	DIVIDENDS AND OTHER DISTRIBUTIONS	CHANGES IN RESERVES	SHAREHOLDERS' EQUITY TRANSACTIONS						COMPREHENSIVE INCOME YEAR 2015	
							ISSUES OF NEW SHARES	PURCHASE OF OWN SHARES	DISTRIBUTION OF EXTRAORDINARY DIVIDENDS	CHANGES IN EQUITY INSTRUMENTS	OWN SHARE DERIVATIVES	STOCK OPTIONS		
Share capital:														
a) ordinary shares	200,070,431		200,070,431				79,761							200,150,192
b) other shares														
Share premium reserve	1,934,113		1,934,113											1,934,113
Reserves:														
a) from profits	190,922,980		190,922,980	28,603,521		(4,780,718)						(79,761)		214,666,022
b) other	7,157,532		7,157,532									14,766,023		21,923,555
Revaluation reserves	2,261,820		2,261,820										9,364,424	11,626,244
Equity instruments														
Treasury Shares							(8,555,284)							(8,555,284)
Net Profit (Loss) for the year	149,906,668		149,906,668	(28,603,521)	(121,303,147)								191,052,791	191,052,791
Shareholders' equity	552,253,544	-	552,253,544	-	(121,303,147)	(4,780,718)	79,761	(8,555,284)	-	-	-	14,686,262	200,417,215	632,797,633

The amount of the dividend paid to shareholders in 2016, totalling €154,376,133.61, corresponds to €0.255 per share. The column "Stock options" includes the incentives plans serviced by FinecoBank shares.

Cash flow statement

Indirect method

A. OPERATING ACTIVITIES	AMOUNT	
	2016	2015
1. Operations	293,153,682	256,444,769
- profit (loss) for the year (+/-)	211,843,794	191,052,791
- unrealised gains/losses on financial assets/liabilities held for trading and on assets/liabilities at fair value through profit or loss (-/+)	(3,213,058)	532,274
- pluscapital gains/losses on hedging transactions (-/+)	(68,969)	147,476
- impairment losses/write-backs (+/-)	9,753,897	6,953,932
- impairment losses/write-backs on tangible and intangible assets (+/-)	9,952,348	8,951,136
- provisions for risks and charges and other income/expenses (+/-)	21,089,047	32,349,786
- duties, taxes and tax credits not paid (+/-)	(5,054,227)	21,563,736
- net impairment losses/write-backs on disposal groups classified as held for sale after tax (+/-)	-	-
- other adjustments (+/-)	48,850,850	(5,106,362)
2. Cash flows from/used by financial assets	(1,381,160,674)	(1,838,442,626)
- financial assets held for trading	(567,806)	1,500,139
- financial assets designated at fair value through profit or loss	-	-
- available-for-sale financial assets	(1,313,292,726)	(574,742,362)
- loans and receivables with banks: on-demand	-	-
- loans and receivables with banks: other loans and receivables	(1,827,055)	(987,993,301)
- loans and receivables with customers	(98,959,296)	(233,899,421)
- other assets	33,486,209	(43,307,681)
3. Cash flows from/used by financial liabilities	2,646,815,393	1,422,974,600
- deposits from banks: on-demand	-	-
- deposits from banks: other liabilities	(295,219,062)	(48,139,439)
- deposits from customers	2,980,283,349	1,920,201,178
- debt securities in issue	-	(424,709,661)
- financial assets held for trading	245,403	(1,996,960)
- financial liabilities designated at fair value through profit and loss	-	-
- other liabilities	(38,494,297)	(22,380,518)
Net cash flows from/used in operating activities	1,558,808,401	(159,023,257)
B. INVESTMENT ACTIVITIES		
1. Cash flows from		
- sales of equity investments	-	-
- collected dividends on equity investments	-	-
- sales of financial assets held to maturity	-	-
- sales of tangible assets	234	249
- sales of intangible assets	-	-
- disposals of businesses	-	-
2. Cash flows used in		
- purchases of equity investments	-	-
- purchases of financial assets held to maturity	(291,362,650)	-
- purchases of tangible assets	(6,884,309)	(5,494,919)
- purchases of intangible assets	(4,618,092)	(5,059,023)
- purchases of businesses	-	-
Net cash flows from/used in investing activities	(302,864,817)	(10,553,693)
C. FINANCING ACTIVITIES		
- issue/purchase of treasury shares	4,217,475	(8,555,284)
- issue/purchase of equity instruments	95,602	79,761
- dividends and other distributions	(159,688,717)	(126,163,626)
Net cash flows from/used in financing activities	(155,375,640)	(134,639,149)
NET CASH FLOWS GENERATED/USED DURING THE YEAR	1,100,567,944	(304,216,099)

Key:

(+) generated

(-) used

Reconciliation

Balance Sheet Items		
Cash and cash balances at the beginning of the year	1,182,228,221	1,451,228,954
Net cash flows generated/used during the year	1,100,567,944	(304,216,099)
Cash and cash balances: effect of changes in exchange rates	1,478,694	35,215,366
Cash and cash balances at the end of the year	2,284,274,859	1,182,228,221

The term "Cash and cash balances" means cash recorded under item 10 of assets "Cash and cash balances" and the equivalent liquid assets recorded under item 60 of assets "Loans and receivables with banks" (consisting of current accounts and deposits maturing within 3 months) net of the equivalent liquid liabilities recorded under item 10 of liabilities "Deposits from banks" (represented by current accounts and deposits maturing within 3 months).

The item "Cash and cash balances" at the end of the half year consisted of:

- Cash recognised under asset item 10 "Cash and cash balances" in the amount of €5 thousand;
- Current accounts and demand deposits recognised under asset item 60 "Loans and receivables with banks" in the amount of €2,336,579 thousand;
- net of the Current accounts and demand deposits recognised under liability item 10 "Deposits from banks" in the amount of €52,309 thousand.

The item "Cash and cash balances" at the end of the prior year consisted of:

- "Cash" recognised under asset item 10 "Cash and cash balances" in the amount of €6 thousand;
- Current accounts and demand deposits recognised under asset item 60 "Loans and receivables with banks" in the amount of €1,251,070 thousand;
- net of the Current accounts and demand deposits recognised under liability item 10 "Deposits from banks" in the amount of €68,848 thousand.



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Part A - Accounting Policies

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Part A - Accounting Policies

A.1 General

Section 1 - Statement of compliance with IFRS

In implementation of Legislative Decree no. 38 of February 28, 2005, these Accounts of FinecoBank as at December 31, 2016 (below FinecoBank) have been prepared in accordance with the IAS/IFRS issued by the International Accounting Standards Board (IASB), including the SIC and IFRIC interpretation documents, as endorsed by the European Commission until December 31, 2016, pursuant to EU Regulation 1606/2002 of July 19, 2002 and applicable to financial reports for the periods starting on January 1, 2016 (see Section 4 - Other matters).

They are an integral part of the Annual Financial Report as required by art. 154-ter, paragraph 1 of the Consolidated Finance Act (TUF, Italian Legislative Decree no. 58 of February 24, 1998).

In its circular 262 of December 22, 2005 as amended, the Bank of Italy laid down the formats for the financial statements and explanatory notes to the accounts of banks and regulated financial companies that are parents of banking groups, which have been used to prepare these Accounts.

Section 2 - Preparation criteria

As mentioned above, these Accounts have been prepared in accordance with the IFRS endorsed by the European Commission. The following documents have been used to interpret and support the application of IFRS, even though not all of them have been endorsed by the European Commission:

- The Conceptual Framework for Financial Reporting;
- Implementation Guidance, Basis for Conclusions, IFRICs and any other documents prepared by the IASB or International Financial Reporting Interpretations Committee (IFRIC) supplementing the IFRS;
- Interpretation documents on the application of IFRS in Italy prepared by the Organismo Italiano di Contabilità (Italian Accounting Body);
- ESMA (European Securities and Markets Authority) and Consob documents on the application of specific IFRS provisions;
- the documents prepared by the Italian Banking Association (ABI).

The Accounts comprise the Balance Sheet, the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Shareholders' Equity, the Cash Flow Statement (compiled using the indirect method), and these Notes to the Accounts, together with the Directors' Report on Operations and the Attachments.

Pursuant to Art. 123-bis par. 3 of Consolidated Finance Act, as noted in the "Other Information" section of the Report on Operations, the Report on Corporate Governance and Ownership Structures is available in the "Governance" section of the FinecoBank website.

The figures in the financial statements are provided in euros, and in thousands of euros in the notes to the accounts, unless otherwise indicated. In accordance with the Bank of Italy Circular 262/2005, items in the Balance Sheet, Income Statement and Statement of Comprehensive Income for which there is no significant information to be disclosed for the reporting period and the previous year, are not provided.

In addition, the tables in the Notes that do not have any significant information to be disclosed are not shown either for the reporting period or for the previous year.

Any lack of discrepancies between the figures shown in the tables of the notes to the accounts is solely due to roundings.

With reference to IAS 1, these Financial Statements have been prepared on a going concern basis, as there are no doubts or uncertainties as to the Bank's ability to continue its business operations and to continue operating for the foreseeable future (at least for the next 12 months).

The measurement criteria adopted are therefore consistent with this assumption and with the principles of accrual-based accounting, the relevance and materiality of accounting information, and the prevalence of economic substance over legal form. These criteria have not changed with respect to the previous year.

In 2016, the Bank reclassified the "Available-for-sale financial assets" consisting of Italian and Spanish government securities to the "Held-to-maturity investments" portfolio, for a fair value, at the reclassification date, of €2,121,923 thousand, in line with the Bank's objective to obtain stable income flows over the medium/long-term and consistent with the business and financial outlooks stated by the Bank in its planning. See section A.3 Disclosure on transfers between portfolios of financial assets of this Part A for more details.

As of January 1, 2016, within the securities lending transactions collateralised by cash, the income component connected to the service provided (received) for the provision of the securities is recognised under the profit or loss items 40. and 50. fee and commission income (expense), whereas it was previously recognised under items 10. and 20. interest income (expense). The corresponding figures for the previous year have been restated to enable like-for-like comparison.

Section 3 - Subsequent events

No significant events have occurred after the balance sheet date that would make it necessary to change any of the information given in the Accounts as at December 31, 2016.

The Accounts were approved by the Board of Directors' meeting of February 7, 2017, which authorised their publication, also pursuant to IAS 10.

Section 4 - Other matters

In 2016, the following accounting standards, amendments and interpretations have become effective for reporting periods beginning on or after January 1, 2016:

- Improvements to IFRSs (2010-2012) (EU Regulation 28/2015);
- Amendments to IAS 19 - Defined benefit plans: employee contributions (Reg. EU 29/2015);
- Amendments to IAS 16 and IAS 41: Agriculture: Bearer plants (EU Reg. 2113/2015);
- Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations (EU Regulation 2173/2015);
- Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation (EU Reg. 2231/2015);
- Improvements to IFRSs (2012-2014) (EU Regulation 2343/2015);
- Amendments to IAS 1: Presentation of financial statements: Disclosure Initiative (EU Regulation 2406/2015);
- Amendments to IAS 27 - Separate Financial Statements: Equity method in Separate Financial Statements (EU Regulation 2441/2015);
- Amendments to IFRS 10, IFRS 12 and IAS 28: Application of consolidation exception to investment entities (EU Regulation 2016/1703).

Where applicable, these accounting standards, amendments and interpretations had no impact on the financial position and results of the Bank as at December 31, 2016.

The European Commission endorsed the following accounting standards whose application is mandatory for financial statements for annual periods starting on or after January 1, 2016 and which have not been applied in advance by the Bank:

- IFRS 15 - Revenue from contracts with customers (EU Regulation 2016/1905);
- IFRS 9 - Financial Instruments (EU Regulation 2016/2067).

Finally, as at December 31, 2016, the IASB issued the following accounting standards and interpretations or revisions thereof, whose application is subject to completion of the approval process by the European Union, which is still ongoing:

- IFRS 14 - Rate-regulated activities (January 2014);
- IFRS 16 - Leasing (January 2016);
- Amendments to IAS 10 and IAS 28: Sale or transfer of assets to a joint venture or associate (September 2014);
- Amendments to IAS 12: Recognition of deferred tax assets for unrealised losses (January 2016);
- Amendments to IAS 7: Disclosure Initiative (January 2016);
- Clarifications on IFRS 15: Revenue from contracts with customers (April 2016);
- Amendments to IFRS 2: Classification and measurement of share-based payments (June 2016);
- Amendments to IFRS 4: Application of IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (September 2016);
- Annual Improvements to International Financial Reporting Standards, 2014-2016 Cycle (December 2016);
- IFRIC 22 - Interpretation on foreign currency transactions and advance consideration (December 2016);
- Amendments to IAS 40: Transfers of investment property (December 2016).

IFRS 9

In July 2014, the IASB issued the new accounting standard IFRS 9 Financial Instruments, endorsed by the European Commission on November 22, 2016 through Regulation (EU) 2016/2067, which is mandatorily applicable for annual periods beginning on or after January 1, 2018, that will replace IAS 39 Financial Instruments: recognition and measurement.

The new standard provides for a revised model for classifying and measuring financial assets, an "expected loss" based impairment model for loans and a reformed approach to hedge accounting. The application of IFRS 9 will have impacts on the Bank's income statement and balance sheet and on operational aspects; The Banca is therefore already conducting the preliminary analyses for the necessary on implementations that will enable the correct application of the standard from January 1, 2018.

Classification and measurement of financial assets

The new method for classifying and measuring financial assets under IFRS 9 is based on the contractual cash flow characteristics of the financial asset and, for financial assets with cash flows consisting "Solely of payments of principal and interest" or "SPPI", on the basis of the business model used by the entity to manage them. Based on the entity's business model, the SPPI assets may be classified as:

- "held to collect" contractual cash flows (measured at a amortised cost and subject to impairment based on expected losses);
- "held to collect cash flows and for sale" (at fair value through comprehensive income and subject to impairment on the basis of expected losses) or held for trading (at fair value through profit or loss);
- "held for trading" (measured at fair value through profit and loss for the year).

It is also possible upon initial recognition to:

- irrevocably designate a financial asset as measured at fair value through profit or loss if this eliminates or significantly reduces a mismatch ("accounting mismatch") that would otherwise arise from a different measurement of assets or liabilities or from the recognition of gains and losses on different bases;
- irrevocably designate particular investments in equity instruments, that would otherwise be measured at fair value through profit or loss, as measured at fair value through other comprehensive income (strategic equity). Upon disposal, the fair value changes recognised in a specific shareholders' equity reserve are not transferred to profit or loss, but to another shareholders' equity reserve.

Part A - Accounting Policies (CONTINUED)

Impairment

With regard to the credit impairment model based on the "expected loss" ("Expected Credit Loss" or "ECL"), the IASB developed this method in order to ensure early recognition of credit losses compared to IAS 39, which is based on actual evidence that an impairment has occurred, as required by the G20 as a result of the financial crisis. With regard to impaired assets according to IAS 39, no significant impacts are envisaged for the Bank because there are no significant conceptual differences between the incurred losses method, according to IAS 39, and the ECL method, required by IFRS 9, as the same indicators for recognition of the loss and for classification as non-performing loans required by IAS 39 shall continue to apply. On the other hand, there will be significant differences in the determination of the ECL for loans for which there has been a significant increase in credit risk after initial recognition (loans classified as Stage 2); however, given the amount of these exposures in the Bank's financial statements, no material impacts are expected.

An impact is also expected from the impairment to be applied to government securities, although it will not be significant with respect to the total amount invested. Investigations are currently being conducted on the need to apply impairments to intercompany exposures.

Hedge accounting

No impacts are expected with regard to hedge accounting, because the Bank plans to exercise the option established in paragraph 6.1.3 of IFRS 9 of continuing to apply IAS 39 for fair value hedges of interest rate risk on financial assets and liabilities. Indeed, it should be noted that the Bank only has macro and micro fair value hedges for interest rate risk on financial assets and liabilities, nor does it, currently, envisage implementing other types of hedges.

This analysis and survey of the impacts resulting from the adoption of the standard, and the implementation is necessary for the first-time adoption from January 1, 2018, will be completed in 2017.

IFRS 15

IFRS 15 - Revenue from Contracts with Customers (published by the IASB on May 28, 2014), was endorsed by the European Commission on September 22, 2016 through EU Regulation 2016/1905, for annual periods starting on or after January 1, 2018, and will replace IAS 18 - Revenue and IAS 11 - Construction Contracts, and IFRIC 13 - Customer Loyalty Programmes, IFRIC 15 - Agreements for the Construction of Real Estate, IFRIC 18 - Transfers of Assets from Customers and SIC 31 - Revenues-Barter Transactions Involving Advertising Services. Early adoption is not permitted.

The standard establishes a new revenue recognition model to be applied to all contracts with customers except those that fall within the scope of other IAS/IFRS standards such as finance leases, insurance contracts and financial instruments. The recognition of revenue under the new model envisages the following basic steps:

- identification of the contract with the customer;
- identification of performance obligations under the contract;
- determination of the price;
- allocation of price to the contract performance obligations;
- the revenue recognition criteria when the entity satisfies each performance obligation.

This analysis and survey of the impacts and effects resulting from the first-time adoption of the standard by the Bank, which is expected for January 1, 2018, will be completed in 2017.

These accounts are subject to audit by Deloitte & Touche S.p.A. pursuant to Legislative Decree no. 39 of January 27, 2010 and in implementation of the Shareholders' Meeting resolution of April 16, 2013.

The full document has been filed with the relevant offices and entities in accordance with law.

Risks and uncertainties related to the use of estimates

In the application of the accounting policies, the management is required to make judgements, estimates and assumptions about the carrying amounts of certain assets and liabilities as well as the information regarding potential assets and liabilities. Estimates and related assumptions are based on previous experience and other factors considered reasonable under the circumstances and have been used to estimate the carrying values of assets and liabilities not readily available from other sources.

Estimated figures have been used for the recognition of some of the largest value-based items in the financial statements as at December 31, 2016, as required by the accounting standards and regulations. These estimates are largely based on calculations of future recoverability of the values recognised in the accounts according to the rules laid down in current legislation and standards and have been made on the assumption of a going concern, on which basis these accounts have been prepared, i.e. without contemplating the possibility of the forced sale of the estimated items.

The processes adopted support the carrying values at December 31, 2016. For some of the above items the valuation is particularly complex given the uncertainty of the macroeconomic and market situation, characterised by the significant volatility of financial indicators used in the valuation process and still high levels of credit quality impairment, as well as, more generally, the uncertainty and instability in the banking sector.

The parameters and information used to check the above-mentioned values are therefore significantly affected by such factors, which could change rapidly in ways that are currently unforeseeable, which means that consequent future effects on the book values cannot be ruled out.

At the date of preparing these accounts we believe that there are no uncertainties such as to give rise to significant adjustments to the carrying amounts within one year.

The estimates and underlying assumptions are reviewed on an ongoing basis. Any changes resulting from these reviews are recognised in the period in which the review was carried out, provided the change only concerns that period. If the revision concerns both current and future periods it is recognised accordingly in both current and future periods.

Uncertainty affecting estimates is inherent, among other factors, in the determination of:

- fair value of financial instruments not listed in active markets;
- receivables, and in general, all other financial assets/liabilities;
- employee severance pay provision (Italy) and other employee and financial advisor benefits;
- provisions for risks and charges (in this regard, in particular for risks arising from legal disputes see Part E – Section 4);
- goodwill;
- deferred tax assets;
- tax liabilities;

This quantification can vary over time, also to a significant extent, according to the evolution of the national and international social and economic environment and the consequent impacts on the Bank's earnings and customer solvency and the credit quality of the counterparties, the performance of the financial markets, which influence the fluctuation in rates, prices and actuarial assumptions used to determine the estimates, as well as the evolution and developments in existing or potential disputes.

With specific reference to future cash flow projections used in the assessment of the recoverability of the amount recognised as goodwill, it should be noted that the parameters and information used are significantly influenced by the macro-economic market situation, which may change unpredictably. For further information, see Part B - Balance Sheet - Section 12 - Intangible assets.

With specific reference to valuation techniques, unobservable inputs used in the fair value measurement and sensitivities to changes in those inputs, please refer to Section A.4. Information on fair value of this Part A.

Interbank Deposit Guarantee Fund – Voluntary Scheme

The Bank has subscribed to the Voluntary Scheme, introduced in November 2015, through an amendment to the bylaws of the Interbank Deposit Guarantee Fund ("IDGF"). The Voluntary Scheme is an instrument for resolving bank crises through support measures in favour of banks subscribing to it, when specific conditions established by the regulations apply. The Voluntary Scheme has its own independent financial resources and the banks subscribing to it have committed to provide funds on request for implementation of the measures. On June 17, 2016, the General Meeting of the IDGF strengthened the financial resources of the Voluntary Scheme from €300 million to €700 million (with a total commitment for FinecoBank of €16.8 million).

In this regard, the Voluntary Scheme, as a private entity, intervened in April 2016 with a measure for a total amount of €272 million (the Bank's share is €6 million) to restructure the support measures that the IDGF had implemented in July 2014 in favour of Banca Tercas. In particular, the European Commission concluded that this aid, originally granted by the IDGF in its capacity as the obligatory system for the guarantee of Italian deposits, constituted incompatible state aid, and therefore Banca Tercas repaid the grant that it had originally received from the IDGF. These amounts were then credited to the banks participating in the IDGF as a repayment of the contribution made in 2014 and they were then immediately debited from the banks participating in the Voluntary Scheme. The transaction therefore had an essentially neutral impact on the income statement for the year.

In June 2016, the Voluntary Scheme approved a measure in favour of Cassa di Risparmio di Cesena, in relation to the capital increase approved by the latter on June 8, 2016 for €280 million (FinecoBank's commitment €6.7 million). In September 2016, the Voluntary Scheme made a payment for the capital increase of Cassa di Risparmio di Cesena and the Bank paid its share of €6,724,389.50, which was determined by applying the percentage attributable to it, calculated using the figures as at March 30, 2016, on the amount of €281 million, of which €280 million corresponding to the amount of the capital increase and €1 million for the expenses related to the measure and the operation of the Voluntary Scheme, resulting in reduction of the total commitment to the Voluntary Scheme to €10 million as at December 31, 2016. The contribution paid was recognised, in accordance with the relevant instructions issued by the Bank of Italy in October 2016, under the equity instruments classified in the "Available-for-sale financial assets" portfolio. As at December 31, 2016, the Bank consequently measured this asset at fair value and, as a result, applied an impairment write-down to the entire exposure in equity instruments towards Voluntary Scheme - CR Cesena, recognised in item 130. b) "Impairment losses/write-backs on: financial assets available for sale" of the income statement.

In this regard, it should be noted that above decision was taken based on a valuation, made internally, using the market multiples method (in line with the identification of the contribution as AFS) that took account of the prices stated in the market for comparable listed companies and the fact that the investment related to an unlisted company. The decision also took into account the present and future conditions of the market for banking investments, which led the results of the valuation to be considered prudentially. At the end of the valuation conducted internally, the Bank decided, from among the other possible reasonably applicable valuation options, to adopt the option of full impairment write-down, based on the principles of prudence, in view of the numerous and significant elements of uncertainty at the present time.

Part A - Accounting Policies (CONTINUED)

A.2 The main items of the accounts

1 - Financial Assets held for trading (HfT)

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

- acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking;
- a derivative (except for derivatives which constitute financial guarantees, see Section 17, and derivatives designated as hedging instruments – see Section 6 - Hedge Accounting).

Like other financial instruments, on initial recognition, at settlement date, a held-for-trading financial asset is measured at its fair value, usually equal to the amount paid, excluding transaction costs and income, which are recognised through profit or loss even when directly attributable to the financial assets. Trading book derivatives are recognised at trade date.

After initial recognition these financial assets are measured at their fair value through profit or loss. An exception is the derivatives settled by delivery of an unlisted equity instrument whose fair value cannot be reliably measured, and which are measured at cost like the underlying.

A gain or loss arising from sale or redemption or a change in the fair value of an HfT financial asset is recognised in profit or loss in item 80. "Gains (losses) on financial assets and liabilities held for trading", with the exception of financial derivatives relating to a fair value option of which gains and losses, whether realised or measured, are booked in item 110. "Gains (losses) on financial assets and liabilities at fair value through profit and loss" (see Section 5 - Financial Instruments at Fair Value through Profit or Loss). If the fair value of an instrument falls below zero, which may happen with derivative contracts, it is recognised in item 40. "Financial liabilities held for trading".

A derivative is a financial instrument or other contract with all three of the following characteristics:

- its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable (usually called the 'underlying') provided that in case of non-financial variable, this is not specific of one of the parties;
- it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors;
- it is settled at a future date.

An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract, with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative.

An embedded derivative is separated from the host contract and recognised as a derivative if:

- the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative;
- the hybrid (combined) instrument is not measured entirely at fair value through profit or loss.

If it is necessary to separate an embedded derivative from its host contract, but it is not possible to measure the embedded derivative separately either at acquisition or at a subsequent financial reporting date, the entire combined contract is treated as a financial asset or financial liability at fair value through profit or loss.

When an embedded derivative is separated, the host contract is recognised according to its accounting classification.

A derivative that is attached to a financial instrument but is contractually transferable independently of that instrument, or has a different counterparty from that instrument, is not an embedded derivative, but a separate financial instrument.

2 - Available-for-sale Financial Assets (AfS)

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables, held-to-maturity investments, financial assets held for trading or financial assets at fair value through profit or loss. These assets are held for an indefinite period of time and may meet the need to ensure liquidity and face changes in interest rates, exchange rates and prices.

AfS financial assets are money market instruments, other debt instruments (included host contract of hybrid instruments from which embedded derivative has been bifurcated) or equity instruments; they include shares held as minority stakes where these do not constitute controlling, or joint control, or associate interests.

On initial recognition, at settlement date, an AfS financial asset is measured at fair value, which is usually equal to the consideration of the transaction, plus transaction costs and income directly attributable to the instrument.

In subsequent periods these assets are measured at fair value, with interest recognised at amortised cost in the income statement. Gains or losses arising out of changes in fair value are recognised in equity item 130. "Revaluation reserves" - except losses due to significant impairment and exchange rate gains or losses on monetary items (debt instruments) which are recognised under item 130. b) "Impairment losses on AfS available for sale financial assets" and item 80. "Gains (losses) on financial assets and liabilities held for trading" in the income statement, respectively - until the financial asset is sold, at which time cumulative gains and losses are recognised in profit or loss in item 100.b) "Gains (losses) on disposal or repurchase of AfS financial assets".

The fair value changes recorded in item 130. "Revaluation reserves" are also reported in the Statement of Comprehensive Income.

Equity instruments (shares) not listed in an active market and whose fair value cannot be reliably determined due to lack or unreliability of information for the fair value measurement are valued at cost, equivalent to the last fair value reliably measured.

If there is objective evidence of impairment on an available-for-sale financial asset, the cumulative loss that had been recognised directly in equity item 130. "Revaluation reserves", is removed from equity and recognised in profit or loss under item 130.b) "Impairment losses on available-for-sale financial assets".

In respect of debt instruments, any circumstances indicating that the borrower/issuer is experiencing financial difficulties which could prejudice the collection of the principal or interest, represent an impairment.

The impairment of equity instruments is assessed on the basis of indicators such as fair value below cost and adverse changes in the environment in which the company operates, as well as the issuer's debt service difficulties.

The loss of value is normally considered as impairment, if fair value falls to less than 50% of cost or lasts for more than 18 months.

If, however, the fall in the fair value of the instrument is over 20% but less than or equal to 50% or continues for no less than 9 but no longer than 18 months, the Bank reviews further income and market indicators. If the results of the review are such as to prejudice the recovery of the amount originally invested, an impairment is recognised.

The amount taken to profit and loss is the difference between the carrying amount (value of initial recognition less any impairment loss already recognised in profit or loss) and current fair value.

Where instruments are valued at cost, the amount of the loss is determined as the difference between their carrying value and the present value of estimated future cash flows, discounted at the current market yield on similar financial assets (the recoverable amount).

If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event such as an improvement in the debtor's credit worthiness occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed and the amount of the reversal is recognised in the same profit or loss item. The reversal cannot result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised. Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available for sale are not reversed through profit or loss, but recognised in equity under the revaluation reserve.

3 - Held-to-Maturity Investments (HtM)

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity, other than those that have the characteristics to be classified under loans and receivables with banks and loans and receivables with customers, for which there is the positive intention and ability to hold them to maturity (included the host contract of hybrid instruments after the embedded derivative has been bifurcated).

If, during the financial year, more than an insignificant amount of held-to-maturity investments are sold or reclassified before maturity, the remaining HtM financial assets shall be reclassified as available-for-sale and no financial assets shall be classified as HtM investments for the two following financial years, unless the sales or reclassifications:

- are so close to maturity or the financial asset's call date that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- occur after substantially all of the financial asset's original principal has been collected through scheduled payments or prepayments;
- are attributable to an isolated event that is beyond the entity's control, is non-recurring and could not have been reasonably anticipated by the entity.

After initial recognition at its fair value, which will usually be the price paid including transaction costs and income directly attributable to the acquisition or provision of the financial asset (even if not yet settled), a held-to-maturity financial asset is measured at amortised cost using the effective interest method. The difference between the carrying value of the asset and the amount received is taken to profit and loss under item 100.c) "Gains (losses) on disposal of HtM financial assets" when the financial asset is derecognised.

If there is objective evidence that a held-to-maturity investment is impaired, the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted using the original effective interest rate of the financial asset. The carrying amount of the asset is reduced accordingly and the loss is recognised in profit or loss under item 130.c) "Impairment losses (c) held-to-maturity investments".

If, in a subsequent period, the amount of an impairment loss decreases and the decrease can be related objectively to an event such as an improvement in the debtor's credit worthiness occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed. The reversal cannot result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised. The amount of the reversal is recognised in the same profit or loss item. Held-to-maturity investments cannot be hedged for other than the credit/non-performance risk and exchange rate risk.

In 2016, the Bank reclassified the Available-for-sale financial assets consisting of Italian and Spanish government securities to the Held-to-maturity investments portfolio. The reclassification was consistent with the Bank's objective of obtaining stable income flows over the medium/long-term and in line with the business and financial outlooks stated by the Bank in its planning. With regard to the ability to hold the securities to maturity, over the years the Bank has experienced significant growth in its direct and indirect sales and has steadily strengthened its market position and available liquidity. In

Part A - Accounting Policies (CONTINUED)

managing its securities portfolio, the Bank has always adopted a non-speculative approach, consisting of holding the securities to maturity, and has limited itself solely to renewals and extensions of the maturities. See section A.3 Disclosure on transfers between portfolios of financial assets of this Part A for more details.

4 - Loans and Receivables

Loans and Advances

Loans and receivables with banks and with customers are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are recognised on the date of disbursement to the borrower, which can coincide with the contract signing date. These items include debt instruments with the above characteristics (included host contract of hybrid instruments from which embedded derivative has been bifurcated) or those subject to portfolio reclassification in accordance with the rules of IAS 39 (see Part A.3.1 below - Transfers between portfolios).

After initial recognition at fair value, which is usually the price paid including transaction costs and income directly attributable to the acquisition or issuance of the financial asset (even if not yet paid), a loan or receivable is measured at amortised cost, which can be adjusted to take account of any write-downs/write-backs resulting from the valuation process.

A profit (or loss) on loans and receivables is recognized through profit or loss:

- when a loan or receivable is derecognised: in item 100. a) "Gains (losses) on disposal";
- or
- when a financial asset is impaired (or the impairment loss previously recognised is reversed: in item 130.a) "Net impairment losses on (a) loans and receivables".

Interest on loans and receivables is recognised in profit or loss on an accrual basis using the effective interest rate method under item 10. "Interest income and similar revenue".

Delay interest is taken to the income statement on collection or receipt.

Loans and receivables are reviewed in order to identify those that, following events occurring after initial recognition, show objective evidence of possible impairment. These impaired loans are reviewed and analysed periodically at least once a year.

A loan or receivable is deemed impaired when it is considered that it will probably not be possible to recover all the amounts due according to the contractual terms, or equivalent value.

Allowances for impairment of loans and receivables are based on the present value of expected cash flows of principal and interest; in determining the present value of future cash flows, the basic requirement is the identification of estimated collections, the timing of collections and the discount rate used. The amount of the loss on impaired exposures classified as non-performing and unlikely to pay according to the categories specified below, is the difference between the carrying value and the present value of estimated cash flows discounted at the original interest rate of the financial asset. If the original interest rate cannot be identified directly, or if identifying it would be excessively onerous, the best approximation is used.

For all fixed-rate positions, the interest rate determined in this manner is also held constant in future years, while for floating rate positions the interest rate is updated according to contractual terms.

Recovery times are estimated on the basis of business plans or forecasts based on historical recovery experience observed for similar classes of loans, taking into account the customer segment, type of loan, type of security and any other factors considered relevant.

Any subsequent change with respect to initial expectations of the amount or timing of expected cash flows of principal and interest causes a change in allowances for impairment and is recognised in profit or loss in item 130. (a) "Impairment losses on loans and receivables".

In the Notes to the Accounts, write-downs of impaired exposures are classified as specific in the relevant income statement item even when the calculation is flat-rate or statistical, as indicated below.

When the reasons for the impairment no longer exist, and this assessment is objectively attributable to an event such as an improvement in the debtor's credit worthiness occurred after the impairment, a reversal is made in the same profit or loss item, within the amount of the amortised cost that there would have been if there had been no impairments.

Derecognition of a loan or receivable in its entirety is made when the underlying cause of the loan or receivable no longer exists, or when the loan or receivable is deemed to be irrecoverable or is written off. Write-offs are recognised directly in profit or loss under item 130.a) "Impairment losses on loans and receivables" and reduce the amount of the principal of the loan or receivable. Reversals of all or part of amounts previously written off are recognised in the same item.

According to Bank of Italy regulations, set out in Circular no. 272 of July 30, 2008 as amended, impaired exposures, i.e. those with the characteristics mentioned in paragraphs 58-62 of IAS 39, correspond to the Non-Performing Exposures aggregate referred to in the EBA ITS.

Specifically, the EBA has identified non-performing exposures as those that satisfy either or both of the following criteria:

- material exposures which are more than 90 days past due;
- exposures for which the Bank has assessed that the debtor is unlikely to pay its credit obligations, without the enforcement and realisation of collateral, regardless of the existence of any past due and/or overdrawn impaired exposures or of the number of days past due.

The EBA standards have also introduced the definition of forborne exposures. Credit exposures are defined as forborne whose original contractual terms and conditions are modified or for which a total or partial refinancing of the debt is granted, as a result of financial difficulties of the debtor. Forborne exposures may be classified in the impaired loans category (non-performing, unlikely to pay, past-due loans and overdrawn impaired exposures) or as unimpaired loans. The accounting policies regarding provisions and assessments of forborne exposures are in line with the general principle set out by IAS 39, with the clarifications given below regarding renegotiated loans classified as unlikely to pay.

The aforementioned Circular 272 also establishes that the impaired assets aggregate is divided into the following categories:

- Non-performing loans: i.e., the on-balance-sheet and off-balance-sheet exposures to insolvent borrowers, even if the insolvency has not been recognised in a court of law. They are measured individually (including by verifying statistically defined coverage levels for some loan portfolios below a predefined threshold) or, for individually insignificant amounts, on a flat basis by type of homogeneous exposures;
- Unlikely to pay: i.e. on- and off-balance sheet exposures which do not meet the conditions for classifying the borrower as non-performing loans and for which, in the absence of actions such as the enforcement of collateral, the debtor's ability to fully meet its credit obligations (principal and/or interest) is assessed as unlikely. This assessment is made independently of any past due and unpaid amount (or instalment). The classification of an exposure as unlikely to pay is not necessarily tied to evident issues (non-repayment), but is rather linked to indicators of a potential default of the borrower. The "unlikely to pay" exposures are measured in the accounts individually (including by verifying statistically defined coverage levels for some loan portfolios below a predefined threshold) or by applying a percentage on a flat basis by type of homogeneous exposures. Exposures classified as unlikely to pay and identified as forborne, may only be reclassified to unimpaired loans after at least one year has passed from the time of the forbearance and the conditions established in paragraph 157 of the EBA Implementing and Technical Standards have been met. With regard to their measurement:
 - they are generally measured on an individual basis and the resulting allowance may include the discounted cost due to renegotiation of the interest rate at a rate lower than the original contractual rate;
 - loans under renegotiation involving a debt/equity swap are valued, pending swap finalization, on the basis of the conversion agreements entered into at the reporting date. Any differences between the value of the loans and the fair value of the equity instruments on initial recognition are recognised through profit or loss as write-downs.
- Past-due and/or overdrawn impaired exposures: i.e. on-balance sheet exposures, other than those classified as non-performing or unlikely to pay, that are past due or overdrawn at the reporting date. The past due and/or overdrawn impaired exposures may be determined, alternatively, with respect to the individual debtor or the individual transaction. Specifically, they represent the total exposure to any borrower not included in the unlikely to pay and non-performing loans categories, who at the reporting date has expired facilities or unauthorised overdrafts that are more than 90 days past due and meet the requirements set out by local supervisory regulations for their classification under the "past due exposures" category (TSA banks) or "defaulted exposures" (IRB banks). Past-due and/or overdrawn impaired exposures are valued at a flat rate on a historical/stochastic basis by applying where available the risk rating referred to Loss Given Default (LGD) under Regulation (EU) No. 575/2013 (CRR) on prudential requirements for credit institutions and investment firms.

The Bank assesses past due and/or overdrawn impaired exposures with respect to the individual debtor. Total exposure is recognised in this category if, at the reporting date, either of the following amounts, whichever is larger, is equal to or more than 5%:

- the expired/overdrawn portion out of the entire exposure as at the reporting date
and
- the average of the past-due and/or overdrawn portions out of the entire exposure, as measured daily in the last preceding quarter.

The collective assessment of performing loans is used for groups of loans for which individually there are no indicators of impairment: to these portfolios a latent impairment can be attributed, according to the method described below, inter alia on the basis of the risk factors used under CRR prudential regulation.

Each loan with similar characteristics in terms of credit risk - in relation to loan type, the borrower's sector of economic activity, geographical location, type of security or other relevant factors - is assessed in terms of its PD (Probability of Default) and LGD (Loss Given Default); these are uniform for each class of loan.

The methods used combine the CRR prudential regulation recommendations and IFRS. The latter exclude future loan losses not yet sustained, but include losses already sustained even if they were not manifest at the time of measurement, based on past experience of losses on assets having a similar risk profile to the assets being measured.

The parameter for the average period from deterioration of a borrower's financial condition and its classification as an impaired loan is the Loss Confirmation Period.

The portfolio valuation is the product of the risk factors derived from the parameters used under CRR prudential regulation requirements, with a one-year time horizon, and the above loss confirmation periods (LCP) expressed as part of a year and diversified according to classes of loans and receivables on the basis of customer segments/portfolios characteristics. The Bank assumes the loss confirmation period as equal to a maximum of 12 months, at which existing accounting provisions and expected losses are equivalent.

Part A - Accounting Policies (CONTINUED)

If these indicators are not available, estimated value and standard loss percentages, based on internal historical series and sectoral studies, shall be used.

Allowances for unsecured loans to residents of countries experiencing debt service difficulties, where the transfer risk is not included in the rating system applied, are generally determined, country by country, with the aim of attributing latent impairment on the basis of shared parameters.

Impairment losses are recognised as a reduction of the carrying amount of the loan or receivable, whereas the risk arising from off-balance sheet items, e.g. loan commitments and loan commitments and write-downs for impairment of guarantees given, is recognised in profit and loss under item 130.d) "Impairment Losses on other financial assets" with contra item 100. "Other Liabilities").

5 - Financial Instruments at Fair Value through Profit or Loss (FiaFV)

Any financial asset may be designated, in accordance with the provisions of IAS 39 as a financial instrument measured at fair value through profit and loss on initial recognition, except for the following:

- investments in equity instruments for which there is no price quoted in active markets and whose fair value cannot be reliably determined;
- derivatives.

FiaFV includes financial assets:

(i) not belonging to regulatory trading book, whose risk is:

- connected with debt positions measured at fair value (see also item 15 "Financial liabilities at fair value through profit or loss");
- managed by the use of derivatives not treatable as accounting hedges;

(ii) represented by hybrid (combined) instruments containing embedded derivatives that otherwise would have been separated from the host contract.

The accounting treatment for these transactions is same as for "Financial assets held for trading" (see Section 1 – Financial assets held for trading), however gains and losses, both realised and unrealised, are recognised in item 110. "Gains (losses) on financial assets and liabilities at fair value through profit and loss".

At the balance sheet date, the Bank did not hold any financial assets classified as "Financial assets at fair value through profit and loss".

6 - Hedge Accounting

Hedging derivatives are those created to hedge market risks (interest-rate, currency and price) to which the hedged positions are exposed. They may be described as follows:

- fair value hedge: a hedge of the exposure to changes in fair value of a recognised asset or liability, or an identifiable portion of such an asset or liability;
- cash flow hedge: a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction which could affect profit or loss in future periods;
- hedge of a net investment in a foreign entity, whose operations are presented in a currency other than euro.

Hedging derivatives are initially recognised on trade date and are valued at their fair value.

A hedging relationship qualifies for hedge accounting if there is formal designation and documentation of the hedging relationship including the risk management objective, the strategy for undertaking the hedge, and how the hedging instrument's prospective and retrospective effectiveness will be assessed. It is necessary to assess the hedge's effectiveness, at inception and in subsequent periods, in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk.

A hedge is regarded as highly effective if, at the inception of the hedge and in subsequent periods, it is determined prospectively to remain highly effective, and the retrospectively verified that the hedge ratio (i.e. the changes in fair value of hedged items and hedging instruments) is within a range of 80-125 per cent. The hedge is assessed on an ongoing basis and thus must prospectively remain highly effective throughout the financial reporting periods for which the hedge has been designated.

The assessment of effectiveness is made at each balance-sheet date or other reporting date. If the assessment does not confirm the effectiveness of the hedge, from that time on hedge accounting is discontinued in respect of the hedge and the hedging derivative is reclassified as a held-for-trading instrument.

In addition, the hedging relationship ceases when the hedging instrument expires or is sold, terminated or exercised; the hedged item is sold, expires or is repaid; or it is no longer highly probable that the forecast transaction will occur.

Hedging derivatives are measured at fair value. In particular:

- **Fair Value Hedging** - an effective fair value hedge is accounted for as follows: the gain or loss from remeasuring the hedging instrument at fair value is recognised through profit or loss in item 90. "Fair value adjustments in hedge accounting". the gain or loss on the hedged item attributable to the hedged risk adjusts the carrying amount of the hedged item and is recognised through profit or loss in the same item. Hedging ineffectiveness

is represented by the difference between the change in the fair value of hedging instruments and the change in the fair value of hedged item. If the hedging relationship is terminated for reasons other than the sale of the hedged item, this is measured according to the original criterion dictated by the accounting standard applied to the relevant portfolio. In the case of interest-bearing instruments, the difference between the carrying amount of the hedged item on termination of the hedging and the carrying amount it would have had if the hedge had never existed, is recognised through profit or loss in interest receivable or payable over the residual life of the original hedge. If the hedged item is sold or repaid, the portion of fair value which is still unamortised is recognised immediately under item 100. "Gains (losses) on disposal or repurchase". The difference in fair value of the hedging derivative since the latest effectiveness testing date is recognised in profit or loss under item 90. "Fair value adjustments in hedge accounting". With regard to specific Fair Value hedging derivatives of securities included in the portfolio of "Available-for-sale financial assets", the fair value changes of the hedging instrument were recognised through profit or loss in item 90. "Fair value adjustments in hedge accounting"; fair value changes of the hedged item attributable to the hedged risk (interest rate risk) were recognised through profit or loss in the same item 90; the fair value changes of the hedged item relating to the unhedged risk (essentially the credit risk) are recognized in the Statement of Comprehensive Income and shown in item 130. "Revaluation reserves";

- **Cash Flow Hedging** - hedges are valued at fair value; change in the fair value of a hedging instrument that is considered effective is recognised in equity item 130 "Revaluation reserves". The ineffective portion of the gain or loss is recognised through profit or loss in item 90. "Fair value adjustments in hedge accounting". If a cash flow hedge is determined to be no longer effective or the hedging relationship is terminated, the cumulative gain or loss on the hedging instrument that remains recognised in "Revaluation reserves" from the period when the hedge was effective remains separately recognised in "Revaluation reserves" until the forecast hedged transaction occurs or is determined to be no longer possible; in the latter case, the gains or losses are transferred from shareholders' equity to item 80. "Gains and losses on financial assets and liabilities held for trading". The overall fair value changes recorded in item 130. "Revaluation reserves" are reported in the Statement of Comprehensive Income.
 - **Hedging a Net Investment in a Foreign Entity** - hedges of a net investment in a foreign entity, whose operations are presented in a currency other than euro, are accounted for similarly to cash flow hedges. The gain or loss on the hedging instrument relating to the effective portion of the hedge that has been recognised directly in equity is recognised through profit or loss on disposal of the foreign entity. The fair value changes recorded in item 130. "Revaluation reserves" are also reported in the Statement of Comprehensive Income. The ineffective portion of the gain or loss is recognised through profit or loss in item 90. "Fair value adjustments in hedge accounting";
 - **macro-hedged financial assets (liabilities)** - IAS 39 allows a fair-value item hedged against interest rate fluctuations to be not only a single asset or liability but also a monetary position contained in a number of financial assets or liabilities (or parts of them); accordingly, a group of derivatives can be used to offset fair-value fluctuations in hedged items due to changes in market rates. Macro hedging may not be used for net positions resulting from the offsetting of assets and liabilities. As for fair value micro hedging, macro hedging is considered highly effective if, at the inception of the hedge and throughout its life, changes in the fair value attributable to the hedged position are offset by changes in fair value of the hedging instrument and if the hedge ratio is retrospectively assessed falling within the range of 80-125 per cent. Net changes – gains or losses – in the value of the macro-hedged assets and liabilities attributable to the hedged risk are recognised in asset item 90 and liability item 70 respectively and offset the profit and loss item 90. "Fair value adjustments in hedge accounting". The gain or loss from remeasuring the hedging instrument at fair value is recognised in the same profit and loss item.
- The ineffectiveness of the hedging arises to the extent that the change in the fair value of the hedging item differs from the change in the fair value of the hedged monetary position. The extent of hedge ineffectiveness is in any case recognised in profit and loss item 90. "Fair value adjustments in hedge accounting".
- If the hedging relationship is terminated, for reasons other than the sale of the hedged items, cumulative gain or loss in items 90 (Assets) and 70 (Liabilities) is recognised through profit or loss in interest income or expenses, along the residual life of the hedged financial assets or liabilities.
- If the latter are sold or repaid, unamortised fair value is at once recognised through profit and loss in item 100. "Gains (Losses) on disposals/repurchase".

The Bank had in place at the reporting date only specific fair value hedges of debt securities issued by governments and classified in the "Available-for-sale financial assets" portfolio and macro-hedges against the interest rate risk of personal loans to retail customers, of bonds issued by UniCredit subscribed by the Bank and classified under the "Loans and receivables" category and fixed-rate direct deposits.

7 - Equity Investments

At the balance sheet date, the Bank held no investments in subsidiaries, associates and joint ventures.

Interests held – other than subsidiaries, associates and joint ventures, and interests and those to be recognised, where applicable, under the item 140. "Non-current assets and disposal groups classified as held for sale" – are classified as "Available-for-sale financial assets".

Part A - Accounting Policies (CONTINUED)

8 - Property, Plant and Equipment

The item includes:

- land and buildings
- furniture and fixtures
- plant and machinery
- other machinery and equipment

and is divided between:

- assets used in the business;
- assets held as investments.

Tangible assets used in the business are held for use in the production or supply of goods or services or for administrative purposes and are expected to be used during more than one period.

Property, plant and equipment also include leasehold improvements relating to assets which can be separately identified. They are classified according to the specific sub-items relating to the asset type (e.g. plants). Leasehold improvements are usually borne in order to make leased premises fit for the expected use. Improvements and additional expenses relating to property, plant and equipment identifiable but not separable are recognised in item 150. "Other assets".

Tangible assets held for investment purposes are properties covered by IAS 40, i.e. properties held in order to derive rentals and/or a capital gain.

Property, plant and equipment are initially recognised at cost including all costs directly attributable to bringing the asset into use (transaction costs, professional fees, direct transport costs incurred in bringing the asset to the desired location, installation costs and dismantling costs).

Subsequent costs are added to the carrying amount or recognised as a separate asset only when it is probable that there will be future economic benefits in excess of those initially foreseen and the cost can be reliably measured. Other expenses borne at a later time (e.g. normal maintenance costs) are recognised in the year they are incurred in profit and loss items:

- 150.b) "Other administrative expenses", if they refer to assets used in the business;

or:

- 190. "Other net operating income", if they refer to property held for investment.

After being recognised as an asset, an item of property, plant and equipment is carried at cost less any accumulated depreciation and any cumulative impairment losses.

An item with a finite useful life is subject to straight-line depreciation.

The depreciation rates used for the main categories of property, plant and equipment are as follows:

• Furnishings	15%
• Motor vehicles	25%
• Buildings	3%
• Alarm and safety systems	30%
• Lifts and lifting equipment	7.5%
• Electronic equipment	20%
• Ordinary office equipment	12%
• Machinery, appliances and equipment	15%
• Furniture	12%
• Mobile phones and photographing systems	20%
• Tablets	33.33%

Land and buildings, if separately quantifiable, are recognised separately, even if acquired together. Land is not depreciated since it usually has an indefinite useful life. Buildings, conversely, have a finite useful life and are therefore subject to depreciation.

The estimate of the useful life of an asset is reviewed at least at each accounting period-end on the basis of the conditions of use of the asset, of maintenance conditions and expected obsolescence, and, if expectations differ from previous estimates, the depreciation amount for the current and subsequent financial years is adjusted accordingly.

If there is objective evidence that an asset has been impaired, the carrying amount of the asset is compared with its recoverable value, equal to the greater of its fair value less selling cost and its value in use, i.e. the present value of future cash flows expected to originate from the asset. Any value adjustments are recognised in profit and loss item 170. "Impairment/Write-backs on property, plant and equipment".

If the value of a previously impaired asset is restored, its increased carrying amount cannot exceed the net carrying amount it would have had if there had been no losses recognised on the prior-year impairment.

An item of Property, plant and equipment is de-recognised from the Balance sheet upon disposal or when no further economic benefits are expected to be generated by its use or its disposal and any difference between the disposal or recoverable value and the book value is recognised in the Income Statement under item 240. "Gains (losses) on disposal of investments".

9 - Intangible Assets

An intangible asset is an identifiable non-monetary without physical substance, controlled by the Bank, which is expected to be used during more than one period and from which future economic benefits are probable.

Intangible assets mainly consist of goodwill, software and costs incurred for the creation of the new Fineco website.

Intangible assets other than goodwill are recognised at purchase cost, i.e. including any cost incurred to bring the asset into use, less accumulated amortisation and any recognised impairment losses.

An intangible asset with a finite life is subject to straight-line amortisation over its estimated useful life.

Residual useful life is usually assessed as follows:

- software maximum 3 years;
- other intangible assets maximum 5 years.

There are no intangible assets with an indefinite life, except for goodwill.

If there is objective evidence that an asset has been impaired, the carrying amount of the asset is compared with its recoverable value, equal to the greater of its fair value less selling cost and its value in use, i.e. the present value of future cash flows expected to originate from the asset. Any impairment loss is recognised in profit and loss item 180. "Impairment/write-backs on intangible assets".

If the value of a previously impaired intangible asset, other than goodwill is restored, its increased carrying amount cannot exceed the net carrying amount it would have had if there were no losses recognised on the prior-year impairment.

An intangible asset is de-recognised from the Balance sheet upon disposal or when no further economic benefits are expected to be generated by its use or its disposal and any difference between the disposal or recoverable value and the book value is recognised in the Income Statement under item 240. "Gains (losses) on disposal of investments".

Goodwill

In accordance with IFRS3, goodwill is the excess of the cost of a business combination over the interest acquired in the net fair value, at the acquisition date, of the assets and liabilities acquired.

Goodwill arising from the acquisition of companies through merger or absorption is recognised as an intangible asset, whereas goodwill arising from the acquisition of subsidiaries, associates and joint ventures is included in the acquisition cost and, then, shown as an increase in the value of the investments. At a subsequent financial reporting date, goodwill is recognised net of any cumulative impairment losses and is not amortised.

Goodwill is tested for impairment annually. Impairment losses on goodwill are recognised in profit and loss item 230. "Impairment of goodwill". In respect of goodwill, no write-backs are allowed.

Goodwill relates to buy-outs of divisions or companies engaged in trading activities or the distribution of financial, banking and insurance products through personal financial advisors. These activities have been fully integrated with the Bank's ordinary operations; as a result, it is not possible to isolate the contribution of each company/business division from the Bank's overall business. This means that to establish the reasonableness of the value of goodwill recognised in the financial statements it is necessary to take account of the Bank's comprehensive income. The cash generating unit (CGU) is the Bank as a whole.

In view of the specific business model adopted by the Bank, which involves a high level of integration between personal financial advisors and the trading and banking platform, so that the personal financial advisors network is an integral part of the overall offer, which includes banking, brokerage and investing services, an allocation of costs/revenues to the macro areas of activity is not considered relevant or meaningful.

Please see Section 12.3 Intangible assets - Other information in Part B below for further information on goodwill and related impairment tests.

10 - Non-current Assets Held for Sale

These categories include individual assets held for disposal (tangible, intangible and financial assets) or groups of assets held for sale, with the associated liabilities, as required by IFRS 5.

Individual assets (or groups of assets held for sale) are recognised in item 140. "Non-current assets and disposal groups held for sale" and 90. "Liabilities included in disposal groups classified as held for sale", respectively, at the lower of their carrying amounts and fair values less costs to sell.

The revaluation reserves relating to Non-current assets held for sale, which are recorded as a contra item to changes in value relevant for this purpose, are reported separately in the Statement of Comprehensive Income (see Part D - Comprehensive Income).

The net balance of profits (dividends, interest income, etc.) and losses (interest expense, etc.) attributable to groups of assets or liabilities held for sale are recognised in the income statement under item 280. "Profit (Loss) after tax from discontinued operations". Profits and losses attributable to individual assets held for disposal are recognised in the income statement under the most appropriate item.

At the balance sheet date, the Bank held no non-current assets classified as held for sale.

Part A - Accounting Policies (CONTINUED)

11 - Current and Deferred Tax

Tax assets and liabilities are recognised in the balance sheet respectively in asset item 130. "Tax assets" and in liability item 80. "Tax liabilities".

In compliance with the "Balance sheet liability method", current and deferred tax items are:

- current tax assets, i.e. amount of tax paid in excess of income tax due under the current national tax regulations;
- current tax liabilities, i.e. tax payables due under the current Italian tax regulations;
- deferred tax assets, i.e. amounts of income tax recoverable in future fiscal years and relating to:
 - deductible temporary differences;
 - the carry-forward of unused tax losses;
 - the carry-forward of unused tax credits;
- deferred tax liabilities, i.e. the payables for income tax due in future fiscal years in respect of taxable temporary differences.

Current and deferred tax assets and tax liabilities are calculated in accordance with local tax regulations and are recognised in profit or loss on an accrual basis. More specifically, for current IRES income tax, a rate of 27.50% has been calculated; for IRAP corporate tax, the rate applied was 5.57%.

In general, deferred tax assets and liabilities arise when there is a difference between the accounting treatment and the tax treatment of the carrying amount of an asset or liability.

Deferred tax assets and liabilities are recognised applying tax rates that at the balance sheet date are expected to apply in the period when the carrying amount of the asset will be recovered or the liability will be settled on the basis of tax regulations in force, and are periodically reviewed in order to reflect any changes in regulations.

In this regard, it should be noted that the effects of the reduction in the IRES income tax rate from 27.50% to 24% introduced, with effect from January 1, 2017 effective for tax periods after the period to December 31, 2016, introduced by the Stability Law for 2016 were "neutralised" for the Bank as a result of the introduction, by the same Law, of an additional 3.5 percentage points for credit and financial institutions effective for the same tax periods. Furthermore, deferred tax assets are recognised only to the extent that it is probable that sufficient future taxable profit will be generated by the Bank. In accordance with the provisions of IAS12, the probability that sufficient future taxable profit will be available, against which the deferred tax assets can be utilised, is reviewed periodically. The carrying amount of deferred tax assets should be reduced to the extent that it is not probable that sufficient taxable profit will be available.

Deferred tax liabilities are always recognised.

Current and deferred taxes are recognised in profit and loss item 260. "Tax expense (income) related to profit or loss from continuing operations", except for tax referred to items that in the same or in another fiscal year are credited or charged directly to equity, such as those relating to valuation gains or losses on available-for-sale financial assets, whose changes in value are recognised, after tax, under the revaluation reserves directly in the statement of comprehensive income.

Current tax assets are shown in the balance sheet net of related current tax liabilities, where the following requirements are met:

- there is a right to offset the recognised amounts; and
- there is an intention to settle the asset and liability positions with a single payment on a net basis or to realize the asset and settle the liability simultaneously.

Deferred tax assets are shown in the balance sheet net of related deferred tax liabilities, where the following requirements are met:

- there is a right to offset the underlying current tax assets with the current tax liabilities; and
- deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on the same taxable entity or different taxable entities which intend to settle current tax assets and liabilities on a net basis (usually under a tax consolidation agreement).

12 - Provisions for Risks and Charges

Retirement Payments and Similar Obligations

Retirement provisions – i.e. provisions for employee benefits paid after leaving employment – are defined as defined contribution plans or defined benefit plans according to the economic nature of the plan.

In particular:

- defined-benefit plans provide a series of benefits depending on factors such as age, years of service and compensation policies. Under this type of plan actuarial and investment risks are borne by the company;
- defined-contribution plans are plans under which the company makes fixed contributions. Benefits are the result of the amount of contributions paid and return on contributions invested. The employer bears no actuarial and/or investment risks connected with this type of plan as it has no legal or implicit obligation to make further contributions, should the plan not be sufficient to provide benefit to all employees.

Defined-benefit plans are present-valued by an external actuary using the unit credit projection method.

This method distributes the cost of the benefit evenly over the employee's working life. The liability is determined as the present value of average future payments adjusted according to the ratio of years of service to theoretical total years of service at the time of payment of the benefit.

More specifically, the amount recognised according to IAS 19 Revised, as a net liability/asset in item 120. Provisions for risks and charges - a) Post-retirement benefit obligations is the present value of the obligation at the balance sheet date, less any pension charges relating to benefits already provided but not yet recognised, less the fair value at the balance sheet date of plan assets other than those due to directly settle the obligations adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. Actuarial gains or losses from the defined-benefit liabilities are recognised through other comprehensive income under Revaluation reserves.

The discount rate used to discount obligations (whether financed or not) relating to benefits to be provided after retirement varies according to the currency of denomination and country where the liabilities are allocated and is determined on the basis of market yield at the balance sheet date of prime issuers' bonds with an average life in keeping with that of the relevant liability.

At the balance sheet date, the Bank did not have provisions for retirement payments and similar obligations.

Other Provisions

Provisions for risks and charges consist of liabilities recognised when:

- the entity has a present obligation (legal or constructive) as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

The amounts recognised as provisions are the best estimate of the expenditure required to settle the present obligation. The risks and uncertainties that inevitably surround the relevant events and circumstances are taken into account in reaching the best estimate of a provision.

Where the effect of the time value of money is significant (generally when payment is to be made more than 18 months from recognition), the amount of the provision should be the present value of the best estimate of the cost required to settle the obligation. The discount rate used reflects the current market assessments.

Provisions are reviewed periodically and adjusted to reflect the current best estimate. If it becomes clear that it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

Provisions are used only for expenses for which they were originally recognised. Provisions for the year are recognised in the income statement item 160. "Provisions for risks and charges" and include increases due to the passage of time; they are also net of any re-attributions.

"Other provisions" also include obligations relating to benefits due to agents, specifically supplementary customer portfolio payments and contractual payments, which are measured as per defined benefit plans; accordingly, these obligations are calculated using the unit credit projection method (see paragraph "Retirement Payments and Similar Obligations"), and payments under non-competition agreements.

In certain cases, provisions for risks and charges (for example related to staff expenses and administrative costs) have been recognised under their own item in the income statement to better reflect their nature.

13 - Liabilities and Securities in Issue

The items "Deposits from banks", "Deposits from customers" and "Debt Securities in issue" are used for all forms of third party funding other than trading liabilities or those valued at fair value through profit and loss.

These financial liabilities are recognised on the settlement date principle initially at fair value, which is normally the consideration received less transaction costs directly attributable to the financial liability. Subsequently these instruments are measured at amortised cost using the effective interest method.

Hybrid debt instruments relating to equity instruments, foreign exchange, credit instruments or indexes, are treated as structured instruments. The embedded derivative is separated from the host contract and recognised as a derivative, provided that separation requirements are met, and recognised at fair value. The embedded derivative is initially recognised at fair value and subsequently reassessed. Any subsequent changes in fair value are recognised in profit and loss item 80. "Gains (losses) on financial assets and liabilities held for trading". The difference between the total amount received and the fair value of the embedded derivative is attributed to the host contract.

Instruments convertible into treasury shares require the recognition, at the issuing date, of a financial liability and an equity component recognised in item 150. "Equity instruments", whenever the contractual terms provide for physical delivery. The equity component is initially measured at residual value, i.e., the overall value of the instrument less the separately determined value of a financial liability with no conversion clause and the same cash flow. The financial liability is initially recognised at amortised cost using the effective interest method.

Part A - Accounting Policies (CONTINUED)

Securities in issue are recognised net of repurchased amounts; the difference between the carrying value of the liability and the amount paid to buy it in is taken to profit and loss under item 100.d) "Gains (losses) on buy-ins of financial liabilities". Subsequent disposal by the issuer is considered as a new issue, which does not produce gains or losses.

The Bank's debts do not include covenants (see glossary in the attachments) that would cause default or restructuring events. There are no debt instruments involving convertibility to equity instruments (under IASB IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments).

At the balance sheet date, the Bank did not have any debt securities in issue and had not issued any hybrid debt instruments or instruments convertible into own shares.

14 - Financial Liabilities Held for Trading

Financial liabilities held for trading include:

- derivatives that are not designated as hedging instruments;
- obligations to deliver financial assets borrowed by a short seller (i.e., an entity that sells financial assets it does not yet own);
- financial liabilities issued with an intention to repurchase them in the near term;
- financial liabilities that are part of a portfolio of financial instruments considered as a unit and for which there is evidence of a recent pattern of trading.

HfT financial liabilities, including derivatives, are measured at fair value initially and for the life of the transaction, except for derivative liabilities settled by delivery of an unlisted equity instrument whose fair value cannot reliably be measured, and which are therefore measured at cost.

15 - Financial Liabilities at Fair Value through Profit or Loss

According to IAS 39, financial liabilities, as well as financial assets, may also be designated on initial recognition as measured at fair value, provided that:

- this designation eliminates or considerably reduces the discrepancy that could arise from the application of different methods of measurement of assets and liabilities and related gains or losses;

or

- a group of financial assets, financial liabilities or both are managed and measured at fair value under risk management or investment strategy which is internally documented with the Bank's Board of Directors or equivalent body.

This category may also include financial liabilities represented by hybrid (combined) instruments containing embedded derivatives that otherwise should have been separated from the host contract.

These transactions are recognised in the same way as the HfT financial liabilities, with gains and losses, both realised and unrealised, recognised in item 110. "Gains (losses) on financial assets and liabilities at fair value through profit and loss".

At the balance sheet date, the Bank did not hold any financial liabilities classified as "Financial liabilities at fair value through profit or loss".

16 - Foreign Currency Transactions

A foreign currency transaction is recognised at the spot exchange rate of the transaction date.

Foreign currency monetary assets and liabilities are translated at the closing rate of the period.

Exchange differences arising from settlement of monetary items at rates different from those of the transaction date and unrealised exchange rate differences on foreign currency assets and liabilities not yet settled, other than assets and liabilities designated as measured at fair value and hedging instruments, are recognised in profit and loss item 80. "Gains and losses on financial assets and liabilities held for trading".

Non-monetary assets and liabilities recognised at historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary items that are measured at fair value in a foreign currency are translated at the closing rate. In this case the exchange differences are recognised:

- in profit and loss if the financial asset or liability is HfT;
- in the statement of comprehensive income and shown in revaluation reserves if the financial asset is AFS.

All exchange differences recorded under revaluation reserves in shareholders' equity are also reported in the Statement of Comprehensive Income.

17 - Other Information

Business combinations

A business combination is a transaction through which an entity obtains control of a company or of a business segment, thus bringing together different businesses into one reporting entity.

A business combination may result in a Parent-subsidary relationship in which the acquirer is the Parent and the acquiree a subsidiary of the acquirer. A business combination may involve the purchase of the net assets of another entity, in which case goodwill can arise, or the purchase of the equity of the other entity (mergers).

IFRS 3 requires that all business combinations involving the purchase of a division shall be accounted for by applying the purchase method that involves the following steps:

- identifying an acquirer;
- measuring the cost of the business combination;
- and
- allocating, at the acquisition date, the cost of the business combination to the assets acquired and liabilities and contingent liabilities assumed.

The cost of a business combination is the aggregate of the fair value, at the date of exchange, of assets given, liabilities incurred or assumed and equity instruments issued by the acquirer, in exchange for control of the acquiree.

The acquisition date is the date on which the acquirer effectively obtains control of the acquiree. When this is achieved through a single exchange transaction, the date of exchange coincides with the acquisition date.

A business combination may involve more than one exchange transaction; nevertheless, the cost of the business combination remains equal to the fair value of the total shareholding acquired. This involves the revaluation at fair value - and the recognition of the effects in the Income Statement - of the equity investments previously held in the acquired entity.

The cost of a business combination is allocated by recognizing the assets, the liabilities and the identifiable contingent liabilities of the acquired company at their acquisition-date fair value. Exceptions to this principle are deferred income tax assets and liabilities, employee benefits, indemnification assets, reacquired rights, non-current assets held for sale, and share-based payment transactions that are subject to review in accordance with the principle applicable to them.

The positive difference between the cost of the business combination and the acquirer's interest at fair value, net of the identifiable assets, liabilities and contingent liabilities, must be accounted for as goodwill.

After initial recognition, goodwill is tested for impairment at least annually.

If the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the acquirer shall reassess the fair values and immediately recognise any excess remaining after that reassessment in profit or loss.

In the case of business combinations resulting in a Parent company-subsidary (acquirer-acquiree) relationship, the equity investment is accounted for under the cost method.

Derecognition of financial assets

Derecognition is the removal of a previously recognised financial asset from an entity's balance sheet.

Before evaluating whether, and to what extent, derecognition is appropriate, under IAS 39 an entity should determine whether the relevant conditions apply to a financial asset in its entirety or to a part of a financial asset. The standard is applied to a part of financial assets being transferred if, and only if, the part being considered for derecognition meets one of the following conditions:

- the part comprises only specifically identified cash flows from a financial asset (or a group of assets), e.g. interest cash flows from an asset;
- the part comprises a clearly identified percentage of the cash flows from a financial asset, e.g., a 90 per cent share of all cash flows from an asset;
- the part comprises only a fully proportionate (pro rata) share of specifically identified cash flow, e.g. 90 per cent share of interest cash flows from an asset.

In all other cases, the standard is applied to the financial asset in its entirety (or to the group of similar financial assets in their entirety).

An entity shall derecognise a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the contractual rights to receive the cash flows of the financial asset to a third party.

Rights to cash flow are considered to be transferred even if contractual rights to receive the asset's cash flow are retained but there is an obligation to pay this cash flow to one or more entities and all the following conditions are fulfilled (pass-through agreement):

- there is no obligation on the Bank to pay uncollected amounts associated with the original asset;
- sale or pledge of the original asset is not allowed, unless it secures the obligation to pay cash flow;
- the Bank is obliged to transfer forthwith all cash flows received and may not invest them, except for liquidity invested for the short period between the date of receipt and that of payment, provided that the interest accrued in that period is paid on.

Part A - Accounting Policies (CONTINUED)

Recognition is also subject to verification of effective transfer of all the risks and rewards of ownership of the financial asset. If the entity transfers substantially all the risks and rewards of ownership of the financial asset, the entity shall derecognise the asset (or group of assets) and recognize separately as assets or liabilities any rights and obligations created or retained in the transfer.

The main transactions that do not allow, under the above rules, total derecognition of a financial asset are securitizations, repurchase (sell and buy-backs) and securities lending transactions.

In the case of repurchase transactions and stock lending, the assets transacted are not derecognised since the terms of the transaction entail the retention of all their risks and rewards.

Lastly, it should be noted that securities lending transactions collateralised by other securities or not collateralised were recorded as off-balance sheet items.

Repos and securities lending

Securities received in a transaction that entails a contractual obligation to sell them at a later date or delivered under a contractual obligation to repurchase are neither recognised nor derecognised. In respect of securities purchased under an agreement to resell, the consideration is recognised as a loan to customers or banks, or as an asset held for trading. In respect of securities held in a repurchase agreement, the liability is recognised as due to banks or customers, or as financial liabilities held for trading. Revenue from these loans, being the coupons accrued on the securities and the difference between the sale/purchase and resale/repurchase prices, is recognised in profit or loss through interest income and expenses on an accruals basis.

These transactions can only be offset if, and only if, they are carried out with the same counterparty and provided that such offset is provided for in the underlying contracts.

The same rules apply to securities lending transactions collateralised by cash fully available to the lender.

The profit or loss items connected with these transactions are booked respectively:

- in the item Interest, for the positive component (borrower) and the negative component (lender) related to the return on cash paid to the lender;
- in the item Fees and commissions, for the negative component (borrower) and the positive component (lender) related to the service received (provided) through the provision of the security by the lender.

With reference to securities lending transactions collateralised by other securities, or not collateralised, the security lent or the security put up as collateral are still recognised as assets in the balance sheet, depending on the role - lender or borrower, respectively - played in the transaction.

Counterparty risk related to the latter types of securities lending or borrowing transactions is shown under the off-balance sheet exposures in the tables of Part E - Section 1 - Credit risk - A. Credit quality.

Equity instruments

Equity instruments represent a residual interest in assets of the Bank, net of liabilities. An instrument is classified as equity instrument if there are no contractual obligations to make payments in the form of principal, interest or other types of returns.

Specifically, instruments that meet the following requirements are classified as equity instruments:

- unlimited term or at least equal to the term of the company;
- full discretion of the issuer in coupon payments and redemptions, also advanced, of the principal outstanding.

Equity instruments include Additional Tier 1 instruments under Regulation (EU) No. 575/2013 (CRR) on prudential requirements for credit institutions and investment firms, which in addition to the above characteristics:

- (i) maintain the issuer's full discretion as to the reinstatement of the nominal value (write-up) following a capital event that resulted in a write-down;
- (ii) do not include provisions that require the issuer to make payments (must pay clauses) as a result of actual events under the control of the parties.

Equity instruments other than ordinary or savings shares are classified in item 150. "Equity instruments" for the amount received including transaction costs attributable to the transaction. Any coupons paid, net of related taxes, are deducted from Item 160. "Reserves".

Any difference between the amount paid for extinguishing or repurchasing these instruments and their book value is recognized in item 160. "Reserves".

At the balance sheet date, the Bank had not issued any "Equity instruments".

Treasury Shares

Changes in treasury shares are reported as a direct contra item to shareholders' equity, i.e. as a reduction to the latter in the amount of any purchases, and as an increase in the amount of any sales proceeds. This entails that, if treasury shares are subsequently sold, the difference between the sale price and the related post-tax repurchase cost is recognised entirely through other comprehensive income.

Provision for employee severance pay

The "TFR" provision for Italy-based employee benefits is to be construed as a "post-retirement defined benefit". It is therefore recognised on the basis of an actuarial estimate of the amount of benefit accrued by employees discounted to present value. This benefit is calculated by an external actuary using the unit credit projection method (see Section 12 - under Provisions for Risks and Charges - Retirement Payments and Similar Obligations). This method distributes the cost of the benefit evenly over the employee's working life. The liability is determined as the present value of average future payments adjusted according to the ratio of years of service to total years of service at the time of payment of the benefit.

Following pension reform by Law 252 of December 5, 2005, TFR instalments accrued to December 31, 2006 (or to the date between January 1, 2007 and June 30, 2007 on which the employee opted to devolve their TFR to a supplementary pension fund) stay in the employer and are considered a post-employment defined benefit plan therefore incurring actuarial valuation, though with simplified actuarial assumptions, i.e., forecast future pay rises are not considered.

TFR instalments accrued since January 1, 2007 (date of Law 252 coming into effect) (or since the date between January 1, 2007 and June 30, 2007) are, at the employee's discretion, either paid into a pension fund or left in the company and (where the company has in excess of 50 employees) paid into an INPS Treasury fund by the employer, and are assimilated to a defined-contribution plan.

Costs relating to TFR are recognised in the Income Statement in item 150.a) "Administrative costs: staff expenses" and include, for the part of the defined benefit plan: (i) interest cost accrued in the year, for the part of plan considered defined contribution plan (ii) the accrued instalments for the year paid into the complementary pension scheme or to the Treasury fund of INPS.

Actuarial gains and losses, defined as the difference between the carrying amount of the liability and the present value of obligations at period end, are recognised in Shareholders' equity under the Revaluation reserves in accordance with IAS 19 Revised and are also shown in the Statement of Comprehensive Income.

Share-Based Payment

Equity-settled payments made to employees or other staff (in particular, personal financial advisors) in consideration of work services rendered or other goods received or services rendered, using shares of the Bank or the parent, which consist of:

- stock options;
- rights to receive shares upon attainment of certain objectives, which are settled with equity instruments;
- rights to receive shares upon attainment of certain objectives, which are settled in cash.

Considering the difficulty of reliably measuring the fair value of the services acquired against equity-settled payments, reference is made to the fair value of the instruments, measured at the date of their allocation.

The fair value of equity-settled payments using the Bank's shares in exchange of work or services is recognised as cost in profit and loss item 150. "Administrative costs" as a contra-entry to the item 160. "Reserves", on an accruals basis over the period in which the services are acquired.

As for share-based payments settled in cash in favour of personal financial advisors, the services acquired and the liabilities assumed are measured at the latter's fair value, recognised in Item 100. "Other Liabilities". Until the liability is settled, the fair value is recalculated at each balance sheet date until the settlement date, and all changes in fair value are recognised in item 50. "Fee and commission expenses".

Share based payments consisting in the payment of shares of the Parent Company directly allocated to employees of the Bank that involve settlement with shares of the Parent Company, under arrangements between the Bank and the Parent Company for their cash settlement, are measured at fair value, calculated when the related rights are assigned, recognised as a cost in profit and loss item 150 "Administrative costs", as a contra entry to item. 100. "Other Liabilities", on an accruals basis over the period in which the services are acquired.

Other Long-term Employee Benefits

Long-term Employee Benefits are recognised in item 100. "Other liabilities" on the basis of the measurement of the liability at the balance sheet date.

Guarantees given and credit derivatives treated as equivalent

Guarantees given and credit derivatives treated as equivalent, in accordance with IAS 39 (contracts that require the issuer to make specified payments to the holder to indemnify the latter for actual losses borne due to the default of a specific debtor on payment at a maturity set by a debt instrument) are recognised in item 100. "Other Liabilities".

On first recognition guarantees given are recognized at fair value, which usually corresponds to the amount received when the guarantee is issued. After initial recognition, guarantees given are recognized at the greater of the initially recognized value, net of any amortized portion, and the estimated amount required to meet the obligation.

The effects of valuation, related to any impairment of the underlying, are recognised in the same balance-sheet item contra item 130.d) "Write-downs and write-backs due to impairment of other financial transactions" in the income statement.

Offsetting Financial assets and Financial liabilities

The accounting offsetting of assets and liabilities items has been performed according to IAS 32, assessing the fulfilment of the following requirements:

- current legal enforceable right to set off the recognised amounts;
- intention either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Part A - Accounting Policies (CONTINUED)

In accordance with IFRS 7, further information has been provided in the tables of Note to the accounts, in Part B, Section 15 - Other information.

Those tables show the following in particular:

- the carrying amounts, before and after the accounting offsetting effects, related to the financial assets and liabilities that meet the criteria for applying those effects;
- the amount of the exposures that do not meet the above mentioned criteria, but are included in master netting agreements, or similar agreements, that create the right to set-off only under specific circumstances (e.g., default events);
- the amount of the related collateral.

RECOGNITION OF INCOME AND EXPENSES

Interest Income and Expense

Interest income and expense and similar income and expense items relate to monetary items - i.e., liquidity and debt financial instruments, held for trading measured at fair value through profit or loss or available for sale, HtM financial assets, loans and receivables, deposits, and debt securities in issue.

Interest income and expense are recognised through profit or loss with respect to all instruments measured at amortised cost, using the effective interest method.

Interest also includes the net credit or debit balance of differentials and margins on financial derivatives:

- hedging interest-bearing assets and liabilities;
- HtT but linked for business purposes to assets and liabilities designated as measured at fair value (fair value option);
- linked for business purposes to HtT assets and liabilities paying differentials or margins on different maturities.

Fees and Commissions

Fees and commissions are recognised according to the provision of the services from which they have arisen.

Securities trading commission is recognised at the time the service is rendered. Advisory fees and investment fund management fees are recognised on a pro-rata temporis basis.

Fees included in amortised cost used to calculate effective interest rates are not included under fees and commissions, since they are part of the effective interest rate.

Dividends

Dividends are recognised in the profit and loss account for the year in which their distribution has been approved.

RELEVANT IFRS DEFINITIONS

The main definitions introduced by IFRS are described below, other than those dealt with in previous sections.

Amortised cost

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

The effective interest method is a method of allocating the interest income or interest expense over the life of a financial asset or liability. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability. The calculation includes all fees and basis points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Commissions forming an integral part of the effective interest rate include loan drawdown fees or underwriting fees relating to a financial asset not designated at fair value, e.g., fees received as compensation for the assessment of the issuer's or borrower's financial situation, for valuation and registration of security, and generally for the completion of the transaction (management fees).

Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Impairment of financial assets

At each balance sheet date an entity assesses whether there is any objective evidence that a financial asset or group of financial assets is impaired.

A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

It may not be possible to identify a single, discrete event that caused the impairment. Rather the combined effect of several events may have caused the impairment. Losses expected as a result of future events, no matter how likely, are not recognised.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to our attention about the following loss events:

- a) significant financial difficulty of the issuer or obligor;
 - b) a breach of contract, such as a default or delinquency in interest or principal payments;
 - c) the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting a concession to the borrower which the lender would not otherwise consider;
 - d) it becoming probable that the borrower will enter bankruptcy or other financial reorganization;
 - e) the disappearance of an active market for that financial asset because of financial difficulties; however, the disappearance of an active market due to the fact that a company's financial instruments are no longer traded publicly is no evidence of impairment;
 - f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets, including:
 - adverse changes in the payment status of borrowers;
- or
- national or local economic conditions that correlate with defaults on the assets.

Objective evidence of impairment for an investment in an equity instrument includes information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment may not be recovered. A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is also objective evidence of impairment.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through use of an allowance account. The amount of the loss is recognised in profit and loss item 130. "Impairment losses" and the asset's carrying value is reduced.

For instruments classified as available-for-sale financial assets, this amount is equal to the balance of the negative Revaluation reserve (see Section 2 - Available-for-sale financial assets).

If the terms of a loan, receivable or held-to-maturity investment are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial. If a loan, receivable or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

A reduction in the fair value of a financial asset below its cost or amortised cost is not necessarily an indication of impairment (e.g. reduction in the fair value of an investment in a debt instrument resulting from an increase in the risk-free interest rate).

Objective evidence of impairment is initially assessed individually; however, if it is determined that there is no objective evidence of individual impairment, the asset is included in a group of financial assets with similar credit risk characteristics and assessed collectively.

Formula-based approaches and statistical methods may be used to assess impairment losses on a group of financial assets. Models used incorporate the temporary value of money, and consider cash flows over the entire residual life of the asset (not just the following year) and do not give rise to an impairment loss on initial recognition of a financial asset. They take into account losses already sustained but not manifest in the group of financial assets at the time of measurement, on the basis of past experience of losses on assets having a similar credit risk to the group of assets being measured.

The process of estimating impairment losses considers all credit exposures, not only those of low credit quality, which reflect a serious impairment.

Part A - Accounting Policies (CONTINUED)

Reversals of impairment losses

If, in a subsequent period, the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed. The amount of the reversal is recognised in profit and loss item 130. "Impairment losses/write-backs", except for equity instruments classified as available-for-sale financial assets (see Section 2 - Available-for-sale financial assets).

The reversal shall not result - at the date the impairment is reversed - in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised.

A.3 Disclosure on transfers between portfolios of financial assets

IAS 39 and IFRS 7 allow certain financial assets to be reclassified, after initial recognition, out of the "Financial assets held for trading" and "Available-for-sale financial assets" portfolios.

Specifically, the following may be reclassified:

- the financial assets held for trading or available for sale that would have satisfied the definition established by the international accounting standards for the loan portfolio (if those assets had not been respectively classified as held for trading or available for sale on initial recognition) if the entity intends, and is able, to hold them for the foreseeable future or until maturity;
- "only in rare circumstances" the financial assets held for trading that did not satisfy the definition of loans upon initial recognition.

The Bank has not reclassified any financial assets from the "held-for-trading" or the portfolio to the loan portfolio.

In 2016, the Bank reclassified the Available-for-sale financial assets consisting of Italian and Spanish government securities to the Held-to-maturity investments portfolio, for a fair value, at the reclassification date, of €2,121,923 thousand. The reclassification was consistent with the Bank's objective of obtaining stable income flows over the medium/long-term and in line with the business and financial outlooks stated by the Bank in its planning. With regard to the ability to hold the securities to maturity, over the years the Bank has experienced significant growth in its direct and indirect sales and has steadily strengthened its market position and available liquidity. In managing its securities portfolio, the Bank has always adopted a non-speculative approach, consisting of holding the securities to maturity, and has limited itself solely to renewals and extensions of the maturities.

The tables below show the book value and the fair value as at December 31, 2016 of the assets reclassified in 2016, as well as the profit or loss items relating to those assets, distinguishing between those that would have been recorded if the transfer had not been made and those that were actually recorded in profit or loss or in equity, and the effects on comprehensive income.

The profit or loss items, before tax, are further separated between those arising "from measurement" (including any write-downs) and "other" (including interest and gains/losses on the disposal of the transferred assets).

The net result that would have been recognised through profit or loss for the year 2016 after the transfer, if these assets had not been reclassified, would have been a gain of €1,449 thousand, whereas the impact actually recognised after the transfer was a gain of €1,445 thousand.

The result of the valuations that would have been recognised in equity for the year 2016 after the transfer, if these assets had not been reclassified, would have been a gain of €15,891 thousand.

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

(Amounts in € thousand)

TYPE OF FINANCIAL INSTRUMENT (1)	SOURCE PORTFOLIO (2)	TARGET PORTFOLIO (3)	BOOK VALUE AS AT 12.31.2016	FAIR VALUE AS AT 12.31.2016	INCOME ITEMS WITHOUT TRANSFER (BEFORE TAX)		INCOME ITEMS RECOGNISED DURING THE YEAR (BEFORE TAX)	
					VALUATION (6)	OTHER (7)	VALUATION (8)	OTHER (9)
Debt securities	Available-for-sale financial assets	Held-to-maturity investments	2,145,518	2,161,299	15,891	1,449	-	1,445

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

(Amounts in € thousand)

TYPE OF FINANCIAL INSTRUMENT (1)	SOURCE PORTFOLIO (2)	TARGET PORTFOLIO (3)	UNREALISED GAIN/LOSS THROUGH PROFIT OR LOSS (BEFORE TAX)		UNREALISED GAIN/LOSS THROUGH EQUITY (BEFORE TAX)	
			12.31.2016	12.31.2015	12.31.2016	12.31.2015
Debt securities	Available-for-sale financial assets	Held-to-maturity investments	-	-	(5,600)	(1,920)

A.3.3 Transfer of financial assets held for trading

No data to report.

A.3.4 Effective interest rate and cash flows expected from reclassified assets

At the reclassification date, the expected cash flows upon maturity of the assets reclassified during 2016 amounted to a total of €2,178,787 thousand, with an average effective interest rate of 0.5%.

A.4 Information on fair value

Qualitative information

This section presents a disclosure on fair value hierarchy as required by IFRS 13.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal market at the measurement date (i.e. an exit price).

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

For financial instruments listed in active markets, fair value is determined on the basis of official prices in the principal market (most advantageous) to which the Bank has access (Mark to Market).

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from a pricing service, dealer, broker, agency that determines prices or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If a published price quotation in an active market does not exist for a financial instrument in its entirety, but active markets exist for its component parts, fair value is determined on the basis of the relevant market prices for the component parts.

If market quotations or other observable inputs, such as the quoted price of a similar instrument in an inactive market, are not available, the Bank should use other valuation techniques, such as:

- (i) a market approach (e.g. using quoted prices for similar liabilities or equity instruments held by other parties as assets);
- (ii) cost approach (e.g. it reflects the amount that would be required currently to replace the service capacity of an asset, that is the current replacement cost);
- (iii) an income approach (e.g. a present value technique that takes into account the future cash flows that a market participant would expect to receive from holding the liability or equity instrument as an asset).

The Bank uses valuation models (Mark to Model) in keeping with the methods generally accepted and used by the market. Valuation models include techniques based on the discounting of future cash flows and on volatility estimates, and they are subject to revision both during their development and periodically in order to ensure their consistency with the objectives of the valuation.

These methods use inputs based on prices set in recent transactions for the instrument being valued and/or prices/quotations for instruments having similar characteristics in terms of risk profile.

Indeed, these prices/quotations are relevant for determining significant parameters in terms of the credit risk, liquidity risk and price risk of the instrument being valued. Reference to these "market" parameters makes it possible to limit the discretionary nature of the valuation, and ensures that the resulting fair value can be verified.

Part A - Accounting Policies (CONTINUED)

If, for one or more risk factors it is not possible to refer to market data, the valuation models employed use estimates based on historical data as inputs. As a further guarantee of the objectivity of valuations derived from valuation models, the Bank employs:

- independent price verifications (IPVs);
- Fair Value Adjustment or FVA.

Independent price verification requires that the prices are verified monthly by Risk Management units that are independent from the units that assume the risk exposure. This verification calls for comparing and adjusting the daily price in line with valuations obtained from independent market participants.

For instruments not listed in active markets, the above verification process uses prices contributed by infoproviders as a reference, and assigns a greater weighting to those prices that are considered representative of the instrument being valued.

This valuation includes: the "executability" of the transaction at the price observed, the number of contributors, the degree of similarity of the financial instruments, the consistency of prices from different sources, and the process followed by the infoprovider to obtain the information.

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

To determine the fair value of Level 2 and Level 3 financial instruments that are not listed and actively traded on the market, the Bank utilises the valuation techniques widely-used in the market that are described below.

Discounted cash flow

Discounted cash flow valuation techniques generally consist of developing an estimate of future cash flows that are expected to occur over the life of an instrument. The model requires the estimation of the cash flow and the adoption of market's parameters for the discounting: discount rate or discount margin reflects the credit and / or funding spreads required by the market for instruments with similar risk and liquidity profiles to produce a "present value". The fair value of the contract is given by the sum of the present values of future cash flow.

Adjusted NAV

Net asset value is the total value of a fund's assets less liabilities. An increase in net asset value would result in an increase in a fair value measurement.

Internal valuation models - Market multiples

The market multiples approaches based on the price of comparable assets (listed companies belonging to the same industry sector) applied to the fashion and shall statement figures and therefore represents the relationship between the price (capitalisation) and the financial statement figures. The financial statements most commonly used are earnings, shareholders' equity and sales.

Fair Value Adjustment (FVA)

Fair value adjustment is defined as the amount to be added either to the market observed mid-price or to the theoretical price generated by a valuation model with the aim of obtaining a fair value of the position. The FVA thus ensure that fair value reflects the realisation amount from an actual possible market transaction.

A.4.2 - Valuation processes and sensitivity of fair value measurements

The Bank verifies that the value attributed to each trading position reflects the current fair value in an appropriate way. Assets and liabilities subject to fair value measurements are determined using different techniques, among which (but not only) models such as discounted cash flow and internal models. On the basis of the observability of the input used, all instruments are classified as Level 1, Level 2 or Level 3 of the fair value hierarchy. When a position is characterised by one or more significant inputs that are not directly observable, a further price verification procedure is implemented. These procedures include the revision of relevant historical data, the analysis of profits and losses, the individual valuation of each component for structural products and benchmarking.

According to the Parent Group Market Risk Governance guidelines, in order to ensure the appropriate level of separation between the functions in charge of development activities and those in charge of validation processes, all valuation models developed by the front offices of Group companies are independently and centrally tested and validated by the Group Internal Validation functions. The aim of this independent control structure is to evaluate the model risk deriving from theoretical robustness, calibration techniques where applicable and appropriateness of the model for a specific product in a defined market point of views.

In addition to the daily mark to market or mark to model valuation, the Independent Price Verification (IPV) is applied monthly by the Bank's Market Risk with the aim of guaranteeing an independent fair value.

A.4.3 Fair value hierarchy

The IFRS 13 principle establishes a fair value hierarchy according to the observability of the input used in the valuation techniques adopted. In particular, three levels are considered:

- Level 1: fair value for instruments classified within this level is determined according to the quoted prices on active markets;
- Level 2: fair value for instruments classified within this level is determined according to the valuation models which use observable market inputs;
- Level 3: fair value for instruments classified within this level is determined according to valuation models which prevalently use significant inputs not observable on active markets.

A.4.4 Other information

Hereby we provide IFRS 13 disclosure requirements.

Assets and liabilities measured at fair value on recurring basis

Fixed Income Securities

Fixed Income Securities are priced in a two-tier process depending on the liquidity in the respective market. Liquid instruments in active markets are marked to market and consequently positions in these instruments are disclosed in reference to Fair Value Hierarchy under Level 1.

Instruments not traded in active markets are marked to model based on implied credit spread curves derived from the former Level 1 instruments. The model maximizes the use of observable input and minimizes the use of unobservable inputs. With this respect, depending on the proximity of the credit spread curve applied, the bonds are disclosed as Level 2 or Level 3 respectively; Level 3 is applied in case a significant unobservable credit spread is used.

In the global bond Independent Price Verification (IPV) process market prices of Level 1 bonds and pricing models for illiquid bonds are regularly verified for accuracy.

Structured Financial Products

The Bank determines the fair value of structured financial products using the appropriate valuation methodology given the nature of the embedded structure. Such instruments are classified as Level 2 or Level 3 depending on the observability of significant inputs to the model.

OTC derivatives

Fair value of derivatives not traded in an active market is determined using a valuation technique. In such cases, where active markets exist for the components of the derivative, fair value is determined on the basis of the market prices for the individual components. Valuation techniques that are based on significant inputs that are observable are referred to as Level 2 valuations, while those based on techniques that use unobservable inputs are referred to as Level 3 valuations.

Equity Instruments

Equity Instruments are assigned to Level 1 when a quoted price is available on an active market and to Level 3 when no quotations are available or quotations have been suspended indefinitely. These instruments are classified as Level 2 only when trading volume on the market where the instrument is quoted has decreased significantly. For equity instruments measured at cost an impairment is given, if the carrying amount exceeds the recoverable amount significantly and/or over a prolonged period of time.

For the measurement of the Visa INC class "C" preferred shares, the Bank has adopted the model developed by the Parent Company to determine the fair value that converts the market price in dollars of the Visa INC class "A" shares into euro and applies a discount factor of 15.83%, determined by estimating the litigation risk (9.83%) and the illiquidity risk (6%). The litigation risk component was extracted from historical series of data provided by Visa INC, whereas the illiquidity risk component was derived from the illiquidity of the shares, which have limitations on their transferability for a particular period. The Visa INC class "C" preferred shares were assigned a fair value hierarchy of 3.

With regard to the measurement of the exposure in equity instruments recognised as a result of the contribution made to the Interbank Deposit Guarantee Fund - Voluntary Scheme for the capital increase of Cassa di Risparmio di Cesena (fair value level 3), an internal model was developed based on the Price to Tangible Book Value as the basis for Management's decision to fully write down the exposure in view of the numerous and significant elements of uncertainty.

Investment Funds

The investment funds calculate the Net Asset Value (NAV) per unit and may include investments in funds managed by the Group.

Assets and liabilities not measured fair value or measured at fair value on a non-recurring basis

For these financial instruments fair value is calculated for disclosure purposes only and does not impact the balance sheet or the profit or loss. Additionally, since these assets and liabilities are not generally traded, there is significant management judgment required to determine their fair values as defined by IFRS 13.

Loans and receivables with banks and customers

Fair value for performing Loans and Receivables from customers and banks, recorded at amortised cost, is determined using the discounted cash flow model adjusted for credit risk. Some portfolios are valued using simplified approaches, which however take into account their financial characteristics. Loans and receivables with banks and customers with a duration of less than 12 months for which the fair value was estimated to be equal to the book value have been assigned the level 3 fair value hierarchy.

Part A - Accounting Policies (CONTINUED)

For the UniCredit securities classified in the "Loans and Receivables" portfolio, the fair value has been calculated using the Group's methodology based on discounted cash flow, which consists of producing an estimate of the estimated cash flows over the life of the instrument and discounting at a rate that incorporates the credit spread. The credit spread is calculated based on the credit spread curve of the issuer, constructed by selecting issues, also from the second market, with the same specific characteristics.

The assessment of the UniCredit securities by Risk Management is then carried out for the purposes of disclosure and second level control.

Liabilities

Fair value for liabilities, recorded at amortised cost, is determined using the discounted cash flow model adjusted for UniCredit credit risk. The Credit Spread is determined using UCG's subordinated and non-subordinated risk curves.

Deposits from banks and customers with a duration of less than 12 months for which the fair value was estimated to be equal to the book value have been assigned the level 3 fair value hierarchy.

Cash and cash balances

Cash and cash balances are not carried at fair value on the Balance Sheets, but they are carried at amounts that approximate fair value, due to their short term nature and generally negligible credit risk.

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

(Amounts in € thousand)

ASSETS/LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT AND LOSS	12.31.2016			12.31.2015		
	L1	L2	L3	L1	L2	L3
1. Financial assets held for trading	2,920	3,114	10	1,908	2,059	16
2. Financial assets designated at fair value through profit or loss	-	-	-	-	-	-
3. Available-for-sale financial assets	1,316,221	-	3,531	2,235,494	-	10,483
4. Hedging derivatives	-	552	-	-	-	-
5. Property, plant and equipment	-	-	-	-	-	-
6. Intangible assets	-	-	-	-	-	-
Total	1,319,141	3,666	3,541	2,237,402	2,059	10,499
1. Financial liabilities held for trading	2,004	622	-	1,020	3,080	-
2. Financial liabilities at fair value through profit and loss	-	-	-	-	-	-
3. Hedging derivatives	-	10,914	-	-	31,319	-
Total	2,004	11,536	-	1,020	34,399	-

Key:

L1 = Level 1

L2 = Level 2

L3 = Level 3

A.4.5.1.1 Assets and liabilities measured at fair value on a recurring basis: transfers between levels of fair value hierarchy (level 1 and level 2)

No data to report.

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

(Amounts in € thousand)

	FINANCIAL ASSETS HELD FOR TRADING	FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS	AVAILABLE-FOR-SALE FINANCIAL ASSETS	HEDGING DERIVATIVES	PROPERTY, PLANT AND EQUIPMENT	INTANGIBLE ASSETS
1. Opening balance	16	-	10,483	-	-	-
2. Increases						
2.1 Purchases	2,028	-	9,980	-	-	-
2.2 Profits allocated to:						
2.2.1 Income Statement	91	-	4,861	-	-	-
- of which capital gains	-	-	-	-	-	-
2.2.2 Shareholders' equity	X	X	271	-	-	-
2.3 Transfers from other levels	-	-	-	-	-	-
2.4 Other increases	-	-	4	-	-	-
3. Decreases						
3.1 Sales	(2,120)	-	(15,344)	-	-	-
3.2 Reimbursements	-	-	-	-	-	-
3.3 Losses allocated to:						
3.3.1 Income Statement	(5)	-	(6,724)	-	-	-
- of which capital losses	(3)	-	(6,724)	-	-	-
3.3.2 Shareholders' equity	X	X	-	-	-	-
3.4 Transfers to other levels	-	-	-	-	-	-
3.5 Other decreases	-	-	-	-	-	-
4. Closing balance	10	-	3,531	-	-	-

The sub-items 2.2.1 Profits through profit and loss and 3.3.1 Losses through profit and loss are included, where present, in Profit and Loss in the following items:

- Item 80: Gains and losses on financial assets and liabilities held for trading;
- Item 110: Gains and losses on financial assets/liabilities at fair value through profit or loss;
- Item 90: Fair value adjustments in hedge accounting.

The sub-items 2.2.2 Profits recognised in equity and 3.3.2 Losses recognised in equity arising from changes in fair value of Available-for-sale financial assets are recognised, if any, in equity item 130. "Revaluation reserves" - except losses due to impairment and exchange rate gains or losses on monetary items (debt instruments) which are recognised under item 130. b) "Impairment losses on AfS available for sale financial assets" and item 80. "Gains (losses) on financial assets and liabilities held for trading" of the income statement, respectively - until the financial asset is sold, at which time cumulative gains and losses are recognised in profit or loss in item 100.b) "Gains (losses) on disposal or repurchase of AfS financial assets".

A.4.5.3 Annual changes in financial liabilities at fair value level 3

No data to report.

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

(Amounts in € thousand)

ASSET/LIABILITIES NOT MEASURED AT FAIR VALUE OR MEASURED AT FAIR VALUE ON A NON-RECURRING BASIS	12.31.2016				12.31.2015			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Held-to-maturity investments	2,437,777	2,454,979	-	-	-	-	-	-
2. Loans and receivables with banks	15,735,540	-	12,330,314	3,680,608	14,648,904	-	11,786,051	3,204,555
3. Loans and receivables with customers	1,016,798	-	-	1,044,613	922,774	-	-	972,334
4. Property, plant and equipment held for investment	2,397	-	-	4,535	2,509	-	-	4,535
5. Non-current assets and disposal groups classified as held for sale	-	-	-	-	-	-	-	-
Total	19,192,512	2,454,979	12,330,314	4,729,756	15,574,187	-	11,786,051	4,181,424
1. Deposits from banks	1,111,106	-	-	1,111,106	1,423,459	-	-	1,423,459
2. Deposits from customers	18,801,073	-	21,894	18,779,261	15,822,459	-	49,815	15,772,976
3. Debt securities in issue	-	-	-	-	-	-	-	-
4. Liabilities included in disposal groups classified as held for sale	-	-	-	-	-	-	-	-
Total	19,912,179	-	21,894	19,890,367	17,245,918	-	49,815	17,196,435

Key:

L1 = Level 1 - L2 = Level 2 - L3 = Level 3 - BV = Book Value

Property, plant and equipment held for investment consist of two properties held by the Bank, the fair value of which corresponds to the market value as determined by an appraisal carried out by an external and independent valuation firm.

Part A - Accounting Policies (CONTINUED)

A.5 Day-one profit/loss

Financial instruments are initially recognised at fair value on the recognition date.

The fair value of financial instruments, other than those measured at fair value through profit or loss, at the recognition date is usually assumed to be equal to the amount collected or paid.

For financial instruments held for trading and financial instruments measured at fair value, any difference from the amount collected or paid is recognised in the appropriate line items of the income statement upon initial measurement of the financial instrument.

The use of prudent valuation models, the review processes of these models and their parameters and value adjustments to reflect model risk ensure that the amount recognized in the income statement is not derived from the use of unobservable valuation parameters. In particular, the quantification of the value adjustments relating to the risk model ensures that the part of the fair value of these instruments that refers to the use of subjective parameters is not recognised through profit or loss, but rather as an adjustment to the equity value of those instruments. Accordingly, this item is only subsequently recognised through profit or loss when there is a predominance of objective parameters and, consequently, when the mentioned adjustments are no longer required.

There are no day-one profits/losses to disclose in accordance with paragraph 28 of IFRS 7.

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Part B - Balance Sheet

Assets

Section 1 - Cash and cash balances - Item 10

1.1 Cash and cash balances: breakdown

(Amounts in € thousand)

	12.31.2016	12.31.2015
(a) Cash	5	6
b) Demand deposits with Central Banks	-	-
Total	5	6

Section 2 - Financial assets held for trading - Item 20

2.1 Financial assets held for trading: product breakdown

(Amounts in € thousand)

ITEM/AMOUNT	12.31.2016			12.31.2015		
	LEVEL 1	LEVEL 2	LEVEL 3	LEVEL 1	LEVEL 2	LEVEL 3
A. On-balance sheet assets						
1. Debt securities	44	-	-	15	30	-
1.1 Structured securities	4	-	-	3	-	-
1.2 Other debt securities	40	-	-	12	30	-
2. Equity Instruments	1,125	-	10	570	-	14
3. UCITS units	1	-	-	-	-	2
4. Loans	-	-	-	-	-	-
4.1 Reverse repos	-	-	-	-	-	-
4.2 Others	-	-	-	-	-	-
Total A	1,170	-	10	585	30	16
B. Derivatives						
1. Financial derivatives	1,750	3,114	-	1,323	2,029	-
1.1 trading derivatives	1,750	3,114	-	1,323	2,029	-
1.2 related to the fair value option	-	-	-	-	-	-
1.3 other	-	-	-	-	-	-
2. Credit derivatives	-	-	-	-	-	-
2.1 trading derivatives	-	-	-	-	-	-
2.2 related to the fair value option	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
Total B	1,750	3,114	-	1,323	2,029	-
Total (A+B)	2,920	3,114	10	1,908	2,059	16

Financial derivatives refer to the positive valuation of CFD contracts on Forex, indices, shares and interest rates and Futures used for the operational hedging of CFDs on indices and interest rates. They amounted to €3,009 thousand (€2,349 thousand as at December 31, 2015).

Sub-item B.1.1 Derivative instruments - Trading financial derivatives includes the positive valuations of spot contracts for securities classified in the HFT portfolio and currencies to be settled in times established by market practices ("regular way"). They amounted to €1,855 thousand (€1,004 thousand as at December 31, 2015).

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

(Amounts in € thousand)

ITEM/AMOUNT	12.31.2016	12.31.2015
A. ON-BALANCE SHEET ASSETS		
1. Debt securities	44	45
a) Governments and Central Banks	6	7
b) Other public entities	-	-
c) Banks	38	38
d) Other issuers	-	-
2. Equity Instruments	1,135	584
a) Banks	113	312
b) Other issuers:	1,022	272
- insurance companies	10	1
- financial companies	47	3
- non-financial companies	965	268
- other	-	-
3. UCITS units	1	2
4. Loans	-	-
a) Governments and Central Banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other entities	-	-
Total A	1,180	631
B. DERIVATIVES		
a) Banks	270	989
b) Customers	4,594	2,363
Total B	4,864	3,352
Total (A+B)	6,044	3,983

Item B. Derivative instruments also includes the positive valuations of spot contracts for securities classified in the HFT portfolio and currencies to be settled within times established by market practices ("regular way").

Equity securities of issuers in default were classified by the Bank as non-performing in the financial statements for a total amount of €6 thousand.

Section 3 - Financial assets at fair value through profit or loss - Item 30

The Bank has not recognised any financial assets under the balance-sheet item "Financial assets designated at fair value through profit or loss".

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

4.1 Available-for-sale financial assets: product breakdown

(Amounts in € thousand)

ITEM/AMOUNT	12.31.2016			12.31.2015		
	LEVEL 1	LEVEL 2	LEVEL 3	LEVEL 1	LEVEL 2	LEVEL 3
1. Debt securities	1,316,221	-	-	2,235,494	-	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	1,316,221	-	-	2,235,494	-	-
2. Equity Instruments	-	-	3,531	-	-	10,488
2.1 Carried at fair value	-	-	3,526	-	-	10,483
2.2 Carried at cost	-	-	5	-	-	5
3. UCITS units	-	-	-	-	-	-
4. Loans	-	-	-	-	-	-
Total	1,316,221	-	3,531	2,235,494	-	10,488

"Available-for-sale financial assets" consisted of debt securities issued by governments and equity instruments not listed on an active market.

Part B - Balance Sheet - Asset (CONTINUED)

Investments in debt securities consisted of:

- Italian government securities, with a book value of €982,434 million (1,639,048 million as at December 31, 2015);
- French government securities, with a book value of €10,296 thousand (€10,356 million as at December 31, 2015);
- Spanish government securities, with a book value of €249,940 thousand (€586,090 million as at December 31, 2015);
- US government securities, with a book value of €73,549 thousand (not present as at December 31, 2015).

A portion of debt securities classified in the *Available-for-sale financial assets portfolio* are entirely used as collateral for bankers' drafts or guarantees with third parties for a book value of €128,882 thousand (€131,435 thousand as at December 31, 2015).

Equity instruments carried at cost refer to equity investments in companies in which the Bank does not exercise control or have a significant influence, for an amount equal to €5 thousand. These instruments are not listed, therefore the fair value may not be reliably determined.

Equity instruments carried at fair value relate exclusively to the Visa INC class "C" preferred shares received as part of the closing of the merger between Visa Inc. and Visa Europe Limited, as described in the Report on operations to which the reader is referred.

As described in Part A Accounting Policies, the "Available-for-sale financial assets" portfolio also includes the recognition of the exposure in equity instruments recognised as a result of the contribution paid to the Interbank Deposit Guarantee Fund - Voluntary Scheme for the subscription of the capital increase of Cassa di Risparmio di Cesena for €6,724 thousand. As at December 31, 2016, the Bank made a full impairment write-down on the above-mentioned exposure, recognised in item 130. b) "Impairment losses/write-backs on: b) available-for-sale financial assets" of the Income Statement.

In the fourth quarter of 2016, the Bank reclassified the "Available-for-sale financial assets" consisting of Italian and Spanish government securities to the "Held-to-maturity investments" portfolio, as described in Section A.3 Disclosure on transfers between portfolios of financial assets of Part A of these Notes to the Accounts.

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

(Amounts in € thousand)

ITEM/AMOUNT	12.31.2016	12.31.2015
1. Debt securities	1,316,221	2,235,494
a) Governments and Central Banks	1,316,221	2,235,494
b) Other public entities	-	-
c) Banks	-	-
d) Other issuers	-	-
2. Equity Instruments	3,531	10,488
a) Banks	-	-
b) Other issuers:	3,531	10,488
- insurance companies	-	-
- financial companies	3,526	10,483
- non-financial companies	5	5
- other	-	-
3. UCITS units	-	-
4. Loans	-	-
a) Governments and Central Banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other entities	-	-
Total	1,319,752	2,245,982

4.3 Available-for-sale financial assets: subject to micro-hedging

(Amounts in € thousand)

ITEM/AMOUNT	12.31.2016	12.31.2015
Financial assets subject to micro-hedging of fair value	342,290	1,581,481
a) Interest rate risk	342,290	1,581,481
b) Price risk	-	-
c) Exchange	-	-
d) Credit	-	-
e) Multiple risks	-	-
Financial assets subject to micro-hedging of cash flows	-	-
a) Interest rate risk	-	-
b) Exchange	-	-
c) Other	-	-
Total	342,290	1,581,481

The reported value is the value recognised in the financial statements at December 31, 2016.

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

5.1 Held-to-maturity investments: product breakdown

(Amounts in € thousand)

	12.31.2016				12.31.2015			
	CARRYING AMOUNT	FAIR VALUE			CARRYING AMOUNT	FAIR VALUE		
		LEVEL 1	LEVEL 2	LEVEL 3		LEVEL 1	LEVEL 2	LEVEL 3
1. Debt securities	2,437,777	2,454,979	-	-	-	-	-	-
1.1 Structured	-	-	-	-	-	-	-	-
1.2 Other	2,437,777	2,454,979	-	-	-	-	-	-
2. Loans	-	-	-	-	-	-	-	-
Total	2,437,777	2,454,979	-	-	-	-	-	-

As described in Section A.3 Disclosure on transfers between portfolios of financial assets of Part A of these Notes to the Accounts, in the fourth quarter of 2016, the Bank reclassified the "Available-for-sale financial assets" consisting of Italian and Spanish government securities to the "Held-to-maturity investments" portfolio, for a fair value, at the reclassification date of €2,121,923 thousand.

As at December 31, 2016, the "Held-to-maturity investments" consisted of debt securities issued by the Italian Government, for a book value of €1,499,270 thousand, and issued by the Spanish Government, for a book value of €938,508 thousand.

The securities classified in the "Held-to-maturity investments" portfolio, including those transferred, were purchased during 2016, except for a Spanish government security present in the "Available-for-sale financial assets" portfolio as at December 31, 2015 with a book value of €200,952 thousand.

5.2 Held-to-maturity investments: issuer/borrower

(Amounts in € thousand)

TYPE OF TRANSACTION/AMOUNT	12.31.2016	12.31.2015
1. Debt securities	2,437,777	-
a) Governments and Central Banks	2,437,777	-
b) Other public entities	-	-
c) Banks	-	-
d) Other issuers	-	-
2. Loans	-	-
a) Governments and Central Banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other entities	-	-
Total	2,437,777	-
Total fair value	2,454,979	-

Part B - Balance Sheet - Asset (CONTINUED)

5.3 Held-to-maturity investments: assets subject to micro-hedging

As at December 31, 2016, there were no "Held to maturity investments" subject to micro hedging.

Section 6 - Loans and receivables with banks - Item 60**6.1 Loans and receivables with banks: product breakdown**

(Amounts in € thousand)

TYPE OF TRANSACTION/AMOUNT	12.31.2016				12.31.2015			
	BV	FV			BV	FV		
		LEVEL 1	LEVEL 2	LEVEL 3		LEVEL 1	LEVEL 2	LEVEL 3
A. Loans and receivables with Central Banks	-	-	-	-	-	-	-	-
1. Time deposits	-	X	X	X	-	X	X	X
2. Compulsory reserves	-	X	X	X	-	X	X	X
3. Reverse repos	-	X	X	X	-	X	X	X
4. Other	-	X	X	X	-	X	X	X
B. Loans and receivables with banks	15,735,540	-	12,330,314	3,680,608	14,648,904	-	11,786,051	3,204,555
1. Loans	3,680,609	-	-	3,680,608	3,204,555	-	-	3,204,555
1.1 Current accounts and demand deposits	2,336,579	X	X	X	1,251,070	X	X	X
1.2 Time deposits	1,285,414	X	X	X	1,914,662	X	X	X
1.3 Other loans:		X	X	X		X	X	X
- Reverse repos	53	X	X	X	1,906	X	X	X
- Finance leases	-	X	X	X	-	X	X	X
- Other	58,563	X	X	X	36,917	X	X	X
2. Debt securities	12,054,931	-	12,330,314	-	11,444,349	-	11,786,051	-
2.1 Structured securities	-	X	X	X	-	X	X	X
2.2 Other debt securities	12,054,931	X	X	X	11,444,349	X	X	X
Total	15,735,540	-	12,330,314	3,680,608	14,648,904	-	11,786,051	3,204,555

Key

FV = fair value

BV = book value

Loans and receivables with banks for current accounts and demand deposits mainly consist of accounts held with UniCredit, with a book value of €2,302,659 thousand (€1,224,234 thousand as at December 31, 2015), and to a lesser extent, of current accounts held with other banks not belonging to UniCredit group for transactions in securities.

Time deposits consist of the deposit held with UniCredit for compulsory reserves, totalling €172,461 thousand (€151,477 thousand as at December 31, 2015), in addition to time deposits held with UniCredit for a book value of €1,112,953 thousand (€1,763,185 thousand as at December 31, 2015), opened to invest the liquidity raised through repos and CashPark transactions with retail customers and through repos with credit institutions, with the same maturities.

The debt securities held in the portfolio and included in the category "Loans and receivables" mainly consist of debt securities issued by UniCredit for an amount of €12,054,929 (€11,444,346 thousand as at December 31, 2015).

"Other loans: Other" relates to the amount of the initial and variance margins placed with credit institutions for derivative transactions and repos, of which €48,567 thousand with UniCredit and €3,060 thousand with UniCredit Bank AG Monaco (€8,160 thousand with UniCredit and €21,630 with UniCredit Bank AG Monaco as at December 31, 2015), as well as current receivables associated with the provision of financial services.

At the reporting date there were no impaired assets with respect to banks.

6.2 Loans and receivables with banks: assets subject to micro-hedging

No data to report.

6.3 Finance leases

No data to report.

Section 7 - Loans and receivables with customers - Item 70

7.1 Loans and receivables with customers: product breakdown

(Amounts in € thousand)

TYPE OF TRANSACTION/ AMOUNT	12.31.2016						12.31.2015					
	BOOK VALUE			FAIR VALUE			BOOK VALUE			FAIR VALUE		
	UNIMPAIRED	IMPAIRED		L1	L2	L3	UNIMPAIRED	PURCHASED	OTHER	L1	L2	L3
		PURCHASED	OTHER									
Loans	1,013,140	-	3,658	-	-	1,044,613	917,897	-	4,877	-	-	972,334
1. Current accounts	296,927	-	2,445	X	X	X	211,273	-	3,765	X	X	X
2. Reverse repos	87,348	-	1	X	X	X	198,941	-	10	X	X	X
3. Mortgages	860	-	24	X	X	X	-	-	46	X	X	X
4. Credit cards, personal loans and wage assignment loans	503,533	-	1,166	X	X	X	395,721	-	1,029	X	X	X
5. Finance leases	-	-	-	X	X	X	-	-	-	X	X	X
6. Factoring	-	-	-	X	X	X	-	-	-	X	X	X
7. Other loans	124,472	-	22	X	X	X	111,962	-	27	X	X	X
Debt securities	-	-	-	-	-	-	-	-	-	-	-	-
8. Structured securities	-	-	-	X	X	X	-	-	-	X	X	X
9. Other debt securities	-	-	-	X	X	X	-	-	-	X	X	X
Total	1,013,140	-	3,658	-	-	1,044,613	917,897	-	4,877	-	-	972,334

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

(Amounts in € thousand)

TYPE OF TRANSACTION/AMOUNT	12.31.2016			12.31.2015		
	UNIMPAIRED	IMPAIRED		UNIMPAIRED	IMPAIRED	
		PURCHASED	OTHER		PURCHASED	OTHER
1. Debt securities	-	-	-	-	-	-
a) Governments	-	-	-	-	-	-
b) Other public entities	-	-	-	-	-	-
c) Other issuers:	-	-	-	-	-	-
- non-financial companies	-	-	-	-	-	-
- financial companies	-	-	-	-	-	-
- insurance companies	-	-	-	-	-	-
- other	-	-	-	-	-	-
2. Loans to:	1,013,140	-	3,658	917,897	-	4,877
a) Governments	-	-	2	-	-	2
b) Other public entities	-	-	-	-	-	-
c) Other entities:	1,013,140	-	3,656	917,897	-	4,875
- non-financial companies	14,666	-	24	16,461	-	23
- financial companies	98,744	-	8	92,348	-	7
- insurance companies	12,174	-	-	11,464	-	-
- other	887,556	-	3,624	797,624	-	4,845
Total	1,013,140	-	3,658	917,897	-	4,877

7.3 Loans and receivables with customers: assets subject to micro-hedging

No data to report.

7.4 Finance leases

No data to report.

Part B - Balance Sheet - Asset (CONTINUED)

Section 8 - Hedging derivatives - Item 80

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

(Amounts in € thousand)

ITEM/AMOUNT	FV 12.31.2016			NA 12.31.2016	FV 12.31.2015			NA 12.31.2015
	L1	L2	L3		L1	L2	L3	
A. Financial derivatives	-	552	-	250,000	-	-	-	-
1) Fair value	-	552	-	250,000	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
3) Net investment in foreign subsidiaries	-	-	-	-	-	-	-	-
B. Credit derivatives	-	-	-	-	-	-	-	-
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
Total	-	552	-	250,000	-	-	-	-

Key:

NA = Notional amount

L1 = Level 1

L2 = Level 2

L3 = Level 3

8.2 Hedging derivatives: breakdown by hedged assets and risk

(Amounts in € thousand)

TRANSACTION/TYPE OF HEDGE	FAIR VALUE					CASH FLOWS			
	MICRO								FOREIGN INVESTMENTS
	INTEREST RATE RISK	EXCHANGE RATE RISK	CREDIT RISK	PRICE RISK	MULTIPLE RISKS	MACRO	MICRO	MACRO	
1. Available-for-sale financial assets	-	-	-	-	-	X	-	X	X
2. Loans and receivables	-	-	-	X	-	X	-	X	X
3. Held-to-maturity investments	X	-	-	X	-	X	-	X	X
4. Portfolio	X	X	X	X	X	-	X	-	X
5. Other transactions	-	-	-	-	-	X	-	X	-
Total assets	-	-	-	-	-	-	-	-	-
1. Financial liabilities	-	-	-	X	-	X	-	X	X
2. Portfolio	X	X	X	X	X	552	X	-	X
Total liabilities	-	-	-	-	-	552	-	-	-
1. Expected transactions	X	X	X	X	X	X	-	X	X
2. Financial assets and financial liabilities	X	X	X	X	X	-	X	-	-

Section 9 - Changes in fair value of portfolio hedged financial assets - Item 90

9.1 Changes in fair value of portfolio hedged financial assets: breakdown by hedged portfolio

(Amounts in € thousand)

ADJUSTMENTS TO THE VALUE OF HEDGED ASSETS/AMOUNT	12.31.2016	12.31.2015
1. Positive changes	8,659	10,573
1.1 of specific portfolios	8,659	10,573
a) loans and receivables	8,659	10,573
b) available-for-sale financial assets	-	-
1.2 overall	-	-
2. Negative changes	-	-
2.1 of specific portfolios	-	-
a) loans and receivables	-	-
b) available-for-sale financial assets	-	-
2.2 overall	-	-
Total	8,659	10,573

9.2 Assets subject to macro-hedging of interest rate risk

(Amounts in € thousand)

HEDGED ASSETS	12.31.2016	12.31.2015
1. Loans and receivables	777,368	930,880
2. Available-for-sale financial assets	-	-
3. Portfolio	-	-
Total	777,368	930,880

Receivables subject to macro-hedging of interest rate risk consist of debt securities issued by UniCredit S.p.A. and classified as "Loans and Receivables".

Section 10 - Equity investments - Item 100

No data to report.

Section 11 - Property, plant and equipment - Item 110

11.1 Property, plant and equipment used in the business: breakdown of assets carried at cost

(Amounts in € thousand)

ASSET/AMOUNT	12.31.2016	12.31.2015
1. Owned assets	12,054	9,910
a) land	-	-
b) buildings	-	-
c) office furniture and fittings	1,131	1,064
d) electronic systems	9,560	7,575
e) other	1,363	1,271
2. Assets under financial lease	-	-
a) land	-	-
b) buildings	-	-
c) office furniture and fittings	-	-
d) electronic systems	-	-
e) other	-	-
Total	12,054	9,910

A description of the methods used to calculate depreciation is provided in Part A - Accounting Policies of the notes to the accounts.

11.2 Property, plant and equipment held for investment: breakdown of assets carried at cost

(Amounts in € thousand)

ASSET/AMOUNT	12.31.2016				12.31.2015			
	BOOK VALUE	FAIR VALUE			BOOK VALUE	FAIR VALUE		
		L1	L2	L3		L1	L2	L3
1. Owned assets	2,397	-	-	4,535	2,509	-	-	4,535
a) land	-	-	-	-	-	-	-	-
b) buildings	2,397	-	-	4,535	2,509	-	-	4,535
2. Assets under finance lease	-	-	-	-	-	-	-	-
a) land	-	-	-	-	-	-	-	-
b) buildings	-	-	-	-	-	-	-	-
Total	2,397	-	-	4,535	2,509	-	-	4,535

11.3 Property, plant and equipment used in the business: breakdown of revalued assets

No data to report.

11.4 Property, plant and equipment held for investment: breakdown of assets measured at fair value

No data to report.

Part B - Balance Sheet - Asset (CONTINUED)

11.5 Property, plant and equipment used in the business: annual changes

(Amounts in € thousand)

	LAND	BUILDINGS	OFFICE FURNITURE AND FITTINGS	ELECTRONIC SYSTEMS	OTHER	TOTAL
A. Gross opening balance	-	-	12,371	23,211	9,647	45,229
A.1 Total net reduction in value	-	-	(11,307)	(15,636)	(8,376)	(35,319)
A.2 Net opening balance	-	-	1,064	7,575	1,271	9,910
B. Increases:	-	-	1,072	5,297	516	6,885
B.1 Purchases	-	-	1,071	5,297	516	6,884
B.2 Capitalised expenditure on improvements	-	-	-	-	-	-
B.3 Write-backs	-	-	-	-	-	-
B.4 Increases in fair value recognised						
a) in equity	-	-	-	-	-	-
b) through profit or loss	-	-	-	-	-	-
B.5 Positive exchange differences	-	-	-	-	-	-
B.6 Transfers from properties held for investment	-	-	-	-	-	-
B.7 Other changes	-	-	1	-	-	1
C. Decreases:	-	-	(1,005)	(3,312)	(424)	(4,741)
C.1 Sales	-	-	-	-	-	-
C.2 Depreciation	-	-	(988)	(3,312)	(414)	(4,714)
C.3 Impairment losses recognised						-
a) in equity	-	-	-	-	-	-
b) through profit or loss	-	-	(17)	-	(10)	(27)
C.4 Decreases in fair value recognised						
a) in equity	-	-	-	-	-	-
b) through profit or loss	-	-	-	-	-	-
C.5 Negative exchange differences	-	-	-	-	-	-
C.6 Transfers to:						
a) property, plant and equipment held for investment	-	-	-	-	-	-
b) assets held for sale	-	-	-	-	-	-
C.7 Other changes	-	-	-	-	-	-
D. Net closing balance	-	-	1,131	9,560	1,363	12,054
D.1 Total net reduction in value	-	-	(11,428)	(18,741)	(8,512)	(38,681)
D.2 Gross closing balance	-	-	12,559	28,301	9,875	50,735
E. Carried at cost	-	-	1,131	9,560	1,363	12,054

The asset classes specified in the table above are carried at cost.

11.6 Property, plant and equipment held for investment: annual changes

(Amounts in € thousand)

	LAND	BUILDINGS
A. Gross opening balance	-	3,745
A.1 Total net reduction in value	-	(1,236)
A.2 Net opening balance	-	2,509
B. Increases:	-	-
B.1 Purchases	-	-
B.2 Capitalised expenditure on improvements	-	-
B.3 Net increases in fair value	-	-
B.4 Write-backs	-	-
B.5 Positive exchange differences	-	-
B.6 Transfer from properties used in the business	-	-
B.7 Other changes	-	-
C. Decreases:	-	(112)
C.1 Sales	-	-
C.2 Depreciation	-	(112)
C.3 Decreases in fair value	-	-
C.4 Impairment losses	-	-
C.5 Negative exchange differences	-	-
C.6 Transfers to other asset portfolios	-	-
a) properties used in the business	-	-
b) non-current assets classified as held for sale	-	-
C.7 Other changes	-	-
D. Net closing balance	-	2,397
D.1 Total net reduction in value	-	(1,348)
D.2 Gross closing balance	-	3,745
E. Fair value measurement	-	4,535

The buildings specified in the table above are carried at cost.

11.7 Commitments to purchase property, plant and equipment

As at December 31, 2016 the Bank had contractual commitments to purchase property, plant and equipment amounting to €617 thousand. We also report that there are no restrictions on the ownership of tangible assets and there are no tangible assets pledged as security for liabilities.

Section 12 - Intangible assets - Item 120

12.1 Intangible assets: breakdown by type assets

(Amounts in € thousand)

ASSET/AMOUNT	12.31.2016		12.31.2015	
	FINITE LIFE	INDEFINITE LIFE	FINITE LIFE	INDEFINITE LIFE
A.1 Goodwill	X	89,602	X	89,602
A.2 Other intangible assets	7,731		8,212	
A.2.1 Assets carried at cost:				
a) Intangible assets generated internally	-	-	-	-
b) Other assets	7,731	-	8,212	-
A.2.2 Assets carried at fair value:				
a) Intangible assets generated internally	-	-	-	-
b) Other assets	-	-	-	-
Total	7,731	89,602	8,212	89,602

The useful life of software, considered for the calculation of amortisation, is 3 years, while the useful life of other intangible assets with finite life is 5 years. A description of the methods used to calculate depreciation is provided in Part A - Accounting Policies of the notes to the accounts.

Part B - Balance Sheet - Asset (CONTINUED)

12.2 Intangible assets: annual changes

(Amounts in € thousand)

	GOODWILL	OTHER INTANGIBLE ASSETS: GENERATED INTERNALLY		OTHER INTANGIBLE ASSETS: OTHER		TOTAL
		FIN	INDEF	FIN	INDEF	
A. Gross opening balance	124,729	-	-	70,215	-	194,944
A.1 Total net reduction in value	(35,127)	-	-	(62,003)	-	(97,130)
A.2 Net opening balance	89,602	-	-	8,212	-	97,814
B. Increases	-	-	-	4,618	-	4,618
B.1 Purchases	-	-	-	4,618	-	4,618
B.2 Increases in internal intangible assets	X	-	-	-	-	-
B.3 Write-backs	X	-	-	-	-	-
B.4 Increases in fair value recognised:						
- in equity	X	-	-	-	-	-
- through profit or loss	X	-	-	-	-	-
B.5 Positive exchange differences	-	-	-	-	-	-
B.6 Other changes	-	-	-	-	-	-
C. Decreases	-	-	-	(5,099)	-	(5,099)
C.1 Sales	-	-	-	-	-	-
C.2 Impairment losses						
- Amortisation	X	-	-	(5,099)	-	(5,099)
- Write-downs						
+ in equity	X	-	-	-	-	-
+ through profit or loss	-	-	-	-	-	-
C.3 Decreases in fair value						
- in equity	X	-	-	-	-	-
- through profit or loss	X	-	-	-	-	-
C.4 Transfers to non-current assets classified as held for sale	-	-	-	-	-	-
C.5 Negative exchange differences	-	-	-	-	-	-
C.6 Other changes	-	-	-	-	-	-
D. Net closing balance	89,602	-	-	7,731	-	97,333
D.1 Total net impairments	(35,127)	-	-	(67,102)	-	(102,229)
E. Gross closing balance	124,729	-	-	74,833	-	199,562
F. Carried at cost	89,602	-	-	7,731	-	97,333

Key

FIN: finite life

INDEF: indefinite life

The asset classes specified in the table above are carried at cost.

12.3 Other information

As at December 31, 2016 the Bank had contractual commitments to purchase intangible assets amounting to €249 thousand.

We also report that there were no intangible assets acquired through government concession; no intangible assets were used as collateral for own debts; no intangible assets were held under a finance lease; and there were no revalued intangible assets.

Other information - Impairment test

Under IAS 36, impairment testing of intangible assets with indefinite useful lives must be performed at least annually and, in any case, whenever there is objective evidence of the occurrence of events that may have reduced their value.

Recoverable value is the greater of the value in use (present value of future cash flows generated by the asset being valued) and the associated fair value, net of sales costs.

The recoverable value of the assets subject to impairment testing must be determined for the individual assets, unless both of the following conditions exist:

- the value in use of the asset is not estimated to be close to the fair value net of selling costs;
- the asset does not generate incoming cash flows largely independent of those coming from other assets (or group of assets).

If these conditions exist, the impairment test is conducted at the level of the Cash Generating Unit (CGU) of the asset, as required by the accounting principle.

According to IAS 36, when determining the value in use of assets subject to impairment testing, reference must be made to the cash flows of assets in

their current conditions at the testing date and representing the best estimate by the management of the overall economic conditions in place during the residual useful life of the asset.

For the purposes of impairment testing, the value in use of the cash generating unit (CGU) to which the intangible assets have been assigned must be calculated considering the cash flows for all the assets and liabilities included in the CGU and not just those for which goodwill and/or the intangible asset has been recognised upon application of IFRS 3.

Definition of CGU

Estimating the value in use for the purposes of any impairment testing of intangible assets, including goodwill, which do not independently generate cash flows, but only in conjunction with other business assets, requires that these assets first be attributed to operating units that are relatively autonomous in the business context (from the points of view of independent cash flows generated and of internal planning and reporting). These operating units are defined as Cash Generating Units (CGU).

Goodwill relates to buy-outs of divisions or companies engaged in trading activities or the distribution of financial, banking and insurance products through personal financial advisors. These activities have been fully integrated with FinecoBank's ordinary operations, as a result it is not possible to isolate the contribution of each company/business division from the Bank's overall income; this means that to establish the reasonableness of the value of goodwill recognised in the financial statements it is necessary to take account of the Bank's comprehensive income.

The cash generating unit (CGU) to be considered for the impairment test is therefore the Bank as a whole. In view of the specific business model adopted by the Bank, which envisages a high level of integration between personal financial advisors and the trading and banking platform, so that the personal financial advisors network is an integral part of the overall offering of the Bank, which includes banking, brokerage and investing services, an allocation of costs/revenues for business units is not considered relevant or meaningful.

Estimating cash flows to determine the value in use of the CGU

The applicable accounting principles require that the impairment test be carried out by comparing the book value of the CGU to its recoverable value. When the latter proves to be less than the book value, a write-down must be recorded in the financial statements. The recoverable value is the greater of its fair value (net of sales costs) and the related value in use.

The recoverable amount of the CGU is the greater of its fair value (net of costs to sell) and the related value in use.

Impairment test model

The calculation of the value in use for the purposes of impairment testing is made using the Discounted Cash Flow (DCF) model. The cash flows are determined by subtracting the annual capital requirement generated by the change in the risk-weighted assets from net profit. This capital requirement is determined by considering the long-term capitalization to be achieved, also in light of the minimum regulatory capital requirements.

Cash flows

The discounted cash flow model used is based on future cash flows estimated by management in four steps:

- year 2017, in which the budget figures were considered (subject to approval by the Board of Directors on January 9, 2017);
- period from 2018 to 2019, which considers the financial projections of the Strategic Plan (submitted for approval by the Board of Directors of December 6, 2016);
- intermediate period of five years from 2020 to 2024, for which the projections of the financial flows are extrapolated by applying beginning in the last explicit estimate period (2019) rates of growth decreasing (from 4% to 2%) to the terminal value;
- terminal value calculated using a nominal growth rate of 2%. The average nominal growth rate of GDP in the Eurozone from 1996 to 2015 was 2.9% (of which 1.7% was due to inflation). The choice of nominal 2%, corresponding to ~ 0% real growth, was made for prudential reasons.

Discount rates of cash flows

The main assumptions used by management in determining the discount rate to calculate the value in use are summarised below:

- Initial discount rate net of tax (Ke): 8.41%
- Final discount rate net of tax (Ke): 9.03%
- Nominal growth rate used to calculate Terminal Value: 2.00%

Future financial flows were discounted using a conservative estimate of the discount rate, incorporating the various risk factors linked to the business sector into the cost of equity (Ke). The discount rate is a nominal rate, net of taxes.

In particular, the cost of capital for the Bank is the sum of the following:

- Risk-free rate: the average of the last 6 years of the 5-year Bund. The six-year horizon was adopted in line with the average economic cycle in the Eurozone;
- Debt risk premium: the average over the last six years of the Credit Default Swap paid by UniCredit;
- Risk premium on own equity: calculated using the option-based model, based on the average volatility of over the last six years of the shares of banks operating predominantly in the same sector.

However, for prudential reasons, the cost of capital for the Bank 2019 to the Terminal Value was raised to the level of the Germany Commercial Banking, which was considered to be the floor value at Group level.

The cost of capital used for the impairment testing has 3 target points (2017 budget, 2019 Multi Year Plan and Terminal Value) within which a linear convergence is calculated.

Part B - Balance Sheet - Asset (CONTINUED)

Impairment test results

The methodology for calculating the value in use described above (model, assumptions and parameters used) was approved by the Board of Directors on January 9, 2017. For the impairment testing the carrying amount of the goodwill was compared with its value in use calculated using that methodology. The outcome of the tests (approved by the Board of Directors of February 7, 2017) confirmed the sustainability of the goodwill recognised in the financial statements as at December 31, 2016.

Sensitivity analysis

Since this assessment is made particularly complex by the current macroeconomic and market environment affecting the financial sector and the resulting difficulty in making predictions about future long-term profitability, sensitivity analyses were conducted, assuming changes to the main parameters used in the impairment test.

The table below shows the change in the value in use, net of book value and of shareholders' equity, in relation to changes in the main parameters used in the DCF model.

	1% INCREASE OF THE DISCOUNT RATE AFTER TAXES (KE)	1% INCREASE OF CORE TIER 1 RATIO TARGET	1% DECREASE OF THE NOMINAL GROWTH RATE FOR THE CALCULATION OF TERMINAL VALUE	5% DECREASE OF ANNUAL EARNINGS
Change of value in use	-17.7%	-0.6%	-11.9%	-6.7%

The results confirm the sustainability of the goodwill recognised in the financial statements, as none of the scenarios hypothesised revealed the need for a write-down, as the value in use, calculated applying those variations, was much higher than the book value.

It should also be noted, that the impairment test reaches the break-even assuming changes in the above parameters that are currently unreasonable. The impairment test reached a break-even with an absolute positive change in the discount rate after tax (Ke) of over 20 percentage points, i.e. with a reduction of around 75% of annual earnings (while maintaining all the other parameters and information used unchanged, in both scenarios).

We should also point out that the share price of "FinecoBank" results in a market capitalization significantly higher than the Bank shareholders' equity: the market value of the Bank as at December 31, 2016 amounted to €3,234 million compared with shareholders' equity of €681 million.

Section 13 - Tax Assets and Tax Liabilities - Asset item 130 and liability item 80

General aspects

The item "Tax assets" amounting to €13,165 thousand comprises:

- "Current tax assets" of €1,571 thousand;
- "Deferred tax assets" of €11,594 thousand. Deferred tax assets are shown in the balance sheet net of the related deferred tax liabilities; the detail is as follows:
 - "Deferred tax assets" of €33,223 thousand recognised as a balancing entry in the income statement;
 - "Deferred tax assets" of €7,617 thousand recognised through other comprehensive income;
 - "Deferred tax liabilities" of €23,278 thousand recognised as a balancing entry in the income statement;
 - "Deferred tax liabilities" of €5,968 thousand recognised through other comprehensive income.

The item "Tax liabilities" amounting to €10,048 thousand, consists exclusively of "Current tax liabilities".

In 2016, the income tax provision was decreased also resulted result of the settlement of several disputes relating to previous years, which were definitively concluded during the first half 2016.

In addition, following the accelerated building carried out by UniCredit on October 13, 2016 for the sale to institutional investors of around 121.4 million ordinary shares held in FinecoBank, corresponding to 20% of the Bank's existing share capital, UniCredit S.p.A's shareholding in FinecoBank S.p.A. Fell below the limit established by the combined provisions of Articles 117 and 120 of the Italian Income Tax Code for participation in the national tax consolidation.

As a result, UniCredit S.p.A., in accordance with Article 124 of the Italian Income Tax Code, stopped applying the Group taxation – with effect from January 1, 2016 – by sending the relevant electronic notification to the Italian Revenue Agency. There are no particular effects to report, other than the removal of the mitigation of the non-deductibility of interest expense, a benefit that would moreover have lost its effects in 2016, because interest expense will be fully deductible for banks from 2017.

Current Tax Assets and Liabilities

(Amounts in € thousand)

ASSET/AMOUNT	12.31.2016	12.31.2015
Current tax assets	1,571	1,733
Current tax liabilities	10,048	37,445

Prepaid/deferred tax assets/liabilities

In accordance with the law and regulations currently in force:

- the valuation of deferred tax assets for IRES income tax purposes takes into account the expected income figures for future years, according to the decisions made by the competent company bodies;
- the valuation of deferred tax assets for IRAP corporate tax purposes takes place on the basis of the Company's expected income figures for future years, and takes into account changes in the legal context;
- deferred tax liabilities are recognised whenever the relevant requirements are satisfied.

Deferred tax assets and liabilities were determined assuming an IRES income tax rate of 27.5% and an IRAP corporate tax rate of 5.57%.

13.1 Deferred tax assets: breakdown

(Amounts in € thousand)

ASSET/AMOUNT	12.31.2016	12.31.2015
Allocations through profit or loss	29,043	34,623
Allocations through other comprehensive income	7,617	2,440
Impairment losses on receivables (of which pursuant to Law 214/2011)	4,180	4,401
Total before IAS 12 offsetting	40,840	41,464
Offset against deferred tax liabilities - IAS 12	(29,246)	(27,773)
Total	11,594	13,691

13.2 Deferred tax liabilities: breakdown

(Amounts in € thousand)

ASSET/AMOUNT	12.31.2016	12.31.2015
Allocations through profit or loss	23,278	22,878
Allocations through other comprehensive income	5,968	4,895
Total before IAS 12 offsetting	29,246	27,773
Offset against deferred tax assets - IAS 12	(29,246)	(27,773)
Total	-	-

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

(Amounts in € thousand)

	12.31.2016	12.31.2015
1. Opening balance	39,024	39,075
2. Increases	4,281	6,988
2.1 Deferred tax assets recognised in the year	4,281	6,742
a) relating to previous years	-	-
b) due to changes in accounting policies	-	-
c) write-backs	-	-
d) other	4,281	6,742
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	246
3. Decreases	(10,082)	(7,039)
3.1 Deferred tax assets cancelled in the year	(9,367)	(7,039)
a) reversals of temporary differences	(9,367)	(7,039)
b) write-downs of non-recoverable items	-	-
c) change in accounting policies	-	-
d) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	(715)	-
a) conversion of tax credits as per Law 214/2011	-	-
b) other	(715)	-
4. Closing balance	33,223	39,024

Part B - Balance Sheet - Asset (CONTINUED)

Increases in deferred tax assets recognised in the year through profit or loss refer to the following main items:

- allocations to provisions for risks and charges;
- provisions for future personnel costs.

Decreases in deferred tax assets recognised in the year through profit or loss mainly refer to the following items:

- tax recovery for deferred expenses;
- use of provisions for future personnel costs;
- use of provisions for risks and charges.

The Bank did not recognize any deferred tax assets in relation to tax loss carry-forwards, because these types of deferred tax assets did not arise either during the current year or the previous years, as the Bank's taxable income has always been positive.

13.3.1 Changes in deferred tax assets under Law 214/2011 (through profit or loss)

(Amounts in € thousand)

	12.31.2016	12.31.2015
1. Opening balance	4,401	3,839
2. Increases	-	562
3. Decreases	(221)	-
3.1 Reversals	(220)	-
3.2 Conversion into tax credits		
a) resulting from operating losses	-	-
b) resulting from tax losses	-	-
3.3 Other decreases	(1)	-
4. Closing balance	4,180	4,401

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

(Amounts in € thousand)

	12.31.2016	12.31.2015
1. Opening balance	22,877	21,860
2. Increases	467	1,018
2.1 Deferred tax liabilities arising during the year	467	1,018
a) relating to previous years	-	-
b) due to changes in accounting policies	-	66
c) other	467	952
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	(66)	-
3.1 Deferred tax liabilities de-recognised during the year	(66)	-
a) reversals of temporary differences	(66)	-
b) due to changes in accounting policies	-	-
c) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	23,278	22,878

Increases in deferred tax liabilities recorded in the financial year as a balancing item of the income statement refer to the recognition of deferred tax liabilities resulting from the accounting and tax treatment of goodwill.

13.5 Changes in deferred tax assets (through other comprehensive income)

(Amounts in € thousand)

	12.31.2016	12.31.2015
1. Opening balance	2,440	1,790
2. Increases	6,510	832
2.1 Deferred tax assets recognised in the year	6,510	832
a) relating to previous years	-	-
b) due to changes in accounting policies	-	-
c) other	6,510	832
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	(1,333)	(182)
3.1 Deferred tax assets cancelled in the year	(1,333)	(182)
a) reversals of temporary differences	(1,333)	(115)
b) write-downs of non-recoverable items	-	-
c) due to changes in accounting policies	-	-
d) other	-	(67)
3.2 Reduction in tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	7,617	2,440

The increase in deferred tax assets recognised in the year through other comprehensive income refer to the recognition in advance of:

- actuarial gains (losses) to equity under the Revaluation reserves according to IAS 19 Revised;
- fair value measurement of debt securities classified under the "Available-for-sale financial assets" category.

13.6 Changes in deferred tax liabilities (through other comprehensive income)

(Amounts in € thousand)

	12.31.2016	12.31.2015
1. Opening balance	4,895	2,633
2. Increases	5,101	2,503
2.1 Deferred tax liabilities arising during the year	5,101	2,503
a) relating to previous years	-	-
b) due to change in accounting policies	-	-
c) other	5,101	2,503
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	(4,028)	(241)
3.1 Deferred tax liabilities de-recognised during the year	(4,028)	(241)
a) reversals of temporary differences	(4,028)	(241)
b) due to change in accounting policies	-	-
c) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	5,968	4,895

The increase and decreases in deferred tax assets recognised during the year through other comprehensive income related to the recognition and reversal of deferred tax assets as a result of the fair value measurement of debt securities and equity instruments classified under the "Available-for-sale financial assets" category.

13.7 Other information

No information to report.

Part B - Balance Sheet - Asset (CONTINUED)

Section 14 - Non-current assets and disposal groups classified as held for sale and associated liabilities - Assets item 140 and liabilities item 90

14.1 Non-current assets and disposal groups classified as held for sale: breakdown by type assets

No data to report.

14.2 Other information

No information to report.

14.3 Information on equity investments in companies subject to significant influence not valued according to the equity method

No information to report.

Section 15 - Other assets - Item 150

15.1 Other assets: breakdown

(Amounts in € thousand)

	12.31.2016	12.31.2015
Items in transit not allocated to relevant accounts	-	37
Items awaiting settlement:		
- notes, cheques and other documents	11,558	10,021
Items in processing:		
- other items in processing	27	17
Current receivables not associated with the provision of financial services	2,290	3,163
Definitive items not recognised under other items:		
- securities and coupons to be settled	321	1,496
- fees to be charged to customers	30,426	29,613
- other transactions	11,465	11,930
Tax items other than those included in item 130:		
- tax advances	240,923	276,372
- tax credits	9,132	9,483
- tax advances on employee severance indemnities	22	20
Receivables due to disputed items not deriving from lending	119	119
Prepayments	22,754	19,950
Improvement and incremental expenses incurred on leasehold assets	7,262	7,849
Total	336,299	370,070

Liabilities

Section 1 - Deposits from banks - Item 10

1.1 Deposits from banks: product breakdown

(Amounts in € thousand)

TYPE OF TRANSACTION/AMOUNT	12.31.2016	12.31.2015
1. Deposits from central banks	-	-
2. Deposits from banks	1,111,106	1,423,459
2.1 Current accounts and demand deposits	52,309	68,848
2.2 Time deposits	-	-
2.3 Loans	1,058,565	1,313,191
2.3.1 Repos	1,058,565	1,313,191
2.3.2 Other	-	-
2.4 Liabilities in respect of commitments to repurchase treasury shares	-	-
2.5 Other liabilities	232	41,420
Total	1,111,106	1,423,459
<i>Fair value - level 1</i>	-	-
<i>Fair value - level 2</i>	-	-
<i>Fair value - level 3</i>	<i>1,111,106</i>	<i>1,423,459</i>
Total fair value	1,111,106	1,423,459

1.2 Breakdown of item 10 "Deposits from banks": subordinated debts

No data to report.

1.3 Breakdown of item 10 "Deposits from banks": structured debts

No data to report.

1.4 Deposits from banks subject to micro-hedging

No data to report.

1.5 Amounts payable under finance leases

No data to report.

Section 2 - Deposits from customers - Item 20

2.1 Deposits from customers: product breakdown

(Amounts in € thousand)

TYPE OF TRANSACTION/AMOUNT	12.31.2016	12.31.2015
1. Current accounts and demand deposits	18,319,307	14,985,275
2. Time deposits	159,124	560,114
3. Loans	231,376	199,817
3.1 Repos	231,376	199,817
3.2 Other	-	-
4. Liabilities in respect of commitments to repurchase treasury shares	-	-
5. Other liabilities	91,266	77,253
Total	18,801,073	15,822,459
<i>Fair value - level 1</i>	-	-
<i>Fair value - level 2</i>	<i>21,894</i>	<i>49,815</i>
<i>Fair value - level 3</i>	<i>18,779,261</i>	<i>15,772,976</i>
Total fair value	18,801,155	15,822,791

2.2 Breakdown of item 20 "Deposits from customers": subordinated debts

No data to report.

2.3 Breakdown of item 20 "Deposits from customers": structured debts

No data to report.

Part B - Balance Sheet - Liabilities (CONTINUED)

2.4 Deposits from customers subject to micro-hedging

No data to report.

2.5 Amounts payable under finance leases

No data to report.

Section 3 - Debt securities in issue - Item 30

No data to report.

Section 4 - Financial liabilities held for trading - Item 40**4.1 Financial liabilities held for trading: product breakdown**

(Amounts in € thousand)

TYPE OF TRANSACTION/AMOUNT	12.31.2016					12.31.2015				
	FV					FV				
	NA	L1	L2	L3	FV*	NA	L1	L2	L3	FV*
A. On-balance sheet liabilities										
1. Deposits from banks	-	-	-	-	-	-	-	-	-	-
2. Deposits from customers	687	239	-	-	239	576	-	-	-	-
3. Debt securities	-	-	-	-	X	-	-	-	-	X
3.1 Bonds	-	-	-	-	X	-	-	-	-	X
3.1.1 Structured	-	-	-	-	X	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	X	-	-	-	-	X
3.2 Other securities	-	-	-	-	X	-	-	-	-	X
3.2.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2.2 Others	-	-	-	-	X	-	-	-	-	X
Total A	687	239	-	-	239	576	-	-	-	-
B. Derivatives										
1. Financial derivatives	X	1,765	622	-	X	X	1,020	3,080	-	X
1.1 Trading derivatives	X	1,765	622	-	X	X	1,020	3,080	-	X
1.2 Related to the fair value option	X	-	-	-	X	X	-	-	-	X
1.3 Other	X	-	-	-	X	X	-	-	-	X
2. Credit derivatives	X	-	-	-	X	X	-	-	-	X
2.1 Trading derivatives	X	-	-	-	X	X	-	-	-	X
2.2 Related to the fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Others	X	-	-	-	X	X	-	-	-	X
Total B	X	1,765	622	-	X	X	1,020	3,080	-	X
Total (A+B)	X	2,004	622	-	X	X	1,020	3,080	-	X

Key

FV = fair value

FV* = Fair value calculated excluding the changes in value due to the change in the issuer's credit rating since the issue date

NA = Nominal or Notional amount

L1 = Level 1

L2 = Level 2

L3 = Level 3

Financial derivatives refer to the negative valuation of CFD contracts on Forex, indices, shares and interest rates and Futures used for the operational hedging of CFDs on indices and interest rates. They amounted to €590 thousand (€3,103 thousand as at December 31, 2015).

Sub-item B.1.1 Derivative instruments - Trading financial derivatives includes the negative valuations of spot contracts for securities classified in the HFT portfolio and currencies to be settled in times established by market practices ("regular way"). They amounted to €1,797 thousand (€997 thousand as at December 31, 2015).

4.2 Item 40 "Financial liabilities held for trading": subordinated liabilities

No data to report.

4.3 Item 40 "Financial liabilities held for trading": structured debts

No data to report.

Section 5 - Financial liabilities at fair value through profit or loss - Item 50

The Bank has not recognised any financial liabilities under the balance-sheet item "Financial Liabilities at fair value through profit or loss".

Section 6 - Hedging derivatives - Item 60

6.1 Hedging derivatives: breakdown by type of hedge and by hierarchical level

(Amounts in € thousand)

ITEM/AMOUNT	FAIR VALUE 12.31.2016			NA 12.31.2016	FAIR VALUE 12.31.2015			NA 12.31.2015
	L1	L2	L3		L1	L2	L3	
A. Financial derivatives	-	10,914	-	1,107,368	-	31,319	-	2,430,880
1) Fair value	-	10,914	-	1,107,368	-	31,319	-	2,430,880
2) Cash flows	-	-	-	-	-	-	-	-
3) Net investment in foreign subsidiaries	-	-	-	-	-	-	-	-
B. Credit derivatives	-	-	-	-	-	-	-	-
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
Total	-	10,914	-	1,107,368	-	31,319	-	2,430,880

Key

VN = valore nominale

L1 = Level 1

L2 = Level 2

L3 = Level 3

The hedging derivatives as at December 31, 2016 included the negative fair value of derivatives entered into with UniCredit Bank AG, for €3,065 thousand, and with UniCredit for €7,849 thousand.

6.2 Hedging derivatives: breakdown by hedged assets and risk

(Amounts in € thousand)

TRANSACTION/TYPE OF HEDGE	FAIR VALUE					CASH FLOWS			
	MICRO								FOREIGN INVESTMENTS
	INTEREST RATE RISK	EXCHANGE RATE RISK	CREDIT RISK	PRICE RISK	MULTIPLE RISKS	MACRO	MICRO	MACRO	
1. Available-for-sale financial assets	3,065	-	-	-	-	X	-	X	X
2. Loans and receivables	-	-	-	X	-	X	-	X	X
3. Held-to-maturity investments	X	-	-	X	-	X	-	X	X
4. Portfolio	X	X	X	X	X	7,849	X	-	X
5. Other transactions	-	-	-	-	-	X	-	X	-
Total assets	3,065	-	-	-	-	7,849	-	-	-
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. Financial assets and financial liabilities	X	X	X	X	X	-	X	-	-

Section 7 - Changes in fair value of portfolio hedged financial liabilities - Item 70

7.1 Changes to macro-hedged financial liabilities

(Amounts in € thousand)

CHANGES TO MACRO-HEDGED FINANCIAL LIABILITIES/AMOUNTS	12.31.2016	12.31.2015
1. Positive changes to financial liabilities	457	-
2. Negative changes to financial liabilities	-	-
Total	457	-

Part B - Balance Sheet - Liabilities (CONTINUED)

7.2 Financial liabilities subject to macro-hedging of interest rate risk: breakdown

(Amounts in € thousand)

HEDGED LIABILITIES	12.31.2016	12.31.2015
1. Customer deposits	250,000	-
Total	250,000	-

Section 8 - Tax liabilities - Item 80

See section 13 of assets.

Section 9 - Liabilities included in disposal groups classified as held for sale - Item 90

See section 14 of assets.

Section 10 - Other liabilities - Item 100**10.1 Other liabilities: breakdown**

(Amounts in € thousand)

	12.31.2016	12.31.2015
Impairment of financial guarantees given	-	1,416
Accrued expenses other than those to be capitalised for the financial liabilities concerned	141	164
Other liabilities relative to employees	7,259	6,610
Other liabilities relative to other personnel	-	1
Other liabilities due to directors and statutory auditors	140	187
Sums available to be paid to customers	242	248
Items in processing:		
- incoming bank transfers	1,487	2,629
- other items in processing	34	211
Items awaiting settlement:		
- outgoing bank transfers	52,009	46,681
- POS and ATM cards	7,155	126
Current payables not associated with the provision of financial services	18,941	21,804
Definitive items not recognised under other items:		
- securities and coupons to be settled	4,069	7,377
- other items	30,915	32,072
Payables for share-based payments or shares of the Parent Company UniCredit	957	2,491
Illiquid items for portfolio transactions	18,486	16,569
Tax items other than those included in item 80:		
- sums withheld from third parties as withholding agent	18,398	21,670
- other	85,066	84,390
Prepayments	600	515
Social security contributions payable	5,944	5,829
Total	251,843	250,990

Section 11 - Provision for employee severance pay - Item 110

11.1 Provision for employee severance pay: annual changes

(Amounts in € thousand)

	12.31.2016	12.31.2015
A. Opening balance	4,846	4,826
B. Increases	502	348
B.1 Provisions for the year	83	76
B.2 Other increases	419	272
of which adjustments for actuarial losses on Employee Severance Fund (IAS19R)	365	-
C. Decreases	(95)	(328)
C.1 Payments made	(43)	(43)
C.2 Other decreases	(52)	(285)
of which adjustments for actuarial gains on Employee Severance Fund (IAS19R)	-	(227)
D. Closing balance	5,253	4,846

11.2 Other information

The "TFR" provision for Italy-based employee benefits is considered to be a "post-retirement defined benefit". It is therefore recognised on the basis of an actuarial estimate of the amount of benefit accrued by employees discounted to present value. This benefit is calculated by an external actuary using the unit credit projection method (see Part A.2 - The Main Items of the Accounts).

The Provision for employee severance pay covers the amount of the rights accrued in that respect up to December 31, 2016 by employees, under current legal regulations, as well as national collective bargaining agreements and supplementary company agreements.

The financial year under review was characterised by:

- 1) normal events relating to the employee severance pay provision in accordance with legal provisions and company agreements in force;
- 2) changes associated with employment contracts pursuant to Article 1406 and following of the Italian Civil Code dealing with individual mobility within the Group.

In 2007, the new supplementary pension reform pursuant to Legislative Decree no. 252/2005 became effective and, as a result the amounts accrued up to December 31, 2006 were kept with the Company, whilst the amounts of employee severance pay provision accruing as of January 1, 2007 were transferred to the supplementary pension funds or the INPS Treasury fund according to the option adopted by the employees (by June 30, 2007). The result is that:

- the employee severance fund accrued up to December 31, 2006 (or until the date of the option - falling between January 1, 2007 and June 30, 2007 - adopted by the employees if they decided to transfer their employee severance pay provision to a supplementary pension fund) continues to be a "defined-benefit" plan and therefore subject to actuarial valuation, although based on simplified actuarial assumptions which no longer take account of estimated future pay rises;
- the amounts accrued from January 1, 2007 (or from the date of the option - falling between 1 January 2007 and June 30, 2007 - by the employees if they decided to transfer their employee severance pay provision to a supplementary pension fund), were considered as a "defined-benefit" plan (as the Company's liability ceases at the time it pays the employee severance pay provision accrued to the pension fund chosen by the employee) and therefore the related cost for the period is equal to the amounts paid to the Supplementary Pension fund or the INPS Treasury fund.

The following table shows the main actuarial assumptions used to remeasure the liability.

DESCRIPTION OF THE MAIN ACTUARIAL ASSUMPTIONS	12.31.2016	12.31.2015
Discount rate	1.25%	1.75%
Expected inflation rate	1.10%	1.00%

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EMPLOYEE SEVERANCE PAY PROVISION: OTHER INFORMATION	12.31.2016	12.31.2015
Provisions for the year	83	76
- Current service cost	-	-
- Interest expense on defined benefit obligations	83	76
- Gains and losses on curtailments and settlements	-	-
- Past service cost	-	-
Actuarial gains (losses) recognised in Revaluation reserves (OCI)	365	(227)
- Actuarial gains (losses) for the year	383	(94)
- Actuarial gains/losses on demographic assumptions	-	-
- Actuarial gains/losses on financial assumptions	(18)	(133)

Part B - Balance Sheet - Liabilities (CONTINUED)

As required by IAS 19 Revised, a sensitivity analysis was conducted aimed at identifying how the present value of the liability changes when the actuarial assumptions considered most significant are changed, while keeping the other actuarial assumptions constant. A change of -25 basis points in the discount rate would result in an increase in the liability of €181 thousand (+3.44%), whereas an equivalent increase in the rate would result in a reduction of the liability of €174 thousand (-3.31%). A change of -25 basis points in the inflation rate would result in a decrease in the liability of €109 thousand (-2.07%), whereas an equivalent increase in the rate would result in an increase in the liability of €111 thousand (+2.11%).

Section 12 - Provisions for risks and charges - Item 120

12.1 - Provisions for risks and charges: breakdown

(Amounts in € thousand)

ITEM/AMOUNT	12.31.2016	12.31.2015
1. Pensions and other post-retirement benefit obligations	-	-
2. Other provisions for risks and charges	111,756	120,534
2.1 legal disputes	33,699	43,458
2.2 staff expenses	10,043	9,570
2.3 other	68,014	67,506
Total	111,756	120,534

Item 2.1 "legal disputes" includes provisions made to cover disputes for damage to customers arising from the unlawful behaviour of the Bank's personal financial advisors, provisions relating to pending disputes with personal financial advisors (generally employment-related) and other ongoing court and out-of-court litigation with customers and other parties.

Item 2.2 "staff expenses" includes the provisions made for the variable remuneration to be paid to employees in subsequent years, which have an uncertain due date and/or amount. This item also includes the estimated integration costs for the Bank in relation to the Business Plan of the UniCredit group recognised in the financial statements for the year ended December 31, 2016 and the financial statements for the year ended December 31, 2015. The related income component is recognised as "Staff expenses". In 2016, following the signing of the agreement of February 5, 2016, these costs recognised under provisions for risks and charges in the financial statements for the year ended December 31, 2015 were partially reallocated to "Other liabilities" for the part relating to the subscriptions accepted.

The item "Other" includes the Supplementary customer indemnity provision, of €56,054 thousand (€51,139 thousand as at December 31, 2015), the Provision for tax disputes (penalties and interest, of €4,078 thousand (€7,034 thousand as at December 31, 2015), the Provision for contractual payments, of €2,184 thousand (€2,270 thousand as at December 31, 2015) and other provisions made for risks related to the Bank's business and operations, of €5,698 thousand (€7,063 thousand as at December 31, 2015).

12.2 Provisions for risks and charges: annual changes

(Amounts in € thousand)

PENSION FUNDS	OTHER PROVISIONS	TOTAL
A. Opening balance	120,534	120,534
B Increases	11,765	11,765
B.1 Provisions for the year	10,846	10,846
B.2 Changes due to the passage of time	851	851
B.3 Changes due to variations in the discount rate	35	35
B.4 Other increases	33	33
C Decreases	(20,543)	(19,102)
C.1 Amounts used in the year	(19,102)	(19,102)
C.2 Changes due to variations in the discount rate	-	-
C.3 Other decreases	(1,441)	(1,441)
D. Closing balance	111,756	111,756

The "Other decreases" including the length-of-service premiums and integration costs reallocated to "Other liabilities".

12.3 Pensions and other post-retirement defined-benefit obligations

No data to report.

12.4 Provisions for risks and charges - other provisions

(Amounts in € thousand)

	12.31.2016	12.31.2015
Legal disputes	33,699	43,458
- Pending cases	26,673	35,225
- Claims	7,026	8,233
Staff expenses	10,043	9,570
Other	68,014	67,506
- Supplementary customer indemnity provision	56,054	51,139
- Contractual payments and payments under non-competition agreements	2,184	2,270
- Tax disputes	4,078	7,034
- Other provisions	5,698	7,063
Total provisions for risks and charges	111,756	120,534

(Amounts in € thousand)

PROVISIONS FOR RISKS AND CHARGES	TOTAL 12.31.2015	USES	TRANSFERS AND OTHER CHANGES	ACTUARIAL GAINS (LOSSES) IAS 19R *	NET PROVISIONS **	TOTAL 12.31.2016
Legal disputes	43,458	(9,687)	-	-	(72)	33,699
- Pending proceedings	35,225	(5,719)	911	-	(3,744)	26,673
- Claims	8,233	(3,968)	(911)	-	3,672	7,026
Staff expenses	9,570	(6,241)	(1,408)	-	8,122	10,043
Other	67,506	(3,174)	-	1,181	2,501	68,014
- Supplementary customer indemnity provision	51,139	(1,214)	-	1,165	4,964	56,054
- Contractual payments and payments under non-competition agreements	2,270	-	-	16	(102)	2,184
- Tax disputes	7,034	(850)	-	-	(2,106)	4,078
- Other provisions	7,063	(1,110)	-	-	(255)	5,698
Total provisions for risks and charges	120,534	(19,102)	(1,408)	1,181	10,551	111,756

* The item "IAS 19R actuarial gains (losses)" includes the actuarial gains (losses) recognised in the item "Revaluation reserves" in application of IAS 19R.

** The item "Provisions" includes the costs recognised in their own income statement item to better reflect their nature (e.g. "Staff expenses", "Administrative costs" and "Interest expenses and similar charges").

The following table shows the main actuarial assumptions used to measure the liability for the supplementary customer indemnity provision and the provision for contractual payments.

DESCRIPTION OF THE MAIN ACTUARIAL ASSUMPTIONS	12.31.2016	12.31.2015
Discount rate	1.25%	1.75%
Salary increase rate	2.60%	2.60%

As required by IAS 19 Revised, a sensitivity analysis was conducted aimed at identifying how the present value of the liability changes when the actuarial assumptions considered most significant are changed, while keeping the other actuarial assumptions constant.

With reference to the supplementary customer indemnity provision, a change of -25 basis points in the discount rate would result in an increase in liabilities of €1,679 thousand (+3.00%); an equivalent increase in the rate, on the other hand, would result in a reduction in liabilities of €1,606 thousand (-2.86%). A change of -25 basis points in the rate of increase in the salary base would result in a reduction in liabilities of €546 thousand (-0.97%); an equivalent increase in the rate, on the other hand, would result in an increase in liabilities of €562 thousand (+1.00%).

With reference to the provision for contractual payments, a change of -25 basis points in the discount rate would result in an increase in liabilities of €41 thousand (+2.05%); an equivalent increase in the rate, on the other hand, would result in a reduction in liabilities of €39 thousand (-1.97%). A change of -25 basis points in the rate of increase in the salary base would result in a reduction in liabilities of €2 thousand (-0.08%); an equivalent increase in the rate, on the other hand, would result in an increase in liabilities of €2 thousand (+0.10%).

In addition, for the other provisions recognised in the financial statements on the basis of IAS 37, where the effect of the time value of money is significant (generally when payment is to be made more than 18 months from recognition), the amount of the provision should be the present value of the best estimate of the cost required to settle the obligation. The discount rate used reflects the current market assessments. As at December 31, 2016 an analysis was conducted to assess the impact on the provision is made of a variation of +/- 25 basis points in the discount rate and no significant impacts were found.

Part B - Balance Sheet - Liabilities (CONTINUED)

The **Provision for legal disputes** includes provisions made to cover disputes for damage to customers arising from the unlawful behaviour of the Bank's personal financial advisors, provisions relating to pending disputes with personal financial advisors (generally employment-related) and other ongoing court and out-of-court litigation with customers and other parties.

The **Supplementary customer indemnity provision** is accrued to cover the amount of severance indemnity to be paid to the PFA network pursuant to art. 1751 of the Italian Civil Code, in the event of termination of the contract for reasons not attributable to the advisor, such as, for example, when reaching retirement age.

The amount of the obligation at the end of the period was assessed with the aid of an independent actuary.

The **Provision for staff expenses** includes provisions made in relation to the variable remuneration to be paid to employees in subsequent years which have an uncertain due date and amount. This provision includes the estimated integration costs in relation to the Business Plan of the UniCredit Group.

The **Provision for contractual payments and payments under non-competition agreements** is related to a limited number of personal financial advisors; these payments are contractually provided. More specifically, the non-competition agreement is an extension of the loyalty obligation at the end of the employment contract which protects the Bank from competition from former personal financial advisors; contractual payments are a special indemnity that the Bank agrees to pay to personal financial advisors, who opted to transfer the rights and obligations arising from their contract with the Bank to third parties, where these advisors continue to keep an ethical and professional conduct with the Bank after termination of employment, with specific regard to the customer portfolio. The amount of the obligation at the end of the period relating to contractual payments was assessed with the aid of an independent actuary.

The **Provision for tax disputes** is allocated to cover tax demands received from the Italian Revenue Agency following tax audits carried out on the Bank over the years, in relation to which the Bank considers it has calculated the tax correctly and legitimately and has therefore submitted an appeal at various levels of proceedings.

The above provisions for risks and charges include the allocations for fines and interest for the additional tax being contested and requested by the Tax Authorities through tax bills or payment notices paid and for the estimated amount of legal expenses to be incurred in the various proceedings.

For more details, see Part E - Information on risks and hedging policies - Section 4 - Operational risk - paragraph "Risks arising from tax disputes and audits" of these Notes to the accounts.

The **Other Provisions** are mainly allocated to cover the risks related to the business and operations of the Bank. The provision specifically includes provisions for marketing and customer loyalty campaigns and the provision for training events for the personal financial advisors.

Section 13 - Redeemable shares - Item 140

13.1 Redeemable shares: breakdown

No data to report.

Section 14 - Bank's shareholders' equity - Items 130, 150, 160, 170, 180, 190 and 200

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

Share capital amounts to €200,245,793.88 fully paid-up, comprising 606,805,436 ordinary shares with a par value of €0.33.

As at December 31, 2016 the Bank held 714,325 treasury shares, corresponding to 0.12% of the share capital, for an amount of €4,338 thousand. The shares were purchased in implementation of the stock granting "2014 PFA Plan" for the Bank's Personal Financial Advisors and Network Managers, approved by the Board of Directors on May 15, 2014 and by the Shareholders' Meeting on June 5, 2014, for a total number of 1,408,834 shares, starting from September 16, 2015, after receipt of the authorisation from the Supervisory Authority, in accordance with Articles 77-78 of EU Reg. 575/2013 of June 26, 2013 (CRR), and ended on October 12, 2015. During 2016, the Bank's Personal Financial Advisors and Network Managers were allocated 694,509 FinecoBank ordinary shares held as treasury shares, under the stock granting "2014 PFA Plan".

The Bank does not hold shares of its Parent Company, even through other companies or third parties.

(Amounts in € thousand)

ITEMS/ VALUES	12.31.2016	12.31.2015
1. Share capital	200,246	200,150
2. Share premium reserve	1,934	1,934
3. Reserves	278,407	236,590
- Legal reserve	40,049	40,030
- Extraordinary reserve	205,860	166,081
- Treasury shares reserve	4,338	8,555
- Other reserves	28,160	21,924
4. (Treasury Shares)	(4,338)	(8,555)
5. Revaluation reserves	(6,794)	11,626
6. Equity instruments	-	-
7. Net Profit (Loss) for the year	211,844	191,053
Total	681,299	632,798

On February 8, 2016 the Board of Directors launched the "2014 Key People Plan", considering the positive outcome of the verification of the entry conditions and the individual conditions (compliance of conduct and continued employment) and the favourable opinion of the Remuneration and Appointments Committee, it approved the allocation of the second tranche corresponding to 289,703 free ordinary shares to 79 beneficiaries and, as a consequence, it approved a free capital increase for a total amount of €95,601.99, with accompanying reduction of the available retained earnings.

The Shareholders' Meeting of April 12, 2016 approved the allocation of profit for the year 2015, amounting to €191,053 thousand, as follows:

- €19 thousand to the legal reserve;
- €35,658 thousand to the extraordinary reserve;
- €154,376 thousand, equal to €0.255 per share, to the shareholders;
- €1,000 thousand to social, charity and cultural causes, pursuant to Article 26, paragraph 5, of the Articles of Association.

Part B - Balance Sheet - Liabilities (CONTINUED)

14.2 Share capital - Number of shares: annual changes

ITEMS/TYPE	ORDINARY	OTHER
A. Shares outstanding at the beginning of the year		
- fully paid	606,515,733	-
- not fully paid	-	-
A.1 Treasury shares (-)	(1,408,834)	-
A.2 Shares outstanding: opening balance	605,106,899	-
B. Increases		
B.1 New issues		
- against payment:		
- business combinations	-	-
- bonds converted	-	-
- warrants exercised	-	-
- other	-	-
- free		
- to employees	289,703	-
- to directors	-	-
- other	-	-
B.2 Sale of treasury shares	-	-
B.3 Other changes	694,509	-
C. Decreases		
C.1 Cancellation	-	-
C.2 Purchase of treasury shares	-	-
C.3 Business transfers	-	-
C.4 Other decreases	-	-
D. Shares outstanding: closing balance	606,091,111	-
D.1 Treasury Shares (+)	714,325	-
D.2 Shares outstanding at the end of the year	-	-
- fully paid	606,805,436	-
- not fully paid	-	-

The item B.3 Other changes reports the shares allocated to the personal financial advisors under the stock granting plan ("2014 PFA Plan") for Bank's Personal Financial Advisors and Network Managers.

14.3 Share capital: other information

The shares are not subject to any right, privilege or constraint; there are no shares reserved for issue under option and sales contracts.

14.4 Reserves from allocation of profit from previous years: other information

The reserves from profits consist of the:

- Legal reserve, amounting to €40,049 thousand;
- Extraordinary reserve, amounting to €205,860 thousand;
- Reserve for treasury shares held, amounting to €4,338 thousand.

Following the allocation of FinecoBank ordinary shares held as treasury shares to the Bank's Personal Financial Advisors and Network Managers, under the stock granting "2014 PFA Plan", the "Reserve for treasury shares held" was released and reclassified to the "Extraordinary reserve" by an amount of €4,217 thousand.

Information on the availability and distribution of shareholders' equity

In accordance with art. 2427, paragraph 7-bis of the Italian Civil Code, and according to document no. 1 issued by the Italian Accounting Body on October 25, 2004, a detailed description of equity items is provided below, with a breakdown in terms of availability, eligibility for distribution and use in the last three years.

(Amounts in € thousand)

TYPE/DESCRIPTION	AMOUNT	POSSIBLE USE	AMOUNT AVAILABLE	SUMMARY OF THE AMOUNTS USED IN THE PAST THREE YEARS	
				TO COVER LOSSES	FOR OTHER REASONS
Share capital	200,246	-	-	-	-
Share premium reserve	1,934	A, B, C	1,934 ⁽¹⁾	-	-
Reserves:					
Legal reserve	40,049	B	40,049	-	-
Extraordinary reserve	205,860	A, B, C	205,860	-	4,861
Reserve related to equity-settled plans	28,160	-	-	-	-
Reserve for treasury shares	4,338	-	-	-	-
Revaluation reserves:					
Revaluation reserves for Available-for-sale financial assets	(455)	-	- ⁽²⁾	-	-
Revaluation reserves for actuarial net gains (losses) for defined benefit plans	(6,339)	-	-	-	-
TOTAL	473,793		247,843		
Undistributable amount			40,049		
Distributable amount			207,794		

Key

A: for capital increase.

B: to cover losses.

C: for distribution to shareholders.

Note:

(1) Pursuant to Article 2431 of the Italian Civil Code, the sum total of this reserve may be distributed only on condition that the legal reserve has reached the limit set in Article 2430 of the Civil Code.

(2) The reserve, when positive, is not available pursuant to article 6 of Legislative Decree 38/2005.

In 2015, the €80 thousand of the "Extraordinary reserve" was used for the capital increase for the first tranche of the "2014 Key People Plan" and €4,781 thousand from the "Reserve for treasury shares to be purchased" for the payment in cash of the first tranche of the 2014 stock granting plan "2014 PFA Plan" for the Personal Financial Advisors and Network Managers of the Bank.

In 2016, the €96 thousand of the "Extraordinary reserve" was used for the capital increase for the second tranche of the "2014 Key People Plan" and €4,217 thousand was used from the "Reserve related to equity-settled plans" following the allocation of FinecoBank ordinary shares held as treasury shares to the Bank's Personal Financial Advisors and Network Managers, for the second tranche of the stock granting "2014 PFA Plan".

The Bank closed the year 2016 with a net profit of €211,844 thousand and the Board of Directors Meeting of February 7, 2017 proposed its allocation as follows:

- €60 thousand to the Legal reserve, corresponding to 0.03% of the profit for the year, having reached the limit of a fifth of the share capital;
- €41,624 thousand to the Extraordinary reserve;
- €170,160 thousand to Shareholders, corresponding to a dividend of €0.28 for each of the 607,713,345 ordinary shares with a par value of €0.33 euro, constituting the share capital including the 907,909 shares relating to the capital increase approved by the Board of Directors on February 7, 2017.

The dividends not distributed in relation to any treasury shares held by the Bank at the record date will be transferred to the Extraordinary reserve.

14.5 Equity instruments: breakdown and annual changes

No data to report.

14.6 Other information

No data to report.

Part B - Balance Sheet - Liabilities (CONTINUED)

Section 15 - Other information

1 Guarantees issued and commitments

(Amounts in € thousand)

TRANSACTIONS	AMOUNT 12.31.2016	AMOUNT 12.31.2015
1) Financial guarantees given	256,752	256,615
a) Banks	256,065	256,065
b) Customers	687	550
2) Commercial guarantees given	4	4
a) Banks	4	4
b) Customers	-	-
3) Irrevocable commitments to lend funds	1,241,574	129,165
a) Banks	1,018,155	1,974
i) certain to be called on	155	1,974
ii) not certain to be called on	1,018,000	-
b) Customers	223,419	127,191
i) certain to be called on	223,419	127,191
ii) not certain to be called on	-	-
4) Commitments underlying credit derivatives: protection sales	-	-
5) Assets given as collateral for third-party obligations	-	-
6) Other commitments	-	-
Total	1,498,330	385,784

Financial guarantees given to banks include 5 guarantees issued in 2012 on request of UniCredit, with indefinite duration, for a total amount of €256,065 thousand.

Irrevocable commitments to lend funds certain to be called on mainly consisted of spot contracts for the purchase and sale of securities to be settled in times established by market practices ("regular way"), for an amount of €192,398 thousand, repurchase agreements to be disbursed, for an amount of €20,887 thousand, and commitments towards the Interbank Deposit Guarantee Fund – Voluntary Scheme, for an amount of €10,046 thousand.

The irrevocable commitments with Banks to lend funds not certain to be called on refer to the Liquidity Framework Agreement entered into during in 2016, under which the Bank has made a commitment to provide UniCredit a certain amount of eligible securities for the period of one month; the securities may be requested by UniCredit through repos with a maximum duration of three months. The Bank is also committed to investing the liquidity, received through the repos, in term deposits with the Parent Company with the same expiry date.

2. Assets given as collateral for own liabilities and commitments

(Amounts in € thousand)

PORTFOLIOS	AMOUNT 12.31.2016	AMOUNT 12.31.2015
1. Financial assets held for trading	-	-
2. Financial assets designated at fair value through profit or loss	-	-
3. Available-for-sale financial assets	-	-
4. Held-to-maturity investments	-	-
5. Loans and receivables with banks	54,909	87,367
6. Loans and receivables with customers	-	-
7. Property, plant and equipment	-	-
Total	54,909	87,367

Assets given as collateral for own liabilities and commitments shown in item "Loans and receivables with banks" refer to bonds issued by UniCredit, classified in the "Loans and Receivables" category, subscribed by the Bank in order to conduct repos with the obligation for the buyer to resell the assets covered by the transaction upon expiration of said transaction; bonds are given as collateral for the entire duration of the repos.

The Bank has also committed securities owned by it as collateral for bankers' drafts, as a guarantee for transactions in foreign markets, as a guarantee for transactions in derivatives, and as a guarantee for securities lending transactions.

With regard to the securities used as collateral for banker's drafts, as guarantee with third parties in relation to transactions on foreign markets: more specifically, the Bank used bonds issued by the Italian and French governments, classified as Available-for-sale assets, for a book value of €128,882 thousand (€131,435 thousand as at December 31, 2015). Securities are used as collateral until the Bank decides to stop the transactions for which the collateral or guarantees are granted.

With regard to the securities lending transactions with customers, UniCredit securities have been committed, belonging to the "Loans and receivables" category", for a carrying amount of €1,042,126 thousand (€1,329,696 thousand as at December 31, 2015). For more details, see section 4. Securities lending transactions.

3. Information on operating leases

With regard to outstanding non-cancellable leases, the future payments amount to:

- €1,868 thousand up to twelve months;
- €1,647 thousand from one to five years.

There are no sub-leases in place.

4. Asset management and trading on behalf of others

(Amounts in € thousand)

TYPE OF SERVICE	AMOUNT 12.31.2016	AMOUNT 12.31.2015
1. Execution of orders for customers	330,212,411	381,095,835
Securities	85,036,522	120,951,894
a) purchases	42,701,792	60,336,465
1. Settled	42,346,469	60,133,028
2. Unsettled	355,323	203,437
b) sales	42,334,730	60,615,429
1. Settled	41,973,535	60,419,410
2. Unsettled	361,195	196,019
Derivative contracts	245,175,889	260,143,941
a) purchases	122,572,275	130,139,759
1. Settled	122,309,410	129,921,309
2. Unsettled	262,865	218,450
b) sales	122,603,614	130,004,182
1. Settled	122,335,440	129,801,959
2. Unsettled	268,174	202,223
2. Segregated accounts	-	-
a) individual	-	-
b) collective	-	-
3. Custody and administration of securities		
a) third-party securities on deposits: relating to custodian bank activities (excluding segregated accounts)	-	-
1. securities issued by the bank preparing the accounts	-	-
2. other securities	-	-
b) third-party securities held in deposits (excluding segregated accounts): other	11,399,554	12,708,687
1. securities issued by the bank preparing the accounts	4,827	2,787
2. other securities	11,394,727	12,705,900
c) third-party securities deposited with third parties	11,399,550	12,708,687
d) own securities deposited with third parties	15,461,745	13,515,797
4. Other transactions	18,342,788	27,347,644
Order receipt and transmission	18,342,788	27,347,644
a) purchases	9,216,044	13,635,216
b) sales	9,126,744	13,712,428

5. Assets subject to accounting offsetting, to master netting agreements or similar agreements

(Amounts in € thousand)

TYPE	GROSS AMOUNT OF FINANCIAL ASSETS (A)	AMOUNT OF FINANCIAL LIABILITIES OFFSET IN THE FINANCIAL STATEMENTS (B)	NET AMOUNT OF FINANCIAL ASSETS SHOWN IN THE FINANCIAL STATEMENTS (C=A-B)	RELATED AMOUNTS NOT SUBJECT TO ACCOUNTING OFFSETTING		NET AMOUNT 12.31.2016 (F=C-D-E)	NET AMOUNT 12.31.2015
				FINANCIAL INSTRUMENTS (D)	CASH DEPOSITS RECEIVED AS GUARANTEE (E)		
1. Derivatives	552	-	552	-	-	552	-
2. Reverse repos	-	-	-	-	-	-	-
3. Securities lending	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
Total December 31, 2016	552	-	552	-	-	552	X
Total December 31, 2015	-	-	-	-	-	X	-

Part B - Balance Sheet - Liabilities (CONTINUED)

6. Liabilities subject to accounting offsetting or under master netting agreements and similar ones

(Amounts in € thousand)

TYPE	GROSS AMOUNT OF FINANCIAL LIABILITIES (A)	AMOUNT OF FINANCIAL ASSETS OFFSET IN THE FINANCIAL STATEMENTS (B)	NET AMOUNT OF FINANCIAL LIABILITIES SHOWN IN THE FINANCIAL STATEMENTS (C=A-B)	RELATED AMOUNTS NOT SUBJECT TO ACCOUNTING OFFSETTING		NET AMOUNT 12.31.2016 (F=C-D-E)	NET AMOUNT 12.31.2015
				FINANCIAL INSTRUMENTS (D)	CASH DEPOSITS RECEIVED AS GUARANTEE (E)		
1. Derivatives	7.849	-	7.849	-	7.849	-	-
2. Reverse repos	-	-	-	-	-	-	-
3. Securities lending	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
Total December 31, 2016	7.849	-	7.849	-	7.849	-	X
Total December 31, 2015	-	-	-	-	-	X	-

7. Securities lending transactions

The Bank conducts securities lending transactions on a continuous and systematic basis, with the objective of optimising the returns of customer portfolios, satisfying the requests of institutional counterparties and obtaining a profit for the Bank. The Bank operates as the borrower, borrowing the securities of its customers and using them in repos and securities lending transactions guaranteed by cash amounts with retail and institutional customers interested in the temporary ownership of the securities. In the case of securities lending transactions guaranteed by other securities, which are not recognised as liabilities or commitments in the accounts, the Bank has used bond issues of UniCredit, classified as "Loans and Receivables", as guarantees; these are deposited in a securities account held at the custodian bank for an amount higher than that of the securities borrowed from customers, in order to provide a collective guarantee.

The face value of the underlying securities not recognised as assets in the accounts totalled €832,804 thousand, while their fair value was €1,094,173 thousand, broken down as follows:

(Amounts in € thousand)

SECURITIES RECEIVED ON LOAN FROM:	TYPE OF SECURITIES (NOMINAL VALUE DECEMBER 31, 2016)		
	BANKS	SOLD IN REPOS	OTHER PURPOSES
Financial companies	-	-	-
Insurance	-	7,489	-
Non-financial companies	-	-	-
Other entities	-	4,021	2
Total nominal value	577	820,603	112
Totale valore nominale	577	832,113	114

(Amounts in € thousand)

SECURITIES RECEIVED ON LOAN FROM:	TYPE OF SECURITIES (FAIR VALUE DECEMBER 31, 2016)		
	SOLD	SOLD IN REPOS	OTHER PURPOSES
Banks	-	-	-
Financial companies	-	7,525	-
Insurance	-	-	-
Non-financial companies	-	5,216	37
Other entities	35	1,080,508	852
Total fair value	35	1,093,249	889

Part C - Income Statement

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Part C - Income Statement

Section 1 - Interest income and expense - Items 10 and 20

1.1 Interest income and similar revenues: breakdown

(Amounts in € thousand)

ITEMS/TYPE	DEBT SECURITIES	LOANS	OTHER TRANSACTIONS	TOTAL 12.31.2016	TOTAL 12.31.2015
1. Financial assets held for trading	1	-	-	1	2
2. Available-for-sale financial assets	20,658	-	-	20,658	20,362
3. Held-to-maturity investments	1,575	-	-	1,575	-
4. Loans and receivables with banks	194,217	4,597	-	198,814	216,737
5. Loans and receivables with customers	-	29,109	-	29,109	29,786
6. Financial assets designated at fair value through profit or loss	-	-	-	-	-
7. Hedging derivatives	-	-	3,080	3,080	1,945
8. Other assets	-	-	69	69	66
Total interest income	216,451	33,706	3,149	253,306	268,898

Interest accrued on impaired assets, relating exclusively to the item Loans and receivables with customers, amounted to €360 thousand (€540 thousand as at December 31, 2015).

1.2 Interest income and similar revenues: hedging differentials

(Amounts in € thousand)

ITEMS	12.31.2016	12.31.2015
A. Positive hedging differentials	35,458	79,895
B. Negative hedging differentials	(32,378)	(77,950)
C. Balance (A-B)	3,080	1,945

1.3 Interest income and similar revenues: other information

No information to report.

1.3.1 Interest income from financial assets denominated in currency

(Amounts in € thousand)

ITEMS/TYPE	12.31.2016	12.31.2015
Interest income on foreign currency financial assets	12,459	10,403

1.3.2 Interest income on finance lease transactions

No data to report.

1.4 Interest expenses and similar charges: breakdown

(Amounts in € thousand)

ITEMS/TYPE	PAYABLES	SECURITIES	OTHER TRANSACTIONS	TOTAL 12.31.2016	TOTAL 12.31.2015
1. Deposits from central banks	-	-	-	-	-
2. Deposits from banks	3,006	-	-	3,006	240
3. Deposits from customers	(6,924)	-	-	(6,924)	(14,337)
4. Debt securities in issue	-	-	-	-	(14,039)
5. Financial liabilities held for trading	-	-	-	-	-
6. Financial liabilities at fair value through profit and loss	-	-	-	-	-
7. Other liabilities and provisions	-	-	-	-	-
8. Hedging derivatives	-	-	-	-	-
Total interest expense	(3,918)	-	-	(3,918)	(28,136)

1.5 Interest expenses and similar charges: hedging differentials

This table has been omitted as the balance of hedging differentials is positive (please refer to the above table 1.2).

1.6 Interest expenses and similar charges: other information

No information to report.

1.6.1 Interest expense on liabilities denominated in currency

(Amounts in € thousand)

ITEMS/TYPE	12.31.2016	12.31.2015
Interest expense on liabilities denominated in currency	(2,479)	(1,069)

1.6.2 Interest expense on finance leases

No data to report.

Section 2 - Fee and commission income and expense - Items 40 and 50

2.1 Fee and commission income: breakdown

(Amounts in € thousand)

TYPE OF SERVICE/AMOUNT	12.31.2016	12.31.2015
(a) guarantees given	67	68
(b) credit derivatives	-	-
(c) management, brokerage and consulting services:	436,906	448,071
1. securities trading	75,599	82,054
2. currency trading	-	-
3. portfolio management	-	-
3.1. individual	-	-
3.2. collective	-	-
4. custody and administration of securities	964	817
5. custodian bank	-	-
6. placement of securities	14,492	27,907
7. reception and transmission of orders	10,732	13,434
8. advisory services	33,078	27,832
8.1. related to investments	33,078	27,832
8.2. related to financial structure	-	-
9. distribution of third-party services:	302,041	296,027
9.1. portfolio management	252,873	255,527
9.1.1 individual	53	65
9.1.2 collective	252,820	255,462
<i>of which maintenance commissions for UCIT units</i>	<i>250,480</i>	<i>253,427</i>
9.2. insurance products	49,159	40,485
9.3. other products	9	15
(d) collection and payment services	21,758	29,306
(e) securitisation servicing	-	-
(f) factoring	-	-
(g) tax collection services	-	-
(h) management of multilateral trading systems	-	-
(i) management of current accounts	5,019	5,074
(j) other services	5,450	4,983
(k) securities lending transactions	3,640	4,434
Total	472,840	491,936

As noted in Part A - Accounting policies of these Notes to the Accounts, since January 1, 2016, within securities lending transactions with cash guarantees, the income component related to the service provided (received) for the provision of the security has been recognised under fee and commission income (expense), whereas it was previously recorded in interest income (expense). For the purposes of like-for-like comparison, the corresponding figures relating to the previous year have been restated (fee and commission expense of €4,434 thousand and fee and commission expense of €12 thousand as at December 31, 2015).

2.2 Fee and commission income: distribution channels for products and services

(Amounts in € thousand)

CHANNEL/AMOUNT	12.31.2016	12.31.2015
(a) at own branches:	-	-
1. portfolio management	-	-
2. placement of securities	-	-
3. third-party services and products	-	-
(b) cold-calling:	290,634	286,270
1. portfolio management	-	-
2. placement of securities	12,108	20,044
3. third-party services and products	278,526	266,226
(c) other distribution channels:	25,898	37,663
1. portfolio management	-	-
2. placement of securities	2,383	7,863
3. third-party services and products	23,515	29,800
Total	316,532	323,933

Part C - Income Statement (CONTINUED)

The fee and commission income described in point (c) "other distribution channels" refer to commissions earned through the online channel and also include fees and commissions collected by product companies and placement and maintenance commissions from the online subscription of units of UCITS and insurance products. The fee and commission income relating to the "distribution of third-party services: portfolio management" have been allocated to point 3. third-party services and products, whereas they were previously allocated to point 1. portfolio management. For the purposes of like-for-like comparison, the fee and commission income and expense for the previous year have also been restated.

2.3 Fee and commission expense: breakdown

(Amounts in € thousand)

SERVICE/AMOUNT	12.31.2016	12.31.2015
(a) guarantees received	-	-
(b) credit derivatives	-	-
(c) management and brokerage services:	(208,909)	(219,306)
1. securities trading	(7,510)	(7,663)
2. currency trading	-	(140)
3. portfolio management:	-	-
3.1 own	-	-
3.2 delegated to third parties	-	-
4. custody and administration of securities	(4,126)	(4,305)
5. placement of financial instruments	-	-
6. cold-calling to offer securities, products and services	(197,273)	(207,198)
(d) collection and payment services	(19,022)	(17,708)
(e) other services	(304)	(316)
f) securities lending transactions	(1,724)	(1,971)
Total	(229,959)	(239,301)

Section 3 - Dividend income and similar revenue - Item 70

3.1 Dividend income and similar revenue: breakdown

(Amounts in € thousand)

ITEM/INCOME	12.31.2016		12.31.2015	
	DIVIDENDS	INCOME FROM UCITS UNITS	DIVIDENDS	INCOME FROM UCITS UNITS
A. Financial assets held for trading	14	-	5	-
B. Available-for-sale financial assets	6	-	-	-
C. Financial assets designated at fair value through profit or loss	-	-	-	-
D. Equity investments	-	X	-	X
Total	20	-	5	-

Section 4 - Gains (losses) on financial assets and liabilities held for trading - Item 80

4.1 Gains (losses) on financial assets and liabilities held for trading: breakdown

As at December 31, 2016

(Amounts in € thousand)

TRANSACTION/INCOME ITEM	UNREALISED GAINS (A)	REALISED GAINS (B)	UNREALISED LOSSES (C)	REALISED LOSSES (D)	NET PROFIT (LOSS) [(A+B)-(C+D)]
1. Financial assets held for trading	4	103,097	(22)	(93,411)	9,668
1.1 Debt securities	-	6,825	-	(6,065)	760
1.2 Equity Instruments	4	93,309	(22)	(84,683)	8,608
1.3 UCITS units	-	2,963	-	(2,663)	300
1.4 Loans	-	-	-	-	-
1.5 Other	-	-	-	-	-
2. Financial liabilities held for trading	7	129	-	(28)	108
2.1 Debt securities	-	-	-	-	-
2.2 Payables	-	-	-	-	-
2.3 Other	7	129	-	(28)	108
3. Other financial assets and liabilities: exchange differences	X	X	X	X	4,211
4. Derivatives	4,510	62,942	(3,720)	(39,076)	34,603
4.1 Financial derivatives:	4,510	62,942	(3,720)	(39,076)	34,603
- On debt securities and interest rates	96	1,364	(80)	(904)	476
- On equity securities and share indices	4,414	56,725	(3,640)	(36,091)	21,408
- On currency and gold	X	X	X	X	9,947
- Other	-	4,853	-	(2,081)	2,772
4.2 Credit derivatives	-	-	-	-	-
Total	4,521	166,168	(3,742)	(132,515)	48,590

As at December 31, 2015

(Amounts in € thousand)

TRANSACTION/INCOME ITEM	UNREALISED GAINS (A)	REALISED GAINS (B)	UNREALISED LOSSES (C)	REALISED LOSSES (D)	NET PROFIT (LOSS) [(A+B)-(C+D)]
1. Financial assets held for trading	2	112,367	(4)	(102,726)	9,639
1.1 Debt securities	1	51	-	(55)	(3)
1.2 Equity Instruments	1	112,266	(4)	(102,671)	9,592
1.3 UCITS units	-	50	-	-	50
1.4 Loans	-	-	-	-	-
1.5 Other	-	-	-	-	-
2. Financial liabilities held for trading	-	15	-	(5)	10
2.1 Debt securities	-	-	-	-	-
2.2 Payables	-	-	-	-	-
2.3 Other	-	15	-	(5)	10
3. Other financial assets and liabilities: exchange differences	X	X	X	X	9,081
4. Derivatives	1,913	52,224	(1,314)	(32,993)	34,975
4.1 Financial derivatives:	1,913	52,224	(1,314)	(32,993)	34,975
- On debt securities and interest rates	6	1,274	(11)	(848)	421
- On equity securities and share indices	1,907	48,559	(1,303)	(31,139)	18,024
- On currency and gold	X	X	X	X	15,145
- Other	-	2,391	-	(1,006)	1,385
4.2 Credit derivatives	-	-	-	-	-
Total	1,915	164,606	(1,318)	(135,724)	53,705

Part C - Income Statement (CONTINUED)

Section 5 - Fair value adjustments in hedge accounting - Item 90

5.1 Fair value adjustments in hedge accounting: breakdown

(Amounts in € thousand)

INCOME ITEM/AMOUNT	12.31.2016	12.31.2015
A. Gains on:		
A.1 Fair value hedging instruments	17,018	13,763
A.2 Hedged asset items (in fair value hedge relationship)	3,621	17,678
A.3 Hedged liability items (in fair value hedge relationship)	-	9,228
A.4 Cash-flow hedging derivatives	-	-
A.5 Assets and liabilities denominated in currency	-	-
Total gains on hedging activities (A)	20,639	40,669
B. Losses on:		
B.1 Fair value hedging instruments	(9,693)	(27,053)
B.2 Hedged asset items (in fair value hedge relationship)	(10,419)	(13,763)
B.3 Hedged liability items (in fair value hedge relationship)	(458)	-
B.4 Cash-flow hedging derivatives	-	-
B.5 Assets and liabilities denominated in currency	-	-
Total losses on hedging activities (B)	(20,570)	(40,816)
C. Fair value adjustments in hedge accounting (A-B)	69	(147)

Section 6 - Gains (Losses) on disposals/repurchases - Item 100

6.1 Gains (Losses) on disposals/repurchases: breakdown

(Amounts in € thousand)

ITEM/INCOME ITEM	12.31.2016			12.31.2015		
	PROFIT	LOSS	NET PROFIT (LOSS)	PROFIT	LOSS	NET PROFIT (LOSS)
Financial assets						
1. Loans and receivables with banks	-	-	-	-	-	-
2. Loans and receivables with customers	-	-	-	-	-	-
3. Available-for-sale financial assets	20.382	-	20.382	304	-	304
3.1 Debt securities	5.038	-	5.038	304	-	304
3.2 Equity Instruments	15.344	-	15.344	-	-	-
3.3 UCITS units	-	-	-	-	-	-
3.4 Loans	-	-	-	-	-	-
4. Held-to-maturity investments	-	-	-	-	-	-
Total assets	20.382	-	20.382	304	-	304
Financial liabilities						
1. Deposits from banks	-	-	-	-	-	-
2. Deposits from customers	-	-	-	-	-	-
3. Debt securities in issue	-	-	-	-	-	-
Total liabilities	-	-	-	-	-	-

The gains on disposal of debt securities, amounting to €5,038 thousand, relate to the sale of government securities, carried out as part of the mitigation of the exposure to interest-rate risk and the optimising of profitability. The gains on disposal of equities, amounting to €15,344 thousand, relate to the sale of the investment in Visa Europe Limited. See the Report on operations for more details.

Section 7 - Gains (losses) on financial assets and liabilities measured at fair value - Item 110

7.1 Gain (losses) on financial assets and liabilities measured at fair value through profit and loss: breakdown

No data to report.

Section 8 - Impairment losses - Item 130

8.1 Impairment losses on loans and receivables: breakdown

(Amounts in € thousand)

TRANSACTION/INCOME ITEM	IMPAIRMENTS (1)			WRITE-BACKS (2)				YEAR 2016	YEAR 2015
	SPECIFIC		PORTFOLIO	SPECIFIC		PORTFOLIO			
	WRITE-OFFS	OTHER		A	B	A	B		
A. Loans and receivables with banks	-	-	-	-	-	-	-	-	-
- Loans	-	-	-	-	-	-	-	-	-
- Debt securities	-	-	-	-	-	-	-	-	-
B. Loans and receivables with customers	(646)	(4,084)	(1,110)	306	1,221	-	107	(4,206)	(6,713)
Impaired related to purchase agreements	-	-		-	-	-		-	-
- Loans	-	-	X	-	-	-	X	-	-
- Debt securities	-	-	X	-	-	-	X	-	-
Other loans	(646)	(4,084)	(1,110)	306	1,221	-	107	(4,206)	(6,713)
- Loans	(646)	(4,084)	(1,110)	306	1,221	-	107	(4,206)	(6,713)
- Debt securities	-	-	-	-	-	-	-	-	-
C. Total	(646)	(4,084)	(1,110)	306	1,221	-	107	(4,206)	(6,713)

Key

A = From interest

B = Other write-backs

8.2 Impairment losses on available-for-sale financial assets: breakdown

(Amounts in € thousand)

TRANSACTION/INCOME ITEM	IMPAIRMENTS (1)		WRITE-BACKS (2)		YEAR 2016	YEAR 2015
	SPECIFIC		SPECIFIC			
	WRITE-OFFS	OTHER	A	B		
A. Titoli di debito	-	-	-	-	-	-
B. Titoli di capitale	-	(6,724)	-	-	(6,724)	-
C. Quote OICR	-	-	-	-	-	-
D. Finanziamenti a banche	-	-	-	-	-	-
E. Finanziamenti a clientela	-	-	-	-	-	-
F. Totale	-	(6,724)	-	-	(6,724)	-

Key

A = From interest

B = Other write-backs

The specific impairments consisted exclusively of the full impairment write-down recorded on the exposure in equity instruments recognised in the "Available-for-sale financial assets" portfolio as result of the contribution paid to the Interbank Deposit Guarantee Fund - Voluntary Scheme for the subscription of the capital increase of Cassa di Risparmio di Cesena, described above.

8.3 Impairment losses on held-to-maturity investments: breakdown

No data to report.

8.4 Net value adjustments for the impairment of other financial assets: breakdown

(Amounts in € thousand)

TRANSACTION/INCOME ITEM	IMPAIRMENTS (1)			WRITE-BACKS (2)				YEAR 2016	YEAR 2015
	SPECIFIC		PORTFOLIO	SPECIFIC		PORTFOLIO			
	WRITE-OFFS	OTHER		A	B	A	B		
A. Guarantees given	-	-	-	-	-	-	1,416	1,416	-
B. Credit derivatives	-	-	-	-	-	-	-	-	-
C. Commitments to disburse funds	-	-	-	-	-	-	-	-	-
D. Other transactions	-	-	-	-	8	-	-	8	7
E. Total	-	-	-	-	8	-	1,416	1,424	7

Key

A = From interest

B = Other write-backs

The writeback on guarantees given, amounting to €1,416 thousand, was recognised as a result of the elimination of the remaining commitment towards the Interbank Deposit Guarantee Fund for the measure in favour of Banca Tercas.

Part C - Income Statement (CONTINUED)

Section 9 - Administrative costs - Item 150

9.1 Staff expenses: breakdown

(Amounts in € thousand)

TYPE OF EXPENSE/AMOUNT	12.31.2016	12.31.2015
1) Employees	(78,114)	(75,323)
a) wages and salaries	(49,621)	(48,664)
b) social security contributions	(13,061)	(13,184)
c) provision for employee severance pay	(918)	(978)
d) pension costs	-	-
e) allocation to employee severance pay provision	(106)	(99)
f) provision for retirements and similar provisions:		
- defined contribution	-	-
- defined benefit	-	-
g) payments to external pension funds:		
- defined contribution	(2,861)	(2,686)
- defined benefit	-	-
h) costs related to share-based payments	(3,471)	(4,785)
i) other employee benefits	(8,076)	(4,927)
2) Other staff	-	(152)
3) Directors and statutory auditors	(1,136)	(991)
4) Early retirement costs	-	-
5) Recovery of expenses for employees seconded to other companies	267	235
6) Recovery of expenses for employees seconded to the company	(218)	(64)
Total	(79,201)	(76,295)

Item 1 h) Employees: costs related to share-based payments, includes costs incurred by the Bank in relation to payment agreements based on financial instruments issued by the Bank and on financial instruments issued by UniCredit to employees.

9.2 Average number of employees by category

	12.31.2016	TOTALE 12.31.2015
Employees	1,066	1,005
(a) executives	26	27
(b) managers	317	295
(c) remaining employees	723	683
Other personnel	13	12

9.3 Pensions and other post-retirement defined-benefit obligations: costs and revenues

No data to report.

9.4 Other employee benefits

(Amounts in € thousand)

TYPE OF EXPENSE/AMOUNT	12.31.2016	12.31.2015
Leaving incentives	(5,517)	(1,251)
Medical plan	(939)	(932)
Luncheon vouchers	(926)	(892)
Seniority premiums	1,116	-
Other	(1,810)	(1,852)
Total	(8,076)	(4,927)

9.5 Other administrative expenses: breakdown

(Amounts in € thousand)

	12.31.2016	12.31.2015
1) INDIRECT TAXES AND DUTIES	(90,568)	(90,797)
2) MISCELLANEOUS COSTS AND EXPENSES		
A) Advertising expenses - Marketing and communication	(16,840)	(19,584)
Mass media communications	(12,340)	(14,035)
Marketing and promotions	(4,251)	(5,317)
Sponsorships	(182)	(205)
Conventions and internal communications	(67)	(27)
B) Expenses related to credit risk	(1,403)	(1,597)
Credit recovery expenses	(520)	(753)
Commercial information and company searches	(883)	(844)
C) Expenses related to personnel	(28,851)	(32,745)
Personnel training	(320)	(437)
Car rental and other staff expenses	(75)	(40)
Personal financial advisor expenses	(27,822)	(31,696)
Travel expenses	(564)	(508)
Premises rentals for personnel	(70)	(64)
D) ICT expenses	(31,501)	(29,749)
Lease of ICT equipment and software	(3,017)	(3,318)
Software expenses: lease and maintenance	(6,847)	(6,712)
ICT communication systems	(5,078)	(3,935)
ICT services: external personnel	(7,416)	(7,090)
Financial information providers	(9,143)	(8,694)
E) Consultancies and professional services	(2,641)	(3,258)
Consultancy on ordinary activities	(1,578)	(896)
Consultancy for strategy, business development and organizational optimization	(216)	(698)
Legal expenses	(25)	(5)
Legal disputes	(822)	(1,659)
F) Real estate expenses	(19,793)	(20,104)
Real estate services	(801)	(800)
Repair and maintenance of furniture, machinery, and equipment	(459)	(200)
Maintenance of premises	(1,491)	(1,741)
Premises rentals	(14,289)	(14,322)
Cleaning of premises	(495)	(546)
Utilities	(2,258)	(2,495)
G) Other functioning costs	(32,796)	(31,672)
Security and surveillance services	(412)	(410)
Money counting services and transport	-	(1)
Postage and transport of documents	(3,428)	(2,946)
Administrative and logistic services	(16,160)	(15,732)
Insurance	(3,630)	(3,629)
Printing and stationery	(794)	(621)
Association dues and fees	(8,080)	(7,889)
Other administrative expenses	(292)	(444)
H) Ex-ante contribution to the Single Resolution Fund and Interbank Deposit Guarantee Fund	(10,614)	(4,691)
Total	(235,007)	(234,197)

The European directives 49 of 59 of 2014 introduced the Deposit Guarantee Schemes (DGS) and Single Resolution Fund (SRF) effective from 2015. The costs recorded in 2016 for contributions paid during the year, shown under the item "Other administrative expenses" (point H) of table 9.5, amounted to a total of €10,614 thousand, consisting of €8,222 thousand for the ordinary and additional contribution to the Deposit Guarantee Scheme (reduced due to the allocations from the Banca Network liquidation procedure) and €2,392 thousand for the contribution to the Solidarity Fund established by the 2016 Stability Law. No cost was recorded for the Single Resolution Fund (no contribution due).

Part C - Income Statement (CONTINUED)

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

10.1 Net provisions for risks and charges: breakdown

(Amounts in € thousand)

	12.31.2016			12.31.2015		
	PROVISIONS	REALLOCATIONS	TOTAL	PROVISIONS	REALLOCATIONS	TOTAL
Legal disputes	(7,140)	7,212	72	(13,504)	8,065	(5,439)
Supplementary customer indemnity provision	(4,964)	-	(4,964)	(4,356)	-	(4,356)
Other provisions for risks and charges	(588)	4,696	4,108	(2,634)	1,406	(1,228)
Total	(12,692)	11,908	(784)	(20,494)	9,471	(11,023)

Section 11 - Impairment/write-backs on property, plant and equipment - Item 170

11.1 Impairment/write-backs on property, plant and equipment: breakdown

(Amounts in € thousand)

ASSET/INCOME ITEM	DEPRECIATION (A)	WRITE-DOWNS FOR IMPAIRMENT (B)	WRITE-BACKS (C)	NET PROFIT (LOSS) YEAR 2016 (A+B-C)	NET PROFIT (LOSS) 12.31.2015
A. Property, plant and equipment					
A.1 Owned	(4,825)	(28)	-	(4,853)	(3,962)
- Used in the business	(4,713)	(28)	-	(4,741)	(3,850)
- Held for investment	(112)	-	-	(112)	(112)
A.2 Held under finance lease	-	-	-	-	-
- Used in the business	-	-	-	-	-
- Held for investment	-	-	-	-	-
Total	(4,825)	(28)	-	(4,853)	(3,962)

Impairment losses were recognised in the year for insignificant amounts and mainly in relation to office furniture and fittings for which a zero value in use was determined.

A description of the methods used to calculate depreciation is provided in Part A - Accounting Policies of the notes to the accounts.

Section 12 - Impairment/write-backs on intangible assets - Item 180

12.1 Impairment on intangible assets: breakdown

(Amounts in € thousand)

ASSET/INCOME ITEM	AMORTISATION (A)	WRITE-DOWNS FOR IMPAIRMENT (B)	WRITE-BACKS (C)	NET PROFIT (LOSS) YEAR 2016 (A+B-C)	NET PROFIT (LOSS) 12.31.2015
A. Intangible assets					
A.1 Owned	(5,099)	-	-	(5,099)	(4,989)
- Generated internally by the company	-	-	-	-	-
- Other	(5,099)	-	-	(5,099)	(4,989)
A.2 Held under finance lease					
Total	(5,099)	-	-	(5,099)	(4,989)

Impairments on intangible assets relate to software, amortised over three years and the costs incurred to create the Fineco website, amortised over 5 years.

For the disclosures required by IAS 36 paragraph 134, d), e), f) and 135, c), d), e), see Part B paragraph 12.3 Other information.

Section 13 - Other net operating income - Item 190

13.1 Other operating expenses: breakdown

(Amounts in € thousand)

TYPE/AMOUNT	12.31.2016	12.31.2015
Refunds and allowances	(199)	(146)
Penalties, fines and unfavourable rulings	(2,798)	(5,039)
Improvements and incremental expenses incurred on leasehold properties	(3,706)	(3,387)
Improvements and incremental expenses incurred on group properties	(19)	(3)
Exceptional write-downs of assets	(571)	(906)
Other operating expense	(7,321)	(1,266)
Total	(14,614)	(10,747)

Exceptional write-downs of assets include costs incurred for credit card fraud of €518 thousand (€796 thousand as at December 31, 2015).

"Other operating expense" included the cost incurred for the measure in favour of Banca Tercas, amounting to €5,950 thousand. As noted in Part A - Accounting Policies of these Notes to the Accounts, to which the reader is referred for more details, during the first half 2016 Banca Tercas repaid the grant that it had originally received from the IDGF. These amounts were then credited to the banks participating in the IDGF as a repayment of the contribution made for the measure implemented in 2014 and recognised under Other operating income and were then immediately debited from the banks participating in the Voluntary Scheme and recognised under Other operating expense.

13.2 Other operating income: breakdown

(Amounts in € thousand)

TYPE/AMOUNT	12.31.2016	12.31.2015
Recovery of expenses:	85,395	84,347
- recovery of ancillary expenses - other	442	369
- recovery of taxes	84,953	83,978
Rental income from real estate investments	232	232
Other income for the current year	8,445	4,152
Total	94,072	88,731

Other income for the current period included the repayment of the contribution made for the measure in favour of Banca Tercas implemented by the IDGF in 2014, amounting to €5,925 thousand, described above.

Section 14 - Profit (loss) of associates - Item 210

14.1 Profit (Loss) of associates: breakdown

No data to report.

Section 15 - Gains (losses) on tangible and intangible assets measured at fair value - Item 220

15.1 Net gains (losses) on property, plant and equipment and intangible assets measured at fair value: breakdown

No data to report.

Section 16 - Impairment of goodwill - Item 230

16.1 Impairment of goodwill: breakdown

No data to report.

Part C - Income Statement (CONTINUED)

Section 17 - Gains (losses) on disposal of investments - Item 240

17.1 Gains (losses) on disposal of investments: breakdown

(Amounts in € thousand)

INCOME ITEM/AMOUNT	12.31.2016	12.31.2015
A. Properties		
- Gains on disposal	-	-
- Losses on disposal	-	-
B. Other assets		
- Gains on disposal	-	-
- Losses on disposal	-	(1)
Net profit (loss)	-	(1)

Section 18 - Tax expense (income) related to profit or loss from continuing operations— Item 260

18.1 Tax expense (income) related to profit or loss from continuing operations: breakdown

(Amounts in € thousand)

INCOME ITEM/AMOUNT	12.31.2016	12.31.2015
1. Current tax (-)	(95,525)	(95,708)
2. Adjustment to current tax of prior years (+/-)	6,518	-
3. Reduction of current tax for the year (+)	-	-
3.bis Reduction of current tax for the year due to tax receivables pursuant to Law 214/2011 (+)	-	-
4. Changes in deferred tax assets (+/-)	(5,086)	(297)
5. Changes in deferred tax liabilities (+/-)	(400)	(1,017)
6. Tax expense for the period (-) (-1+/-2+3+/-4+/-5)	(94,493)	(97,022)

18.2 Reconciliation of theoretical tax charge to actual tax charge

(Amounts in € thousand)

	TOTAL 2016		TOTAL 2015	
Profit before tax		306,337		288,075

	IRES INCOME TAX	IRAP TAX	TOTAL 2016	TOTAL 2015
Amount corresponding to theoretical tax rate	(84,243)	(17,063)	(101,306)	(95,267)
+ Tax effects of charges not relevant to the calculation of taxable income	7,354	(1,127)	6,227	5
- Tax effects of income not relevant to the calculation of taxable income	-	-	-	-
- Tax effects deriving from the use of tax losses from previous years	-	-	-	-
- Tax effects deriving from the application of substitute taxes	(446)	-	(446)	(446)
Amount corresponding to actual tax rate	(77,335)	(18,190)	(95,525)	(95,708)

Section 19 - Profit (Loss) after tax from discontinued operations - Item 280

19.1 Profit (Loss) after tax from discontinued operations: breakdown

No data to report.

19.2 Breakdown of income tax on discontinued operations

No data to report.

Section 20 - Other information

1.1 Designation of Parent Company

UniCredit S.p.A.

Rome Register of Companies

Registered in the Register of Banking Groups and Parent Company of the UniCredit Banking Group with code 2008.1

1.2 Registered Office of Parent Company

Registered Office: Rome, Via A. Specchi, 16 -

Head Office: Milan, Piazza Gae Aulenti

1.3 Key figures for the Parent Company (income statement, balance sheet, structure)

The Bank is subject to management and coordination of UniCredit S.p.A.; therefore, in accordance with Article 2497 bis, paragraph 4 of the Italian Civil Code the key figures of the last approved financial statements of the parent company are provided below:

UniCredit S.p.A. - Reclassified balance sheet as at December 31, 2015

(Amounts in € million)

ASSETS	12.31.2015
Cash and cash balances	2,460
Financial assets held for trading	13,721
Loans and receivables with banks	22,062
Loans and receivables with customers	215,175
Financial investments	112,362
Hedging instruments	8,714
Property, plant and equipment	2,405
Goodwill	-
Other intangible assets	6
Tax assets	12,554
Non-current assets and disposal groups classified as held for sale	238
Other assets	4,675
Total assets	394,372

(Amounts in € million)

LIABILITIES AND SHAREHOLDERS' EQUITY	12.31.2015
Deposits from banks	37,466
Deposits from customers and debt securities in issue	278,885
Financial liabilities held for trading	10,672
Financial liabilities at fair value through profit and loss	-
Hedging instruments	9,669
Provisions for risks and charges	2,601
Tax liabilities	152
Liabilities included in disposal groups classified as held for sale	-
Other liabilities	8,402
Shareholders' Equity	46,525
- capital and reserves	47,151
- revaluation reserves for available-for-sale financial assets - cash flow hedges - from defined benefit plans	815
- net profit (loss)	(1,441)
Total liabilities and shareholders' equity	394,372

Part C - Income Statement (CONTINUED)

UniCredit S.p.A. – Condensed Income Statement 2015

(Amounts in € million)

	12.31.2015
Net interest	4,035
Dividends and other income from equity investments	1,476
Net fee and commission income	3,868
Net trading, hedging and fair value income	446
Net other expenses/income	(86)
OPERATING INCOME	9,739
Staff expenses	(3,273)
Other administrative expenses	(2,817)
Recovery of expenses	598
Impairment/write-backs on intangible and tangible assets	(128)
Operating costs	(5,620)
OPERATING PROFIT (LOSS)	4,119
Net write-downs of loans and provisions for guarantees and commitments	(2,667)
NET OPERATING PROFIT (LOSS)	1,452
Net provisions for risks and charges	(622)
Integration costs	(537)
Net income from investments	(2,008)
NET PROFIT (LOSS) BEFORE TAX FROM CONTINUING OPERATIONS	(1,715)
Income tax for the year	274
Goodwill impairment	-
NET PROFIT	(1,441)

1.4 Disclosure of auditing fees pursuant to art. 149-duodecies of Issuer's Regulations

The table below provides details of the fees (net of VAT and expenses) paid to the independent auditing firm Deloitte & Touche S.p.A. and entities within the network that the external auditors belongs to.

(Amounts in €)

TYPE OF SERVICE	SERVICE PROVIDER	Fees
Audit	Deloitte & Touche S.p.A.	154,285
Certification services	Deloitte & Touche S.p.A.	40,000
		194,285

Section 21 - Earnings per share

21.1 Average number of diluted ordinary shares

Basic earnings per share are calculated by dividing the net profit by the average number of ordinary shares outstanding during the year.

	12.31.2016	12.31.2015
Net profit for the period (€ thousands)	211.844	191.053
Average number of outstanding shares	605.659.378	606.101.380
Average number of outstanding shares (including potential ordinary shares with dilution effect)	608.860.642	609.836.318
Basic Earnings Per Share	0,35	0,32
Diluted Earnings Per Share	0,35	0,31

21.2 Other information

No data to report.

Part D - Comprehensive Income

Statement of comprehensive income

ITEMS	GROSS AMOUNT	INCOME TAX	NET AMOUNT
10. Net Profit (Loss) for the year	X	X	211,844
Other comprehensive income without reclassification through profit or loss			
20. Property, plant and equipment	-	-	-
30. Intangible assets	-	-	-
40. Defined benefit plans	(1,546)	484	(1,062)
50. Non-current assets classified as held for sale	-	-	-
60. Revaluation reserve from investments accounted for using the equity method	-	-	-
Other comprehensive income with reclassification through profit or loss			
70. Hedges of foreign investments:			
a) fair value changes	-	-	-
b) reclassification through profit or loss	-	-	-
c) other changes	-	-	-
80. Exchange differences:			
a) fair value changes	-	-	-
b) reclassification through profit or loss	-	-	-
c) other changes	-	-	-
90. Cash flow hedges:			
a) fair value changes	-	-	-
b) reclassification through profit or loss	-	-	-
c) other changes	-	-	-
100. Available-for-sale financial assets:			
a) fair value changes	(3,687)	1,290	(2,397)
b) reclassification through profit or loss			
- due to impairment	-	-	-
- gains/losses on disposals	(18,376)	3,338	(15,038)
c) other changes	113	(37)	76
110. Non-current assets classified as held for sale:			
a) fair value changes	-	-	-
b) reclassification through profit or loss	-	-	-
c) other changes	-	-	-
120. Revaluation reserve from investments accounted for using the equity method:			
a) fair value changes	-	-	-
b) reclassification through profit or loss			
- due to impairment	-	-	-
- gains/losses on disposals	-	-	-
c) other changes	-	-	-
130. Total other comprehensive income	(23,496)	5,075	(18,421)
140. Comprehensive income (item 10+130)			193,423

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Part E - Information on risks and hedging policies

Introduction

In order to ensure lean and efficient management of risks, the risk management process is structured in accordance with the organisational choices made by the Group and the provisions of the Supervisory Instructions for Banks pertaining to the internal control system.

Risk management and control is performed by the Risk Management function of the Bank in collaboration with the same function of the Parent Company, which performs its role of guidance, coordination and control of risks at Group level. The organisational model considers a specific point of reference for Italy through the Chief Risk Officer function (CRO) of the Parent Company, to which has been assigned the responsibilities related to credit risks, operational risks and reputational risks of the Italian perimeter, as well as the managerial coordination of Risk Management functions in the Italian Legal Entities - among which FinecoBank - have been assigned.

The Bank is responsible for first and second-level monitoring, especially for verifying that the risk level of individual companies is compatible with the guidelines set by the Parent Company, individual company equity, and prudential supervisory rules.

Organisational structure

The Board of Directors of FinecoBank is tasked with setting the strategic policies and the guidelines for the organisational and operational structures, overseeing and monitoring their timely execution within the risk profiles of assigned. The Board of Directors is responsible for promoting a company culture that empowers controls, in compliance with the indications and principles contained in the Supervisory Instructions, setting and approving strategies for identifying and evaluating risk, and approving the strategic guidelines and risk management policies. The Board of Directors also verifies that the internal control structure is consistent with the risk tolerance established and approves policies for the management of risks.

The Chief Executive Officer and General Manager has been assigned specific powers by the Board of Directors in all the Bank's areas of activity. These powers are to be exercised in accordance with the applicable regulations and within the limits of the Parent Company directives and the policies, instructions, limits, risk assumption procedures and using the operational methods governed by the applicable information notices. The Chief Executive Officer and General Manager puts in place the necessary measures to ensure the establishment and maintenance of an efficient and effective internal control system.

The CRO Department, in line with the instructions and the guidelines of the Parent Company, is responsible for credit operations and risk management. The disclosure, at various levels, is provided by the Strategic Bodies and Officers (Chief Executive Officer and General Manager, Board of Directors, Audit and Related Parties Committee and Risk Committee). In relation to the Basel II Pillar 2 instructions, reputational and business risk and, in collaboration with the CFO, liquidity risk are also monitored and reported.

The CRO and the CFO are responsible for proposing and adapting the Group Risk Appetite Framework to FinecoBank and setting risk management strategies and policies, in line with the Bank's strategies and objectives, coordinating and monitoring their implementation by the units responsible, also in the various company areas.

The CRO Department ensures the control of the Bank's overall risk profile by monitoring the various types of risk exposure, in accordance with the methods established by the Parent Company.

The Risk Management Unit prevents and monitors different components of Bank risks. The function specifically controls credit, market and operational risks to which the Bank is exposed. The Risk Management function also monitors business, reputational and liquidity risk. The Risk Management Unit supports the CRO, in the area of responsibility of the Department, in monitoring and reporting to the Strategic Bodies and Officers.

Given the complexity of the Bank's activities and the significant risks involved, the Board of Directors of the Bank decided to establish an Audit and Related Parties Committee to carry out internal control tasks; the committee is made up of non-executive members of the same Board and its task is to carry out adequate investigations to support the Board of Directors in its assessments and decisions on the internal control system and risk management.

The corporate governance structure for operational risk involves the establishment of the Risks Committee, which defines the strategies for the mitigation and assessment of all types of risk, within the directives issued by the Parent Company, and approves and validates the internal procedures and operating manuals for operational risk.

Lastly, the participation by the Chief Risk Officer and Head of Risk Management in the Products Committee ensures oversight of the operational risk associated with the Bank's new business activities, as well as creating and disseminating a risk culture in the various functional areas.

Section 1 – Credit Risk

QUALITATIVE INFORMATION

1. General Matters

The Bank's objective is to provide an adequate range of products able to satisfy and encourage loyalty among customers, through a competitive and complete offer. The development of the products and of the product line must also seek to maintain portfolio quality and, in any event, adequate processes to monitor profitability.

The factors that generate credit risk are determined by acceptance and creditworthiness policies, which are always adequately correlated to the risk/return ratio and in line with the Risk Appetite defined by the Board of Directors.

The quality of the loan portfolio, which is constantly monitored and supported by risk mitigation instruments, is protected by scoring models that contribute to evaluation during the approval process, ensuring that it is consistent and controlled. In addition to adequate coverage of the risk levels, monitoring of the portfolio and its segmentation by product and seniority allow a better understanding of the best loan issue strategies. The identification of any high-risk areas permits intervention on the automated measurement systems as well as on disbursement standards, with the possibility to take measures to limit credit risk in advance.

In 2016, lending activity continued to focus on granting credit lines, mostly backed by assets, issuing credit cards with full payment of the balance at term to current account holders, and granting personal loans. In 2016, the Bank continued to diversify its business by expanding the offering of credit products and in particular by launching the mortgage loan business. The provision of mortgages is currently reserved to the purchase of first and second homes (including subrogation) and does not include any types of riskier mortgages (high loan to value, interest only, financing mortgages, etc.).

During the year, loans to ordinary customers grew due to an increased number of credit lines granted for the product "Fido con Mandato a Vendere su Amministrato e Sicav" (Credit line backed by assets under management and SICAVs, with mandate for selling): with this product, customers can obtain a credit line in proportion to the amount of securities they hold. The offering is designed to meet the liquidity needs of affluent customers to avoid divestitures. The stock of loans also rose as a result of the increase in the granting of personal loans.

Choices concerning the investment of the Bank's liquidity are governed by a prudential approach aimed at containing credit risk and mainly involve deposits with UniCredit S.p.A. and the subscription of bonds issued by the latter. In order to optimise its portfolio, by diversifying counterparty risk, in 2016 the Bank also increased its exposure to Spanish government securities by €500 million and to Italian government securities by €769.5 million and purchased \$80 million of US government securities.

The Bank also issued and approved the policy "Issuer risk in bonds - Contingency Plan" aimed at defining principles and rules to efficiently and comprehensively evaluate, control and limit the issuer's risk associated with bonds in the banking book. In accordance with the policy, the Risk Management function monitors a series of indicators to analyse the exposure of the Bank's portfolio to issuer risk; through this analysis it is possible to identify the emergence of abnormal situations and assess the need for corrective actions to avoid deterioration of the portfolio position.

2. Credit Risk Management Policy

2.1 Organisational aspects

The credit process can be broken down into the following stages:

- assessment of creditworthiness;
- granting/disbursement of credit;
- credit monitoring;
- management of impaired loans;
- risk measurement and control.

The assessment of creditworthiness entails ascertaining the ability of the borrower to repay. It is performed by specific centralised and specialist operating units in the various product lines disbursed to customers (personal loans, credit cards, credit lines, and mortgages). On receipt of the request, the offices in question assess the reliability of documentation, evaluate the equity and income situation, and gather information, also by consulting public records, private banks and system data such as the information contained in the Bank of Italy's risk centre and in the Group archives.

In addition to an assessment of creditworthiness by the dedicated functions, credit approval also requires that they assess the compatibility of the request with the customer's overall situation, considering the amount requested and agreeing on a different amount with the customer, where necessary, evaluate and finalise guarantees, if any, linking them to credit facilities and filing them according to specific processes. Lastly, the decision-making parties approve or reject the application on the basis of their powers or send the application to a higher decision-making body.

Credit monitoring is carried out on credit lines to check that the economic situation of the customer and the guarantor that resulted in the approval has not changed. This check may entail collecting updated system data and information, as well as information from private banks. Checks are carried out

Part E - Information on risks and hedging policies (CONTINUED)

according to established processes at set intervals, and may vary according to the amount of the credit line granted.

In line with the general principles laid down by the Supervisory Authority, receivables are classified on the basis of the level of impairment, which may be established on the basis of qualitative or quantitative criteria.

The management of impaired loans entails taking all action necessary to restore them to normality or to recover the credits in situations where the relationship cannot be continued. All of these measures are established by specific processes based on the type and amount of the past-due loan and the past-due period as well as taking into account any financial assets of the customer, which may be offered as collateral. Credit collection is performed through payment reminders directly carried out by the Bank as well as through reminders and debt recovery carried out by specialised, authorised external companies.

Lastly, management also entails forecasting losses on an individual basis, which is continuously updated based on the progress of recovery actions for the amounts due or based on information collected during the recovery actions.

The measurement and control of credit risk takes place at the assessment stage with the support of scoring tools that analyse the customers' socio-demographic profiles, making an assessment of individual counterparties on a statistical basis and supplementing the assessment, on one hand, with the support of credit bureaus for better knowledge of public and private data and on the other hand, with information contained in the Bank of Italy's risk centre.

Credit risk control is also performed through the systematic assessment of the performance of loan portfolios in order to estimate expected losses and intervene on disbursement policies where necessary.

2.1.1 Factors that generate Credit Risk

In the course of its credit business activities the Bank is exposed to the risk that its loans may, due to the deterioration of the debtor's financial condition, not be repaid at maturity, and thus result in a partial or full write-down. This risk is always inherent in traditional lending operations regardless of the form of the credit facility. The main reasons for default lie in the borrower's lack of autonomous ability to ensure the repayment of the debt.

In addition to the risk associated with the granting and disbursement of credit, the Bank is also exposed to counterparty risk for all clearing and pre-clearing operations with the institutional and banking counterparties necessary to conduct the Bank's business. Counterparty risk is defined as the risk that a counterparty to one of the transactions is in default prior to the final settlement of the cash flows involved in the transaction. The counterparties in these transactions could default as a result of insolvency, political and economic events, lack of liquidity, operating problems or other reasons.

Other transactions involving counterparty risk are:

- entering into derivative contracts;
- purchasing and selling securities, futures, or currencies;
- holding third-party securities.

In addition, "Non-Traditional Credit Risk" is generated by leverage/short transactions conducted through securities lending. Leverage/short transactions conducted through securities lending, also when there are automatic stop losses performed within the margins, can generate credit risk if the security lacks liquidity (for example, in the case of dramatic events that affect the normal functioning of markets) and/or the margin is insufficient. To anticipate such events, scenario analyses are conducted periodically to assess the impacts and implement appropriate mitigation policies.

The Bank monitors and manages the specific risk of each counterparty and the overall risk of loan portfolios through procedures, structures and rules that steer, govern and standardise the assessment and management of credit risk, in line with the Group principles and best practice, and which are capable of extending their effectiveness to all phases of the economic cycle.

The Bank reports all information to the Parent Company that can help it in its assessment of each FIBS counterparty ("Financial Institutions, Banks and Sovereigns") that the Bank intends to have dealings with and with respect to whom a risk limit (ceiling) is to be set within which the Group intends to operate.

The assessment is conducted within the risk limits assigned to the counterparty's Economic Group, i.e. considering the Group's exposure towards all the parties legally and economically linked to the counterparty. At the end of the assessment, the Parent Company assigns the Bank a risk limit that has to be monitored.

2.2 Management, measurement and control system

The measurement of credit risk during the issue process is supported by automated assessment systems (so-called credit scoring systems). These systems also incorporate all available information and facts: public and private data provided by Credit rating bureaus, Risk Center data flows or information requests submitted to the Bank of Italy, Group archives with data relating to positions shared with other Group banks and other performance information on customers, stored by the Bank. During the loan application process, attention is always focused on the possibility of optimising all information concerning customers that has been provided by the Bank, the Group and the System.

The collection of any guarantees, their assessment and the margins between the fair value of the guarantee and the amount of the loan granted are a simple kind of support to credit risk mitigation, but there is no relevant positive correlation between the value of the financial guarantee and the applicant's creditworthiness.

The collective write-downs of the "performing" loan portfolio are determined using migration rates, through transition matrices, both from performing loans to non-performing loans and for each classification status (past-due, unlikely to pay, non-performing) by combining the default rates with the expected recovery rates individually calculated for non-performing loans and taking account of any supporting guarantees.

The global assessment of portfolio risks, in order to identify the sustainability of the asset and the remuneration margins, is made both with the assistance of a tool shared with the Parent Company (Credit Tableau de Bord), which contains all the main risk indicators and the largest receivables of those listed, and with the support of specific product reports which identify the trend of default rates, broken down by disbursement period and default level.

The monitoring of credit risk as part of the management of the trading book is conducted by breaking it down into rating class and issuer sector, which determine the implicit risk of contracts.

2.3 Credit risk mitigation techniques

In order to mitigate risk when granting the different types of credit facilities, various types of collateral are obtained. Mortgages on property loans, liens on shares, bonds or investment funds, insurance contracts and government bonds are used to guarantee current account overdraft facilities.

The presence of collateral does not, however, relieve the Bank from the requirement to carry out an overall assessment of the credit risk, primarily centred around the customer's income capacity regardless of the additional guarantee provided. The valuation of the lien collateral is based on its actual value, i.e. the market value for the financial instruments listed in a regulated market. The resulting value is subject to percentage haircuts, differentiated based on the financial instruments used as security and the concentration of the instrument in the customer's portfolio provided as security.

For real estate collateral, the principles and rules are described in the policy on the granting of residential mortgages with property collateral to current account holders of FinecoBank S.p.A. The valuation of the assets is performed by external technical experts included in the Register of Engineers, Architects and Surveyors or industrial experts who are not therefore susceptible to conflict of interest.

2.4 Impaired loans

Loans are classified as past due, unlikely to pay or non-performing in accordance with the criteria set forth by the Bank of Italy and the thresholds established by the Parent Company. The classification as non-performing, linked to the customer's insolvency, is always individual and defined on the basis of the progress of debt recovery actions. The loss estimate for classified positions is also individual.

The classification criterion used for overdrawn accounts is related to the performance of debt recovery activity or the forced sale of securities to cover debts.

The reclassification of loans to a category of lower risk exposure is only authorised if the amount past due has been paid in full in observance of the original payment schedule, or if considerable payments have been made leading the Bank to believe the debt exposure is very likely to be repaid.

The procedure for the management of irregularly performing loans involves actions that may be taken to recover debts by ranking them by seniority of expiration.

QUANTITATIVE INFORMATION

A. Credit quality

A.1 Impaired and unimpaired loans: amounts, write-downs, changes, distribution by business activity/region

A.1.1 Breakdown of credit exposures by portfolio and credit quality (book value)

(Amounts in € thousand)

PORTFOLIO/QUALITY	NON-PERFORMING LOANS	UNLIKELY TO PAY	PAST-DUE IMPAIRED LOANS	PAST-DUE UNIMPAIRED LOANS	OTHER UNIMPAIRED EXPOSURES	TOTAL
1. Available-for-sale financial assets	-	-	-	-	1,316,221	1,316,221
2. Held-to-maturity investments	-	-	-	-	2,437,777	2,437,777
3. Loans and receivables with banks	-	-	-	-	15,735,540	15,735,540
4. Loans and receivables with customers	2,662	399	598	9,732	1,003,408	1,016,799
5. Financial assets designated at fair value through profit or loss	-	-	-	-	-	-
6. Financial instruments classified as held for sale	-	-	-	-	-	-
Total December 31, 2016	2,662	399	598	9,732	20,492,946	20,506,337
Total December 31, 2015	3,500	794	583	25,575	17,776,720	17,807,172

As at December 31, 2016 there were no impaired purchased loans.

Part E - Information on risks and hedging policies (CONTINUED)

A.1.2 Breakdown of credit exposures by portfolio and credit quality (gross and net values)

(Amounts in € thousand)

PORTFOLIO/QUALITY	IMPAIRED ASSETS			UNIMPAIRED ASSETS			TOTAL (NET EXPOSURE)
	GROSS EXPOSURE	SPECIFY IMPAIRMENT	NET EXPOSURE	GROSS EXPOSURE	PORTFOLIO IMPAIRMENT	NET EXPOSURE	
1. Available-for-sale financial assets	-	-	-	1,316,221	-	1,316,221	1,316,221
2. Held-to-maturity investments	-	-	-	2,437,777	-	2,437,777	2,437,777
3. Loans and receivables with banks	-	-	-	15,735,540	-	15,735,540	15,735,540
4. Loans and receivables with customers	22,370	(18,711)	3,659	1,022,637	(9,497)	1,013,140	1,016,799
5. Financial assets designated at fair value through profit or loss	-	-	-	X	X	-	-
6. Financial instruments classified as held for sale	-	-	-	-	-	-	-
Total December 31, 2016	22,370	(18,711)	3,659	20,512,175	(9,497)	20,502,678	20,506,337
Total December 31, 2015	25,195	(20,318)	4,877	17,810,792	(8,497)	17,802,295	17,807,172

(Amounts in € thousand)

PORTFOLIO/QUALITY	ASSETS WITH EVIDENTLY POOR CREDIT QUALITY		OTHER ASSETS	
	ACCUMULATED UNREALISED LOSSES	NET EXPOSURE	NET EXPOSURE	NET EXPOSURE
1. Financial assets held for trading	-	-	-	4,908
2. Hedging derivatives	-	-	-	552
Total December 31, 2016	-	-	-	5,460
Total December 31, 2015	-	-	-	3,397

A.1.3 On-balance sheet and off-balance-sheet credit exposures to banks: gross values, net values and past due bands

(Amounts in € thousand)

TYPE OF EXPOSURE/AMOUNT	GROSS EXPOSURE							
	IMPAIRED ASSETS				UNIMPAIRED ASSETS	SPECIFIC IMPAIRMENTS	PORTFOLIO IMPAIRMENTS	NET EXPOSURE
	UP TO 3 MONTHS	BETWEEN 3 MONTHS AND 6 MONTHS	BETWEEN 6 MONTHS AND 1 YEAR	OVER 1 YEAR				
A. On-balance sheet exposures								
a) Non-performing loans	-	-	-	-	X	-	X	-
- of which: forborne exposures	-	-	-	-	X	-	X	-
b) Unlikely to pay	-	-	-	-	X	-	X	-
- of which: forborne exposures	-	-	-	-	X	-	X	-
c) Past-due impaired loans	-	-	-	-	X	-	X	-
- of which: forborne exposures	-	-	-	-	X	-	X	-
d) Unimpaired past-due loans	X	X	X	X	-	X	-	-
- of which: forborne exposures	X	X	X	X	-	X	-	-
e) Other unimpaired exposures	X	X	X	X	15,735,577	X	-	15,735,577
- of which: forborne exposures	X	X	X	X	-	X	-	-
Total A	-	-	-	-	15,735,577	-	-	15,735,577
B. Off-balance sheet exposures								
a) Impaired	-	-	-	-	X	-	X	-
b) Unimpaired	X	X	X	X	1,306,957	X	-	1,306,957
Total B	-	-	-	-	1,306,957	-	-	1,306,957
Total A+B	-	-	-	-	17,042,534	-	-	17,042,534

In the above table, item B. "Off-balance sheet exposures" includes the counterparty risk related to repos that can be classified as "Securities Financing Transactions" (SFT) defined in prudential regulations, amounting to €32,036 thousand, and the commitment to pay funds not certain to be called on relating to the Liquidity Framework Agreement signed in 2016 with the Parent Company, amounting to €1,018,000 thousand. There were no securities lending transactions collateralised by other securities or without a cash guarantee with banks.

A.1.4 Impaired on-balance sheet credit exposures to banks: gross change in impaired exposures

No data to report.

A.1.4bis On-balance sheet credit exposures to banks: breakdown of gross forborne exposures by credit quality

No data to report.

A.1.5 On-balance sheet credit exposures to banks: trend in total write-downs

No data to report.

A.1.6 On-balance sheet and off-balance-sheet credit exposures to customers: gross values, net values and past due bands

(Amounts in € thousand)

TYPE OF EXPOSURE/AMOUNT	GROSS EXPOSURE				UNIMPAIRED ASSETS	SPECIFIC IMPAIRMENTS	PORTFOLIO IMPAIRMENTS	NET EXPOSURE
	IMPAIRED ASSETS							
	UP TO 3 MONTHS	BETWEEN 3 MONTHS AND 6 MONTHS	BETWEEN 6 MONTHS AND 1 YEAR	OVER 1 YEAR				
A. On-balance sheet exposures								
a) Non-performing loans	26	66	897	18,345	X	(16,672)	X	2,662
- of which: forborne exposures	-	-	9	113	X	(103)	X	18
b) Unlikely to pay	162	273	505	966	X	(1,507)	X	399
- of which: forborne exposures	98	9	14	6	X	(88)	X	40
c) Past-due impaired loans	213	669	159	89	X	(533)	X	598
- of which: forborne exposures	-	3	-	7	X	(4)	X	6
d) Unimpaired past-due loans	X	X	X	X	9,980	X	(249)	9,732
- of which: forborne exposures	X	X	X	X	41	X	-	40
e) Other unimpaired exposures	X	X	X	X	4,766,661	X	(9,249)	4,757,412
- of which: forborne exposures	X	X	X	X	124	X	(1)	123
Total A	401	1,008	1,561	19,400	4,776,641	(18,712)	(9,498)	4,770,803
B. Off-balance sheet exposures								
a) Impaired	-	-	-	-	X	-	X	-
b) Unimpaired	X	X	X	X	345,348	X	-	345,348
Total B	-	-	-	-	345,348	-	-	345,348
Total A+B	401	1,008	1,561	19,400	5,121,989	(18,712)	(9,498)	5,116,151

As at December 31, 2016, there were no unimpaired loans to customers renegotiated under collective agreements and no impaired purchased loans.

Breakdown by maturity of unimpaired past due loans, amounting to €9,980 thousand (€25,800 thousand as at December 31, 2015), is as follows:

- past due between 1 day and 90 days of €9,919 thousand (€25,780 thousand as at December 31, 2015);
- past due between 90 days and 180 days of €58 thousand (€5 thousand as at December 31, 2015);
- past due between 180 days and 1 year of €3 thousand (€15 thousand as at December 31, 2015).

In the above table, item B. "Off-balance sheet exposures" includes the counterparty risk related to securities lending transactions collateralised by other securities and to repos that can be classified as "Securities Financing Transactions" (SFT) defined in prudential regulations, amounting to €305,478 thousand.

There were no securities lending transactions without a cash guarantee or not collateralised by other securities with customers.

Part E - Information on risks and hedging policies (CONTINUED)

A.1.7 On-balance sheet credit exposures to customers: gross change in impaired exposures

(Amounts in € thousand)

SOURCE/CATEGORIES	NON-PERFORMING LOANS	UNLIKELY TO PAY	PAST-DUE IMPAIRED LOANS
A. Opening balance gross exposure	21,819	2,181	1,195
of which: assets sold but not derecognised	-	-	-
B. Increases	3,506	4,002	5,871
B.1 transfers from performing exposures	111	319	5,144
B.2 transfers from other categories of impaired exposures	2,963	3,290	-
B.3 other increases	432	393	727
C. Decreases	(5,991)	(4,277)	(5,936)
C.1 transfers to performing exposures	-	(206)	(825)
C.2 de-recognitions	(4,848)	(56)	(1)
C.3 collections	(1,142)	(979)	(1,701)
C.4 proceeds from disposals	-	-	-
C.5 losses on disposal	-	-	-
C.6 transfers to other categories of impaired exposures	-	(2,955)	(3,298)
C.7 other decreases	(1)	(81)	(111)
D. Gross exposure closing balance of which: assets sold but not derecognised	19,334	1,906	1,130
di cui: esposizioni cedute non cancellate	-	-	-

A.1.7 bis On-balance sheet credit exposures to customers: breakdown of gross forborne exposures by credit quality

(Amounts in € thousand)

SOURCE/CATEGORIES	FORBORNE EXPOSURES: EXPOSURES	FORBORNE EXPOSURES: EXPOSURES
A. Opening balance gross exposure	305	138
of which: assets sold but not derecognised	-	-
B. Increases	585	199
B.1 transfers from performing exposures not forborne	116	121
B.2 transfers from performing forborne exposures	41	X
B.3 transfers from impaired forborne exposures	X	37
B.4 other increases	428	41
C. Decreases	(632)	(173)
C.1 transfers to performing exposures not forborne	X	-
C.2 transfers to performing forborne exposures	(191)	X
C.3 transfers to impaired forborne exposures	X	(46)
C.4 de-recognitions	(1)	-
C.5 collections	(206)	(127)
C.6 proceeds from disposals	-	-
C.7 losses on disposal	-	-
C.8 other decreases	(234)	-
D. Gross exposure closing balance	258	164
of which: assets sold but not derecognised	-	-

A.1.8 Impaired on-balance sheet credit exposures to customers: trend in total write-downs

(Amounts in € thousand)

SOURCE/CATEGORIES	NON-PERFORMING LOANS		UNLIKELY TO PAY		PAST-DUE IMPAIRED LOANS	
	TOTAL	OF WHICH: FORBORNE EXPOSURES	TOTAL	OF WHICH: FORBORNE EXPOSURES	TOTAL	OF WHICH: FORBORNE EXPOSURES
A. Total opening impairment	(18,319)	(41)	(1,387)	(149)	(612)	(17)
of which: assets sold but not derecognised	-	-	-	-	-	-
B. Increases	(4,085)	(82)	(1,127)	(68)	(505)	(8)
B.1 impairment losses	(3,240)	(14)	(1,071)	(43)	(501)	(4)
B.2 losses on disposal	-	-	-	-	-	-
B.3 transfers from other categories of impaired exposures	(826)	(68)	(35)	(4)	-	-
B.4 other increases	(19)	-	(21)	(21)	(4)	(4)
C. Decreases	5,732	20	1,007	129	584	21
C.1 write-backs from assessments	300	5	242	14	99	-
C.2 write-backs from recoveries	584	14	153	64	155	-
C.3 gains on disposal	-	-	-	-	-	-
C.4 de-recognitions	4,848	1	56	-	1	-
C.5 transfers to other categories of impaired exposures	-	-	535	51	325	21
C.6 other decreases	-	-	21	-	4	-
D. Final overall impairment	(16,672)	(103)	(1,507)	(88)	(533)	(4)
of which: assets sold but not derecognised	-	-	-	-	-	-

A.2 Breakdown of exposures according to external and internal ratings

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

(Amounts in € thousand)

EXPOSURES	EXTERNAL RATING CLASSES						NO RATING	TOTAL
	CLASS 1	CLASS 2	CLASS 3	CLASS 4	CLASS 5	CLASS 6		
A. On-balance sheet exposures	85.727	17.502	19.362.053	4.925	-	-	1.036.173	20.506.380
B. Derivatives	9	822	-	-	-	-	4.585	5.416
B.1 Financial derivatives	9	822	-	-	-	-	4.585	5.416
B.2 Credit derivatives	-	-	-	-	-	-	-	-
C. Guarantees given	-	-	256.070	-	-	-	687	256.757
D. Other commitments to disburse funds	19	-	1.018.167	11	34	-	35.309	1.053.540
E. Other	-	26.218	14.973	3.285	-	-	293.038	337.514
Total	85.755	44.542	20.651.263	8.221	34	-	1.369.792	22.159.607

The table below shows the breakdown of on-balance sheet and off-balance-sheet exposures to counterparties with an external rating. Rating agencies provide a summary assessment on the creditworthiness of different type of counterparties: Countries, Banks, Public Bodies, Insurance Companies and Businesses, usually large-scale.

The table refers to the classification set forth in the Bank of Italy Circular no. 262/2005 regarding external ratings, which envisages 6 classes of creditworthiness.

The above presentation refers to the Standard and Poor's ratings, which are also associated to the ratings of the other two main Agencies, Moody's and Fitch. When there were two credit ratings for an individual exposure provided by two rating agencies the worst rating was recognised; if there were three different ratings the two best ratings were identified and, if they were different, the worst rating from these was recognised.

The Bank determines the regulatory requirements using the Traditional Standardised Approach, under which the exposures are split into different classes ("portfolios") according to the status of the counterparty or the technical characteristics of the relationship or how the relationship is conducted, applying different weighting coefficients to each portfolio. In determining the credit risk, the Bank only uses the assessments of the rating agencies assigned to the individual countries, which drive the weighting of the "Central governments and central banks", "Entities" and "Public Sector Entities" portfolios; in general, a weighting factor of 100 percent is applied to the remaining credit exposures, subject to the main exceptions established by CRR 575/2013.

As at December 31, 2016, credit exposure to retail customers was limited to personal loans, credit cards spending (full payment of balance or revolving), unsecured and secured loans and securities lending. The exposures resulting from property mortgages to households, at the end of the year, were minimal given the recent introduction of the product. Exposures to non-retail customers mainly derive from amounts due to the Parent Company for treasury activities and for hedging banking book positions through interest-rate derivatives. The remaining exposures regard receivables relating to customer trading, whose counterparties are leading banks with a high credit rating.

In the above table, item E "Other" includes the counterparty risk related to securities lending transactions guaranteed by other securities and to repos. In the above table, equity instruments have been excluded whereas UCITS units have been included, unlike the previous tables in this section in which both were excluded.

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

This table has not been included because internal ratings are not used to managed credit risk.

Part E - Information on risks and hedging policies (CONTINUED)

A. 3 Breakdown of secured exposures by type of guarantee

A.3.1 Secured exposures to banks

	REAL GUARANTEES (1)				
	NET EXPOSURE VALUE	PROPERTIES - MORTGAGES	PROPERTIES - FINANCE LEASES	SECURITIES	OTHER REAL GUARANTEES
1. Secured on-balance sheet exposures:					
1.1 totally secured	53	-	-	53	-
- of which impaired	-	-	-	-	-
1.2 partially secured	-	-	-	-	-
- of which impaired	-	-	-	-	-
2. Secured off-balance Sheet credit exposures:					
2.1 totally secured	-	-	-	-	-
- of which impaired	-	-	-	-	-
2.2 partially secured	-	-	-	-	-
- of which impaired	-	-	-	-	-

A.3.2 Secured exposures to customers

	REAL GUARANTEES (1)				
	NET EXPOSURE VALUE	PROPERTIES - MORTGAGES	PROPERTIES - FINANCE LEASES	SECURITIES	OTHER REAL GUARANTEES
1. Secured on-balance sheet exposures:					
1.1 totally secured	220,424	928	-	211,287	8,204
- of which impaired	12	11	-	1	-
1.2 partially secured	2,689	-	-	2,091	-
- of which impaired	-	-	-	-	-
2. Secured off-balance Sheet credit exposures:					
2.1 totally secured	24,227	-	-	21,494	2,734
- of which impaired	-	-	-	-	-
2.2 partially secured	1	-	-	-	1
- of which impaired	-	-	-	-	-

B. Distribution and concentration of credit exposures

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

EXPOSURE/COUNTERPARTY	GOVERNMENTS			OTHER PUBLIC ENTITIES		
	NET EXPOSURE	SPECIFIC IMPAIRMENTS	PORTFOLIO IMPAIRMENTS	NET EXPOSURE	SPECIFIC IMPAIRMENTS	PORTFOLIO IMPAIRMENTS
A. On-balance sheet exposures						
A.1 Non-performing loans	-	-	X	-	-	X
- of which: forbore exposures	-	-	X	-	-	X
A.2 Unlikely to pay	-	-	X	-	-	X
- of which: forbore exposures	-	-	X	-	-	X
A.3 Past-due impaired loans	2	(2)	X	-	-	X
- of which: forbore exposures	-	-	X	-	-	X
A.4 Unimpaired exposures	3,754,004	X	-	-	X	-
- of which: forbore exposures	-	X	-	-	X	-
TOTAL A	3,754,006	(2)	-	-	-	-
B. "Off-balance sheet" exposures						
B.1 Non-performing loans	-	-	X	-	-	X
B.2 Unlikely to pay	-	-	X	-	-	X
B.3 Other impaired assets	-	-	X	-	-	X
B.4 Unimpaired exposures	167	X	-	-	X	-
TOTAL B	-	-	-	-	-	-
TOTAL (A + B) December 31, 2016	3,754,173	(2)	-	-	-	-
TOTAL (A + B) December 31, 2015	2,235,517	(2)	-	1	-	-

(Amounts in € thousand)

PERSONAL GUARANTEES (2)									
CREDIT DERIVATIVES					GUARANTEES				
OTHER DERIVATIVES									
CLN	GOVERNMENTS AND CENTRAL BANKS	OTHER PUBLIC ENTITIES	BANKS	OTHER ENTITIES	GOVERNMENTS AND CENTRAL BANKS	OTHER PUBLIC ENTITIES	BANKS	OTHER ENTITIES	TOTAL (1) + (2)
-	-	-	-	-	-	-	-	-	53
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-

(Amounts in € thousand)

PERSONAL GUARANTEES (2)									
CREDIT DERIVATIVES					GUARANTEES				
OTHER DERIVATIVES									
CLN	GOVERNMENTS AND CENTRAL BANKS	OTHER PUBLIC ENTITIES	BANKS	OTHER ENTITIES	GOVERNMENTS AND CENTRAL BANKS	OTHER PUBLIC ENTITIES	BANKS	OTHER ENTITIES	TOTAL (1) + (2)
-	-	-	-	-	-	-	-	-	220,419
-	-	-	-	-	-	-	-	-	12
-	-	-	-	-	-	-	-	-	2,091
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	24,228
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	1
-	-	-	-	-	-	-	-	-	-

(Amounts in € thousand)

FINANCIAL COMPANIES			INSURANCE COMPANIES			NON-FINANCIAL COMPANIES			OTHER ENTITIES		
NET EXPOSURE	SPECIFIC IMPAIRMENTS	PORTFOLIO IMPAIRMENTS	NET EXPOSURE	SPECIFIC IMPAIRMENTS	PORTFOLIO IMPAIRMENTS	NET EXPOSURE	SPECIFIC IMPAIRMENTS	PORTFOLIO IMPAIRMENTS	NET EXPOSURE	SPECIFIC IMPAIRMENTS	PORTFOLIO IMPAIRMENTS
6	(43)	X	-	-	X	11	(92)	X	2,646	(16,538)	X
-	(2)	X	-	-	X	-	-	X	18	(101)	X
-	-	X	-	-	X	6	(15)	X	393	(1,492)	X
-	-	X	-	-	X	-	-	X	40	(88)	X
2	-	X	-	-	X	8	(9)	X	586	(522)	X
2	-	X	-	-	X	-	-	X	4	(4)	X
98,744	X	(144)	12,174	X	-	14,666	X	(3,489)	887,556	X	(5,863)
-	X	-	-	X	-	-	X	-	164	X	(1)
98,752	(43)	(144)	12,174	-	-	14,691	(116)	(3,489)	891,181	(18,552)	(5,863)
-	-	X	-	-	X	-	-	X	-	-	X
-	-	X	-	-	X	-	-	X	-	-	X
-	-	X	-	-	X	-	-	X	-	-	X
3,353	X	-	-	X	-	464	X	-	35,885	X	-
3,353	-	-	-	-	-	464	-	-	35,885	-	-
102,105	(43)	(144)	12,174	-	-	15,155	(116)	(3,489)	927,066	(18,552)	(5,863)
92,885	(43)	(129)	11,464	-	-	16,905	(107)	(3,327)	822,077	(20,165)	(5,040)

Part E - Information on risks and hedging policies (CONTINUED)

B.2 Breakdown of on-balance sheet and off-balance-sheet exposures to customers by geographical area (carrying value)

Exposures connected to the counterparty risk related to securities lending or borrowing transactions are not included.

(Amounts in € thousand)

EXPOSURE/GEOGRAPHICAL AREA	ITALY		OTHER EUROPEAN COUNTRIES		USA		ASIA		REST OF THE WORLD	
	NET EXPOSURE	TOTAL IMPAIRMENT	NET EXPOSURE	TOTAL IMPAIRMENT	NET EXPOSURE	TOTAL IMPAIRMENT	NET EXPOSURE	TOTAL IMPAIRMENT	NET EXPOSURE	TOTAL IMPAIRMENT
A. On-balance sheet exposures										
A.1 Non-performing loans	2,662	(16,671)	-	(1)	-	-	-	-	-	-
A.2 Unlikely to pay	399	(1,507)	-	-	-	-	-	-	-	-
A.3 Past-due impaired loans	594	(528)	4	(4)	-	-	-	-	-	-
A.4 Unimpaired exposures	3,437,492	(9,494)	1,254,327	(2)	75,096	(2)	137	-	92	-
TOTAL	3,441,147	(28,200)	1,254,331	(7)	75,096	(2)	137	-	92	-
B. "Off-balance sheet" exposures										
B.1 Non-performing loans	-	-	-	-	-	-	-	-	-	-
B.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
B.3 Other impaired assets	-	-	-	-	-	-	-	-	-	-
B.4 Unimpaired exposures	36,511	-	3,239	-	102	-	-	-	17	-
TOTAL	36,511	-	3,239	-	102	-	-	-	17	-
TOTAL December 31, 2016	3,477,658	(28,200)	1,257,570	(7)	75,198	(2)	137	-	109	-
TOTAL December 31, 2015	2,525,145	(28,814)	653,212	(1)	415	-	67	-	11	-

(Amounts in € thousand)

EXPOSURE/GEOGRAPHICAL AREA	NORTHWEST ITALY		NORTH-EAST ITALY		CENTRAL ITALY		SOUTHERN ITALY AND ISLANDS	
	NET EXPOSURE	TOTAL IMPAIRMENT	NET EXPOSURE	TOTAL IMPAIRMENT	NET EXPOSURE	TOTAL IMPAIRMENT	NET EXPOSURE	TOTAL IMPAIRMENT
A. On-balance sheet exposures								
A.1 Non-performing loans	692	(4,809)	341	(2,764)	540	(3,082)	1,089	(6,016)
A.2 Unlikely to pay	166	(952)	35	(85)	56	(131)	142	(339)
A.3 Past-due impaired loans	174	(143)	49	(43)	171	(151)	199	(192)
A.4 Unimpaired exposures	333,394	(3,303)	126,894	(1,149)	2,745,313	(2,952)	231,890	(2,091)
TOTAL	334,426	(9,207)	127,319	(4,041)	2,746,080	(6,316)	233,320	(8,638)
B. "Off-balance sheet" exposures								
B.1 Non-performing loans	-	-	-	-	-	-	-	-
B.2 Unlikely to pay	-	-	-	-	-	-	-	-
B.3 Other impaired assets	-	-	-	-	-	-	-	-
B.4 Unimpaired exposures	10,816	-	5,538	-	15,658	-	4,500	-
TOTAL	10,816	-	5,538	-	15,658	-	4,500	-
TOTAL December 31, 2016	345,242	(9,207)	132,857	(4,041)	2,761,738	(6,316)	237,820	(8,638)
TOTAL December 31, 2015	329,074	(9,699)	130,999	(4,005)	1,867,863	(6,079)	197,208	(9,030)

B.3 Distribution of Balance Sheet and Off-Balance Sheet credit exposures to banks by geographic area (book value)

Exposures connected to the counterparty risk related to securities lending or borrowing transactions are not included.

(Amounts in € thousand)

EXPOSURE/GEOGRAPHICAL AREA	ITALY		OTHER EUROPEAN COUNTRIES		USA		ASIA		REST OF THE WORLD	
	NET EXPOSURE	TOTAL IMPAIRMENT	NET EXPOSURE	TOTAL IMPAIRMENT	NET EXPOSURE	TOTAL IMPAIRMENT	NET EXPOSURE	TOTAL IMPAIRMENT	NET EXPOSURE	TOTAL IMPAIRMENT
A. On-balance sheet exposures										
A.1 Non-performing loans	-	-	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
A.3 Past-due impaired loans	-	-	-	-	-	-	-	-	-	-
A.4 Unimpaired exposures	15,726,338	-	9,234	-	-	-	-	-	5	-
TOTAL	15,726,338	-	9,234	-	-	-	-	-	5	-
B. "Off-balance sheet" exposures										
B.1 Non-performing loans	-	-	-	-	-	-	-	-	-	-
B.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
B.3 Other impaired assets	-	-	-	-	-	-	-	-	-	-
B.4 Unimpaired exposures	1,274,080	-	842	-	-	-	-	-	-	-
TOTAL	1,274,080	-	842	-	-	-	-	-	-	-
TOTAL December 31, 2016	17,000,418	-	10,076	-	-	-	-	-	5	-
TOTAL December 31, 2015	14,873,622	(1,416)	33,411	-	-	-	-	-	6	-

(Amounts in € thousand)

EXPOSURE/GEOGRAPHICAL AREA	NORTHWEST ITALY		NORTH-EAST ITALY		CENTRAL ITALY		SOUTHERN ITALY AND ISLANDS	
	NET EXPOSURE	TOTAL IMPAIRMENT	NET EXPOSURE	TOTAL IMPAIRMENT	NET EXPOSURE	TOTAL IMPAIRMENT	NET EXPOSURE	TOTAL IMPAIRMENT
A. On-balance sheet exposures								
A.1 Non-performing loans	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-
A.3 Past-due impaired loans	-	-	-	-	-	-	-	-
A.4 Unimpaired exposures	29,863	-	-	-	15,696,475	-	-	-
TOTAL	29,863	-	-	-	15,696,475	-	-	-
B. "Off-balance sheet" exposures								
B.1 Non-performing loans	-	-	-	-	-	-	-	-
B.2 Unlikely to pay	-	-	-	-	-	-	-	-
B.3 Other impaired assets	-	-	-	-	-	-	-	-
B.4 Unimpaired exposures	-	-	10	-	1,274,070	-	-	-
TOTAL	-	-	10	-	1,274,070	-	-	-
TOTAL December 31, 2016	29,863	-	10	-	16,970,545	-	-	-
TOTAL December 31, 2015	24,085	-	5	-	14,849,533	(1,416)	-	-

B.4 Significant exposures

At December 31, 2016 the following "risk positions" constituted "significant exposures" pursuant to Circular 286 of December 17, 2013, "Instructions for the prudential reporting of banks and securities firms" issued by the Bank of Italy:

- non-weighted value: €22,075,667 thousand, of which €17,972,574 with the UniCredit Group;
- weighted value: €16,768 thousand, none with the UniCredit Group;
- number of "risk positions": 5, including the UniCredit Group.

Please note that, for the deferred tax assets within the exposure towards the Italian Central Government, these have been exempted and, therefore, their weighted value is nil.

Part E - Information on risks and hedging policies (CONTINUED)

C. Securitization transactions

No data to report.

D. Disclosure of structured entities not consolidated in the accounts (other than special purpose vehicles for securitization transactions)**QUALITATIVE INFORMATION**

The Bank has exposures towards unconsolidated structured entities as a result of investments in units issued by investment funds (UCITS) that qualify as structured entities according to IFRS 12.

QUANTITATIVE INFORMATION

The table below shows the assets, liabilities and off-balance sheet exposure to structured entities represented by unconsolidated UCITS units.

(Amounts in € thousand)

BALANCE SHEET ITEMS/TYPE OF STRUCTURED ENTITY	ACCOUNTING PORTFOLIOS OF THE ASSETS	TOTAL ASSETS (A)	ACCOUNTING PORTFOLIOS OF THE LIABILITIES	TOTAL LIABILITIES (B)	NET CARRYING AMOUNT (C=A-B)	MAXIMUM EXPOSURE TO LOSS (D)	DIFFERENCE BETWEEN EXPOSURE TO THE RISK OF LOSS AND THE CARRYING AMOUNT (E=D-C)
1 UCITS	HFT	1		-	1	1	-

Key:

HFT = Financial assets held for trading

E. Sales Transactions*A. Financial assets sold and partially derecognised***QUALITATIVE INFORMATION**

The Bank carries out repos on securities not recognised in the assets, received through reverse repos and securities lending, or on securities held in the Bank's portfolio.

With regard to the transactions on securities held in the Bank's portfolio, the financial assets transferred are bonds issued by UniCredit S.p.A, classified in the "Loans and Receivables category", which have not been removed from the financial statements because the Bank conducts repos with the obligation for the buyer to resell the assets covered by the transaction upon expiration of the transaction and maintains all the risks connected to the ownership of the securities.

QUANTITATIVE INFORMATION**E.1 Financial assets sold but not derecognised: book value and full value**

TYPE/PORTFOLIO	FINANCIAL ASSETS HELD FOR TRADING			FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS			AVAILABLE-FOR-SALE FINANCIAL ASSETS		
	A	B	C	A	B	C	A	B	C
A. On-balance sheet assets		-	-	-	-	-	-	-	-
1. Debt securities		-	-	-	-	-	-	-	-
2. Equity Instruments		-	-	-	-	-	-	-	-
3. UCITS		-	-	-	-	-	-	-	-
4. Loans		-	-	-	-	-	-	-	-
B. Derivatives		-	-	X	X	X	X	X	X
Total December 31, 2016		-	-	-	-	-	-	-	-
<i>of which impaired</i>		-	-	-	-	-	-	-	-
Total December 31, 2015		-	-	-	-	-	-	-	-
<i>of which impaired</i>	-	-	-	-	-	-	-	-	-

Key:

A = financial assets sold and fully recognised (book value)

B = financial assets sold and partially recognised (book value)

C = financial assets sold and partially recognised (total value)

(Amounts in € thousand)

HELD-TO-MATURITY INVESTMENTS			LOANS AND RECEIVABLES WITH BANKS			LOANS AND RECEIVABLES WITH CUSTOMERS			TOTAL	
A	B	C	A	B	C	A	B	C	12.31.2016	12.31.2015
-	-	-	54,909	-	-	-	-	-	54,909	87,367
-	-	-	54,909	-	-	-	-	-	54,909	87,367
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	-	-
-	-	-	54,909	-	-	-	-	-	54,909	X
-	-	-	-	-	-	-	-	-	-	X
-	-	-	87,367	-	-	-	-	-	X	87,367
-	-	-	-	-	-	-	-	-	X	-

Part E - Information on risks and hedging policies (CONTINUED)

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

(Amounts in € thousand)

LIABILITY/ASSET PORTFOLIO	FINANCIAL ASSETS HELD FOR TRADING	FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS	AVAILABLE-FOR-SALE FINANCIAL ASSETS	HELD TO MATURITY INVESTMENTS	LOANS AND RECEIVABLES WITH BANKS	LOANS AND RECEIVABLES WITH CUSTOMERS	TOTAL
1. Deposits from customers	-	-	-	-	55,013	-	55,013
a) from fully-recognised assets	-	-	-	-	55,013	-	55,013
b) from partially-recognised assets	-	-	-	-	-	-	-
2. Deposits from banks	-	-	-	-	-	-	-
a) from fully-recognised assets	-	-	-	-	-	-	-
b) from partially-recognised assets	-	-	-	-	-	-	-
Total December 31, 2016	-	-	-	-	55,013	-	55,013
Total December 31, 2015	-	-	-	-	87,568	-	87,568

E.3 Sales transactions relating to financial liabilities with repayment exclusively based on assets sold and not derecognised: fair value

The table below only shows own securities not derecognised and used for repos.

TYPE/PORTFOLIO	FINANCIAL ASSETS HELD FOR TRADING		FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS		AVAILABLE-FOR-SALE FINANCIAL ASSETS	
	A	B	A	B	A	B
A. On-balance sheet assets		-	-	-	-	-
1. Debt securities		-	-	-	-	-
2. Equity Instruments		-	-	-	-	-
3. UCITS units		-	-	-	-	-
4. Loans	-	-	-	-	-	-
B. Derivatives		-	X	X	X	X
Total assets		-	-	-	-	-
C. Associated liabilities		-	-	-	-	-
1. Deposits from customers		-	-	-	-	-
2. Deposits from banks		-	-	-	-	-
Total liabilities	-	-	-	-	-	-
Net value as at December 31, 2016		-	-	-	-	-
Net value as at December 31, 2015	-	-	-	-	-	-

Key:

A = financial assets sold and wholly recognised

B = financial assets sold and partially recognised

B. Assets sold and fully derecognised with recognition of continuing involvement

No data to report.

E.4 Covered bond transactions

No data to report.

F. Credit Risk Measurement Models

F.1. Credit Risk Measurement – Trading Book

The monitoring of credit risk as part of the management of the trading book is conducted through the rating of all financial instruments held.

F.2. Credit Risk Measurement – Banking Book

The banking book of the Bank consists of securities, current accounts and deposits with the Parent Company. Retail customer activities are limited to the granting of personal loans, mortgages, credit cards and credit lines.

(Amounts in € thousand)

HELD-TO-MATURITY INVESTMENTS (FAIR VALUE)		LOANS AND RECEIVABLES WITH BANKS (FAIR VALUE)		LOANS AND RECEIVABLES WITH CUSTOMERS (FAIR VALUE)		TOTAL	
A	B	A	B	A	B	12.31.2016	12.31.2015
-	-	55,291	-	-	-	55,291	92,093
-	-	55,291	-	-	-	55,291	92,093
X	X	X	X	X	X	-	-
X	X	X	X	X	X	-	-
-	-	-	-	-	-	-	-
X	X	X	X	X	X	-	-
-	-	55,291	-	-	-	55,291	92,093
-	-	55,013	-	-	-	55,013	87,568
-	-	55,013	-	-	-	55,013	87,568
-	-	-	-	-	-	-	-
-	-	55,013	-	-	-	55,013	87,568
-	-	278	-	-	-	278	X
-	-	4,525	-	-	-	X	4,525

Part E - Information on risks and hedging policies (CONTINUED)

INFORMATION ON SOVEREIGN EXPOSURES

The Bank is exposed to the sovereign debt of some countries, having invested a portion of its assets in debt securities issued by governments and, specifically, in securities issued by the Italian, Spanish, French and US governments. The following table shows the nominal value, the book value and the fair value of these exposures as at December 31, 2016.

(Amounts in € thousand)

	NOMINAL VALUE AS AT 12.31.2016	BOOK VALUE AS AT 12.31.2016	FAIR VALUE AS AT 12.31.2016	% OF FINANCIAL STATEMENT ITEM
Exposures to the Italian government	2,323,003	2,481,709	2,495,083	
Financial assets held for trading	3	5	5	0.08%
Available-for-sale financial assets	942,000	982,434	982,434	74.44%
Held-to-maturity investments	1,381,000	1,499,270	1,512,644	61.50%
Exposures to the Spanish government	1,000,000	1,188,448	1,192,275	
Available-for-sale financial assets	225,000	249,940	249,940	18.94%
Held-to-maturity investments	775,000	938,508	942,335	38.50%
Exposures to the German government	1	1	1	
Financial assets held for trading	1	1	1	0.02%
Exposures to the French government	10,000	10,296	10,296	
Available-for-sale financial assets	10,000	10,296	10,296	0.78%
Exposures to the US government	75,894	73,549	73,549	
Available-for-sale financial assets	75,894	73,549	73,549	5.57%
Exposures to the Brazilian government	1	1	1	
Financial assets held for trading	1	1	1	0.02%
Total Sovereign exposures	3,408,899	3,754,004	3,771,205	17.89%

The following table shows the sovereign ratings as at December 31, 2016 for countries to which the Bank is exposed as at December 31, 2016, provided by Fitch Ratings, Moody's and Standard & Poor's.

	ITALY	SPAIN	GERMANY	FRANCE	USA
MOODY'S	Baa2	Baa2	Aaa	Aa2	Aaa
FITCH RATINGS	BBB+	BBB+	AAA	AA	AAA
STANDARD & POOR'S	BBB-	BBB+	AAA	AA	AA+

As at December 31, 2016, investments in debt securities issued by sovereign states accounted for 17.89% of the Bank's total assets. There were no structured debt securities among the sovereign debt securities held by the Bank. The Bank is therefore exposed to fluctuations in the price of the public debt securities of the countries listed above. Tensions or volatility in the government bond market could negatively affect on the Bank's financial position and performance.

Section 2 - Market risk

Market risk derives from the effect that changes in market variables (interest rates, securities prices, exchange rates, etc.) can cause to the economic value of the Bank's portfolio, if it includes the assets held in the trading book (assets held for trading) as well as those in the banking book, i.e. the transactions connected to strategic investment choices.

Risk Management Strategies and Processes

The Parent Company's Board of Directors lays down strategic guidelines for taking on market risks by calculating capital allocation for the Parent company and its subsidiaries, depending on risk appetite and value creation objectives in proportion to risks assumed.

The Board of Directors of Bank, in line with the Group's approach, approves a general framework of reference for market risk and any significant changes, relating to the organisational structure, strategies, and methods.

The Bank's strategy is to keep the minimum level of market risk in line with business needs and the limits set by the Parent Company.

Market risk in FinecoBank is defined through two sets of limits:

- Global measures of market risk (e.g. VaR): which are meant to establish a boundary to the economic capital absorption and to the economic loss accepted in trading activities; these limits must be consistent with assigned revenue targets and the defined risk taking capacity;
- Granular measures of market risk (Sensitivity limits, Stress scenario limits, Nominal limits): which exist independently of, but act in concert with the global limits; in order to control more effectively and more specifically different risk types, desks and products, these limits are generally granular sensitivity or stress-related limits. The levels set for granular limits aim at limiting the concentration in individual risk factors and the excessive exposure in risk factors which are not sufficiently covered under VaR.

Structure and Organisation

In order to ensure the effective implementation of operations and the consistency of policies, methods and practices related to market risk in the Group legal entities, the Group model for activities related to market risk is based on the definition of specific responsibilities.

In its relations with FinecoBank, the Parent Company is mainly responsible for:

- establishing, implementing and refining appropriate measures at global level for measuring exposure to market risk;
- setting risk limits, based on measurements identified, in line with the risk appetite approved by the Group.

The Market Risk function of the Bank, within the Risk Management Unit, in full compliance with local legal and regulatory obligations, works together with the Market Risk Management Italy Function of the Parent Company and is tasked primarily – but not exclusively – with:

- calculating the risk measurements for the global and granular measures for the Bank's portfolios;
- checking that the measurements are compatible with the approved limits;
- initiating the escalation process when limits are exceeded, engaging the Market Risk Management Italy function of the Parent Company;
- discussing and approving new products with innovative and complex market risk profiles, providing the Financial Risk Italy function of the Parent Company with adequate information in order for the said function to issue a non-binding opinion on the matter.

Risk measurement and reporting systems

Trading Book

The main tool used by the Bank to measure the market risk of trading positions is Value at Risk (VaR), calculated using the historic simulation approach. The historic simulation method involves the daily revaluation of positions on the basis of market price trends over an appropriate observation period. The resulting distribution of gains and losses is analysed to determine the effect of extreme market fluctuations on portfolios. The percentile value of the distribution corresponding to the set confidence level represents the VaR. The following parameters are used to calculate VaR: confidence level 99%; time horizon of 1 day; daily update of the time series; observation period of 500 days.

Banking Book

The primary responsibility for monitoring and controlling Market Risk management in the Banking Book lies with the Bank's competent Bodies. The Parent Company is responsible for monitoring market risk in the banking book at consolidated level, while sharing this responsibility with the relevant functions of the Legal Entities at local level.

The Parent Company, defines structure, data and frequency of the necessary Group and local level reporting.

Market risk in the banking book mainly consists of credit spread risk, interest rate risk and exchange rate risk. Credit spread risk mainly arises from investments in debt securities held for liquidity purposes. Market risk associated with the bond portfolio is monitored and subject to limits on the notional amount, the sensitivity to Economic Value and the Value at Risk.

The management of interest rate risk focuses on stabilising this second type of risk. The banking book interest rate risk measure covers both the value and net interest margin risk aspects. More precisely, the different, and complementary, perspectives involve:

- Economic value perspective: variation in interest rates can affect the economic value of assets and liabilities. The economic value of the Bank can be viewed as the present value of the expected net cash flows, defined as the expected cash flows on assets minus the expected cash flows on liabilities. A relevant risk measure from this perspective is the economic value sensitivity per time bucket for a 1 basis point rate shock. This measure is reported to the relevant committees to assess the economic value impact of various changes in the yield curve. The economic value sensitivity is also calculated for a 200bp parallel shock. A monitoring variable from this perspective is the value at risk resulting from interest rate risk exposure;
- Income perspective: the focus of analysis is the impact of changes of interest rates on accrual or reported Net Interest Income that is the difference between revenues generated by interest sensitive assets and the cost related to interest sensitive liabilities. An example of a measure of risks used is Net Interest Income sensitivity for a 100bp parallel shock in rates. This measure provides an indication of the impact that such a shock would have on the net interest margin over the next 12 months.

The third type of risk is exchange rate risk. This exposure mainly derives from a mismatching of assets and liabilities in USD. Exchange rate risk is hedged through the matching of assets and liabilities denominated in currency or through spot transactions in foreign currencies.

Procedures and methodologies for valuation of Trading Book positions

The Bank ensures that the value applied to each trading book position appropriately reflects the current fair (market) value, i.e. the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The fair value of each financial instrument is based on, or derived from, observable market prices or inputs. The availability of observable prices or inputs differs by product and market, and might change over time.

If observable prices or parameters are readily and regularly available (i.e. satisfying adequate liquidity requirements), they are directly employed in the determination of fair value (mark-to-market).

In non-active markets or for certain instruments, for which observable prices or inputs are not available, fair value is calculated using valuation techniques that are appropriate for the specific instrument (mark-to-model). This approach involves estimation and judgement and, therefore, might require valuation adjustments which take into account bid-ask spreads, liquidity and counterparty risk, besides the employed pricing model. In addition, each pricing model used for fair value calculation is validated by a dedicated function independent from business units.

Part E - Information on risks and hedging policies (CONTINUED)

According to the Group Market Risk Governance Guidelines, which define principles and rules for managing and controlling activities potentially involving a market risk, in order to ensure the adequate separation between functions in charge of development activities and functions in charge of validation, all valuation models developed by the front-office functions of Group companies need to be centrally and independently tested and validated by the Market Risk functions of the Parent Company. Model validation is also carried out centrally for any novel system or analysis framework whose utilisation has a potential impact on the Bank's economic results.

In addition to daily marking to market or marking to model, Independent Price Verification (IPV) shall be performed by the Risk Management function. This is the process by which market prices or model inputs are regularly verified for accuracy and independence. While daily marking to market or marking to model may be performed by front-office dealers, verification of market prices and model inputs is performed at least monthly.

Risk measures

VaR

The VaR calculated within the measurement of the market risk of the banking and trading book uses a historical simulation approach. The choice of model adopted by the Parent Company has a series of advantages:

- easy to understand and communicate;
 - does not require any explicit assumptions about the particular functional form of the distribution of yields of the risk factors;
 - does not require estimation of the variance-covariance matrix of the market factors that may affect the value of the portfolio.
 - captures the correlation structure reflected in the simultaneous changes in market factors, implicitly assuming that it will remain constant in the future.
- On the other hand VaR models based on historical simulations do not provide any information on the amount of the loss exceeding the VaR. This is why the framework established by the Parent Company uses additional instruments such as stress tests.

2.1 Interest rate risk and price risk – regulatory trading book

QUALITATIVE INFORMATION

A. General Matters

The trading book is used to hold debt securities (ordinary and subordinated, structured and plain vanilla), equity instruments, and certificates – listed and non-listed – related to brokerage activities with retail customers.

The Bank does not perform proprietary trading and does not assume speculative positions in its books. Entries in the Bank's trading book are recorded against brokerage activities with retail customers particularly during the trading of OTC instruments. Other entries in the trading book are made for the internalisation of various financial instruments when the Bank is a counterparty to the customer. This activity is performed as a result of the options introduced by the MiFID which allow the execution of orders for financial instruments in a number of execution venues including internal execution.

B. Processes for managing and methods for measuring interest rate risk and price risk

For both a description of internal processes for monitoring and managing risk and an illustration of the approaches used to analyse exposure, please refer to the introduction.

QUANTITATIVE INFORMATION

1. Regulatory trading book: distribution by maturity (repricing date) of on-balance sheet financial assets and liabilities and financial derivatives Currency: Euro

(Amounts in € thousand)

TYPE/UNEXPIRED TERM	ON DEMAND	UP TO 3 MONTHS	BETWEEN 3 AND 6 MONTHS	BETWEEN 6 MONTHS AND 1 YEAR	BETWEEN 1 YEAR AND 5 YEARS	BETWEEN 5 AND 10 YEARS	OVER 10 YEARS	INDEFINITE DURATION
1. On-balance sheet assets	30	1	2	3	-	5	3	-
1.1 Debt securities	30	1	2	3	-	5	3	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	30	1	2	3	-	5	3	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. On-balance sheet liabilities	-	-	-	-	-	-	-	-
2.1 Repos	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ long positions	203	112,615	-	-	47	55	3,033	-
+ short positions	203	109,746	-	-	47	2,943	3,033	-
3.2 Without underlying security								
- Options								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ long positions	-	64,443	260	25,240	3,185	-	-	-
+ short positions	-	57,048	320	37,540	329	-	-	-

Item 3.1 Financial Derivatives with underlying securities - Other Derivatives includes spot contracts for the purchase and sale of securities, other than shares and UCITS units, to be settled in times established by market practices ("regular way").

Item 3.2 Financial Derivatives without underlying securities - Other Derivatives includes spot contracts for the purchase and sale of foreign currencies, to be settled in times established by market practices ("regular way").

Part E - Information on risks and hedging policies (CONTINUED)

Currency: Other currencies

(Amounts in € thousand)

TYPE/UNEXPIRED TERM	ON DEMAND	UP TO 3 MONTHS	BETWEEN 3 AND 6 MONTHS	BETWEEN 6 MONTHS AND 1 YEAR	BETWEEN 1 YEAR AND 5 YEARS	BETWEEN 5 AND 10 YEARS	OVER 10 YEARS	INDEFINITE DURATION
1. On-balance sheet assets	-	-	-	-	-	-	1	-
1.1 Debt securities	-	-	-	-	-	-	1	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	1	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. On-balance sheet liabilities	-	-	-	-	-	-	1	-
2.1 Repos	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	1	-
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ long positions	-	81,559	-	-	11	23	-	-
+ short positions	-	81,749	-	-	11	23	-	-
3.2 Without underlying security								
- Options								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ long positions	-	68,599	469	57,480	-	-	-	-
+ short positions	-	78,710	404	44,420	-	-	-	-

The effects of changes in the yield curve on net interest margin arising from instruments in the trading book are negligible. For similar considerations regarding the banking book, see paragraph 2. *Banking book: internal models and other methods of sensitivity analysis* of section “2.2 Interest rate risk and price risk – banking book” below.

2. Regulatory trading book: distribution of exposures in equity instruments and share indices for the main stock market countries

(Amounts in € thousand)

TYPE OF TRANSACTION/LISTING INDEX	LISTED						UNLISTED
	USA	SWITZERLAND	ITALY	GERMANY	FRANCE	OTHER	
A. Equity Instruments							
- long positions	951	-	119	15	-	46	4
- short positions	46	-	192	-	-	-	-
B. Unsettled transactions on equity instruments							
- long positions	80,114	-	101,308	5,481	-	1	-
- short positions	79,996	-	101,183	5,497	-	4	-
C. Other derivatives on equity instruments							
- long positions	206	-	62	-	-	1	-
- short positions	1,282	-	90	-	-	34	-
D. Derivatives on share indices							
- long positions	12,688	2,059	9,706	7,836	-	257	-
- short positions	13,036	2,158	9,085	8,269	533	764	-

In relation to the lack of speculative activity and as discussed in section 2.1, the positions in equity instruments and equity indices in the regulatory trading book as at December 31, 2016 are negligible and only arise from settlement activities with institutional counterparties on behalf of customers; equally negligible is their impact on operating income, profit (loss) for the year and shareholders' equity.

3. Regulatory trading book: internal models and other methods of sensitivity analysis

The Bank monitors the VaR of the Trading Book on a weekly basis.

As at December 31, 2016, the daily VaR of the trading book amounted to €175 thousand.

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 consists of changes in interest rates that are reflected in:

- net interest margin sources, and thus, the Bank's earnings (cash flow risk);
- the net present value of assets and liabilities, due to their impact on the present value of future cash flows (fair value risk).

In line with the Group approach, the Bank measures and monitors interest rate risk daily, within the methodological framework and the corresponding limits or thresholds set by the Parent Company. These relate to the sensitivity of the net interest margin and the economic value.

Interest rate risk has an impact on all owned positions resulting from strategic investment decisions (banking book).

The main sources of interest rate risk can be classified as follows:

- repricing risk: the risk resulting from timing mismatches in terms of the repricing of the bank's assets and liabilities. These mismatches result in a risk associated with the rate curve. This risk relates to the Bank's exposure to changes in the slope and shape of the interest rate curve. An associated risk is the basis risk. This risk derives from the imperfect correlation in lending and borrowing interest rate changes for different instruments that may also show similar repricing characteristics;
- optionality risk – risk resulting from implicit or explicit options in the Group's banking book positions.

Within the organisational framework described above, the Board of Directors approves the limits on interest rate risk previously agreed with the Parent Company. These limits are set in terms of VaR (calculated using the methodology described above in relation to the trading book). The Bank is responsible for managing the exposure to interest rate risk within the limits assigned.

To assess effects of the change in the interest rate curve on the banking book, scenario analyses are conducted that involve the parallel shifts in the rate curve of +/- 100 bps and +/- 200 bps at weekly intervals. For more details, see section 2. *Banking book: Internal models and other methods of sensitivity analysis*.

B. Fair value hedging activities

Hedging strategies aimed at complying with interest rate risk limits for the banking portfolio are carried out with unlisted derivative contracts. These derivatives, which are usually interest rate swaps, are the type of contracts most used. Macro-hedging is generally used, meaning hedges related to the amounts of cash contained in asset or liability portfolios.

C. Cash flow hedging activity

There are currently no cash flow hedges generated by the Bank business operations.

D. Hedges of foreign investments

There are currently no hedges of foreign investments within the Bank's business operations.

Part E - Information on risks and hedging policies (CONTINUED)

QUANTITATIVE INFORMATION

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

Currency: Euro

(Amounts in € thousand)

TYPE/UNEXPIRED TERM	ON DEMAND	UP TO 3 MONTHS	BETWEEN 3 AND 6 MONTHS	BETWEEN 6 MONTHS AND 1 YEAR	BETWEEN 1 YEAR AND 5 YEARS	BETWEEN 5 AND 10 YEARS	OVER 10 YEARS	INDEFINITE DURATION
1. On-balance sheet assets	2,395,376	12,469,294	349,020	705,333	2,963,023	923,186	416	-
1.1 Debt securities	-	11,087,622	-	657,851	2,795,752	909,348	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	11,087,622	-	657,851	2,795,752	909,348	-	-
1.2 Loans to banks	2,074,972	967,958	320,959	-	-	-	-	-
1.3 Loans to customers	320,404	413,714	28,061	47,482	167,271	13,838	416	-
- current accounts	296,899	124	123	321	1,221	-	-	-
- other loans	23,505	413,590	27,938	47,161	166,050	13,838	416	-
- with early redemption option	3,766	30,457	26,810	45,577	162,158	13,728	374	-
- other	19,739	383,133	1,128	1,584	3,892	110	42	-
2. On-balance sheet liabilities	17,759,504	945,156	324,140	160,546	8,997	-	-	-
2.1 Deposits from customers	17,709,585	267,229	23,029	81,019	8,997	-	-	-
- current accounts	17,631,211	-	-	-	-	-	-	-
- other liabilities	78,374	267,229	23,029	81,019	8,997	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	78,374	267,229	23,029	81,019	8,997	-	-	-
2.2 Deposits from banks	49,919	677,927	301,111	79,527	-	-	-	-
- current accounts	49,686	-	-	-	-	-	-	-
- other liabilities	233	677,927	301,111	79,527	-	-	-	-
2.3 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security								
- Options								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ long positions	382,500	630,000	-	-	-	250,000	-	-
+ short positions	-	250,000	-	630,000	382,500	-	-	-
4. Other off-balance sheet transactions								
+ long positions	14,924	15,013	-	-	243	-	-	-
+ short positions	15,013	15,167	-	-	-	-	-	-

Currency: Other currencies

(Amounts in € thousand)

TYPE/UNEXPIRED TERM	ON DEMAND	UP TO 3 MONTHS	BETWEEN 3 AND 6 MONTHS	BETWEEN 6 MONTHS AND 1 YEAR	BETWEEN 1 YEAR AND 5 YEARS	BETWEEN 5 AND 10 YEARS	OVER 10 YEARS	INDEFINITE DURATION
1. On-balance sheet assets	319,862	212,213	-	195	168,418	-	-	-
1.1 Debt securities	-	189,939	-	-	168,417	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	189,939	-	-	168,417	-	-	-
1.2 Loans to banks	316,666	-	-	53	-	-	-	-
1.3 Loans to customers	3,196	22,274	-	142	1	-	-	-
- current accounts	685	-	-	-	-	-	-	-
- other loans	2,511	22,274	-	142	1	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	2,511	22,274	-	142	1	-	-	-
2. On-balance sheet liabilities	695,283	11,412	1,505	571	-	-	-	-
2.1 Deposits from customers	692,661	11,412	1,505	571	-	-	-	-
- current accounts	688,096	-	-	-	-	-	-	-
- other liabilities	4,565	11,412	1,505	571	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	4,565	11,412	1,505	571	-	-	-	-
2.2 Deposits from banks	2,622	-	-	-	-	-	-	-
- current accounts	2,622	-	-	-	-	-	-	-
- other liabilities	-	-	-	-	-	-	-	-
2.3 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security								
- Options								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ long positions	-	94,868	-	-	-	-	-	-
+ short positions	-	-	-	-	94,868	-	-	-
4. Other off-balance sheet transactions								
+ long positions	5,962	2,330	-	-	-	-	-	-
+ short positions	2,330	5,962	-	-	-	-	-	-

For a description of the effects of a change in interest rates on net interest margin, profit (loss) for the year, shareholders' equity and the results of scenario analysis, see paragraph 2. *Banking book: Internal models and other methods of sensitivity analysis.*

Part E - Information on risks and hedging policies (CONTINUED)

2. Banking book: internal models and other methods of sensitivity analysis

The following table provides the results of the analyses conducted.

To measure the interest rate risk contained in the Bank's financial statements it is necessary to measure the sensibility of the loans and deposits to changes in the interest rate curve. The Group has developed specific behavioural models aimed at estimating the maturity profile of asset and liability items that do not have a contractual maturity; Indeed, what is perceived to be sight maturing in reality shows some stickiness.

The availability of historic data made it possible to completely align the representation of the interest rate risk profile to the profile used by the Group and that representation provided the breakdowns below.

The following table provides the results of the analyses conducted.

(Amounts in € thousand)

CURRENCY	VALUE ANALYSIS (SHIFT + 200 BP)	VALUE ANALYSIS (SHIFT - 200 BP)	VALUE ANALYSIS (SHIFT + 1 BP)	IRVAR*
EUR	(50.4)	57.9	(269.6)	2,566.1
USD	(5.4)	6.1	(28.6)	
Other currencies	0.2	(0.2)	1.2	383.1
Total	(55.6)	63.8	(297.0)	2,832.2

* 1 day holding period, 99% confidence level

The sensitivity analysis on the value of shareholders' equity, which was conducted assuming a shift of + 200 basis points on the euro interest rate curve, showed a negative impact of €56 thousand. A shift of -200 basis points showed a positive impact of €64 thousand.

The sensitivity analysis on the value of shareholders' equity, which was conducted assuming a shift of + 1 basis point, showed an overall negative impact of €297 thousand.

The interest rate VaR figure for the Bank came to approximately €2,832 thousand.

Total VaR, including the Credit Spread Risk component arising from Italian and Spanish government securities held as investment of liquidity, amounted to €15,920 thousand.

2.3 Exchange Rate Risk**QUALITATIVE INFORMATION****A. General aspects, management processes and measurement methods for exchange rate risk**

As part of its treasury activities, the Bank collects funds in foreign currencies, mainly US dollars, through customer current accounts and repos, subsequently investing these funds in bonds, current accounts and time deposits, in the same currency, with the Parent Company. The impact on the value of balance sheet items is estimated using the Forex VaR indicator.

The VaR of the Bank's positions is not used for the calculation of the Pillar 1 capital requirement because the traditional standardised approach is used. The VaR is only used for management purposes.

B. Exchange rate risk hedging

Exchange rate risk is hedged through the matching of assets and liabilities denominated in currency or through spot transactions in foreign currencies.

The component of exchange rate risk that contributes to the formation of the overall VaR is usually tied to the temporal mismatch between assets and liabilities in US dollars.

QUANTITATIVE INFORMATION

1. Breakdown by currency of assets, liabilities and derivatives

(Amounts in € thousand)

ITEMS	CURRENCIES					
	US DOLLAR	POUND STERLING	SWISS FRANC	YEN	AUSTRALIAN DOLLAR	OTHER CURRENCIES
A. Financial assets	572,715	67,054	61,313	151	112	3,867
A.1 Debt securities	358,357	-	-	-	-	-
A.2 Equity Instruments	4,508	3	-	6	-	7
A.3 Loans to banks	185,661	66,139	61,205	90	112	3,512
A.4 Loans to customers	24,189	912	108	55	-	348
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	56	22	-	-	-	1
C. Financial liabilities	578,095	66,731	61,318	133	-	2,585
C.1 Deposits from banks	-	-	-	133	-	2,490
C.2 Deposits from customers	578,095	66,731	61,318	-	-	95
C.3 Debt securities	-	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
D. Other liabilities	281	39	-	-	26	809
E. Financial derivatives						
- Options						
+ long positions	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-
- Other derivatives						
+ long positions	79,427	16,492	3,699	4,993	3,188	18,749
+ short positions	78,283	14,048	3,417	6,239	3,239	18,308
Total assets	652,198	83,568	65,012	5,144	3,300	22,617
Total liabilities	656,659	80,818	64,735	6,372	3,265	21,702
Difference	(4,461)	2,750	277	(1,228)	35	915

The impact of changes in exchange rates are quantified by the daily Forex VaR of the overall portfolio, as described in the following paragraph.

2. Internal models and other methods of sensitivity analysis

As at December 31, 2016, the daily Forex VaR of the overall portfolio (banking and trading books) was approximately €106 thousand.

Part E - Information on risks and hedging policies (CONTINUED)

2.4 Derivative instruments

A. Financial derivatives

A.1 Regulatory trading book: end of period notional amounts

(Amounts in € thousand)

UNDERLYING ASSET/TYPE OF DERIVATIVE	TOTAL 12.31.2016		TOTAL 12.31.2015	
	OVER THE COUNTER	CENTRAL COUNTERPARTIES	OVER THE COUNTER	CENTRAL COUNTERPARTIES
1. Debt securities and interest rate indexes	3,519	2,889	1,304	766
a) Options	4	-	-	4
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	2,889	-	762
e) Other	3,515	-	1,304	-
2. Equity instruments and share indices	41,993	26,072	21,275	8,207
a) Options	-	-	1	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	26,072	-	8,207
e) Other	41,993	-	21,274	-
3. Currencies and gold	172,199	-	651,337	-
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	172,199	-	651,337	-
4. Commodities	-	-	-	-
5. Other underlying assets	-	-	-	-
Total	217,711	28,961	673,916	8,973

Letter e) Other in the "Over the counter" column consists of CFD derivatives.

A.2 Banking book: end of period notional amounts

A.2.1 Hedging instruments

(Amounts in € thousand)

UNDERLYING ASSET/TYPE OF DERIVATIVE	TOTAL 12.31.2016		TOTAL 12.31.2015	
	OVER THE COUNTER	CENTRAL COUNTERPARTIES	OVER THE COUNTER	CENTRAL COUNTERPARTIES
1. Debt securities and interest rate indexes	1,357,368	-	2,430,880	-
a) Options	-	-	-	-
b) Swaps	1,357,368	-	2,430,880	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
2. Equity instruments and share indices	-	-	-	-
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
3. Currencies and gold	-	-	-	-
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
4. Commodities	-	-	-	-
5. Other underlying assets	-	-	-	-
Total	1,357,368	-	2,430,880	-

A.2.2 Other derivatives

No data to report.

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

(Amounts in € thousand)

TRANSACTION TYPES/UNDERLYINGS	POSITIVE FAIR VALUE			
	TOTAL 12.31.2016		TOTAL 12.31.2015	
	OVER THE COUNTER	CENTRAL COUNTERPARTIES	OVER THE COUNTER	CENTRAL COUNTERPARTIES
A. Regulatory trading book	2,999	10	1,992	357
a) Options	-	-	-	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	10	-	357
g) Other	2,999	-	1,992	-
B. Banking book - hedges	552	-	-	-
a) Options	-	-	-	-
b) Interest rate swaps	552	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
C. Banking book - other derivatives	-	-	-	-
a) Options	-	-	-	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
Total	3,551	10	1,992	357

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

(Amounts in € thousand)

TRANSACTION TYPES/UNDERLYINGS	NEGATIVE FAIR VALUE			
	TOTAL 12.31.2016		TOTAL 12.31.2015	
	OVER THE COUNTER	CENTRAL COUNTERPARTIES	OVER THE COUNTER	CENTRAL COUNTERPARTIES
A. Regulatory trading book	549	41	3,064	39
a) Options	-	-	-	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	41	-	39
g) Other	549	-	3,064	-
B. Banking book - hedges	10,914	-	31,319	-
a) Options	-	-	-	-
b) Interest rate swaps	10,914	-	31,319	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
C. Banking book - other derivatives	-	-	-	-
a) Options	-	-	-	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
Total	11,463	41	34,383	39

Part E - Information on risks and hedging policies (CONTINUED)

A.5 Over the counter financial derivatives – regulatory trading book: notional values, positive and negative gross fair values by counterparty – contracts not covered by clearing agreements

(Amounts in € thousand)

CONTRACTS NOT INCLUDED IN NETTING AGREEMENT	GOVERNMENTS AND CENTRAL BANKS	OTHER PUBLIC ENTITIES	BANKS	FINANCIAL COMPANIES	INSURANCE COMPANIES	NON-FINANCIAL COMPANIES	OTHER ENTITIES
1. Debt securities and interest rate indexes							
- notional amount	4	-	-	-	-	-	3,515
- positive fair value	-	-	-	-	-	-	26
- negative fair value	-	-	-	-	-	-	2
- future exposure	-	-	-	-	-	-	-
2. Equity instruments and share indices							
- notional amount	-	-	-	-	-	2,135	39,858
- positive fair value	-	-	-	-	-	22	1,598
- negative fair value	-	-	-	-	-	-	178
- future exposure	-	-	-	-	-	213	3,986
3. Currencies and gold							
- notional amount	-	-	88,743	284	-	964	82,207
- positive fair value	-	-	264	22	-	77	990
- negative fair value	-	-	166	-	-	-	204
- future exposure	-	-	-	3	-	10	822
4. Other instruments							
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-

A.6 Over the counter financial derivatives - regulatory trading book: notional values, positive and negative gross fair values by counterparty – contracts not covered by clearing agreements

(Amounts in € thousand)

CONTRACTS NOT INCLUDED IN NETTING AGREEMENT	GOVERNMENTS AND CENTRAL BANKS	OTHER PUBLIC ENTITIES	BANKS	FINANCIAL COMPANIES	INSURANCE COMPANIES	NON-FINANCIAL COMPANIES	OTHER ENTITIES
1. Debt securities and interest rate indexes							
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
2. Equity instruments and share indices							
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
3. Currencies and gold							
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
4. Other instruments							
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-

A.7 Over the counter financial derivatives – banking book: notional values, positive and negative gross fair values by counterparty – contracts not covered by clearing agreements

(Amounts in € thousand)

CONTRACTS NOT INCLUDED IN NETTING AGREEMENT	GOVERNMENTS AND CENTRAL BANKS	OTHER PUBLIC ENTITIES	BANKS	FINANCIAL COMPANIES	INSURANCE COMPANIES	NON-FINANCIAL COMPANIES	OTHER ENTITIES
1. Debt securities and interest rate indexes							
- notional amount	-	-	330,000	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	3,064	-	-	-	-
- future exposure	-	-	-	-	-	-	-
2. Equity instruments and share indices							
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
3. Currencies and gold							
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
4. Other instruments							
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-

A.8 Over the counter financial derivatives – banking book: notional values, positive and negative gross fair values by counterparty – contracts not covered by clearing agreements

(Amounts in € thousand)

CONTRACTS NOT INCLUDED IN NETTING AGREEMENT	GOVERNMENTS AND CENTRAL BANKS	OTHER PUBLIC ENTITIES	BANKS	FINANCIAL COMPANIES	INSURANCE COMPANIES	NON-FINANCIAL COMPANIES	OTHER ENTITIES
1. Debt securities and interest rate indexes							
- notional amount	-	-	1,027,368	-	-	-	-
- positive fair value	-	-	552	-	-	-	-
- negative fair value	-	-	7,849	-	-	-	-
2. Equity instruments and share indices							
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
3. Currencies and gold							
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
4. Other instruments							
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-

Part E - Information on risks and hedging policies (CONTINUED)

A.9 OTC financial derivatives - residual life: notional amounts

(Amounts in € thousand)

UNDERLYING/UNEXPIRED TERM	UP TO 1 YEAR	FROM 1 YEAR AND 5 YEARS	OVER 5 YEARS	TOTAL
A. Regulatory trading book	175,714	-	41,997	217,711
A.1 Financial derivative contracts on debt securities and interest rates	3,515	-	4	3,519
A.2 Financial derivatives on equity instruments and share indices	-	-	41,993	41,993
A.3 Financial derivatives on exchange rates and gold	172,199	-	-	172,199
A.4 Financial derivatives on other instruments	-	-	-	-
B. Banking book	630,000	477,368	250,000	1,357,368
B.1 Financial derivative contracts on debt securities and interest rates	630,000	477,368	250,000	1,357,368
B.2 Financial derivatives on equity instruments and share indices	-	-	-	-
B.3 Financial derivatives on exchange rates and gold	-	-	-	-
B.4 Financial derivatives on other instruments	-	-	-	-
Total as at December 31, 2016	805,714	477,368	291,997	1,575,079
Total as at December 31, 2015	1,949,169	1,088,426	67,200	3,104,795

A.10 Over the counter financial derivatives: Counterparty risk/financial risk – Internal models

No data to report.

B. Credit derivatives

No data to report.

C. Financial and credit derivatives

C.1 OTC financial and credit derivatives: net fair values and future credit exposure by counterparty

(Amounts in € thousand)

	GOVERNMENTS AND CENTRAL BANKS	OTHER PUBLIC ENTITIES	BANKS	FINANCIAL COMPANIES	INSURANCE COMPANIES	NON-FINANCIAL COMPANIES	OTHER ENTITIES
1) Bilateral arrangements - financial derivatives							
- positive fair value	-	-	552	-	-	-	-
- negative fair value	-	-	7,849	-	-	-	-
- future exposure	-	-	6,137	-	-	-	-
- net counterparty risk	-	-	-	-	-	-	-
2) Bilateral arrangements - credit derivatives							
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
- net counterparty risk	-	-	-	-	-	-	-
3) Cross-product arrangements							
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
- net counterparty risk	-	-	-	-	-	-	-

Section 3 - Liquidity Risk

QUALITATIVE INFORMATION

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

Liquidity risk can be succinctly defined as the risk that the Bank, also due to unexpected future events, is unable to meet its payment obligations or to efficiently match expected cash inflows and outflows.

The different types of liquidity managed by the Bank are as follows:

- funding risk, the Bank may not be able to effectively address any expected or unexpected cash outflows due to the unavailability of funding sources;
- market risk, in liquidating a considerable amount of assets, the Bank may be facing a considerable (and unfavourable) change in price generated by internal or external factors;
- risk of mismatch, the risk generated by a mismatch between the amounts and/or the maturities of cash inflows and outflows;
- contingency risk, future unexpected commitments (credit facilities being drawn down, deposit withdrawals, increase of collateral) may require a higher amount of liquidity compared to that used by the Bank in ordinary operations.

To address its exposure to liquidity risk, the Bank invests the portion of liquidity that according to its internal analyses is less stable ("non-core liquidity") in liquid assets or assets readily convertible into cash, such as, for example, demand deposits, short-term loans or government bonds that can be used as a source of short-term financing with the central bank.

At the reporting date, there were no "Contingent liquidity and funding needs", such as, for example, accelerated repayment clauses or the issue of additional guarantees relating to a downgrade of the bank.

The key principles

"Fineco Liquidity Policy" approved by the Board of Directors of the Bank establishes the managerial autonomy of the Bank's Treasury department and sets forth the principles and rules that the Bank applies to both normal and emergency liquidity management in line with the Group liquidity risk management.

Roles and responsibilities

The "Fineco Liquidity Policy" establishes the principles adopted in terms of internal governance, which envisage the involvement of the Finance, Treasury and Risk Management departments, in line with the Group's approach.

The operational management of liquidity is carried out by the Treasury department, which ensures effective and efficient management of liquidity in the short and medium/long term, monitoring of liquidity exposure and first-level controls on the management process.

The Risk Control function is responsible for implementing the rules on liquidity risk, the application of selected risk metrics and methodologies and the approval and compliance with risk limits.

To this end, "Fineco Liquidity Policy" explicitly refers to Group rules regarding the implementation of first and second level monitoring, both from a regulatory and management standpoint:

1. Short-term liquidity risk management (operational liquidity), which considers the events that will impact upon the Bank's liquidity position from one day up to one year. The primary objective is to maintain the Bank's capacity to fulfil its ordinary and extraordinary payment obligations while minimising the relevant costs.
2. Structural liquidity risk management (structural risk), which considers the events that will impact upon the Bank's liquidity position over one year. The primary objective is to maintain an adequate ratio between medium/long term liabilities and medium to long-term assets, with a view to avoiding pressures on short-term funding sources (both current and future).
3. Stress tests: Liquidity risk is a low probability, high impact event. Therefore stress testing is a tool to reveal potential vulnerabilities in the Balance Sheet. The Bank uses several scenarios ranging from general market crisis to idiosyncratic crisis, and combinations hereof.

In this context, the Bank takes into account all of the assets, liabilities, off-balance sheet positions and present and future events that generate certain or potential cash flows, thereby protecting the Bank from risks related to the transformation of maturity.

Short term liquidity management

Short-term liquidity management aims at ensuring that the Bank remains in a position to fulfil its cash payment obligations always, whether expected or unexpected, focused on the exposure for the first twelve months.

On a daily basis, the Bank calculates the Operative Maturity Ladder, which measures the cash inflows and outflows affecting the monetary base, with details of the main temporal buckets.

The Bank's objective is to provide sufficient short-term liquidity to deal with the particularly adverse liquidity crises for at least three months.

Part E - Information on risks and hedging policies (CONTINUED)

Structural liquidity management

L'obiettivo della gestione della liquidità strutturale della Banca è quello di mantenere un adeguato rapporto tra le attività e le passività di medio/lungo The objective of the Bank's structural liquidity management is to maintain an adequate ratio between medium/long term assets and liabilities (generally over one year), with a view to avoiding pressures on short-term funding sources, both current and future. To this end, the Bank adopts a prudent approach to its investments of liquidity, taking into account funding maturities.

Liquidity Stress Test

Stress testing is a risk management technique used to evaluate the potential effects of a specific event on an entity's financial position. As a forward looking tool, liquidity stress testing diagnostics the institution's liquidity risk.

Periodically, the Bank uses scenario analysis to evaluate the impact of simultaneous changes in various risk factors, defining a hypothetical and consistent stress event whose assumptions and size are shared and agreed with the Parent Company's functions.

Behavioural modelling of Assets and Liabilities

The Group has developed specific behavioural models aimed at estimating the maturity profile of asset and liability items that do not have a contractual maturity; Indeed, what is perceived to be sight maturing in reality shows some stickiness.

More specifically, modelling of assets and liabilities aims to construct a replication profile that best reflects the behavioural characteristics of the items. An example is on demand items: estimates of the maturity profile reflect the perceived stickiness. These behavioural models are developed by the Planning, Finance and Administration function of the Parent Company and validated by the Risk Management function of the Parent Company and FinecoBank.

FinecoBank Contingency Liquidity Policy

A liquidity crisis is a high impact, low probability event. Therefore, a crisis-mode operating model, that can be activated effectively in case of crisis according to an approved procedure, has been defined in FinecoBank "Contingency Plan for liquidity risk".

The ability to act in time is essential to minimise the potentially disruptive consequences of a liquidity crisis. The analytics of the Stress tests form a valuable tool to identify the expected consequences and to define up front the most suitable actions in a certain crisis scenario. In combination with Early Warning Indicators (EWI), the Bank may be able to reduce the liquidity effects in the initial stages of a crisis.

FinecoBank "Contingency Plan on liquidity risk" has the objective of ensuring effective interventions also during the initial stage of a liquidity crisis, through the clear identification of individuals, powers, responsibilities, communication, and reporting criteria, with a view of increasing significantly the probability of successfully overcoming the state of emergency. This is achieved through:

- activation of extraordinary liquidity governance and operating model;
- consistent communication both internally and to the Group;
- a set of available mitigating liquidity actions;
- a set of early warning indicators that may point towards a developing crisis.

QUANTITATIVE INFORMATION

1. Breakdown by contractual residual maturity of financial assets and liabilities Currency: Euro

(Amounts in € thousand)

ITEM/TIME BRACKETS	ON DEMAND	BETWEEN 1 DAY AND 7 DAYS	BETWEEN 7 DAYS AND 15 DAYS	BETWEEN 15 DAYS AND 1 MONTH	BETWEEN 1 MONTH AND 3 MONTHS	BETWEEN 3 AND 6 MONTHS	BETWEEN 6 MONTHS AND 1 YEAR	BETWEEN 1 YEAR AND 5 YEARS	OVER 5 YEARS	INDEFINITE DURATION
On-balance sheet assets	2,394,957	40,740	407,589	479,380	729,369	814,299	1,588,441	9,141,439	3,964,809	172,461
A.1 Government securities	-	-	-	13,163	7,745	35,266	382,751	2,268,000	720,004	-
A.2 Debt securities	-	2,777	4,641	389,302	30,852	426,152	1,149,898	6,700,037	3,230,002	-
A.3 UCITS units	1	-	-	-	-	-	-	-	-	-
A.4 Loans	2,394,956	37,963	402,948	76,915	690,772	352,881	55,792	173,402	14,803	172,461
- Banks	2,074,972	1,545	172,004	1,958	619,946	320,815	-	-	-	172,461
- Customers	319,984	36,418	230,944	74,957	70,826	32,066	55,792	173,402	14,803	-
On-balance sheet liabilities	17,765,525	32,785	175,366	42,567	694,084	323,736	160,608	8,951	-	-
B.1 Deposits and current accounts	17,681,929	10,327	14,115	36,987	78,766	4,395	5,243	8,951	-	-
- Banks	49,686	-	-	-	-	-	-	-	-	-
- Customers	17,632,243	10,327	14,115	36,987	78,766	4,395	5,243	8,951	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	83,596	22,458	161,251	5,580	615,318	319,341	155,365	-	-	-
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- long positions	-	129,606	278	-	2,889	-	-	60	1,878	558
- short positions	-	132,469	45	-	-	-	-	60	4,766	560
C.2 Financial derivatives without exchange of capital										
- long positions	1,158	666	-	94	3,612	4,345	6,578	-	-	-
- short positions	138	-	-	-	-	5,775	5,531	-	-	-
C.3 Deposits and loans to be collected										
- long positions	-	15,013	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	15,013	-	-	-	-
C.4 Irrevocable commitments to lend funds										
- long positions	-	-	-	-	-	14,801	123	243	-	-
- short positions	-	14,924	-	243	-	-	-	-	-	-
C.5 Financial guarantees given	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital										
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of capital										
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-

Part E - Information on risks and hedging policies (CONTINUED)

Currency: Other currencies

(Amounts in € thousand)

ITEM/TIME BRACKETS	ON DEMAND	BETWEEN 1 DAY AND 7 DAYS	BETWEEN 7 DAYS AND 15 DAYS	BETWEEN 15 DAYS AND 1 MONTH	BETWEEN 1 MONTH AND 3 MONTHS	BETWEEN 3 AND 6 MONTHS	BETWEEN 6 MONTHS AND 1 YEAR	BETWEEN 1 YEAR AND 5 YEARS	OVER 5 YEARS	INDEFINITE DURATION
On-balance sheet assets	319,952	4,974	500	3,466	15,096	48,659	3,030	265,630	47,435	-
A.1 Government securities	-	-	-	-	427	-	427	75,894	1	-
A.2 Debt securities	-	131	-	339	963	48,659	2,408	189,735	47,434	-
A.3 UCITS units	-	-	-	-	-	-	-	-	-	-
A.4 Loans	319,952	4,843	500	3,127	13,706	-	195	1	-	-
- Banks	316,666	-	-	-	-	-	53	-	-	-
- Customers	3,286	4,843	500	3,127	13,706	-	142	1	-	-
On-balance sheet liabilities	695,316	4,014	353	675	6,485	1,506	572	-	-	-
B.1 Deposits and current accounts	690,751	-	-	-	-	-	-	-	-	-
- Banks	2,622	-	-	-	-	-	-	-	-	-
- Customers	688,129	-	-	-	-	-	-	-	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	4,565	4,014	353	675	6,485	1,506	572	-	-	-
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- long positions	-	104,724	44	-	-	-	-	29	24	-
- short positions	-	102,029	277	-	-	-	-	29	24	-
C.2 Financial derivatives without exchange of capital										
- long positions	1,851	275	-	-	523	838	1,781	-	-	-
- short positions	444	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be collected										
- long positions	-	2,330	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	2,330	-	-	-	-
C.4 Irrevocable commitments to lend funds										
- long positions	-	-	-	-	-	5,962	-	-	-	-
- short positions	-	5,962	-	-	-	-	-	-	-	-
C.5 Financial guarantees given	-	-	-	-	-	-	-	-	-	-
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	-	-	-	-	-	-	-	-	-	-

Assets received as collateral or loaned as part of repos and securities lending

(Amounts in € thousand)

	12.31.2016	12.31.2015
Fair value of securities received as guarantee in repos and securities lending with cash guarantee	122,584	267,082
Fair value of securities received on loan	1,094,173	1,407,760
Of which fair value of the securities delivered through reverse repos and securities lending with cash guarantee	(1,213,038)	(1,438,157)

Section 4 - Operational risk

QUALITATIVE INFORMATION

A. General aspects, operational processes and methods for measuring operational risk

Operational risk definition

Operational risk is defined as the risk of losses due to errors, violations, interruptions, or damage caused by internal processes, personnel, systems or by external events. This definition includes legal and compliance risks, but excludes strategic and reputational risk.

For example, losses arising from the following can be defined as operational: internal or external fraud, employment practices and workplace safety, customer claims, product distribution, fines and penalties for regulatory breaches, damage to the Company's physical assets, business disruption and system failures, and management of processes.

Group operational risk framework

In UniCredit Group the operational risk management framework is a combination of policies and procedures for controlling, measuring and mitigating operational risk within the Group and the subsidiaries. Operational risk policies, applicable to all Group entities, are common principles that define the roles of company bodies and of the risk management function as well as the interactions with other functions involved in the process. These principles and provisions have been set out in the Group Framework for the management of operational risk and adopted in FinecoBank's Operational Risk Manual approved by the Board of Directors.

The methods for classifying data and verifying its completeness, scenario analysis, risk indicators and risk capital reporting and measurement are set by the Group Operational & Reputational Risks department of the Parent Company and applied by FinecoBank in its capacity as a Group Legal Entity. A pivot element of the risk control framework is the operational risk management application, allowing the collection of the data required for operational risk control and capital measurement.

The compliance of the operational risk control and measurement system with external regulations and Group standards is assessed through an internal validation process, under the responsibility of the Group Internal Validation department of the Parent Company, which is independent from the Group Operational & Reputational Risks department.

The Bank has obtained the approval of the Bank of Italy for the use of advanced approaches (AMA) to calculate its capital requirement for operational risk with effect from June 30, 2010.

Organisational structure

The Strategic Direction Body is responsible for approving all aspects relating to the Group operational risk framework and verifying the adequacy of the measurement and control system and is regularly updated on changes to the risk profile and operational risk exposure, with support from the appropriate risk committees if required.

In addition to the Strategic Direction Body, the corporate governance structure for operational risk consists of the **Risks Committee** – introduced from June 24, 2009 – which examines all risk issues submitted to it, and approves and validates the internal procedures and operating manuals for operational risk.

The reports produced by Risk Management for the Risks Committee and for the Board of Directors ensure that management and the control bodies are constantly updated on the trend in operational risk within the Bank and can actively intervene in the management and mitigation of the risks. The Chief Risk Officer's participation in the **Products Committee** ensures oversight of the operational risk associated with the Bank's new business activities.

The Operational Risk Management (ORM) team is part of the broader Risk Management office which reports to the Chief Risk Officer of FinecoBank who in turn reports directly to the Chief Executive Officer and General Manager.

The main activities carried out by the Risk Management office in terms of operational risk are:

- recognition, classification, validation and reporting of operating losses with consequent identification of problem areas;
- assessment of potential risks through scenario analyses and risk indicators (Key Risk Indicator-KRI);
- monitoring and optimisation of the internal control system;
- policies to mitigate and transfer risk through insurance cover;
- development of an operational risk culture within the Bank;
- generating reports for Senior Management on risk trends.

Internal validation process

In compliance with external regulations, the operational risk control and measurement system is subject to an internal validation process established by the Parent Company, in order to verify its compliance with minimum requirements and Group standards. This process is owned by the Operational and Pillar II Risk Validation Unit, within the Group Internal Validation department.

The use of the Advanced Measurement Approach (AMA) to calculate regulatory capital requires the preparation of an annual report on the management and control system for operational risk by the Operational Risk team. This Annual Report contains a self-assessment of the system and a detailed examination of the governance structure, the process for collecting data on losses, the scenario analyses and internal control system, as well as the operational use of the measurement system.

Part E - Information on risks and hedging policies (CONTINUED)

The Report is submitted to the approval of the Board of Directors and is validated by the Internal Audit department and Group GIV (Group Internal Validation). For 2016, the Internal Audit department and Group GIV confirmed that adequate protection measures are in place for operating risk as well as the adequacy of the existing management and control system.

Operational risk management

Operational risk management consists of the review of processes to reduce the risks found and the management of the related insurance policies, with the identification of the suitable deductibles and limits.

The Risks Committee and the Product Committee, from September 2011, have been joined by a Permanent Work Group (PWG), whose members include the CRO, the Risk Manager, Information Security & Fraud Management and the Organisation function aimed at sharing their respective expertise in relation to the projects planned or under way, new processes and products, or changes to them, and anything else that may affect the Bank's risk profile. The PWG's ultimate objective is to identify and then develop new mitigation measures.

As part of the prevention of operational risk and to control sales channels remotely, the Risk Management office has focused on fraud prevention measures. The development of remote monitoring to prevent fraud has led to the creation of a system called System of Fraud Identification and Analysis (SoFIA). This system enables a larger amount of data and information on individual indicators to be analysed at the same time and enables possible irregularities to be detected on a daily basis through an alert system.

In this way, all of the names put forward to be checked are assessed at the same time with regard to all remote indicators (30 indicators).

On the basis of qualitative and quantitative assessments of these indicators, the assigned staff select any cases that need to be reported to the Network Controls Department, Monitoring and Network Services Department – reporting directly to the Chief Executive Officer – for subsequent examination.

Moreover, the Operational Risk team is updated annually on the results of the tests conducted in accordance with the Business Continuity and Disaster Recovery plans.

Risk capital measurement and allocation mechanism

UniCredit developed an internal model for measuring the capital requirement. The capital requirement is calculated on the basis of internal loss data, external loss data, scenario loss data and risk indicators.

The collection and classification of operating losses is managed by a Group system called Application for Risk Gauging On line (ARGO). In addition to being used for internal prevention and improvement purposes, the information gathered is also used to calculate Pillar 1 and 2 capital requirements.

In terms of risk indicators, there are currently 42 key risk indicators split into eight control areas (Legal, Claims, Credit Cards, Back Office, PFA, IT systems, Payment Systems, Compliance) that contribute to the calculation of the regulatory capital, which the Bank uses to measure its exposure to operational risk. If an indicator shows an irregular value, this may be related to changes in the exposure to operational risk.

Scenario analyses enable the Bank's exposure to operational risk, characterised by low frequency but high potential impact, to be estimated. The scenarios are identified by analysing internal losses, external events, risk indicator trends, critical processes, products and risk classes.

The inclusion of the data generated through the analyses of the scenario and of the trend of risk indicators are a forward-looking element of the risk capital calculation model.

Data collection and control is managed at local level, while the management and maintenance of the model to calculate regulatory capital is centralised for all Legal Entities of the Group at the Parent Company.

Risk capital for operational risk used for regulatory purposes as at December 31, 2016, amounted to €59,480 thousand.

Risks arising from significant legal disputes

The Bank is involved in individually insignificant legal proceedings over which there is considerable uncertainty regarding the outcome and the amount of possible charges. Where it is possible to reliably estimate the amount of possible charges and the charges are considered likely, provisions have been made in an appropriate amount based on the circumstances and consistent with international accounting standards. Specifically, as a precaution against these obligations and customer claims that have not yet resulted in legal proceedings, as at December 31, 2016, the Bank had a provision in place for risks and charges of €33,699 thousand.

Risks arising from tax disputes and audits

Risks arising from tax disputes and audits as at December 31, 2016 relate to a notice of assessment for the year 2003 containing an objection to the use of tax credits for €2.3 million, in relation to which the bank has appealed to the Supreme Court as it considers its position to be well-founded. The bank has already paid the additional taxes, penalties and interest due. With regard to this dispute, the higher taxes and the penalties have already been recognised in the income statement with a contra entry, respectively, in tax liabilities and the provision for risks and charges. Furthermore, a tax credit for the amount paid has been recognised.

In light of the foregoing, as at December 31, 2016 the Bank had in place provisions that adequately reflect the specific circumstances and are in line with international accounting standards; specifically, to tax liabilities for a total of €5.6 million, for higher tax, and to provisions for risks and charges of €4.1 million, for penalties and interest.

The assessment of ICT operational risk

The prudential regulations require Banks to conduct an analysis, at least annually, of the Bank's ICT risk and to submit the results of the assessment made to the Board of Directors.

In particular, the regulations have introduced standards and specific requirements for managing and assessing ICT risk that require Banks to assess the exposure to these risks, not only by gathering and analysing economic losses, but also by considering additional information, such as ICT incidents occurring and information related to the riskiness of the Bank's assets (hardware and software).

The Parent Company, in performing its role of direction, coordination and control, has established a common framework for the entire Group for the assessment of ICT risk and FinecoBank Risk Management function has adopted that framework⁶.

The results of the analysis, conducted in collaboration with the Bank's Business, ICT and Organisation departments, were reported to the Bank's Board of Directors during 2016.

QUANTITATIVE INFORMATION

Internal operating loss data is the main component used to calculate capital requirements against operational risk. Loss analyses enable the ORM team to make assessments on the Bank's exposure to operational risk and to identify any critical areas. As at December 31, 2016, operating losses recorded in the accounts amounted to approximately €0.33 million.

The main sources of operating losses are shown below by "event type", i.e. by type of event that generated them according to the New Basel II Accord:

- Internal fraud: losses due to unauthorised activities, fraud, embezzlement or infringement of laws, regulations or company directives that involve at least one internal staff member of the bank or a resource hired under an agency contract;
- External fraud: losses owing to fraud, embezzlement or violation of laws by subjects external to the bank;
- employment practices and workplace safety: losses due to actions not compliant with the law or to agreements regarding employment, health and safety, to the payment of compensation for bodily harm, or to cases of discrimination or non-application of equality conditions;
- customers, products and professional practices: losses arising from non-fulfilment of professional obligations towards customers or from the nature or characteristics of the products or services provided;
- damage from external events: losses arising from external events, including natural disasters, acts of terrorism and vandalism;
- business disruption and system failures: losses owing to business disruption and system failures or interruptions;
- process management, execution and delivery: losses due to deficiencies in the completion of transactions or management of processes, as well as losses due to relations with commercial counterparties, vendors and suppliers.

Section 5 - Other Risks and information

Although the types of risk described above represent the main categories, there are other types that the Bank considers important. In accordance with the provisions of Basel II Pillar 2, the Bank – with the support of the Parent Company – has identified other types of risk in addition to the credit, market, operational and liquidity risks described above:

- Business risk is defined as adverse, unexpected changes in business volume and/or margins that are not due to credit, market and operational risks. Business risk can result, above all, from a serious deterioration in the market environment, changes in the competitive situation or customer behaviour, as well as changes in the legal framework;
- Strategic risk is the risk of suffering potential losses due to decisions or radical changes in the business environment, improper implementation of decisions, lack of responsiveness to changes in the business environment, which result in negative impacts to the risk profile, capital and earnings as well as the overall direction and scope of a bank over the long run;
- Reputational risk, which represents the current or future risk of a fall in profits resulting from a negative perception of the Bank's image by Customers, counterparties, shareholders, investors or Supervisory Authorities.

The Bank has not included Real Estate Risk within the Bank's scope of risk, because it does not hold significant positions in real estate, nor does it include Financial Investment Risk, as it does not possess large non-speculative financial investments.

Following the identification of the significant risks, the Parent Company establishes the best way to analyse them in qualitative and quantitative terms. The quantitative measurement is carried out by the Parent Company using data sent by the Bank and is used to calculate the Internal Capital.

Credit, market, operational and business risks are measured quantitatively by the Parent Company, using:

- economic capital, calculation of the benefit of diversification and aggregation as a component of internal capital (including prudential cushion for model risk and variability of the economic cycle);
- Stress tests.

Internal Capital is the capital set aside as a buffer against the potential losses inherent in the Group's business activities and it takes into consideration all risk types that the Group has identified as measurable in terms of Economic Capital in line with Pillar II requirements.

For control purposes, Internal Capital is calculated quarterly by the Parent Company based on the periodic figures sent by the Bank.

The multi-dimensional nature of risk makes it necessary to supplement the measurement of economic capital with stress testing, not only in order to estimate losses in certain scenarios, but also to ascertain the impact of their determinants.

The stress test is one of the instruments used control significant risks in order to assess the Bank's vulnerability to "exceptional but plausible" events, providing additional information to the monitoring activities.

Stress testing, in accordance with regulatory requirements, is conducted on the basis of a set of internally defined stress scenarios and is periodically performed by specific Parent Company functions.

6. (*) For the business processes analysed the assessment involved the quantitatively assessing the risk through scenario analysis. Upon completion of the work, Risk Management submitted the results of the analysis to the attention of the Risk Takers who, in view of the volumes of business, accepted the remaining risk without the need to identify additional mitigation measures.

Part E - Information on risks and hedging policies (CONTINUED)

ICAAP - Internal Capital Adequacy Assessment Process

Measuring the risk profile is a fundamental element of the Internal Capital Adequacy Assessment Process under Pillar 2 (ICAAP).

The Group's approach to ICAAP relies on the definition of the "Risk Governance", as a preliminary requirement, while the process consists of following phases:

- defining the scope and identifying the risks;
- assessing the risk profile;
- risk appetite setting and capital allocation;
- monitoring and reporting.

Capital adequacy is assessed by considering the balance between assumed risks, both Pillar I and Pillar II, and the available capital. With respect to Pillar II, the relevant metric is the Risk Taking Capacity, which is the ratio of available capital (Available Financial Resources - AFR) to Internal Capital.

Risk Appetite

The main elements of the internal process for determining capital adequacy include the setting and monitoring of the risk appetite. The risk appetite is defined as the level of risk that the Bank is willing to accept for the pursuit of its strategic objectives and business plan, taking into account the interests of its customers and shareholders, capital requirements and other requirements.

The main objectives of the risk appetite are:

- explicitly assessing the risks, and their interconnections at local and Group level, that the Bank decides to assume (or avoid) in a long-term perspective;
- specifying the types of risk that the Bank intends to assume, setting targets, triggers and limits under both normal operating and stress conditions;
- ensuring a risk-return profile "ex-ante" consistent with sustainable long-term growth, as defined by the return forecasts of the strategic plan/budget;
- ensuring that the business developed within the limits of risk tolerance established by the Board of Directors, in accordance with the applicable national and international regulations;
- supporting discussions on future policy options with regard to the risk profile;
- guiding the vision of internal and external stakeholders towards a risk profile consistent with the strategic plan;
- providing qualitative descriptions for risks that are difficult to quantify (e.g. strategic, reputational, compliance) to strategically guide the review of processes and the internal control system.

The Risk appetite is defined consistently with the Bank's business model and local and Group ICAAP. For this reason, the Risk Appetite is incorporated in the budget process.

The risk appetite includes a statement and a set of KPIs. The Statement sets out the Bank's positioning in terms of strategic objectives and associated risk profiles, while the KPIs are designed to quantitatively measure the Bank's in the following categories:

- Pillar 1 KPI: regulatory requirements, to include the KPIs required by the Supervisory Authority (e.g., capital and liquidity requirements such as LCR and NSFR);
- Managerial KPI: to ensure alignment with the budget in terms of return on capital and credit quality;
- Specific Risk KPI: to ensure control of all major risks (such as Pillar 2 capital adequacy, market risk, interest rate risk and operating risk).

For each of the above mentioned factors, one or more KPIs are identified, in order to quantitatively measure the Bank's positioning under several respects: absolute values, ratio between comparable measures, sensitivity analysis on defined parameters.

The Targets represent the amount of risk that the Bank is willing to take in normal operating conditions in line with its Ambitions. The Targets should be considered as reference thresholds for business development. Triggers are the maximum acceptable deviation from the targets; they are defined to ensure operations under stress within the maximum acceptable level of risk.

Limits are the maximum level of risk that the Bank accepts to assume.

The setting of the thresholds is evaluated on a case by case basis, also through managerial decisions by the Board of Directors, in compliance with the regulatory requirements and of the supervisory bodies and considering the consistency with the Group risk appetite.

The metrics are the subject of regular monitoring and reporting, at least quarterly. The monitoring is respectively carried out by the CRO Department and the CFO Department.

Part F - Shareholders' equity

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Part F - Shareholders' equity

Section 1 - Bank's shareholders' equity

A. QUALITATIVE INFORMATION

The Bank has made a priority of capital management and allocation on the basis of the risk assumed in order to expand its operations and create value. These activities involve the various planning and control stages and, specifically, the planning, budgeting and monitoring processes (analysis of expected and actual performance, analysis and monitoring of limits, performance analysis and monitoring of capital ratios).

Capital and its allocation are therefore extremely important in defining strategies, since on the one hand it represents the shareholders' investment in the Bank which must be adequately remunerated, on the other hand it is a scarce resource on which there are external limitations imposed by regulatory provisions.

Capital is managed dynamically: the Bank prepares the financial plan, monitors capital requirements for regulatory purposes and anticipates the appropriate steps required to achieve goals.

Monitoring refers, on one hand, to both shareholders' equity and the composition of own funds and, on the other hand, to the planning and performance of risk-weighted assets (RWA).

B. QUANTITATIVE INFORMATION

B.1 Bank's shareholders' equity: breakdown

(Amounts in € thousand)

	AMOUNT 12.31.2016	AMOUNT 12.31.2015
1. Capital	200,246	200,150
2. Share premium reserve	1,934	1,934
3. Reserves	278,407	236,590
- from profits	250,247	214,666
a) legal	40,049	40,030
b) statutory	-	-
c) treasury shares	4,338	8,555
d) other	205,860	166,081
- other	28,160	21,924
4. Equity instruments	-	-
5. (Treasury Shares)	(4,338)	(8,555)
6. Revaluation reserves	(6,794)	11,626
- Available-for-sale financial assets	(455)	16,904
- Property, plant and equipment	-	-
- Intangible assets	-	-
- Hedging instruments of foreign investments	-	-
- Cash flow hedges	-	-
- Exchange differences	-	-
- Non-current assets classified as held for sale	-	-
Actuarial gains (losses) on defined benefit plans	(6,339)	(5,278)
- Revaluation reserves for associates carried at equity	-	-
- Special revaluation laws	-	-
7. Net Profit (Loss) for the year	211,844	191,053
Total	681,299	632,798

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

(Amounts in € thousand)

ASSET/AMOUNT	TOTAL 12.31.2016		TOTAL 12.31.2015	
	POSITIVE RESERVE	NEGATIVE RESERVE	POSITIVE RESERVE	NEGATIVE RESERVE
1. Debt securities	12,040	(12,747)	8,434	(1,285)
2. Equity Instruments	252	-	9,755	-
3. UCITS units	-	-	-	-
4. Loans	-	-	-	-
Total	12,292	(12,747)	18,189	(1,285)

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

(Amounts in € thousand)

	DEBT SECURITIES	EQUITY INSTRUMENTS	UCITS UNITS	LOANS
1. Opening balance	7,149	9,755	-	-
2. Increases	12,074	252	-	-
2.1 Fair value increases	11,784	252	-	-
2.2 Reclassification through profit or loss of negative reserves	-	-	-	-
- from impairment	-	-	-	-
- from disposal	-	-	-	-
2.3 Other changes	290	-	-	-
3. Decreases	(19,930)	(9,755)	-	-
3.1 Fair value reductions	(14,433)	-	-	-
3.2 Impairment losses	-	-	-	-
3.3 Reclassification through profit or loss of positive reserves: from disposal	(5,283)	(9,755)	-	-
3.4 Other changes	(214)	-	-	-
4. Closing balance	(707)	252	-	-

B.4 Revaluation reserves on defined benefit obligations: annual changes

(Amounts in € thousand)

	ACTUARIAL GAINS (LOSSES) ON DEFINED BENEFITS PLANS
1. Opening balance	(5,278)
2. Increases	-
2.1 Fair value increases	-
2.2 Other changes	-
3. Decreases	(1,061)
3.1 Fair value reductions	(1,061)
3.2 Other changes	-
4. Closing balance	(6,339)

Section 2 - Own funds and regulatory ratios**2.1 Own funds****A. Qualitative information**

Own funds are measured on a quarterly basis in accordance with regulatory provisions. The results are reported to the Parent Company's Board of Directors.

Own Funds at December 31, 2016 amounted to €438,121 thousand and were calculated by applying the supervisory regulations in force according to the Basel III regulatory framework including transitional adjustments.

The Common Equity Tier 1 includes the profit for the year (for the amount that will not be distributed) assuming the conditions established Article 26.2 of the EU Regulation 575/2013 (CRR) are satisfied.

(Amounts in € thousand)

	12.31.2016	12.31.2015
Common Equity Tier 1 Capital - CET1	438,121	390,977
Additional Tier 1 – AT1	-	-
TIER 2 – T2	-	2,926
Total Own Funds	438,121	393,903

1. Common Equity Tier 1 - CET1

The financial instruments included in the Common Equity Tier 1 consist of 606,805,436 ordinary shares with a par value of €0.33 euro, amounting to €200,246 thousand, net of 714,325 treasury shares, amounting to €4,338 thousand.

For information on the other items that make up the Common Equity Tier 1 see the details provided at the foot of the table presented in the Quantitative information.

2. Additional Tier 1 – AT1

As at December 31, 2016 there were no Additional Tier 1 items.

Part F - Shareholders' equity (CONTINUED)

3. TIER 2 – T2

As at December 31, 2016 there were no Tier 2 capital items.

B. QUANTITATIVE INFORMATION

(Amounts in € thousand)

	TOTAL 12.31.2016	TOTAL 12.31.2015
A. Common Equity Tier 1 - CET1 before application of prudential filters	509,325	477,420
of which CET1 instruments subject to transitional provisions	-	-
B. Prudential filters for CET1 (+/-)	(577)	(54)
C. CET1 before items to be deducted and the effects of the transitional arrangements (A +/- B)	508,748	477,366
D. Items to be deducted from CET1	74,056	75,003
E. Transitional arrangements – Impact on CET1 (+/-)	3,429	(11,386)
F. Total Common Equity Tier 1 Capital - CET1 (C - D +/- E)	438,121	390,977
G. Additional Tier 1 - AT 1 before items to be deducted and the effects of the transitional arrangements	-	-
of which AT1 instruments subject to transitional provisions	-	-
H. Items to be deducted from AT1	-	-
I. Transitional arrangements – Impact on AT1 (+/-)	-	-
L. Total Additional Tier 1 - AT 1 (G - H +/- I)	-	-
M. Tier 2 (T2) before items to be deducted and the effects of the transitional arrangements	-	-
of which T2 instruments subject to transitional provisions	-	-
N. Items to be deducted from T2	-	-
O. Transitional arrangements – Impact on T2 (+/-)	-	2,926
P. Total Tier 2 (Tier 2 - T2) (M - N +/- O)	-	2,926
Q. Total Own Funds (F + L + P)	438,121	393,903

B. Common Equity Tier 1 - CET1 first time application of prudential filters

The item includes:

- share capital, made up of 606,805,436 ordinary shares of a par value of €0.33 each, for an amount of €200,246 thousand;
- the share premium reserve of €1,934 thousand;
- the legal reserve, the extraordinary reserve and other reserves of €278,407 thousand;
- accumulated other comprehensive income (OCI), which consists of €1,059 thousand from the net positive reserve of debt securities issued by central governments of EU member countries, held in the "available-for-sale financial assets" portfolio after December 31, 2009, €1,514 thousand from the net negative reserve for equity instruments and debt securities other than those mentioned above held in the "Available for sale financial assets" portfolio and €6,339 thousand from the negative IAS19 Reserve;
- the amount of the 2016 profits that will not be distributed, amounting to €41,684 thousand, assuming the conditions established in Article 26, paragraph 2, of EU Regulation 575/2013, have been met.

The following were deducted from this item:

- treasury shares, amounting to €4,338 thousand;
- synthetic exposures in own CET1 equity instruments held in the Bank's regulatory trading book, amounting to €65 thousand;
- CET1 equity instruments for which the Bank has received the buyback authorisation from the Supervisory Authority, pursuant to articles 77-78 of EU Regulation 575/2013 of 26 June 2013 (CRR), amounting to €1,750 thousand.

C. CET1 Prudential filters

This item includes the filter for additional valuation adjustments (AVA) calculated on the assets and liabilities measured at fair value, amounting to €577 thousand.

D. Items to be deducted from CET1

This item includes:

- goodwill, net of deferred taxes, amounting to €66,324 thousand;
- other intangible assets, amounting to €7,731 thousand.

E. Transitional arrangements – Impact on CET1

The item includes the effects of applying the transitional provisions on own funds, specifically:

- a negative prudential filter of 40% has been applied to the net positive revaluation reserves related to debt securities issued by central governments of EU member countries, held in the "available-for-sale financial assets" portfolio after December 31, 2009, for an amount of €424 thousand;
- a positive prudential filter of 40% has been applied to the net negative revaluation reserves related to equities and debt securities other than those mentioned above, held in the "Available-for-sale financial assets", for an amount of €606 thousand. At the same time a negative national filter of 40% has been applied to the same reserves, for amount of €606 thousand, which eliminated the positive prudential filter;

- a 60% negative prudential filter, amounting to €3,853 thousand, has been applied on the amount of the IAS19 reserve.

Regulation (EU) 575/2013 (CRR) also requires banks, as a general rule, to respectively include within and deduct from their own funds the unrealised gains and losses on assets measure that fair value classified in the "Available-for-sale financial assets" portfolio. For a transitional period, the CRR allows the partial inclusion/deduction of those gains and losses from the Common Equity Tier 1, on a gradually increasing basis, to reach their full inclusion/deduction by January 1, 2018. As an exemption to these transitional arrangements, solely for gains and losses resulting from exposures towards central governments recognised in the "Available-for-sale financial assets" portfolio, the CRR has given the competent authorities the option to allow banks not to include or deduct the unrealised gains or losses for any item of own funds if this treatment was applied before the CRR entered into force (January 1, 2014). By specific provision in the regulations, the neutralisation of the gains and losses can be applied until the Commission has adopted a regulation based on Regulation (EC) 1606/2002 that approves IFRS 9 as a replacement to IAS 39. Upon first-time adoption of the CRR in Italy, this option was exercised by the Bank of Italy and the banks had the possibility opting for the total neutralisation of the gains and losses.

In this regard, in March 2016, the European Central Bank issued Regulation (EU) 2016/445 on the exercise of options and discretions available in Union law ("ECB Regulation"), which entered into force on October 1, 2016, which allowed the application of the ordinary transitional regime also for exposures to central governments for the banks subject to direct supervision by the ECB ("significant banks"). In addition, on November 29, 2016, Regulation (EU) 2016/2067 was published in the Official Journal of the European Union, through which the European Commission endorsed IFRS 9.

As a result of the above, from October 2016, FinecoBank as a significant bank must respectively include within or deduct from CET 1 the unrealised gains and losses resulting from exposures to central governments classified in the "Available-for-sale financial assets" portfolio, according to the following percentages: 60% for 2016, and 80% for 2017. The amounts remaining from the application of these percentages (40% the 2016 and 20% for 2017) do not need to be included for the calculation of own funds, as they continue to be neutralised, based on the national regime in force as at December 31, 2013.

As reported in point E. "Transitional arrangements – Impact on CET1", as at December 31, 2016 the unrealised gains from exposures to central governments classified in the "Available-for-sale financial assets" portfolio amounted to €1,059 thousand, to which a negative prudential filter of 40% has been applied, amounting to €424 thousand.

With regard to defined benefit plans under IAS 19, the entry into force on January 1, 2013 of the amendments (IAS 19R) that prescribe the elimination of the corridor method – with the resulting recognition of the present value of the defined benefit obligation – had an impact on the Bank's shareholders' equity due to the recognition of net actuarial gains/losses in revaluation reserves, which were not previously recognised, in application of the said method. From a regulatory point of view, the supervisory authority ordered the implementation of a prudential filter designed to neutralise 60% of the impact of these amendments.

(Amounts in € thousand)

a) Value of liabilities for defined benefits - old IAS 19	(53,808)
a) Value of liabilities for defined benefits - new IAS 19	(63,297)
c) Amount subject to "prudential filter"	(6,339)

O. Transitional arrangements – Impact on T2

No data to report.

Reconciliation of Own funds with Carrying amounts

(Amounts in € thousand)

	TOTAL 12.31.2016	TOTAL 12.31.2015
Share capital, issue-premium reserves and other reserves	480,587	438,674
Accumulated other comprehensive income (OCI)	(6,794)	11,626
Profit allocated to reserves	41,684	35,677
Own CET 1 instruments	(4,403)	(8,557)
Commitments to purchase own CET1 instruments	(1,750)	-
Intangible assets – Goodwill	(66,324)	(66,791)
Intangible assets - Other intangible assets	(7,731)	(8,212)
Regulatory impairment adjustments (AVA)	(577)	(54)
Other transitional adjustments to Common Equity Tier 1 Capital	3,429	(11,386)
Common Equity Tier 1 Capital - CET1	438,121	390,977
Additional Tier 1 – AT1	-	-
Tier 1 Capital (T1= CET1 + AT 1)	-	-
Other transitional adjustments to Tier 2	-	2,926
TIER 2 – T2	-	2,926
Total Own Funds	438,121	393,903

Part F - Shareholders' equity (CONTINUED)

Changes in Own Funds

(Amounts in € thousand)

	01.01.2016 / 12.31.2016	01.01.2015 / 12.31.2015
Common Equity Tier 1 Capital - CET1		
Beginning of period	390,977	353,133
Instruments and Reserves		
Share capital, issue-premium reserves and other reserves	6,237	9,985
Own CET1 instruments	4,154	(8,555)
Commitments to purchase own CET1 instruments	(1,750)	-
Accumulated other comprehensive income (OCI)	(18,421)	9,364
Profit allocated to reserves	41,684	35,677
Regulatory adjustments		
Intangible assets – Goodwill	467	951
Intangible assets - Other intangible assets	481	(71)
Regulatory impairment adjustments (AVA)	(523)	(54)
Other transitional adjustments to Common Equity Tier 1 Capital	14,815	(9,453)
End of period	438,121	390,977
Additional Tier 1 – AT1		
Beginning of period	-	-
End of period	-	-
TIER 2 – T2		
Beginning of period	2,926	-
Other transitional adjustments to Tier 2	(2,926)	2,926
End of period	-	2,926
Total Own Funds	438,121	393,903

2.2 Capital adequacy

A. QUALITATIVE INFORMATION

As at December 31, 2016, the Bank's prudential regulatory requirements were determined by applying the current supervisory regulations of the Basel III Traditional Standardised Approach, except for capital requirements for operational risk, which were calculated using Advanced Measurement Approaches. On the basis of the EU regulations set out in Directive 2013/36/EU and Regulation No 575/2013/EU, collated and implemented by the Bank of Italy through Circular No. 285 of December 17, 2013 "Supervisory Regulations for Banks", the Bank must satisfy the following own funds requirements established in Article 92 of the CRR, expressed as a percentage of the total risk exposure amount (RWA – Risk Weighted Assets):

- a Common Equity Tier 1 capital ratio of at least 4.5%;
- a Tier 1 capital ratio of at least 6%;
- a total capital ratio of at least 8%.

Furthermore, in addition to the Common Equity Tier 1 necessary to meet own funds requirements under Article 92 of the CRR, banks are required to hold a capital buffer, for 2016, of 0.625% of the bank's overall risk exposure (1.25% for 2017, 1.875% for 2018 and 2.5% from 2019).

Article 136 of the directive EU/2013/36 (Capital Requirements Directive, CRD4) establishes the requirement for the designated national authorities to set up an operational framework for establishing the countercyclical capital buffer (CCyB) with effect from January 1, 2016. The buffer is reviewed on a quarterly basis. The European legislation was implemented in Italy through the Bank of Italy Circular 285/2013 (Supervisory regulations for banks), which contain specific rules on the CCyB. Legislative Decree 72 of May 12, 2015 identified the Bank of Italy as the authority designated to adopt the macro prudential measures in the banking sector, including the CCyB. The rules apply at individual and consolidated level to banks and investment firms. Accordingly, with effect from January 1, 2016, institutions are required to maintain an institution-specific countercyclical capital buffer, equivalent to their total risk exposure amount, calculated in accordance with Article 92(3) of Regulation (EU) No 575/2013 multiplied by the weighted average of the buffer rates. The introduction of the countercyclical buffer includes a phase-in period between January 1, 2016 and the end of 2018, and will become fully effective from January 1, 2019 (in 2016 the countercyclical buffer cannot be higher than 0.625%). The Bank's specific countercyclical capital buffer as at December 31, 2016 was 0.0001%, corresponding to around €1 thousand.

Lastly, according to Basel III supervisory regulations, entities that use internal ratings-based approaches for calculating capital requirements for credit risk and Advanced Measurement Approaches for calculating own funds requirements for operational risk must hold, until December 31, 2017, own funds that are at all times equal to or greater than 80% of the Basel I requirements (CRR 575/2013 art. 500). As at December 31, 2016, the Bank's capital requirements according to Basel I amounted to €345,377 thousand; accordingly, 80% of such amount was €276,301 thousand.

Following the outcome of the Supervisory Review and Evaluation Process (SREP) conducted by the ECB during 2016, the competent authorities established that no decision in application of the national legislation implementing Article 104 (1) (a) of the Directive 2013/36/EU or article 16 of Regulation (EU) No. 1024/2013 was required for the Bank.

As for the qualitative information on the methods used by the Bank for assessing its own funds adequacy to support current and future operations, please refer to Section 1 - Shareholders' Equity of this Part F.

B. QUANTITATIVE INFORMATION

(Amounts in € thousand)

CATEGORY/AMOUNT	NON-WEIGHTED ASSETS		WEIGHTED ASSETS	
	12.31.2016	12.31.2015	12.31.2016	12.31.2015
A. RISK ASSETS				
A.1 Credit and counterparty risk	21,591,003	18,795,201	1,134,213	1,064,260
1. Traditional standardised approach	21,591,003	18,795,201	1,134,213	1,064,260
2. Internal rating method	-	-	-	-
2.1 Basic	-	-	-	-
2.2 Advanced	-	-	-	-
3. Securitisations	-	-	-	-
B. REGULATORY CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			90,737	85,141
B.2 Risk of adjustment of valuation of credit			127	160
B.3 Regulatory risk			-	1
B.4 Market risk			2,433	771
1. Traditional standardised approach			2,433	771
2. Internal models			-	-
3. Concentration risk			-	-
B.5 Operational risk			59,480	60,168
1. Basic Indicator Approach			-	-
2. Traditional standardised approach			-	-
3. Advanced measurement approach			59,480	60,168
B.6 Other calculation elements			-	-
B.7 Total prudential requirements			152,777	146,241
C. RISK ASSETS AND CAPITAL RATIOS				
C.1 Risk-weighted assets			1,909,713	1,828,007
C.2 Common Equity Tier 1 Capital/Risk-weighted assets (CET1 capital ratio)			22.94%	21.39%
C.3 Tier 1 capital/Risk-weighted assets (Tier 1 capital ratio)			22.94%	21.39%
C.3 Own funds/Risk-weighted assets (Total capital ratio)			22.94%	21.55%

Risk-weighted assets have been calculated by multiplying the total of prudential requirements by 12.5 (the inverse of the minimum compulsory coefficient of 8%).

Part F - Shareholders' equity (CONTINUED)

Exposure to credit and counterparty risk: breakdown by type of portfolio

(Amounts in € thousand)

PORTFOLIO	12.31.2016		12.31.2015	
	EXPOSURE TO CREDIT AND COUNTERPARTY RISK	RISK-WEIGHTED ASSETS	EXPOSURE TO CREDIT AND COUNTERPARTY RISK	RISK-WEIGHTED ASSETS
Exposures subject to the IRB approach				
Total – ISB approach	-	-	-	-
Exposures subject to the standardised approach				
Exposures to or guaranteed by central governments and central banks	4,040,518	80,911	2,559,604	84,653
Exposures to or guaranteed by public entities	16,259,880	22,784	15,059,974	29,198
Exposures to or guaranteed by Multilateral development banks	3	-	3	-
Exposures to or guaranteed by Companies and other entities	138,486	137,209	137,933	136,406
Retail exposures	1,034,666	776,000	921,226	690,919
Exposures secured by real estate property	917	329	211	96
Exposures in default	3,664	3,736	4,875	4,903
Exposures in equity instruments	3,532	3,532	4,198	10,488
Other exposures	109,337	109,331	107,177	107,171
Total - traditional standardised approach	21,591,003	1,133,832	18,795,201	1,063,834
Risk assets - Credit and counterparty risk	21,591,003	1,133,832	18,795,201	1,063,834
Exposures to central counterparties in the form of pre-financed contributions to the Guarantee Fund		381		426
Capital requirements - Credit and counterparty risk		90,737		85,141

Capital requirement per type of risk and approach used

(Amounts in € thousand)

TYPE OF RISK	APPROACH USED	CAPITAL REQUIREMENTS 31.12.16	CAPITAL REQUIREMENTS 31.12.15
1. On-balance-sheet risk assets	Traditional standardised approach	70,514	59,406
2. Guarantees issued and commitments to disburse funds	Traditional standardised approach	882	221
3. Derivative contracts	Current value approach	130	132
4. Securities financing transactions	CRM - Comprehensive method with regulatory adjustments for volatility	19,181	25,348
Capital requirements credit and counterparty risk			85,107
Capital requirements exposures to central counterparties in the form of pre-financed contributions to the Guarantee Fund			34
Market risk			
1. Exchange rate risk	Traditional standardised approach	827	-
2. Risk position debt securities	Traditional standardised approach	1,113	514
3. Risk position equity instruments	Traditional standardised approach	493	257
4. Position risk commodities	Traditional standardised approach	-	-
Capital requirements - market risk		2,433	771
1. Concentration risk	Traditional standardised approach	-	-
Capital requirements - concentration risk		-	-
1. Risk of adjustment of valuation of credit	Traditional standardised approach	127	160
Capital requirements - risk of adjustment of valuation of credit		127	160
1. Regulatory risk	Traditional standardised approach	-	1
Capital requirements - regulatory risk		-	1
1. Advanced measurement approach	Advanced measurement approach	59,480	60,168
Capital requirements - operational risk		59,480	60,168
Total capital requirements		152,777	146,241

2.3 Minimum ratios established by the Bank

(Amounts in € thousand)

CAPITAL ADEQUACY INDICATORS	31.12.16	TARGET 2016	TRIGGER 2016	LIMIT 2016
Common Equity Tier 1 ratio	22.94%	10.00%	8.00%	7.25%
Total capital ratio	22.94%	13.50%	11.50%	10.75%

The Common Equity Tier 1 and the Total Capital Ratio comply with the limits provided in the Risk Appetite Framework approved by the Board of Directors on November 10, 2015.

Part G - Business combinations

Section 1 - Business combinations completed during the year

No information to report.

Section 2 - Business combinations completed after year-end

No information to report.

Section 3 - Retrospective adjustments

No information to report.

Part H - Related-party transactions

1. Details of compensation for key management personnel	214
2. Related-Party transactions	214

Part H - Related-party transactions

Information on the fees paid to key management personnel and on related-party transactions, according to IAS 24, are shown below.

1. Details of compensation for key management personnel

Key management personnel are persons having authority and responsibility for planning, directing, and controlling the Bank's activities, directly or indirectly. This category includes Board members and members of the Board of Statutory Auditors, pursuant to requirements of the Bank of Italy Circular no. 262 of December 22, 2005 as amended and updated, as well as the Chief Executive Officer and General Manager, the Deputy General Manager/GBS Manager, the Chief Financial Officer, the PFA Network Commercial Manager, the Deputy General Manager/Direct Bank Manager and the Investment & Wealth Management Services Manager.

(Amounts in € thousand)

	TOTAL 12.31.2016	TOTAL 12.31.2015
Fees paid to "Key Management Personnel", Directors and the Board of Statutory Auditors		
a) short-term benefits	5,231	5,469
b) post-employment benefits	218	284
<i>of which: under defined benefit plans</i>	-	-
<i>of which: under defined contribution plans</i>	218	284
c) other long-term employee benefits	-	-
d) termination benefits	-	-
e) share-based payments	3,082	3,272
TOTAL	8,531	9,025

2. Related-Party transactions

In order to ensure continued compliance with applicable legal and regulatory provisions on corporate disclosure on transactions with related parties, during the Board of Directors' Meeting of September 22, 2015 and with the prior positive opinion of the Audit and Related Parties Committee and the Board of Statutory Auditors, the Bank approved the current "Procedures for the management of transactions with persons in conflict of interest" which governs transactions with related parties, and associated persons.

The above-mentioned procedures include the provisions to be complied with when managing:

- Related-Party transactions pursuant to the Consob Regulation adopted by resolution 17221 of March 12, 2010 as amended by resolution 17389 of June 23, 2010;
- Transactions with Associated Persons pursuant to the regulations on "Risk activities and conflicts of interest with Associated Persons", laid down by Bank of Italy Circular 263/2006, Title V, Chapter 5 ("New regulations for the prudential supervision of banks", as amended);
- Obligations of Bank Officers pursuant to Article 136 of Legislative Decree 385 of September 1, 1993, "Consolidated Law on Banking".

Given that the Bank belongs to the UniCredit Group, the aforementioned Procedures are also based on the "UniCredit Global Policy for the management of transactions with persons in conflict of interest" and the relevant "Global Operational Instructions" issued by UniCredit to subsidiaries as part of its management and co-ordination.

Considering the above, the following transactions were approved during 2016:

1. on February 8, 2016 the Board of Directors, upon recommendation by the Audit and Related Parties Committee, approved the renewal of the "Framework Resolution related to the entering into of hedging derivative contracts with the Parent Company or companies in the UniCredit Group" (valid up to April 20, 2016), an ordinary Significant Transaction at market conditions that can be carried out up to February 8, 2017, which enables the Bank to enter into hedging derivatives with the Parent Company or with other companies in the UniCredit Group for commercial assets or liabilities that, for ALM purposes, require interest rate hedging for a maximum amount of €500 million with the Parent Company and €2,500 million with UniCredit Bank AG; it was approved by the Parent Company's Related Parties and Equity Investments Committee with the issue of a favourable, non-binding opinion on the matter;
2. the Board of Directors' meeting of May 9, 2016, upon recommendation by the Audit and Related Parties Committee, approved an ordinary Significant Transaction at market conditions with UniCredit S.p.A., consisting of the renewal of the "Framework Agreement - Repurchase Agreements and Term Deposits with the Parent Company", (valid up to May 11, 2017) that can be carried out up to until May 9, 2016, concerning (i) Repurchase Agreements with the Parent Company for an amount of €7.2 billion, calculated as the sum of the individual transactions in absolute value (either repos or reverse repos) and (ii) Term deposits with the Parent Company for an amount of €8.7 billion, calculated as the sum of the individual transactions in absolute value;
3. the Board of Directors' meeting of July 6, 2016, with the favourable opinion of the Audit and Related Parties Committee approved:
 - an ordinary Significant Transaction at market conditions with the related parties UniCredit Bank AG and Mediobanca S.p.A., consisting of the renewal of the "Framework Resolution - Trading of financial instruments with related-party institutional counterparties" (valid up to June 18, 2016), regarding

the trading of financial instruments with related-party institutional counterparties, by virtue of which Finecobank may implement said transactions until July 5, 2017, up to a maximum permitted limit of: (i) €1 billion with UniCredit Bank AG and (ii) €500 million with Mediobanca S.p.A.;

- an ordinary Significant Transaction at market conditions with the related party UniCredit S.p.A., consisting of a "Framework Agreement for the transactions on current accounts held with UniCredit" (valid up to July 30, 2016) that can be carried out up to July 6, 2017, which will enable the Bank to manage its liquidity in euro and in foreign currencies through specific current accounts already held with UniCredit S.p.A. for an amount of less than €1,000 million understood as a single transaction (single payment and single withdrawal);

4. on September 20, 2016 the Board of Directors, upon recommendation by the Audit and Related Parties Committee, approved an ordinary Significant Transaction at market conditions with the related parties UniCredit Bank AG and Mediobanca S.p.A., consisting of the renewal of the "Framework Resolution - Securities Lending Transactions with Institutional Counterparties" (valid up to September 21, 2016), regarding the Securities Lending Transactions with institutional counterparties, through which Finecobank may implement those transactions until July 19, 2017, up to a maximum permitted limit of: (i) €500 million with UniCredit Bank AG and (ii) €200 million with Mediobanca S.p.A..

5. the Board of Directors' meeting of December 6, 2016, upon recommendation by the Audit and Related Parties Committee, approved an ordinary Significant Transaction at market conditions with the related party UniCredit S.p.A. consisting of the renewal of the "Framework resolution – Investment of medium-long term liquidity with the Parent Company" (valid up to November 10, 2016), that can be carried out up to December 6, 2017, involving the subscription of UniCredit bonds with a ceiling of around €3.5 billion.

In relation to the above transactions, the Bank provided a simplified disclosure to CONSOB pursuant to Art. 13, paragraph 3, letter c) of CONSOB Regulation 17221/2010.

In the year ended December 31, 2016, no other transactions were undertaken with related parties that could significantly affect the Bank's asset situation and results, or atypical and/or unusual transactions, including intercompany and related party transactions.

Minor transactions were carried out with the Parent Company, other Group Companies and/or with related parties in general, both Italian and foreign, within the ordinary course of business and related financial activities of the Bank, at market or standard conditions.

Lastly, with regard to transactions of significant financial and economic relevance, during 2012, the Bank issued 5 bank guarantees in favour of the Italian Revenue Agency upon (guaranteed) request by UniCredit, with indefinite duration (specifically, valid until the Italian Revenue Agency issues a declaration of receipt of the payment by UniCredit at the end of the collection process, in the event of an unfavourable outcome for UniCredit, or until a ruling is issued in favour of the Bank by means of final judgement), for a total amount of €256,065 thousand, plus interest accrued and accruing until request for payment from the Italian Revenue Agency. The bank guarantees were issued to secure the obligations assumed by UniCredit in relation to five VAT refund suspension orders issued by the Italian Revenue Agency, and entail the assumption by the Bank of an irrevocable payment commitment on demand, within 30 days and without any exceptions. In 2013, following the settlement of an assessment notice issued by the Regional Department of Liguria, for €4,505 thousand, replaced by another assessment notice issued by the same Department up to the amount settled, a guarantee already issued by the Bank was replaced, with amounts unchanged; this transaction did not change the commitments undertaken according to the forms, procedures and risks already assessed during 2012, which remain unchanged.

Part H - Related-party transactions (CONTINUED)

The following statement shows the outstanding assets, liabilities, guarantees and commitments as at December 31, 2016, for each group of related parties pursuant to IAS 24:

(Amounts in € thousand)

	AMOUNTS AS AT DECEMBER 31, 2016			
	DIRECTORS, BOARD OF STATUTORY AUDITORS AND KEY MANAGEMENT PERSONNEL	OTHER RELATED PARTIES	TOTAL	% OF CARRYING AMOUNT
Financial assets held for trading	-	30	30	0.50%
Loans and receivables with banks	-	1	1	0.00%
Loans and receivables with customers	29	7,551	7,580	0.75%
Other assets	-	11	11	0.00%
Total assets	29	7,593	7,622	0.04%
Deposits from banks	-	755	755	0.07%
Deposits from customers	2,959	24,375	27,334	0.15%
Other liabilities	140	60	200	0.08%
Total liabilities	3,099	25,190	28,289	0.13%
Guarantees issued and commitments	-	-	-	-

The following table sets out the impact of the above transactions with related parties on the main Income Statement items, for each group of related parties.

(Amounts in € thousand)

	INCOME STATEMENT AS AT DECEMBER 31, 2016			
	DIRECTORS, BOARD OF STATUTORY AUDITORS AND KEY MANAGEMENT PERSONNEL	OTHER RELATED PARTIES	TOTAL	% OF CARRYING AMOUNT
Interest income and similar revenues	-	8	8	0.00%
Interest expenses and similar charges	(2)	-	(2)	0.05%
Fee and commission income	5	30,879	30,884	6.53%
Fee and commission expense	(1)	(397)	(398)	0.17%
Gains (losses) on financial assets and liabilities held for trading	-	(22)	(22)	-0.05%
Other administrative expenses	-	(3,716)	(3,716)	1.58%
Other operating expenses/income	25	6	31	0.04%
Total income statement	27	26,758	26,785	

With regard to the category "Directors, Board of Statutory Auditors and Key Management Personnel", in application of the special regulations laid down in Article 136 of Legislative Decree 385/93 (Consolidated Law on Banking), the obligations established for persons that perform administrative, management and control functions pursuant to those regulations were unanimously approved by a resolution of the Board of Directors with the favourable vote of all members of the Board of Statutory Auditors, in accordance with Article 136 of said Consolidated Law on Banking.

The category "Directors, Board of Statutory Auditors and Key Management Personnel" includes their dealings with the Bank (excluding their fees, which are discussed in point 1. *Details of compensation for key management personnel*) and the Parent Company UniCredit, mainly concerning assets for credit card use, liabilities for funds held by them with the Bank and costs and revenues generated from the aforesaid assets and liabilities.

The "Other related parties" category includes:

- close family members of key management personnel (i.e., relatives who could be expected to influence, or be influenced by the party involved);
- companies controlled (or jointly controlled) by, or associated with, "key management personnel" or their close family members;
- associates, and their subsidiaries, of the Parent Company UniCredit;
- shareholders, and their subsidiaries, of the Parent Company UniCredit.

Transactions with "Other related parties", mainly refer to:

- assets for credit card use and liabilities for funds held with the Bank or securities lending transactions guaranteed by sums of money;
- assets for current receivables associated with the provision of financial services, mainly referring to fees for the placement of asset management and insurance products;
- costs and revenues generated from the above assets and liabilities, mainly referring to subscription and management fee and commission income related to the placement of asset management and insurance products and insurance premiums.

Amounts as at December 31, 2016 and the income components accrued in 2016 relating to the Parent Company UniCredit and the UniCredit group companies are not included, as they are presented further below.

Transactions with the Parent Company and other Unicredit Group companies

(Amounts in € thousand)

TOTAL TRANSACTIONS WITH UNICREDIT GROUP COMPANIES	TOTAL 12.31.2016	% OF CARRYING AMOUNT
Assets	15,717,922	74.90%
Loans and receivables with banks	15,694,648	99.74%
Loans and receivables with customers	19,151	1.88%
Other assets	4,123	1.23%
Liabilities	1,051,310	5.01%
Deposits from banks	1,033,886	93.05%
Hedging derivative liabilities	10,914	100.00%
Other liabilities	6,510	2.58%
Guarantees and commitments	1,274,070	85.03%
Guarantees issued and commitments	1,274,070	85.03%
Income Statement	303,622	
Interest income and similar revenues	201,073	79.38%
Interest expenses and similar charges	3,021	-77.11%
Fee and commission income	113,433	23.99%
Fee and commission expense	(6,360)	2.77%
Fair value adjustments in hedge accounting	6,872	n.c.
Administrative costs	(14,668)	4.67%
Other net operating income	251	0.32%

Part H - Related-party transactions (CONTINUED)

The following table summarizes transactions with UniCredit group companies as at December 31, 2016:

(Amounts in € thousand)

COMPANY	ASSETS	LIABILITIES	GUARANTEES AND COMMITMENTS	INCOME STATEMENT
UniCredit S.p.A.	15,695,566	1,041,514	1,274,070	204,084
UniCredit Bank AG	3,187	6,624	-	342
UniCredit Bank AG, Milan	-	3,065	-	(1,911)
UniCredit Factoring S.p.A.	-	-	-	(3)
UniCredit Leasing S.p.A.	1	-	-	-
UniCredit Luxembourg Finance SA	-	-	-	106
UniCredit Business Integrated Solutions S.C.p.A.	17	82	-	(11,159)
Pioneer Investment Management SGR p.A.	1,258	-	-	9,000
Cordusio Società Fiduciaria per Azioni	19	25	-	(7)
Pioneer Asset Management SA Luxembourg	17,874	-	-	103,170
Total	15,717,922	1,051,310	1,274,070	303,622

The following tables contain a breakdown of the items relating to Assets, Liabilities, Guarantees and Commitments, Costs and Revenue for each individual Group company.

Transactions with parent companies

(Amounts in € thousand)

TRANSACTIONS WITH UNICREDIT S.P.A.	TOTAL 12.31.2016
Assets	15,695,566
Loans and receivables with banks	15,691,570
Other assets	3,996
Liabilities	1,041,514
Deposits from banks	1,027,262
Hedging derivative liabilities	7,849
Other liabilities	6,403
Guarantees and commitments	1,274,070
Guarantees issued and commitments	1,274,070
Income Statement	204,084
Interest income and similar revenues	208,050
Interest expenses and similar charges	3,021
Fee and commission income	686
Fee and commission expense	(6,315)
Fair value adjustments in hedge accounting	1,893
Administrative costs	(3,270)
Other net operating income	19

Transactions with companies controlled by UniCredit S.p.A.

(Amounts in € thousand)

TRANSACTIONS WITH UNICREDIT BANK AG	TOTAL 12.31.2016
Assets	3,187
Loans and receivables with banks	3,078
Other assets	109
Liabilities	6,624
Deposits from banks	6,624
Income Statement	342
Interest income and similar revenues	55
Fee and commission income	294
Fee and commission expense	(7)

(Amounts in € thousand)

TRANSACTIONS WITH UNICREDIT BANK AG, MILAN	TOTAL 12.31.2016
Liabilities	3,065
Hedging derivative liabilities	3,065
Income Statement	(1,911)
Interest income and similar revenues	(7,032)
Fee and commission income	142
Fair value adjustments in hedge accounting	4,979

(Amounts in € thousand)

TRANSACTIONS WITH UNICREDIT LEASING S.P.A.	TOTAL 12.31.2016
Assets	1
Loans and receivables with customers	1

(Amounts in € thousand)

TRANSACTIONS WITH UNICREDIT LUXEMBOURG FINANCE SA	TOTAL 12.31.2016
Income Statement	106
Fee and commission income	106

(Amounts in € thousand)

TRANSACTIONS WITH UNICREDIT BUSINESS INTEGRATED SOLUTIONS S.C.P.A.	TOTAL 12.31.2016
Assets	17
Other assets	17
Liabilities	82
Other liabilities	82
Income Statement	(11,159)
Administrative costs	(11,393)
Other net operating income	232

(Amounts in € thousand)

TRANSACTIONS WITH PIONEER INVESTMENT MANAGEMENT SGR P.A.	TOTAL 12.31.2016
Assets	1,258
Loans and receivables with customers	1,258
Income Statement	9,000
Fee and commission income	9,000

(Amounts in € thousand)

TRANSACTIONS WITH CORDUSIO SOCIETÀ FIDUCIARIA PER AZIONI	TOTAL 12.31.2016
Assets	19
Loans and receivables with customers	19
Liabilities	25
Other liabilities	25
Income Statement	(7)
Fee and commission income	33
Fee and commission expense	(38)
Administrative costs	(2)

(Amounts in € thousand)

TRANSACTIONS WITH PIONEER ASSET MANAGEMENT SA LUXEMBOURG	TOTAL 12.31.2016
Assets	17,874
Loans and receivables with customers	17,874
Income Statement	103,170
Fee and commission income	103,170

Part I - Share-based payments

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Part I - Share-based payments

A. QUALITATIVE INFORMATION

1. Description of share-based payments

1.1 Outstanding instruments

The Medium & Long Term Incentive Plans for employees and financial advisors of the Bank include the following types of instruments:

- Equity-Settled Share Based Payments that involve payments settled with shares of the parent UniCredit S.p.A and of the Bank;
- Cash Settled Share Based Payments that involve payments made in cash⁷.

The above categories refer to the allocation of the following instruments:

- **Stock Options** allocated to selected Top & Senior Managers and Key Talents and consisting of rights to subscribe UniCredit shares;
- **Group Executive Incentive Systems** that offers eligible Group Executives a variable remuneration for which payment will be made within a maximum of five years. The beneficiaries receive a payment in cash and/or UniCredit shares, in relation to the achievement of performance conditions (other than marked conditions) stated in the Plan Rules;
- **Group Executive Incentive System (Bonus Pool)**, offering selected Executives and relevant personnel identified on the basis of regulatory requirements, a bonus structure consisting of immediate payments (following performance evaluation) and deferred payments in cash and ordinary UniCredit or FinecoBank shares, over a maximum period of 6 years. This payment structure ensures that bonuses are aligned to shareholders' interests and is subject to malus clauses (which apply in the event that specific profitability, liquidity and capital thresholds are not met at Group and/or at Country/Division level) and clawback clauses (to the extent they are legally applicable) in accordance with the plan rules (both represent vesting conditions other than market conditions);
- **Employee Share Ownership Plan (ESOP - Let's Share)**, which offers eligible Bank employees the possibility to buy UniCredit ordinary shares with the advantage of involving the granting of free ordinary shares ("Free Shares" or rights to receive them) measured on the basis of the shares purchased by each Participant ("Investment Share") during the "Enrolment Period". The granting of free ordinary shares is subordinated to vesting conditions (other than market conditions) stated in the Plan Rules;
- **Stock granting for employees** offering the allocation of free shares of FinecoBank to beneficiaries belonging to Top Management ("2014-2017 Multi-year Plan Top Management") and to executives and employees of the Bank (other than Top Management) who, in the Bank's opinion, can significantly contribute to the Bank's profitability and sustainability due to their role, skills and potential ("2014 Key People Plan"). The shares shall be allocated to the beneficiaries in four annual instalments under the "2014-2017 Top Management Multi-Year Plan" as of 2017, and three annual instalments under the "2014 Key People Plan" as of 2015. The plans are subject to entry conditions (profitability and capital thresholds) and clawback clauses (as legally applicable) in accordance with the plan rules;
- **Stock granting for personal financial advisors** offering the allocation of free shares of FinecoBank to the network's personal financial advisors, subject to the achievement by the Bank's entire PFA network of a set net sales target for the year 2014 ("2014 PFA Plan") and for the three-year period 2015-2017 ("2015-2017 PFA Plan"). The shares will be allocated to the respective beneficiaries in three annual instalments from 2015, under the "2014 PFA Plan" and from 2018 under the "2015-2017 PFA Plan". The plans are subject to access conditions (profitability and capital thresholds) and clawback clauses (as legally applicable) in accordance with the plan rules.
- **Group Incentive System 2015 PFA**, offering selected financial advisors, identified as key personnel in accordance with regulatory requirements, an incentive system consisting of immediate cash payments (following performance evaluation) and deferred payments and the allocation of Phantom Shares, over a period of 5 years. This payment structure ensures that bonuses are aligned to shareholders' interests and is subject to malus clauses (which apply in the event that specific profitability, liquidity and capital thresholds are not met at Group and/or at Country/Division level) and clawback clauses (to the extent they are legally applicable) in accordance with the plan rules (both vesting conditions other than market conditions);
- **2016 PFA System**, offering selected financial advisors, identified as key personnel in accordance with regulatory requirements, an incentive system consisting of immediate cash payments (following performance evaluation) and deferred payments, in cash and FinecoBank ordinary shares, over a period of 5 years. This payment structure ensures that bonuses are aligned to shareholders' interests and is subject to malus clauses (which apply when specific earnings, liquidity and capital thresholds are not met at Group and/or at Country/Division level) and clawback clauses (to the extent they are legally applicable) in accordance with the plan rules (which are both vesting conditions other than market conditions).

Shares for employee incentive plans envisaging the allocation of FinecoBank shares will be issued through free capital increases in accordance with Article 2349 of the Italian Civil Code.

The financial instruments for incentive plans for the Bank's financial advisors involving the allocation of FinecoBank shares will be obtained through market purchases in implementation of the authorisation of the Bank Shareholders' Meeting pursuant to Article 2357 of the Italian Civil Code and of the Supervisory Authority.

⁷ Commensurate to the economic value of FinecoBank S.p.A.'s equity instruments.

1.2 Measurement model

1.2.1 Stock Options

The Hull and White Evaluation Model has been adopted to measure the economic value of Stock Options.

This model is based on a trinomial tree price distribution using the Boyle's algorithm and estimates the early exercise probability on the basis of a deterministic model connected to:

- reaching a Market Share Value equal to an exercise price-multiple (M);
- probability of beneficiaries' early exit (E) after the end of the Vesting Period.

The income statement and balance sheet effects are recognised during the vesting period of the instruments.

No new Stock Option Plans were granted in 2016.

1.2.2 Group Executive Incentive System

The amount of the incentive is determined on the basis of the achievement of quantitative and qualitative goals stated by the plan. In particular, the overall evaluation is expressed as a percentage, from a minimum of 0% to a maximum of 150% (non-market vesting conditions). This percentage, adjusted by the application of a risk/opportunity factor – Group Gate – at first payment and multiplied by the incentive, determines the actual amount that will be paid to the beneficiary.

The balance-sheet and income statement effects will be spread over the term of the Plans.

1.2.2.1 Group Executive Incentive System “Bonus Pool 2014” – Shares

The economic value of the shares granted is measured considering the share market price at the grant date less the present value of future dividends during the vesting period.

The plan is divided into clusters, each of which may include two to three deferred share-based payment instalments according to the period defined by the plan rules.

The plan was allocated in 2014 and the income statement and balance sheet effects will be recognised during the vesting period of the instruments.

1.2.2.2 Group Executive Incentive System “Bonus Pool 2015” – Shares

The economic value of the shares granted is measured considering the share market price at the grant date less the present value of future dividends during the vesting period.

The plan is divided into three deferred share-based payment instalments according to the period defined by the plan rules.

	FINECOBANK SHARES GRANTED			
	GROUP EXECUTIVE INCENTIVE SYSTEM - BONUS POOL 2015			
	2018 INSTALMENT	2019 INSTALMENT	2020 INSTALMENT	2021 INSTALMENT
Bonus Opportunity Economic Value Grant Date	01.22.2015	01.22.2015	01.22.2015	01.22.2015
Number of Shares - Date of Board resolution	02.08.2016	02.08.2016	02.08.2016	02.08.2016
Vesting Period Start Date	01.01.2015	01.01.2015	01.01.2015	01.01.2015
Vesting Period End Date	12.31.2015	12.31.2017	12.31.2018	12.31.2019
FinecoBank shares market price [€]	6.966	6.966	6.966	6.966
Economic value of vesting conditions [€]	-0.506	-0.797	-1.134	-1.727
Performance Shares value per share at Grant Date [€]	6.46	6.169	5.832	5.239

The plan was allocated in 2015 and the income statement and balance sheet effects will be recognised during the vesting period of the instruments.

1.2.2.3 Group Executive Incentive System 2016 (Bonus Pool)

The new 2016 incentive system is based on a bonus pool approach, in line with regulatory requirements and market practices; this approach sets out:

- the system's sustainability, by linking it directly to business results and aligning it to relevant risk categories through specific indicators that reflect the risk appetite framework;
- the link between the bonus and the organisational structure, the bonus pool being defined at Bank level and further reviewed at Group level;
- the allocation of bonuses to beneficiaries identified as Executives and other key personnel on the basis of criteria laid down in the Regulation of the European Banking Authority (EBA), and to other specific roles, based on local regulatory requirements;
- a structure of payments spread over a period of up to 6 years and consisting of a mix of cash and shares, aligned with the latest regulatory requirements as set out in Directive 2013/36/EU (CRD IV).

The plan was assigned during the current year and the income statement and balance sheet effects will be recognised during the vesting period of the instruments.

Part I - Share-based payments (CONTINUED)

1.2.3 Employee Share Ownership Plan (Let's Share Plan 2016)

The following table shows the parameters used in relation to free shares (or rights to receive them) connected to the "Employee Share Ownership Plan" approved in 2015.

Measurement of Free Shares ESOP 2016

	FREE SHARE
Grant Date for Free Shares to employees	07.29.2016
Vesting Period Start Date	07.29.2016
Vesting Period End Date	07.29.2017
Fair Value per share of the Free Shares [€]	2.058

All income statement and balance sheet effects related to free shares will be booked during the vesting period (except adjustments, according to Plan Rules, that will be booked during the next closing after vesting period).

Let's Share for 2016 is a plan involving the use of the shares to be procured on the market. To that end the Participants grant a mandate to an intermediary (from inside or outside the UniCredit Group) to purchase the shares to be deposited in an account in their name.

1.2.4 Stock granting for employees

The economic value of the shares granted is measured considering the share market price at the grant date less the present value of future dividends during the vesting period.

1.2.4.1 2014 - 2017 Multi-year - Top management Plan

The plan offers the allocation of free shares of FinecoBank to beneficiaries belonging to the Top Management. The shares will be allocated to the respective beneficiaries, once the vesting period has elapsed and satisfaction of the conditions has been verified, in 4 annual tranches, starting in 2017.

	SHARES GRANTED			
	TOP MANAGEMENT			
	FIRST INSTALMENT 2017	SECOND INSTALMENT 2018	THIRD INSTALMENT 2019	FOURTH INSTALMENT 2020
Bonus Opportunity Economic Value - (Grant Date)	07.02.2014	07.02.2014	07.02.2014	07.02.2014
Number of Shares - Date of Board resolution	07.15.2014	02.09.2015	02.08.2016	To be defined
Vesting Period Start Date	07.02.2014	07.02.2014	07.02.2014	02.07.2014
Vesting Period End Date	12.31.2016	12.31.2017	12.31.2018	12.31.2019
FinecoBank shares market price [€]	3.700	4.725	6.966	To be defined
Economic value of vesting conditions [€]	-0.269	-0.590	-0.797	To be defined
Performance Shares value per share at Grant Date [€]	3.431	4.135	6.169	To be defined

The plan was allocated in 2014 and the income statement and balance sheet effects will be recognised during the vesting period of the instruments.

1.2.4.2 2014 Key people Plan

The plan offers the allocation of free shares of FinecoBank to executives and employees of the Bank (other than Top Management) who, in the Bank's opinion, can significantly contribute to the Bank's profitability and sustainability due to their role, skills and potential. The shares will be allocated to the respective beneficiaries, once the vesting period has elapsed and satisfaction of the conditions has been verified, in 3 annual tranches, starting in 2015. The plan was allocated in 2014 and the income statement and balance sheet effects will be recognised during the vesting period of the instruments.

1.2.5 Stock granting for PFAs

The economic value of the shares granted is measured considering the share market price at the grant date less the present value of future dividends during the vesting period

1.2.5.1 2014 PFA Plan

The amount of the incentive was determined on the basis of the achievement of the goals stated by the plan, subject to the Bank's entire PFA network meeting their net sales targets in 2014.

The plan helps align the interests of beneficiaries, shareholders and other stakeholders and implement effective remuneration practices, in accordance with the applicable legislative and regulatory framework. The plan is subject to verification that the conditions established by the plan rules are satisfied. The plan was allocated in 2014 and the income statement and balance sheet effects will be recognised during the vesting period of the instruments.

On July 9, 2015, the Board of Directors resolved to settle the PFAs rights to the first tranche of the bonus in cash, instead of the allocation of FinecoBank ordinary shares, with a payment in cash corresponding to a third of the bonus consideration, made on July, 2015.

1.2.5.2 2015 - 2017 PFA Plan

The amount of the incentive will be determined on the basis of the achievement of the goals stated by the plan, subject to the Bank's entire financial advisors network meeting their cumulative net sales targets for the three-year period 2015-2017.

The plan helps align the interests of beneficiaries, shareholders and other stakeholders and implement effective remuneration practices, in accordance with the applicable legislative and regulatory framework. The plan is subject to verification that the conditions established by the plan rules are satisfied. The plan was allocated in 2014 and the income statement and balance sheet effects will be recognised during the vesting period of the instruments.

1.2.6 Group Incentive System 2015 PFA

In line with Regulatory requirements, the 2015 Incentive System for Financial Advisers envisages:

- The system's sustainability, by linking it directly to business results;
- The allocation of bonuses to beneficiaries identified as key personnel on the basis of criteria laid down in the Regulation of the European Banking Authority (EBA);
- a structure of payments spread over a period of 3 years and consisting of a mix of cash and phantom shares, aligned with the latest regulatory requirements providing for the instruments to be unavailable during certain periods.

The amount of the incentive is determined on the basis of the achievement of the goals stated by the plan.

The balance-sheet and income statement effects are spread across the term of the Plan.

The economic value of the phantom shares allocated corresponds to the market price of the FinecoBank shares.

The plan was assigned during the previous financial year and the income statement and balance sheet effects will be recognised during the vesting period of the instruments.

	FINECOBANK PHANTOM SHARES GRANTED		
	GROUP EXECUTIVE INCENTIVE SYSTEM 2015 PFA		
	2018 INSTALMENT	2019 INSTALMENT	2020 INSTALMENT
Bonus Opportunity Economic Value Grant Date	03.10.2015	03.10.2015	03.10.2015
Number of Shares - Date of Board resolution	02.08.2016	02.08.2016	02.08.2016
Vesting Period Start Date	01.01.2015	01.01.2015	01.01.2015
Vesting Period End Date	12.31.2015	12.31.2017	12.31.2018
FinecoBank shares market price [€]*	5.33	5.33	5.33

* The market price of the FinecoBank shares is updated at each reporting date until the allocation date.

1.2.7 2016 PFA Incentive System

The new 2016 incentive system is based on a bonus pool approach, in line with regulatory requirements and market practices; this approach sets out:

- the system's sustainability, by linking it directly to business results and aligning it to relevant risk categories through specific indicators that reflect the risk appetite framework;
- the link between the bonus and the organisational structure, the bonus pool being defined at Bank level and further reviewed at Group level;
- the allocation of bonuses to beneficiaries identified as key personnel based on criteria laid down in the Regulation of the European Banking Authority (EBA), and to other specific roles, based on local regulatory requirements;
- a structure of payments spread over a period of up to 5 years and consisting of a mix of cash and shares, aligned with the latest regulatory requirements as set out in Directive 2013/36/EU (CRD IV).

The plan was assigned during the current year and the income statement and balance sheet effects will be recognised during the vesting period of the instruments.

Part I - Share-based payments (CONTINUED)

B. QUANTITATIVE INFORMATION**1. Annual changes**

ITEMS/NUMBER OF OPTIONS AND EXERCISE PRICE	12.31.2016			12.31.2015		
	NUMBER OF OPTIONS	AVERAGE EXERCISE PRICE	AVERAGE MATURITY	NUMBER OF OPTIONS	AVERAGE EXERCISE PRICE	AVERAGE MATURITY
A. Opening balance	3,346,584	-	March 17	1,427,240	-	June 16
B. Increases	591,083	-		2,164,844	-	
B.1 New issues	591,083	-		2,164,844	-	
B.2 Other increases	-	-		-	-	
C. Decreases	(305,473)	-		(245,500)	-	
C.1 Cancelled	(15,770)	-		(3,800)	-	
C.2 Exercised	(289,703)	-		(241,700)	-	
C.3 Expired	-	-		-	-	
C.4 Other decreases	-	-		-	-	
D. Closing balance	3,632,194	-	November 17	3,346,584	-	March 17
E. Vesting options at the end of the period	907,909	-		289,703	-	

The number of shares specified in the above table only refers to plans for which the number of shares allotted to individual beneficiaries has already been defined. The average prices for the year have not been stated because only freely allocated shares were involved.

2. Other information**Let's Share for 2017 - Employee Share Ownership Plan for 2016**

In April 2016, the Ordinary Shareholders' Meeting approved the "UniCredit Group Employee Share Ownership Plan for 2016" ("Let's Share for 2017") that offers to eligible Group employees the opportunity to purchase UniCredit ordinary shares at favourable conditions, in order to reinforce employees' sense of belonging and commitment to achieve the corporate goals.

For the Let's Share Plan for 2017, UniCredit will be able, at its discretion, to establish to subscription periods:

- 1 subscription period: by the end of the first half of 2017;
- 2 subscription period: by the end of the second half of 2017.

Let's Share for 2017 is a broad based share plan under which:

- during the "Enrolment Period", which will be communicated in due time to the Participants, they will be able to buy UniCredit ordinary shares ("Investment Shares") on a monthly or one-off basis;
- at the beginning of the Enrolment Period, each Participant will receive a discount, in the form of free shares, equivalent to 25% of the total shares purchased; the Free Shares will be locked up for one year ("Holding Period"), and the Participants will lose the entitlement to the Free Shares if they cease to be employee of a UniCredit Group Company before the end of the Holding Period, unless the employment has been terminated for one of the specific reasons permitted under the Plan Rules.
- During the "Holding Period", the Participants can sell the Investment Shares purchased at any moment, but they will lose the corresponding Free Shares (or right to receive them).

The Free Shares qualify as "Equity Settled Share-based Payments" because the Participants, according to the Plan Rules, will receive UniCredit Equity Instruments as consideration for the services rendered to the legal entity where they are employed. The fair value will be measured at the beginning of Enrolment Period according to the price paid by Participants to acquire the first instalment of the Investment Shares on the market.

All Profit and Loss and Net Equity effects related to Let's Share for 2017 will be booked during the holding period. Let's Share for 2017 has not been produced any effects on 2016 Financial Statements.

Effects on Profit and Loss

The income statement and balance-sheet effects of the incentive systems based on FinecoBank and UniCredit shares are shown below, except for the balance of the reserve related to equity-settled plans.

The income statement impact is determined each year based on the vesting period of the instruments.

**Financial statement presentation related to payments based on shares of Fineco
and of the Parent Company UniCredit**

(Amounts in € thousand)

	12.31.2016		12.31.2015	
	TOTAL	VESTED PLANS	TOTAL	VESTED PLANS
Costs	10,573		15,268	
- <i>connected to Equity Settled Plans</i>	10,623		15,019	
- <i>connected to Cash Settled Plans</i>	(50)		249	
Sums paid to UniCredit S.p.A. for vested plans		1,653		36
Payable due to UniCredit S.p.A.	757		2,242	
Payable due to personal financial advisors for Cash Settled plans	199		249	

Please note that the charges relating to Equity Settled Plans were recognised as Administrative costs – Staff expenses with respect to the plans granted to employees and as Administrative costs or Fee and commission expenses with regard to plans granted to personal financial advisors. Charges relating to Cash Settled Plans granted to financial advisors have been recognised as Fee and commission expenses.

Part L - Segment reporting

The Bank does not provide segment reporting information as its business model provides for a high level of integration among its different activities. The Bank offers its services (banking and investment services) through a network of personal financial advisors and online and mobile channels, that operate in a coordinated and integrated manner. The fully-comprehensive nature of the services offered allows the Bank to act as a one-stop solution for customers' banking and investment requirements.

This strategy, which is strongly anchored to the customer, means that revenues and margins relative to various products/services (investing, banking and brokerage) are highly interdependent on each other.

This integration approach has also inspired top management in setting company targets and identifying the means to achieve them.

As regards information on revenues from customers by product/service, in view of the above, reference should be made to information in Part C - Information on the income statement of these notes to the accounts.

FinecoBank mainly targets retail customers in Italy; information concerning geographic segments and the degree of dependency on main customers is therefore considered by top management as not being of material importance for information purposes, and is not therefore disclosed.

OVER 22 BILLION IN PRIVATE BANKING



B A N K



BCG

THE BOSTON CONSULTING GROUP

Fineco is the most recommended bank in the world through word of mouth according to a 2015 Report of The Boston Consulting Group. With over 22 billion assets in the Private Banking segment and the highest level of customer satisfaction, trusting Fineco is simple.

FINECO. SIMPLIFYING BANKING.

Annexes

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Attachment 1 - Reconciliation of condensed accounts to mandatory reporting schedule

(Amounts in € thousand)

ASSETS	AMOUNTS AS AT	
	12.31.2016	12.31.2015
Cash and cash balances = <i>item 10</i>	5	6
Financial assets held for trading = <i>item 20</i>	6,044	3,983
Loans and receivables with banks = <i>item 60</i>	15,735,540	14,648,904
Loans and receivables with customers = <i>item 70</i>	1,016,798	922,774
Financial investments	3,757,529	2,245,982
<i>40. Available-for-sale financial assets</i>	1,319,752	2,245,982
<i>50. Held-to-maturity investments</i>	2,437,777	-
Hedging instruments	9,211	10,573
<i>80. Hedging derivatives</i>	552	-
<i>90. Changes in fair value of portfolio hedged financial assets</i>	8,659	10,573
Property, plant and equipment = <i>item 110</i>	14,451	12,419
Goodwill = <i>item 120. Intangible assets of which: goodwill</i>	89,602	89,602
Other intangible assets = <i>item 120 net of goodwill</i>	7,731	8,212
Tax assets = <i>item 130</i>	13,165	15,424
Other assets = <i>item 150</i>	336,300	370,070
Total assets	20,986,376	18,327,949

(Amounts in € thousand)

LIABILITIES AND SHAREHOLDERS' EQUITY	AMOUNTS AS AT	
	12.31.2016	12.31.2015
Deposits from banks = <i>item 10</i>	1,111,106	1,423,459
Deposits from customers	18,801,073	15,822,459
<i>20. Deposits from customers</i>	18,801,073	15,822,459
Financial liabilities held for trading = <i>item 40</i>	2,626	4,100
Hedging instruments	11,371	31,319
<i>60. Hedging derivatives</i>	10,914	31,319
<i>70. Changes in fair value of portfolio hedged financial assets</i>	457	-
Provisions for risks and charges = <i>item 120</i>	111,756	120,534
Tax liabilities = <i>item 80</i>	10,048	37,445
Other liabilities	257,097	255,835
<i>100. Other liabilities</i>	251,844	250,989
<i>110. Employee severance pay provision</i>	5,253	4,846
Shareholders' Equity	681,299	632,798
- capital and reserves	476,249	430,119
<i>160. Reserves</i>	278,407	236,590
<i>170. Share premium reserve</i>	1,934	1,934
<i>180. Capital</i>	200,246	200,150
<i>190. Treasury Shares</i>	(4,338)	(8,555)
- revaluation reserves	(6,794)	11,626
<i>130. Revaluation reserves of which: Available-for-sale financial assets</i>	(455)	16,904
<i>130. Revaluation reserves for actuarial net gains (losses) for defined benefit plans</i>	(6,339)	(5,278)
- net profit = <i>item 200</i>	211,844	191,053
Total liabilities and shareholders' equity	20,986,376	18,327,949

(Amounts in € thousand)

INCOME STATEMENT	YEAR 2016	YEAR 2015
Net interest	249,388	240,762
30. Net interest margin	249,388	240,762
Dividends and other income from equity investments	6	-
70. Dividend income and similar revenue	19	5
less: dividends from held-for-trading equity instruments included in item 70	(13)	(5)
Net fee and commission income = item 60	242,881	252,610
60. Net fee and commission income	242,881	252,635
+ outsourcing costs for the management and recovery of Non Performing Loans	-	(25)
Net trading, hedging and fair value income	69,054	53,867
80. Gains (losses) on financial assets and liabilities held for trading	48,590	53,705
+ dividends from held-for-trading equity instruments (from item 70)	13	5
90. Fair value adjustments in hedge accounting	69	(147)
100. Gains (losses) on disposal or repurchase of: b) available-for-sale financial assets	20,382	304
Net other expenses/income	(2,211)	(2,974)
190. Other net operating income	79,458	77,984
less: other operating income - of which: recovery of expenses	(85,395)	(84,347)
less: adjustments of leasehold improvements	3,726	3,389
OPERATING INCOME	559,118	544,265
Staff expenses	(73,698)	(75,049)
150. Administrative costs - a) staff expenses	(79,201)	(76,295)
less: integration costs	5,503	1,246
Other administrative expenses	(228,119)	(232,870)
150. Administrative costs - b) other administrative expenses	(235,007)	(234,197)
+ adjustments of leasehold improvements	(3,726)	(3,389)
- ex-ante contributions to the Single Resolution Fund (SRF) Deposit Guarantee Systems (DGS)	10,614	4,691
- outsourcing costs for the management and recovery of Non Performing Loans	-	25
Recovery of expenses	85,395	84,347
190. Other net operating income - of which: recovery of expenses	85,395	84,347
Impairment/write-backs on intangible and tangible assets	(9,952)	(8,951)
170. Impairment/write-backs on property, plant and equipment	(4,853)	(3,963)
180. Impairment/write-backs on intangible assets	(5,099)	(4,988)
Operating costs	(226,374)	(232,523)
OPERATING PROFIT (LOSS)	332,744	311,742
Net write-downs of loans and provisions for guaranteed and commitments	(4,199)	(6,706)
130. Impairment losses/writebacks on: a) loans and receivables	(4,206)	(6,712)
130. Impairment losses/writebacks on: d) other financial assets	1,423	7
less: net value adjustments for the impairment of other financial assets - contribution to the Interbank Fund for the Protection of Deposits	(1,416)	-
NET OPERATING PROFIT (LOSS)	328,545	305,036
Provisions for risks and charges	(9,981)	(15,714)
160. Net provisions for risks and charges	(783)	(11,023)
+ ex-ante contributions to the Single Resolution Fund (SRF) Deposit Guarantee Systems (DGS)	(10,614)	(4,691)
+ net value adjustments for the impairment of other financial assets - contribution to the Interbank Fund for the Protection of Deposits	1,416	-
Integration costs	(5,503)	(1,246)
Net income from investments	(6,724)	(1)
130. Impairment losses/writebacks on: b) available-for-sale financial assets	(6,724)	-
240. Gains (losses) on disposal of investments	-	(1)
PROFIT (LOSS) BEFORE TAX FROM CONTINUING OPERATIONS	306,337	288,075
Income tax for the period	(94,493)	(97,022)
260. Income tax for the period	(94,493)	(97,022)
PROFIT (LOSS) BEFORE TAX FROM CONTINUING OPERATIONS	211,844	191,053
PROFIT (LOSS) FOR THE PERIOD	211,844	191,053

Attachment 2 - Glossary of technical terminology and acronyms used

Accelerated bookbuilding offering

Procedure through which particularly large shareholdings are sold to institutional investors. This type of transaction is used by majority shareholders to sell share packages or by the company to rapidly obtain capital (for acquisitions or to refinance debt).

AMA (Advanced Measurement Approach)

Applying this methodology, operational risk requirement is obtained using calculation models based on operational loss data and other evaluation elements collected and processed by the Bank. Admittance threshold and specific suitability requirements have been established for the use of the standard and advanced approaches. For the AMA approach the requirements regard the measurement system, as well as the management system.

Risk-weighted assets

See the item "RWA - Risk-Weighted Assets".

Audit

Audit Process of controlling a company's activities and accounting, carried out either by an internal body (internal audit) or by an external firm of auditors (external audit).

Assets under management

Investment funds, segregated accounts and insurance products.

Assets Under Custody

Government securities, bonds and shares.

Available financial resources (AFR)

AFR are the resources that can be used to safeguard the bank from insolvency. The AFR are an economic measure that consider the potential reserves, hybrid debt instruments, IFRS reserves, goodwill and other intangible assets, treasury shares held and the expected profits.

Banking book

Used in relation to financial instruments, particularly securities, this term identifies the portion of those portfolios intended for "proprietary" activities.

Bail-in

Resolution measures adopted by the competent authorities that can involve the conversion of debt instruments into shares or the reduction in the value of liabilities, imposing losses on certain categories of creditors in accordance with the BRRD.

Basel 2

International agreement on the capital requirements of banks in relation to the risks assumed by them. This agreement has been adopted, at national level, by the respective competent supervisory authorities, including the Bank of Italy. The new prudential regulations, which came into force in Italy in 2008, are based on three pillars.

- Pillar 1: while the objective of a level of capitalisation equivalent to 8% of the risk-weighted exposures remains unchanged, a new set of rules has been established for measuring the typical risks associated with banking and financial activities (credit risk, counterparty risk, market risk and operational risk) which provides for alternative calculation methods characterised by different levels of complexity, with the ability to use internally developed models subject to prior authorization by the Supervisory Authority;
- Pillar 2: requires banks to have processes and tools for determining the adequate level of total internal capital (Internal Capital Adequacy Assessment Process - ICAAP) for covering all types of risk, including risks other than those covered by the overall capital requirement (Pillar I), within the framework of an evaluation of current and future exposure that takes account of strategies and of changes in the reference context. It is the Supervisory Authority's task to examine the ICAAP process, formulate an overall judgment and, where necessary, apply the appropriate corrective measures;
- Pillar III: introduces obligations to publish information concerning capital adequacy, exposure to risks, and the general characteristics of the systems used for identifying, measuring and managing those risks.

Basel 3

International agreement amending Basel 2 adopted in December 2010, containing amendments to the prudential rules on the capital and liquidity of banks, with the gradual entry into force of the new capital requirements from January 1, 2014 until December 31, 2019. These rules have been implemented at European level through the CRD IV "Package".

Best practice

Behaviour commensurate with the most significant experience and/or the best level of knowledge achieved in relation to a given technical or professional field.

Bank Recovery and Resolution Directive or BRRD

Refers to the Directive approved by the European Parliament and the Council, respectively. On April 15 and May 6, 2014, regarding the establishment of a recovery and resolution framework for the crisis affecting credit institutions and investment firms.

Basis point

The bp or basis point represents 0.01% of a particular amount, or one hundredth of a percentage point. 100 basis points are equivalent to 1%.

Budget

Statement forecasting the future costs and revenues of a business.

Economic capital

Capital level that is required by a bank to cover the losses that may occur with at a time horizon of one year and a certain probability or confidence level. Economic Capital is a measure of the variability of the Expected Loss of the portfolio and depends on the degree of diversification of the portfolio itself.

Internal Capital

Represents the amount of capital required to cover potential losses and is required to support the business activities and positions held. Internal Capital is the sum of the aggregated Economic Capital and a cushion that considers the effects of the cycle and model risk.

Common Equity Tier 1 or CET 1

The Common Equity Tier 1 under Basel 3, mainly consisting of ordinary paid-up capital, the related share premium, operating profit, reserves and other regulatory adjustments, as provided for by the CRR regulation and the Supervisory Regulations (both during the transitional period and fully loaded).

Tier 1 Capital

The most reliable and liquid part of a bank's capital, as defined by the regulatory rules.

CFO

Chief Financial Officer.

CGU - Cash Generating Unit

A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

CDS - Credit Default Swap

A derivative in which a seller of protection engages, for a fee, to pay the buyer of protection a fixed amount if a certain event indicating a deterioration of the creditworthiness of a reference entity occurs.

Credit quality step

A Step, based on external ratings, which is used to assign risk weights under the standardised approach for credit risk.

Clawback clause

Action of repayment of the bonus received when, after its disbursement, intentional or negligent conduct of the employee emerges that, if it had been known at the time of disbursement, would have been sufficient not to satisfy the assessment of compliance, or that disbursement has been made in breach of legal or regulatory provisions.

Corporate

Customer segment consisting of medium to large businesses.

Cost/income ratio

The ratio of operating expenses to operating income. It is one of the main key performance indicators of the bank's efficiency: the lower the ratio, the more efficient the bank.

Cost of Risk

The ratio between loan loss provisions and loans and receivables with customers. It is one of the indicators of the bank assets' level of risk: the lower the ratio, the less risky the bank assets.

Covenant

A loan agreement clause whereby the lender is entitled to restructure or call in the loan upon occurrence of the events specified in the clause, which ties changes in the borrower's earnings and financial performance to default events/events modifying the contractual terms and conditions (maturity, interest rates, etc.).

Covered bond

A bond which, in addition to being guaranteed by the issuing bank, may also be covered by a portfolio of mortgages or other high-quality loans transferred, for that purpose, to a specific SPV – Special Purpose Vehicle (q.v.).

Attachment 2 - Glossary of technical terminology and acronyms used (CONTINUED)

Countercyclical capital buffer

The countercyclical capital buffer consisting of Common Equity Tier 1 pursuant to Supervisory Regulations, according to the concept contained in Articles 128 and 130 of the CRD IV, equal to the risk weighted assets, calculated in accordance with Article 92, paragraph 3, of the CRR by the Company's countercyclical capital buffer, determined according to the criteria established by the Supervisory Regulations at an amount ranging from 0% to 2.5%.

Credit Quality - EL

$EL\% = EL/EAD$

Represents the expected loss as a percentage of the exposure in the event of default (EAD) of the performing portfolio.

The perimeter is the customers of the performing portfolio.

CRD (Capital Requirements Directives)

EU Directives 2006/48 and 2006/49, adopted by Bank of Italy circular 263/2006 of December 27, 2006 as amended. The CRD IV "Package" has replaced the two aforementioned Directives and consists of the EU Directive 2013/36 on the taking up of the business of credit institutions and prudential supervision and the EU Regulation 575/2013 on prudential requirements, adopted by the Bank of Italy circular 285 of December 17, 2013 as amended.

Impaired loans

Loans and receivables are reviewed periodically in order to identify those that, following events occurring after initial recognition (at market value, which is, usually, equal to the amount paid including transaction costs and income directly attributable to the disbursement of the credit) show objective evidence of possible impairment. These include a loans to which the status of non-performing, unlikely to pay and past due has been assigned, according to the Bank of Italy rules in line with the IAS/IFRS (q.v.).

CRM - Credit Risk Mitigation

Credit Risk Mitigation is a set of techniques, ancillary contracts to the loan or other instruments (e.g. securities, guarantees), which reduces credit risk capital requirements.

CRO

Chief Risk Officer.

Default

A party's declared inability to honour its debts and/or the payment of the associated interest.

EAD - Exposure At Default

Relating to the on-balance and off-balance sheet positions, EAD is defined as the estimation of the future value of an exposure at the time of the debtor's default. Only banks that meet the requirements for adopting the "IRB – Internal Rating Based" advanced approach are allowed to estimate EAD (q.v.). Other banks are required to refer to regulatory estimations.

EBA European Banking Authority

The European Banking Authority is an independent EU Authority which works to ensure effective and consistent prudential regulation and supervision across the European banking sector.

ECA

Export Credit Agency.

ECAI

External Credit Assessment Institution.

ECB

European Central Bank. The ECB is the central bank for Europe's single currency, the euro.

Expected Losses

the losses recorded on average over a one year period on each exposure (or pool of exposures).

EPS - Earnings Per Shares

An indicator of a company's profitability calculated by dividing the net profit by the average total outstanding shares (excluding treasury shares).

Non-performing exposures

According to the EBA Implementing Technical Standards, non-performing exposures are all on-balance-sheet and off-balance-sheet exposures that satisfy either or both of the following criteria:

- (i) material exposures which are more than 90 days past due;
- (ii) exposures for which the debtor is assessed as unlikely to pay its credit obligations in full without realisation of collateral, regardless of the existence of any past-due amount or of the number of days past due.

Past-due and/or overdrawn impaired exposures

i.e. on-balance sheet exposures, other than those classified as non-performing or unlikely to pay that are past due or overdrawn at the reporting date. The past due and/or overdrawn impaired exposures may be determined, alternatively, with respect to the individual debtor or the individual transaction. Specifically, they represent the total exposure to any borrower not included in the unlikely to pay and non-performing loans categories, who at the reporting date has expired facilities or unauthorised overdrafts that are more than 90 days past due and meet the requirements set out by local supervisory regulations for their classification under the “past due exposures” category (TSA banks) or “defaulted exposures” (IRB banks).

EVA (Economic Value Added)

EVA is an indicator of the value created by a company. It expresses the ability to create value in monetary terms, as it is equal to the difference between net operating profit and the cost of invested capital.

Fair value

The price at which an asset can be traded or a liability settled in a free-market transaction between independent parties at arm's length.

Own funds or Total Capital

The own funds of a bank consist of a series of regulatory defined items (excluding the negative items to be deducted), classified based on capital quality and loss absorbing capacity. From January 1, 2014, after the CRR came into force, Own Funds consists of the sum of Tier 1 capital and Tier 2 capital.

Forbearance/Forborne exposures

According to the EBA Implementing Technical Standard, forborne exposures are exposures in respect of which forbearance measures have been extended, consisting of concessions towards a debtor facing or about to face difficulties in meeting its financial commitments (“financial difficulties”).

Funding

Provision, in various forms, of the funds necessary to finance business activities or particular financial transactions.

Futures

Standardised contracts through which parties undertake to exchange money, transferable securities or goods at a set price at a future date. These contracts are traded on regulated markets, where their execution is guaranteed.

Goodwill

The additional sum paid for the acquisition of an equity interest, equal to the difference between the cost and the corresponding share of net assets, for the portion not attributable to the identifiable assets of the acquired company.

Guided Products & Services/AUM

The ratio of Guided Products & Services (q.v.) to Assets under Management (q.v.).

Significant exposures

The sum of all the exposures towards a counterparty that are equal to or more than 10% of the eligible capital of the Issuer, when: (i) the exposures are the sum of the on-balance-sheet risk assets and the off-balance-sheet operations with a counterparty, as defined by the regulations on credit risk, without applying the weighting factors established therein (these exposures do not include the risk assets deducted in the determination of the Own Funds); (ii) a counterparty is a customer or a group of connected customers; (iii) the eligible capital is equal to the Own Funds of the Issuer.

Guided Products & Services/TFA

The ratio of Guided Products & Services to Total Financial Assets.

Guided products & services

The Bank's products and/or services developed by investing in UCITs selected from among those distributed for each asset class taking into account customers' different risk profiles and offered to the Bank's customers under the guided open architecture model. At the date of this report, the guided products category included the “Core Series” umbrella fund of funds and the “Core Unit”, “Advice Unit”, “Core Multiramo” and “Advice Top Valor”, unit-linked policies, while the “Fineco Advice” and “Fineco Stars” advanced advisory services (for investment) fall under the guided service category.

IAS/IFRS

International accounting standards issued by the International Accounting Standard Board (IASB), a private international body established in April 2001, involving representatives of the accounting professions of the principal countries and, as observers, the European Union, IOSCO (International Organization of Securities Commissions) and the Basel Committee. This body is the successor of the International Accounting Standards Committee (IASC), set up in 1973 to promote harmonization of the rules for the preparation of company accounts. When the IASC became the IASB, it was decided, among other things, to name the new accounting principles “International Financial Reporting Standards” (IFRS). At international level, work is currently underway to harmonize the IAS/IFRS with the US GAAP – United States Generally Accepted Accounting Principles (q.v.).

Attachment 2 - Glossary of technical terminology and acronyms used (CONTINUED)

ICAAP - Internal Capital Adequacy Assessment Process

See "Basel 2 – Pillar 2".

Impairment

Within the framework of the IAS/IFRS (q.v.), this refers to the loss of value of a balance sheet asset, recorded when the book value is greater than the recoverable value, i.e. the sum that can be obtained by selling or using the asset.

Unlikely to pay

On-balance and off-balance sheet exposures that meet the definition of unlikely to pay, which do not meet the conditions to be classified as bad loans. The classification as "unlikely to pay" derives from the assessment of the debtor's unlikeliness (without actions such as realisation of collateral) to repay fully his credit obligation (principal and/or interest). This assessment is made independently of any past due and unpaid amount (or instalment). The classification of an exposure as unlikely to pay is not necessarily tied to evident issues (non-repayment), but is rather linked to indicators of a potential default of the borrower.

Index linked

Policies whose performance at maturity depends on a benchmark parameter that may be a share index, a basket of securities or another indicator.

IRB - Internal Rating Based

Method for determining the capital needed to cover credit risk within the framework of Pillar 1 of Basel 2 (q.v.). The rules are applied to the exposures of the banking book. Furthermore, in the IRB methods the risk weightings of the assets are determined on the basis of the bank's own internal evaluations of the debtors (or, in some cases, of the transactions). Using systems based on internal ratings, the banks determine the weighted risk exposure. The IRB methods consist of a basic method and an advanced method, which differ in terms of the risk parameters that the bank must estimate: in the basic method, the banks use their own estimates for "PD – Probability of Default" and the regulatory values for the other risk parameters; in the advanced method, the banks use their own estimates for "PD – Probability of Default", "LGD – Loss Given Default", "CCF – Credit Conversion Factors" and, where provided for, "M – Maturity" (q.v.). The use of IRB methods for the calculation of capital requirements is subject to authorization from the Bank of Italy.

IRS – Interest Rate Swap

See "Swap".

Master servicing agreement

Type of contract under which two or more parties regulate the key terms of subsequent transactions and/or further agreements to be implemented between them in the future.

Maturity Ladder

Instrument for managing and monitoring short-term liquidity (operational liquidity), which, by offsetting assets and liabilities whose maturity falls within each individual time band, enables the identification of mismatches (periodic and cumulative) between incoming and outgoing cash flows and, therefore, to calculate the net financial requirement (or surplus) over the period of the year.

Joint venture

Agreement between two or more companies for the conduct of a given economic activity, usually through the constitution of a joint stock company.

Ke

The cost of equity is the minimum return on investment required by the shareholder. It is the sum of a risk-free rate and an additional spread remunerating the shareholder for the credit risk and the volatility of the share price. The cost of capital is based on medium/long-term averages of market parameters. KPI - "Key Performance Indicators".

Set of indicators used to evaluate the success of a particular activity or process.

Key Risk Indicators

The risk indicators are quantitative metrics that reflect exposure to Operational Risks of specific processes or products: the value expressed by an indicator should be related to changes in risk levels.

LCP

Loss Confirmation Period.

Leasing

Contract whereby one party (the lessor) grants to another party (the lessee) for a given period of time the enjoyment of an asset purchased or built by the lessor at the discretion and according to the instructions of the lessee, with the latter having the option of acquiring ownership of the asset under predetermined conditions at the end of the leasing contract.

LGD - Loss Given Default

Expected value (which may be conditional upon adverse scenarios) of the ratio, expressed as a percentage, between the loss giving rise to the default and the amount of exposure at the time of the default ("EAD - Exposure At Default", q.v.).

Long and Short Margining

Margining is a trading method that allows investors to buy (long leverage) or sell (short selling) by investing only a part of the liquidity required.

Model Risk Category

The MRCs have been introduced at the group level in order to characterise the types of operational loss in more detail. They are obtained from the combination of the seven event types established by Basel II with one or more of products offered to customers.

UCI - Undertakings for Collective Investment

This term includes "UCITS – Undertakings for Collective Investment in Transferable Securities" (q.v.) and collective investment funds (real estate collective investment funds, closed-end investment funds).

UCITS - Undertakings for Collective Investment in Transferable Securities

This term covers open-end real estate investment funds, both Italian and foreign, and investment companies with variable capital. The latter are joint stock companies that have the sole purpose of collective investment of the assets gathered through a public offer of their own shares.

Option

The right, but not the commitment, acquired by the payment of a premium, to buy (call option) or sell (put option) a financial instrument at a given price (strike price) by or at a determined future date (American option/European option).

OTC – Over The Counter

Over-the-counter (OTC) trading consists of the exchange of financial instruments such as shares, bonds, derivatives or goods directly between two counterparties. The OTC markets do not have standardized contracts or buying/selling procedures and are not associated with a set of rules (admissions, controls, obligations of information, etc.) like those that govern the official markets.

Payout ratio

The percentage of net income that is distributed to shareholders. The percentage paid out is determined mainly on the basis of the company's self-financing needs and the return expected by shareholders.

PD – Probability of Default

Default Probability of a counterparty entering into a situation of "default" (q.v.) within a period of one year.

SME

Small and medium enterprises.

Private banking

Financial services aimed at "high-end" private customers for the global management of financial needs.

Direct deposits

Current accounts, repos and time deposits.

Tier 1 Capital Ratio

The percentage of a bank's Tier 1 Capital to its risk weighted assets "RWA – Risk Weighted Assets" (q.v.).

Rating

Evaluation of the quality of a company or its issues of debt securities on the basis of the company's financial soundness and prospects. This evaluation is made either by specialist agencies or by the bank on the basis of internal models.

Retail

Customer segment consisting principally of private individuals, self-employed professionals, traders and artisans.

Credit risk

The risk that an unexpected change in the credit rating of a counterparty, the value of the collateral they have provided, or of the amount used in the event of insolvency generates an unexpected change in the lending position of the Bank.

Credit counterparty risk

The risk that the counterparty in a transaction in financial instruments may enter default before settling all the agreed cash flows.

Attachment 2 - Glossary of technical terminology and acronyms used (CONTINUED)

Liquidity risk

The risk of the company being unable to meet its payment commitments due to the inability to liquidate assets or obtain sufficient funding from the market (funding liquidity risk) or due to the difficulty/inability to easily liquidate positions in financial assets without significantly and unfavourably affecting the price because of insufficient depth or temporary malfunction of the financial market (market liquidity risk).

Market risk

Consists of the effect that changes in market variables (interest rates, securities prices, exchange rates, etc.) can cause to the economic value of the portfolio, when it includes assets held in the trading book, as well as those posted in the banking book, both on the operations characteristically involved in commercial banking and in the choice of strategic investments.

Operational risk

The risk of losses due to errors, violations, interruptions, or damage caused by internal processes, personnel, systems or by external events. This definition includes legal and compliance risks, but excludes strategic and reputational risk. For example, losses arising from the following can be defined as operational: internal or external fraud, employment practices and workplace safety, customer claims, product distribution, fines and penalties for regulatory breaches, damage to the Company's physical assets, business disruption and system failures, and management of processes.

Countercyclical capital buffer

The countercyclical capital buffer consisting of Common Equity Tier 1 pursuant to Supervisory Regulations, according to the concept contained in Articles 128 and 130 of the CRD IV, equal to the risk weighted assets, calculated in accordance with Article 92, paragraph 3, of the CRR by the Company's countercyclical capital buffer, determined according to the criteria established by the Supervisory Regulations at an amount ranging from 0% to 2.5%.

Capital conservation buffer

According to the definition contained in Article 128 of the CRD IV, this is a capital reserve whose establishment is required by the regulations – as also specified in the Supervisory Provisions – aimed at providing banks of a high quality capital buffer to be used in periods of market strain to prevent malfunctions of the banking system and avoid disruptions in the credit granting process, amounting, when fully loaded, to 2.5% of risk-weighted assets, calculated in accordance with Article 92, sub-section 3, of the CRR on an individual and consolidated basis.

Risk Taking Capacity

Ratio between Available Financial Resources and Internal Capital. Includes a prudential buffer (cushion).

ROAC - Return on Allocated Capital

An indicator calculated as ratio of net profit to the average allocated/absorbed capital. It shows the earning capacity in percentage terms for allocated/absorbed capital units.

RWA - Risk-Weighted Assets

It is the value of on-balance sheet and off-balance sheet risk-weighted assets on the basis of different weighting factors according to the class in which the exposure is classified and its credit quality, in accordance with the banking regulations issued by the regulatory authorities for the calculation of the solvency ratios.

Sensitivity

The greater or lesser degree of sensitivity with which certain assets or liabilities react to changes in rates or other reference parameters.

Sensitivity Analysis

Sensitivity analysis quantifies the change in value of a financial portfolio resulting from an unfavourable change in major risk factors (interest rate, exchange rate, equity).

Non-performing loans

Exposures to borrowers in a state of insolvency (even when not recognized in a court of law) or in an essentially similar situation, regardless of any loss forecasts made by the bank (i.e. irrespective of whether there are any – secured or personal – guarantees covering the exposures).

SPV - Special Purpose Vehicle

An entity – partnership, limited company or trust – set up to pursue specific objectives, such as isolating financial risk or obtaining special regulatory or tax treatment for specific portfolios of financial assets. The SPV's operations are accordingly limited by a set of rules designed for this purpose. In general the SPVs' sponsors (q.v.) do not hold equity in them. The equity is held by other entities in order to ensure that there is no shareholder relationship with the Sponsor (q.v.). SPVs are usually bankruptcy-remote, in that their assets cannot be claimed by the creditors of the sponsor, even if the latter becomes insolvent.

Swap

A transaction that generally consists of the exchange of financial streams between operators according to different contractual arrangements. In the case of an interest rate swap (IRS), the counterparties exchange payment streams that may or may not be linked to interest rates, calculated on a notional

principal amount (for example, counterparty pays a stream on the basis of a fixed rate, while the other does so on the basis of a variable rate). In the case of a currency swap, the counterparties exchange specific amounts in two different currencies, with these amounts being exchanged back in due course according to predefined arrangements that may concern both the capital (notional) and the streams of interest payments.

Total Financial Assets - TFA

Assets Under Management (q.v.), Assets Under Custody (q.v.) and Direct Deposits (q.v.).

Trading Book

Positions held for trading are those held intentionally for a subsequent sale in the near term and/or assumed with the intention of benefiting, in the short term, from the differences between buying and selling prices, or other price or interest rate interest variations.

(Internal) validation

Expert unit, internal but sufficiently independent, that verifies the adequacy of internal models for internal and regulatory purposes and issues a formal opinion about their usefulness and effectiveness. Usually a prerequisite for the validation process carried out by the authorities.

VaR - Value at Risk

A method used for quantifying risk. It measures potential future losses which will not be exceeded within a specified period and with a specified probability.



TRADING N.1

FINECO. SIMPLIFYING BANKING.

Certification of Annual Financial Statements pursuant to article 81-Ter of Consob Regulation no. 11971 of May 14, 1999 and subsequent amendments

Certification of Annual Financial Statements pursuant to article 81-Ter of Consob Regulation no. 11971 of May 14, 1999 and subsequent amendments

1. The undersigned, Alessandro Foti, as Chief Executive Officer and General Manager of FinecoBank S.p.A., and Lorena Pellicciari, as Nominated Official in charge of drawing up company accounts of FinecoBank S.p.A, taking into account the provisions of Article 154-bis, par. 3 and 4 of Legislative Decree 58 of February 24, 1998, do hereby certify:

- the adequacy in relation to the Company's features and
- the actual application

of the administrative and accounting procedures used in the preparation of the financial statements for the year ended December 31, 2016.

2. The adequacy of the administrative and accounting procedures employed to draw up the financial statements for the year has been evaluated by applying a model defined by the UniCredit Group, in accordance with the "Internal Control - Integrated Framework (CoSO)" and the "Control Objective for IT and Related Technologies (Cobit)", which are international commonly accepted standards for the internal control system and for financial reporting.

3. The undersigned also certify that:

3.1 The Annual Report and Accounts:

- a) were prepared in compliance with applicable international accounting standards recognised by the European Community pursuant to European Parliament and Council Regulation 1606/2002 of July 19, 2002;
- b) correspond to the results of the books and accounting records;
- c) are suitable to provide an accurate representation of the financial position and performance of the issuer;

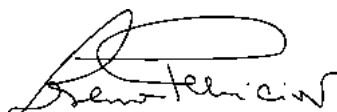
3.2. the Directors' Report on operations contains a reliable operating and financial review of the issuer, as well as the description of its exposure to the main risks and uncertainties.

Milan, February 7, 2017

FinecoBank S.p.A
The Chief Executive Officer and
General Manager
Alessandro Foti



FinecoBank S.p.A.
The Manager Responsible for Preparing
the Company's Financial Reports
Lorena Pellicciari





MORE THAN 350 FINECO CENTERS
AND MORE THAN 2.600 ADVISORS AT YOUR DISPOSAL

FINECO. SIMPLIFYING BANKING.

Report of the External Auditors

INDEPENDENT AUDITORS' REPORT PURSUANT TO ART. 14 AND 16 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010

**To the Shareholders of
FinecoBank Banca Fineco S.p.A.**

Report on the Financial Statements

We have audited the accompanying financial statements of FinecoBank Banca Fineco S.p.A., which comprise the balance sheet as at December 31, 2016, and the income statement, the statement of comprehensive income, the statement of changes in equity and the cash flows statement for the year then ended, and the related explanatory notes.

Management's Responsibility for the Financial Statements

The Company's Directors are responsible for the preparation of these financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree n° 38/05 and to art. 43 of Italian Legislative Decree n° 136/15.

Auditor's Responsibility

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

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

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

Opinion

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

Report on Other Legal and Regulatory Requirements

Opinion on the consistency of the report on operations and of certain information included in the report on corporate governance with the financial statements

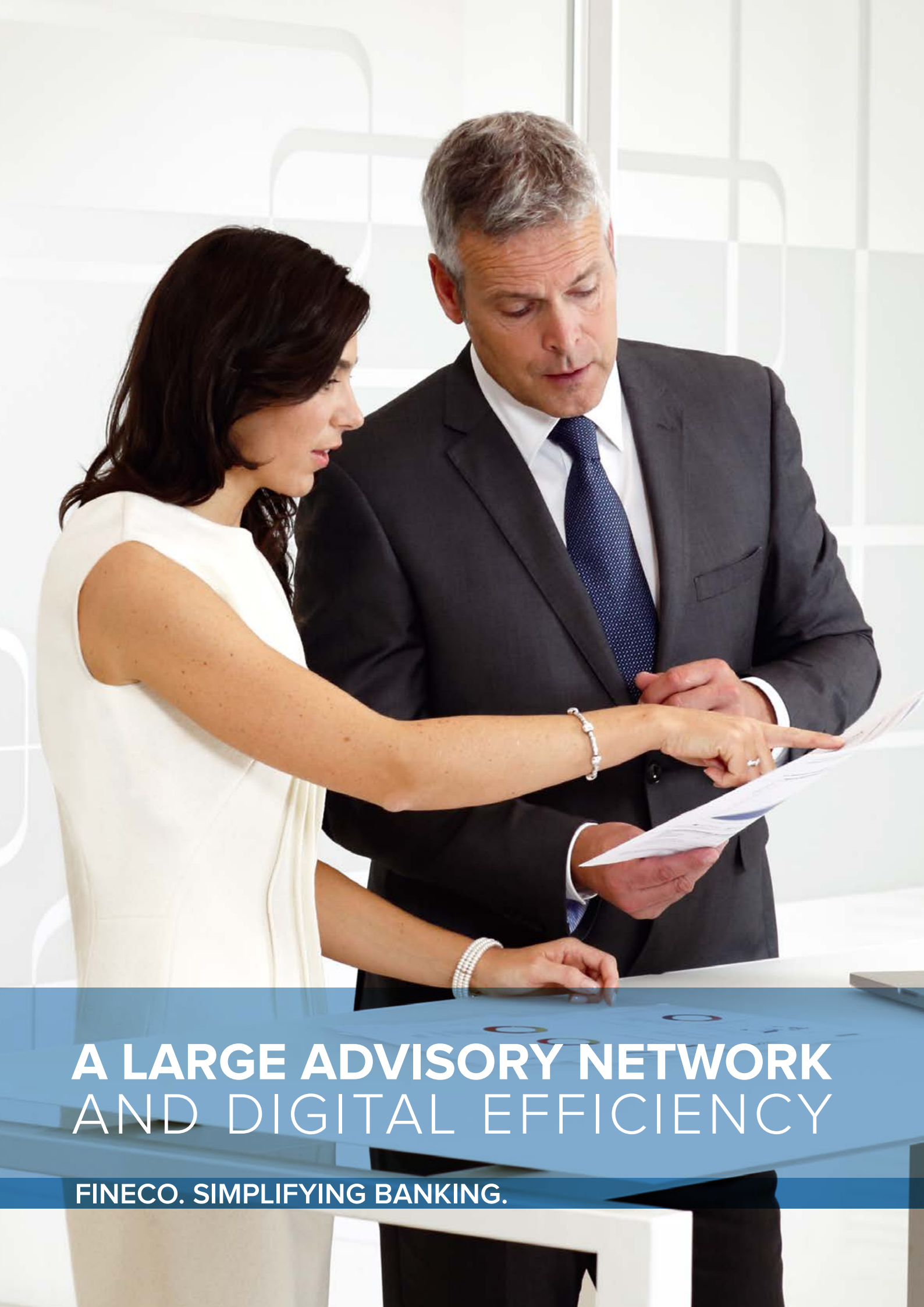
We have performed the procedures indicated in the Auditing Standard (SA Italia) n° 720B in order to express, as required by law, an opinion on the consistency of the report on operations and of certain information included in the report on corporate governance required by art. 123-bis, n° 4, of Italian Legislative Decree n° 58/98, which are the responsibility of the Directors of FinecoBank Banca Fineco S.p.A., with the financial statements of FinecoBank Banca Fineco S.p.A. as at December 31, 2016. In our opinion the report on operations and the information included in the report on corporate governance referred to above are consistent with the financial statements of FinecoBank Banca Fineco S.p.A. as at December 31, 2016.

DELOITTE & TOUCHE S.p.A.

Signed by
Paolo Gibello Ribatto
Partner

Milan, Italy
March 17, 2017

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



A LARGE ADVISORY NETWORK AND DIGITAL EFFICIENCY

FINECO. SIMPLIFYING BANKING.

Report of the Board of Statutory Auditors

Report of the Board of Statutory Auditors

Dear Shareholders,

pursuant to Article 2429, paragraph 2, of the Italian Civil Code and Article 153 of Italian Legislative Decree no. 58 of 24 February 1998 (Consolidated Law on Finance), the Board reports on the supervisory activity performed during the financial year ended at 31 December 2016.

In 2016, the Board of Statutory Auditors performed its institutional tasks in compliance with the Italian Civil Code, Italian Legislative Decrees no. 385/1993 (TUB), no. 58/1998 (TUF) and no. 39/2010 (Consolidated Law on Statutory Audits), with statutory regulations and regulations issued by surveillance and control Authorities, also taking into account the Rules of Conduct of the Board of Statutory Auditors issued by the National Council of Chartered Accountants and Accounting Experts.

When implementing its work programme, the Board met several times with Top Management, the Managers of Operational Areas, as well as with the Managers and Auditors of the Parent Company, discussing in depth the main issues pertaining to the Company's organisation and control centres and monitoring the adequacy of the organisational and administrative structure and its correct operation.

Also in compliance with the guidelines issued by CONSOB, published with notice no. DEM/ 1025564 of 06 April 2001, we would like to specify as follows.

Administrative Body – Appointment, term of office and operation

The Board of Directors in office at the date of this Report was appointed by the Ordinary Shareholders' Meeting of FinecoBank on 15 April 2014 and shall remain in office until the next Shareholders' Meeting held to approve the Financial Statements at 31 December 2016.

It should be noted that, pursuant to applicable regulations and the Corporate Governance Code of listed companies, in February 2017 the Board of Directors, with the favourable opinion of the Remuneration and Appointments Committee, carried out the annual assessment on the independence requirement applicable to most Directors, with the findings listed in the Report on Corporate Governance and Ownership Structures, as well as on ongoing compliance with the requirements of good standing and professionalism. The Board of Statutory Auditors verified the correct implementation of criteria and procedures used by the Board of Directors to express such an assessment. In February 2017 the Board of Directors also assessed compliance with the so-called interlocking restriction for the Directors and the Financial Reporting Officer.

In compliance with Bank of Italy Corporate Governance Rules, on 1 August 2016 the Board of Directors approved the "Regulations for Corporate Bodies" that govern the operation and the remit of the Board and its Committees, as well as those of the Board of Statutory Auditors.

Board of Statutory Auditors – Appointment, term of office and operation

The Board of Statutory Auditors in office on the date of this Report was appointed by the Ordinary Shareholders' Meeting of FinecoBank of 15 April 2014. The Board of Statutory Auditors shall remain in office until the Shareholders' Meeting held to approve the Financial Statements as at 31 December 2016.

The Board of Statutory Auditors assessed its composition and verified compliance with legal and statutory requirements, compliance with the independence requirement for its members and the absence of impediment clauses pursuant to Article 36 of Italian Legislative Decree. n. 201/2011 for the latter.

In compliance with the requirements of Supervisory Authorities – in particular, of Circular 285/2013 of the Bank of Italy and the provisions of the regulations for Corporate Bodies– the Board of Statutory Auditors carried out a self-assessment on its composition and operation.

Company's compliance with the Corporate Governance Code and Actual implementation of the Code

In April 2014, the Board of Directors of FinecoBank resolved on the Bank's adoption of the Corporate Governance Code of listed companies ("Code") and, in compliance with the aforementioned Code, the Remuneration and Appointments Committee and the Audit (control and risks) and Related Parties Committee operate within the Board of Directors. The Committees consist of independent non-executive Directors.

In compliance with the Bank of Italy Corporate Governance Rules as well as with the Corporate Governance Code of listed companies, in February 2017 the Board of Directors approved the "Self-assessment of the structure, operation and efficiency of the Board of Directors for the year 2016" document – submitted to the Remuneration and Appointments Committee – that details the findings of the self-assessment process performed with the support of an external consultant.

The Board of Statutory Auditors found that the corporate governance rules set out in the aforementioned Corporate Governance Code had been correctly implemented.

Parent Company's direction and co-ordination activity

As part of the UniCredit Group, FinecoBank S.p.A. is subject to the discipline for banking groups enshrined in TUB and in the Bank of Italy Supervisory Regulations aimed at ensuring the stability and unity of companies belonging to the same banking Group. Against this backdrop, UniCredit S.p.A. performs management and co-ordination activity over FinecoBank S.p.A. pursuant to Articles 2497 et seq. of the Italian Civil Code.

Compliance with the Law and Articles of Association - Sound governance principles

The Board monitored compliance with the Law, the Articles of Association and sound governance principles both when performing its activity, including participating in meetings of the Board of Directors, of the Audit and Related Parties Committee, of the Remuneration and Appointments Committee, and during meetings with Top Management and the Managers of the Bank's various Departments and Functions.

During the financial year 2016, the Board of Statutory Auditors in office participated in no. 1 Shareholders' meeting, no. 11 meetings of the Board of Directors, no. 13 meetings of the Audit and Related Parties Committee, no. 10 meetings of the Remuneration and Appointments Committee, no. 4 Induction meetings, no. 5 meetings with Statutory Auditors, no. 17 meetings with Area and Organisational Unit Managers and Financial Advisers, no. 6 meetings of the Supervisory Body, no. 2 meetings at the Parent Company, as well as convening for drafting minutes, drawing up opinions, remarks, communications and performing other activities.

Participating in Board of Directors' Meetings enabled the Board to ascertain, inter alia, that delegated parties reported on transactions executed in view of the powers granted to them, pursuant to Article 150, paragraph 1, of TUF. In our opinion, the frequency of the meetings of the Board of Directors, the information provided during such meetings and, generally speaking, the information flows implemented are comprehensive with respect to legal and statutory obligations and applicable regulations.

The Board of Statutory Auditors verified compliance with disclosure obligations with respect to regulated and inside information or information required by Supervisory Authorities.

During the meetings of the Board of Directors, the Auditors viewed the quarterly reports of the Bank's control Function and reports of the Financial Reporting Officer, as well as ascertaining that the reports and information laid down by supervisory regulations were complied with.

On 7 March 2017, the Board of Directors of FinecoBank approved the 2016 Report on Corporate Governance and Ownership Structures pursuant to Article 123-bis of Italian Legislative Decree 24.02.1998 no. 58 ("TUF") for 2016; The information requested by Article 123-bis, paragraph 1, letter i) of TUF is contained in the Remuneration Report published pursuant to Article 123-ter of TUF; the information requested by Article 123-bis, paragraph 1, letter l) of TUF pursuant to the appointment and replacement of directors is detailed in the section of the Report dedicated to the Board of Directors.

Atypical and/or unusual transactions

The Report of Operations, the information received during Board of Directors' Meetings and those provided by the Chairman and the Managing Director, the management and the Independent Statutory Auditor did not evidence the existence of atypical and/or unusual transactions, including infra-group ones or ones with Related Parties.

Infra-group transactions or transactions with Related Parties – Transactions approved pursuant to Article 136 of TUB

The most important infra-group transactions or transactions with Related Parties from an economic, asset and financial viewpoint are highlighted in the Report on Operations and in the dedicated section of the Notes to the Financial Statements, with an indication of assets, liabilities, guarantees and commitments as at 31 December 2016, split by type of related party pursuant to IAS 24.

In April 2014, the Board of Directors of FinecoBank appointed the Audit and Related Parties Committee, consisting of Directors possessing the independence requirements provided for by Article 147-ter, paragraph 4, and 148, paragraph 3, of TUF, as well as by section 3.C.1 of the Corporate Governance Code, and performing the functions deferred not only by the Corporate Governance Code, but also by CONSOB and Bank of Italy regulations on transactions with related parties and associates.

On 22 September 2015, the Board of Directors of FinecoBank SpA approved, with the prior favourable opinion of the Audit and Related Parties Committee and of the Board of Statutory Auditors, the current "Procedures for the management of transactions with persons in conflict of interest", with which the Bank must comply when managing transactions with related parties pursuant to the "Regulations on transactions with related parties" adopted by CONSOB with Resolution no. 17221 of 12 March 2010 and the transactions with associate persons pursuant to the provisions on "Risk activities and conflicts of interest with Associated Persons" laid down by Bank of Italy Circular 263/2006 and the management of requirements for bank representatives pursuant to Article 136 of Italian Legislative Decree no. 385/1993, without prejudice to the disclosure obligations pursuant to Articles 114 and 154-ter of TUF and the aforementioned CONSOB Regulation. The annual audit of the "Procedures for the management of transactions with persons in conflict of interest" shall be formalised in the short term in order to integrate also the latest amendments to the Parent Company's "Global Policy on transactions with persons in conflict of interest" into the aforementioned Procedures.

The aforementioned "Procedures for the management of transactions with persons in conflict of interest" of FinecoBank SpA provide for regular disclosure to the Corporate Bodies, the Audit and Related Parties Committee and the Compliance Officer with respect to the opinions issued by the Audit and Related Parties Committee and the transactions concluded with related parties/persons in conflict of interest carried out by the Bank during the reference period; the Board of Statutory Auditors acknowledges the effectiveness in 2016 of the relevant quarterly reports (which include "Minor transactions" and "Ordinary transactions") that are part of the Bank's day-to-day operations and are concluded at market prices, which are not subject to the decision-making processes provided for by the aforementioned "Procedures", as well as by the implementation, where the relevant circumstances apply, of the aforementioned decision-making processes.

The Board of Directors – in compliance with the provisions of Article 150, 1 paragraph, of TUF - disclosed to the Board of Statutory Auditors, on a quarterly basis, any transactions having a significant impact on the Company's profitability, assets and liabilities or financial position carried out by the Bank, with specific reference to the transactions executed with related parties/persons in conflict of interest.

It should also be noted that the dedicated assessment by the Internal Audit function of the procedures for managing transactions with persons in conflict

Report of the Board of Statutory Auditors (CONTINUED)

of interest and related parties was concluded in December 2016 with a “satisfactory” outcome.

The Board of Statutory Auditors always participated in the proceedings of the Audit Committee in its configuration as Related Parties Committee called to express its opinion on transactions identified by applicable procedures, verifying compliance with procedural rules adopted by the Bank, as well as with the provisions on transparency and disclosure to the public.

With respect to detailed information about individual infra-group transactions and transactions with Related Parties - significant, ordinary and market price transactions - see the relevant sections of the Report on Operations and the Notes to the Financial Statements.

With respect to transactions approved by the Board of Directors pursuant to Article 136 of TUB, the members of the Board of Statutory Auditors acknowledge that they have expressed their approval after verifying compliance with the execution requirements provided for by the Law.

Comments on the adequacy of the organisational structure - ICT

The Board of Statutory Auditors monitored the adequacy of the organisational structure and its correct operation over the course of various meetings with Top Management and the Managers of different Departments and functions. Such monitoring activity did not discover any significant organisational deficiencies.

Specifically, in 2016 the Board monitored initiatives aimed at improving the company's corporate management and acknowledged changes made to the Central Head Office, Network Head Offices, and the Organisational Chart, which clearly details functions, roles and reporting lines, and the Bank's Internal Regulations. The changes made include, in particular, the creation of the “Treasury Committee” and the approval of the relevant operation regulations and, after mortgages to retail customers started to be offered to customers, the creation of the “Mortgage” team.

The Bank's Internal Regulations – whose most up-to-date version was approved by the Board of Directors on 7 February 2017 – describe the organisational model and the structure it consists of (bodies, departments, teams). Apart from the Board of Directors' internal Committees, established pursuant to the “Regulations of the Board of Directors” (“Audit and Related Party Committee” and “Remuneration and Appointments Committee”) and for which the “Report on Corporate Governance” and the “Annual Remuneration Report” provide relevant disclosures, the following managerial Committees are established as collegiate bodies aimed at providing united and participatory guidelines and guaranteeing continuity of direction:

- Strategic Committee
- Management Committee
- Advisory Committee
- Internal Control Business Committee
- Business Continuity & Crisis Management Committee
- Project Committee
- Risk Committee
- Network Committee
- Product Committee
- Disciplinary Committee
- Private Banking Committee
- Treasury Committee.

The Board acknowledged the ongoing transposal and the degree of implementation of the Guidelines issued by the Parent Company - to whose direction and co-ordination activity the Bank is subject - and the subsequent organisational changes implemented by the Bank.

The Board acknowledges the ongoing updating and implementation, in line with applicable Provisions of Bank of Italy Circular no. 285 and the Global Rules issued by the Parent Company, of the Bank's Business Continuity Plan and of the implementation, with an overall positive outcome, of annually scheduled Business Continuity and Disaster Recovery test activities. The Bank's Business Continuity & Crisis Management Framework includes the event, incident and crisis management plan and the operational continuity plan, of which the Disaster Recovery and Cyber Attack plan are an integral part. The 2016 Disaster Recovery Plan was approved by the Board of Directors of 07/02/2017. The Auditors focussed particularly on the performance, formalisation and relevant result of DR tests, including those performed by so-called critical outsourcers, and on the preparation of relevant monitoring reports for Governance Bodies. The Board of Statutory Auditors also analysed the status and the dynamic of the ICT project portfolio. With respect to IT risk assessment, see the paragraph below on risk management systems.

During meetings with Area and Function Managers, the Board always checked the adequacy of human resources both in terms of quantity and quality, with further in-depth investigation where needed, and involving both the Chief Executive Officer and the Board of Directors, where required.

Based on the documentation analysed and the information gathered when performing its monitoring activities, given an Organisational Chart and relevant Company Regulations that detail roles and responsibilities of organisational structures, having verified the correct implementation of the system of Proxies issued by the Board of Directors as well as the definition, implementation and monitoring of specific company regulations aimed at the performance of the activities typical of each function of FinecoBank S.p.A., the Board of Statutory Auditors deems the Bank's organisational structure as overall appropriate.

Comments on the adequacy of the Internal Control system

In implementation of Circular no. 285, the Bank approved and subsequently updated the “Document of Control Bodies and Functions” that establishes the Bank’s Internal Control System, identifying the roles and responsibilities of Corporate Bodies and control functions in an analytical manner.

FinecoBank’s internal control system is based on the principles of the Corporate Governance Code for Listed Companies, applicable regulations and best practices.

The Bank set up permanent and independent corporate control functions for: i) compliance with regulations;; ii) risk management; iii) internal audit.

The Managing Director and General Manager was appointed as the Director Responsible for the Internal Control and Risk Management System in compliance with the provisions of the Corporate Governance Code of Borsa Italiana (the Italian Stock Exchange). On 7 February 2017, the “2016 Statement on ICS Managerial Assessment” document was submitted to the Board of Directors, in which the Bank’s CEO stated, in light of the analyses performed, that FinecoBank’s Internal Control System were “Mostly Satisfactory”, identifying some areas for improvement at the same time, for which suitable corrective action has been defined and initiated.

With respect to the Personal Financial Advisers Network, the “Risk Management” organisational structure also co-ordinates the activity of the “Operational and reputational risks” team, which carries out systematic remote checks on the entire network of Personal Financial Advisers using Risk Indicators, submitting relevant reports. Moreover, FinecoBank, in order to manage and prevent its own Personal Financial Advisers (PFAs) from adopting behaviours that are non compliant with regulations, has adopted a number of first and second tier checks by several internal functions and an information flow that, for the purpose of the immediate implementation of any actions deemed necessary for PFAs, gathers all information on a centralised basis and forwards it to the Network Control, Monitoring and Network Service Departments on behalf of Risk Management, Compliance, the Anti-Money Laundering and Anti-Terrorism Service, the Information Security and Fraud Management team, other Bank functions and Internal Audit. Every six months, in compliance with the requirements of the New Prudential Supervisory Provisions for Banks, the Incidents and Controls unit – operating within the Network Control, Monitoring and Network Service Department – submits to the Audit and Related Parties Committee and the Board of Directors a relevant Report on the activity of Financial Advisers that details, on the basis of specific anomaly indicators, the audits performed, their findings, any critical issues and the actions aimed at eliminating them. The Board of Statutory Auditors has examined the aforementioned six-monthly Reports - the last one being the “Semi-monthly report on activities performed from 1 July 2016 to 31 December 2016 - using the information therein contained to plan its own audit activity.

We have found that the quarterly Internal Audit Activity and Results Reports (IAAR) prepared by Internal Audit to assess the Internal Control System and containing sections dedicated to the findings of the Audit activity on the Personal Financial Advisers Network and the Audit Findings, including their composition over time and the specific disclosure on findings with an overdue status, were duly submitted to the Audit and Related Parties Committee and the Board of Directors and discussed within such bodies.

Following reports received by the Incidents and Controls Unit, the Disciplinary Committee – whose effective operation was monitored by the Auditors – assesses any anomalies that may have emerged with respect to the behaviour of PFAs, in order to apply appropriate disciplinary sanctions to them.

The Bank has approved the Policy on “Outsourcing/In-sourcing” and continued the review of outsourcing agreements and the adoption of the relevant procedures. The Auditors acknowledge that the Internal Audit function prepared the report in line with supervisory provisions for audits on key outsourced operating or control functions, as well as on any deficiencies detected and relevant corrective actions, highlighting the activities that need to be stepped up. The aforementioned “Outsourcing of business activities – Group Internal Audit Annual Report” document, together with the Remarks of the Board of Statutory Auditors, was approved by the Bank’s Board of Directors on 7 March 2017. The Board of Statutory Auditors made specific recommendations in its aforementioned Remarks, also incorporating the remarks of the Audit Function.

The Internal Audit activity for FinecoBank is carried out in outsourced mode by resources of the Internal Audit Department of UniCredit S.p.A. on the basis of a specific service agreement and in compliance with the terms and conditions of the relevant “Group Audit Mandate” adopted by FinecoBank’s Board of Directors.

In December 2016 the Board of Directors approved, with the favourable opinion of the Audit and Related Parties Committee, the annual Audit Plan for 2017, the strategic Audit Plan for the 2017-2021 5-year period and, on the basis of justified requirements, the amendment of the 2016 Audit Plan. The 2017 Audit Plan, which includes, amongst other things, no. 14 audits, guaranteeing coverage of no. 27 processes, takes into account the guidelines received by the Parent Company, the finding of the Risk Control Assessment process managed by UniCredit’s Internal Audit Department and the 5-year strategic Plan, the requests received by the Audit and Related Parties Committee, the Board of Statutory Auditors and the Bank’s Management and the follow-up requirements of previous audits. With respect to the Personal Financial Advisers’ Network, the annual and multi-annual plan guarantee (on the basis of local audits and remote monitoring) the progressive coverage of the entire sales network over a 5-year period. In December 2016, the Board of Directors approved an updated version of the “PFA Network Control System” Policy aimed at ensuring an effective management and the prevention of non-compliance behaviours of its own Financial Advisers with respect to internal and external regulations by adopting a range of level I and level II controls for some organisational units and an information flow aimed at co-ordinating and channelling all information towards the Network Control, Monitoring and Network Service Department .

Report of the Board of Statutory Auditors (CONTINUED)

During its activity, the Board ascertained compliance with the previously defined Audit plan both for central units and processes and Network structures, checking actual implementation time scales and the root cause of any variances.

The Board considered the "Report on FinecoBank S.p.A.'s Internal Audit activity pursuant to Article 14 of the joint CONSOB-Bank of Italy Regulation, as per CONSOB Resolution no. 17297 of 28 April 2010 " (hereinafter, also "Report pursuant to Article 14 of the joint Regulation") prepared by Internal Audit on the basis of its activity during 2016, submitted to the Audit and Related Parties Committee and the Board of Directors in March of this year and inclusive of a "satisfactory" assessment, since the controls for key risks on the investment services audited, central processes, placement and advisory services for financial products and instruments, operational processes shared by several investment services and the Personal Financial Advisers Network are adequate in general. The aforementioned report highlights some areas for improvement and details, in this respect, any measure deemed appropriate. With respect to the aforementioned Report pursuant to Article 14 of the joint Regulation, the Board of Statutory Auditors will present its Remarks to the Board of Directors.

The Board of Statutory Auditors examined the Audit Reports published by Internal Audit in 2016 using the information contained therein to carry out its activity and monitor the implementation of the relevant recommendations, with specific regard to the Managers of Organisational Areas involved.

The Board carried out its audit on the implementation by the Bank of the guideline included in CONSOB communication 0012130 of 11 February 2016 for a "regulated co-operation" and the exchange of information flows between the Compliance and the Internal Audit Functions.

The Board of Statutory Auditors successfully and systematically liaised with the Chief Audit Executive (CAE) of the Internal Audit function; during the meetings, the period reports prepared for the Board of Directors and the Board of Statutory Auditors were examined, amongst other things and the remarks and recommendations of the aforementioned Committee were submitted to the Internal Audit Function.

Based on the documentation reviewed, information received and inspections performed during its supervisory activities, the Board of Statutory Auditors, despite referring to the presence of some corrective measures currently under way, deems the Internal Control System to be adequate as a whole.

Supervisory Authority pursuant to Italian Legislative Decree no. 231/2001

FinecoBank deemed it appropriate to avail itself of the possibility of entrusting the Supervisory Authority function under Italian Legislative Decree 231/2001 to an especially established Body, rather than delegating it to the Control Body.

In June 2016, in compliance with the guidelines of the Bank of Italy and UniCredit's guidelines on the update of the Organisational, Management and control Model pursuant to Italian Legislative Decree 231/2001, the composition of the Supervisory Body was changed by including, amongst other things, the Chair of the Board of Statutory Auditors of FinecoBank as external member.

The Board of Statutory Auditors examined the "Information Report on the activity performed by the Supervisory Authority (SA) pursuant to Italian Legislative Decree no. 231 of 08 June 2001, as at 31 December 2016" the findings of the Supervisory Body's activities did not highlight any major breaches of reference regulations and showed, amongst other, that the Organisational and Management Model (General Part) of FinecoBank (approved by the Bank's Board of Directors on 8 November 2016) was updated, the versions of some Decision Protocols were approved, the findings of checks performed by Internal Audit on no. 3 decision protocols were examined and a whistleblowing incident was assessed.

Comments on the adequacy of risk management systems

FinecoBank SpA has an active Risk Management function aimed at assessing and monitoring the adequacy of the measurement, control and management of typical risks linked to the performance of financial and banking activities, in particular, liquidity risk, credit and counterparty risk, market risk, interest rate risk and price risk, as well as operational risk, reputational risk, in-sourcing risks and IT risk. The CRO function also verifies that mitigation transactions for the aforementioned corporate risks (risk management) are performed.

In February 2017 the CRO function submitted the "Report on Risk Management Activity in 2016 and 2017 Plan" in which, inter alia, it reported on the monitoring of the Risk Appetite Framework and operating exposures to various types of risks, the monitoring of the risks of the Bank's activity as well as on any proposals for risk mitigation policies, the quarterly monitoring of the adequacy of the Bank's internal capital (ICAAP) and on information flows towards the Board of Directors, the Audit and Related Parties Committee, the Risk Committee and Top Management and the production of monthly reporting to the Parent Company.

Moreover, Risk Management was responsible for the analysis of the new ICAAP methodology framework, suitably informing the Board of Directors thereof. In particular, the 2017 activity plan shall see Risk Management directly involved in the continuation of projects already started for credit risk and operational risk, in the monitoring of credit risk and impacts from a liquidity profile and the interest rate risk resulting from the granting of mortgage loans; with respect to market risk, the new demand items model shall be analysed and validated.

The Board of Statutory Auditors verified the effectiveness and the adequacy of the information flows, including the reports that provide evidence of structural liquidity and the Bank's ability of fulfilling short-term obligations, and those aimed at verifying compliance of individual limits for the management of liquidity itself. Risk Management, in compliance with the Supervisory Authority's instructions, carried out stress tests on the Bank's liquidity position.

In September 2016, the Bank issued the “ICAAP and Risk Appetite Framework” Circular that replaces the ICAAP manual and, moreover, sets out the escalation processes in the event Risk Appetite metrics are exceeded.

In January 2017 FinecoBank SpA approved the “2107 FinecoBank Risk Appetite” document, whose metrics, which include the exchange rate risk with respect to hedging policies, were subject to an assessment by the Audit and Related Parties Committee, and that also aims at monitoring consistency between the business mode, the aforementioned RAF and the budgeting process. The Bank’s CRO and Risk Management deem FinecoBank’s RAF compliance with supervisory provisions and internal regulations to be in line with the proportionality principle expressed by the Bank of Italy and suitable for the Bank’s business model.

After defining the relevant measurement method in December 2016, the “Summary report on FinecoBank’s IT risk situation” document drafted by Risk Management was submitted to the Board of Directors in compliance with Bank of Italy’s provisions; at the end of the IT risk assessment activity, Responsible Users, on the basis of the limited exposure, accepted residual risk with no need for the identification of further mitigation measures.

The Bank’s Internal Audit Function, in the “Basel 2 – Operational Risk –AMA – Local Internal Audit Report on the Operational Risk Management System” document and in the Audit Report “Analysis of the ICAAP process and Risk Appetite Framework” (overall rating: Good) of February 2017, highlights, ascertaining the presence of the requirements laid down by the Bank of Italy in Circular 285/2013, that the Operational Risk Management system, in implementation of the AMA model, and the relevant organisational and control centres were adequate.

In February 2017, the Bank’s Internal Audit issued and presented to the Audit Committee the “ICAAP and RAF document: FinecoBank Annual Audit Report” with the results of their assessment on ICAAP and RAF processes. This document notifies that Group regulations were correctly transposed and implemented, that the Bank suitably defined the Risk Appetite pursuant to the provisions of the Bank of Italy and Group Policy and that the Bank correctly identified key risks with respect to the measurement of Economic Capital.

In 2016, the Bank diversified its business also by starting the issuing of mortgage loans with the prior approval of the dedicated “Policy on the granting of residential mortgages with property collateral to current account holders of FinecoBank S.p.A.”; at the moment, the granting of loans is reserved to the purchase of the first and second home and excludes other, riskier type of mortgages.

During its activity, the Board periodically met with the Chief Risk Officer in order to assess, inter alia, his/her work and analyse in more detail the information reports submitted by him/her to the Corporate Bodies.

The Board deems the risk management system broadly adequate to the company’s size and characteristics.

Remarks on the remuneration policy

Over 2016, in line with the provisions of the Surveillance Authority with respect to “Remuneration and bonus policies and practices”, the Board of Statutory Auditors checked the adequacy and compliance of the remuneration policies and practices adopted by FinecoBank S.p.A. with the internal and external legal and regulatory framework. In 2016, the Board of Statutory Auditors participated in all meetings of the Remuneration and Appointments Committee.

The Bank’s Board of Directors, in the meeting of 13 May 2014, adopting the Corporate Governance Code for listed companies, resolved on the appointment of the “Remuneration and Appointments Committee” by availing itself of the option, provided for by the aforementioned Corporate Governance Code, to concentrate the functions of the Appointment Committee and the Remuneration’s Committee into a single Committee. It should be noted that, in the “Qualitative and quantitative composition of the Board of Directors of FinecoBank” document, approved with resolution of the Board of Directors or 7 February 2017, in view of the next reappointment of the Company’s Administrative Body, the Board of Directors, in compliance with Surveillance Provisions on Corporate Governance, recommended the creation of three internal committee instead of the current two and, specifically, (i) an Appointment Committee, (ii) a Remuneration Committee and (iii) a Risk and Related Parties Committee.

The Bank’s Board of Directors implemented the “2016 Incentive Plans”, other existing incentive Plans and, in March 2017, taking into account the favourable opinion of the Remuneration and Appointments Committee, it approved the “2017 FinecoBank’s Remuneration Policy” (formulated by the HR Function, with the involvement of the Risk, Finance and Network Control, Monitoring and Network Services Functions, validated by the Compliance Function for the aspects falling under its remit and inclusive of the identification of “most relevant subjects” (so-called identified staff) and related Detailed Regulations of the 2017 Incentive System. This document – inclusive of the “Annual Remuneration Report” and the attached “2017 financial instruments-based remuneration plans” – shall be subject to approval by the Ordinary Shareholders’ Meeting. This document also considers the Remuneration Policy applied to the members of FinecoBank’s Independent Financial Advisers network, in line with their specific compensation policies. The definition of the 2017 Policy was also supported and validated by the Independent external consultant and the Remuneration and Appointments Committee.

The Internal Audit Function carried out the annual audit on the Bank’s variable remuneration system pursuant to the provisions of the Supervisory Regulations issued by the Bank of Italy and examined the process for the identification of the resources belonging the most relevant employee class in order to check their compliance with the requirements of Amended Regulation (EU) no. 604/2014. The aforementioned annual audit – whose results were presented to the Remuneration Committee on 1 March 2017, in which all Auditors took part – ended with the formulation of a satisfactory assessment based on the correct implementation of bonus determination mechanisms, as defined by the Bank’s remuneration policy, for both Employees and Financial Advisors.

Report of the Board of Statutory Auditors (CONTINUED)

The Board of Directors also resolved on a free capital increase in order to execute the “2014-2017 Multi-year Top Management Plan” and “2014 Key People Plan” share plans, with a relevant amendment of the Company’s Articles of Association. During the same meeting, the Board of Directors also approved, with effect from 31 March 2017, a free capital increase in order to implement the “2014 Incentive System”, with relevant amendment to the Articles of Association.

In July 2016 the Board of Directors updated the “Professional Development Paths and Succession Planning” document, aimed, inter alia, at identifying skill and competency levels required for possible Succession Planning candidates, with particular reference to the post of Chief Executive Officer, General Manager and Directors with strategic responsibilities.

The Board of Statutory Auditors verified compliance with the regulatory framework of the remuneration policies adopted by the Bank and acknowledged that the 2017 Retribution Policy, including the “Annual Remuneration Report” and “2017 remuneration plans based on financial instruments”, had been made available to the public in line with CONSOB Regulation no. 11971/1999; The report fulfils the disclosure requirements pursuant to Articles 114-bis and 123-ter of TUF and banking regulations’ requirements at the same time.

Remarks on liquidity investment policy

Within the framework of its activity aimed at optimising the use of liquidity collected in its capacity of asset gatherer, during the financial year the Bank further enhanced internal regulatory and organisational tools aimed at limiting and monitoring risks, whilst continuing to pursue value creation.

The Bank operates on the basis of its “Liquidity Policy”, which sets out the principles and the rules to be implemented for liquidity management, including, in particular, the investment in liquid assets or assets readily convertible into cash of cash components characterised by a lesser degree of persistence and stability. In 2016, the bank, inter alia:

- approved, with prior positive opinion of the Audit and Related Parties Committee and in line with the guidelines of the “2017-2019 investment plan”, the “Medium-long term liquidity investments with the Parent Company” Framework Resolution, including a dedicated Technical Support Document, with validity up to November 2017;
- regularly monitored investment transactions carried out based on framework resolutions on liquidity management, the auditing of compliance of the aforementioned transactions with market conditions and alternative investment analyses performed by the CFO Department Treasury function and subject to second-tier audits by the FinecoBank’s CRO Department.

The Notes to the Financial Statements as at 31 December 2016 also notify, inter alia, the renewal, in May 2016, of “Framework Agreement – Repurchase Agreements and Term Deposits with the Parent Company”.

The Treasury of the CFO Department and the CRO Department regularly monitor the Investments already carried out based on the “Liquidity Risk Contingency Plan” document (updated by the Policy approved by the Board of Directors in November 2016 that defines the principles and the rules for managing liquidity in crisis or stress situations, defining the limits, the instruments and the early warning indicators to be monitored for operational and structural liquidity) and the “Contingency Plan on Bond Issuer Risk” document (which defines the principles and the rules for an efficient and comprehensive assessment, control and reduction of the issuer risk linked to the financial instruments in FinecoBank’s banking portfolio), constantly assessing compliance with “threshold” and “trigger” values; to this end, within the scope of their remit, each of the aforementioned structures provides regular information to the Board of Directors to enable it to verify the ongoing consistency and fairness of the investments.

The Group has developed dedicated behavioural models for estimating the ongoing presence of asset and liabilities items that do not have a contractual deadline and such models are also validated by FinecoBank. The Demand Items model aimed at managing, based on the analysis of Liquidity Dynamics of the most recent years and customer cluster classification, the total deposits of FinecoBank in their core and non-core components.

For investment transactions, the Board of Statutory Auditors verified the implementation of the procedures established for ensuring the information basis and, where applicable, the procedures envisaged for transactions with Related Parties, requesting the opinion of the Audit Committee in its Related Party Committee configuration, where required (see the relevant section of this Report).

Remarks on Compliance and Anti-Money Laundering activity

On 8 February 2016, the Board of Directors of FinecoBank resolved on the in-sourcing of the Bank’s Compliance function and appointed a Compliance Officer with effect from 1 April 2016.

The Board of Statutory Auditors considered the “Annual Report of the Compliance Function of FinecoBank - 2016” (hereinafter, also, in this paragraph, “Compliance Report”) and its attachments, where, in compliance with the provisions of the Surveillance Authorities, the Compliance Function expressed an overall positive assessment and highlighted in particular that the assessment of main risks directly monitored by the Compliance Function identified a regulatory area with a “critical” and “significant” risk level and that directly monitored areas showed risk levels not greater than “medium”. The Compliance Report, sub-divided into four sections, covers the themes indicated by the Supervisory Authority and specifies, inter alia, that the Compliance activities planned for 2017 together with the Parent Company’s competent Compliance units, were included in FinecoBank’s “2017 Compliance Plan” approved by the Board of Directors on 6 December 2016.

The Board of Directors shall prepare its “Remarks” that will supplement the “Compliance Report” to be forwarded to CONSOB within thirty days from the approval of the Financial Statements.

Following the decision of the aforementioned in-sourcing, FinecoBank's Compliance unit was strengthened in 2016, in order to autonomously perform all previously outsourced activity, with the exception of those relating to the management of Suspicious Transaction Reports pursuant to the Anti-money Laundering Procedure, for which the proxy already attributed by UniCredit SpA. was confirmed.

In 2016, the level II control system was expanded with the introduction/review of new checks pertaining to regulatory areas directly monitored by Compliance and with the definition of controls on regulatory areas that are subject to indirect coverage by "Specialist Control Centres (functions that, based on Company regulations, are currently responsible for monitoring regulatory areas). The findings of the monitoring performed were presented to the Audit Committee and the Board of Statutory Auditors of FinecoBank through specific reports and were integrated into the Compliance Risk Assessment process (CRA).

The Compliance Report also details the training activity performed in 2016 for both the Bank's employees and Network Personal Financial Advisors and summarises in advance some of the topics covered the "Anti-money Laundering Officer's Report" that, as mentioned below, shall be submitted at a later stage. In this regard, the Auditors note that the Risk Assessment of the AML Framework shows a "limited" level (at the end of 2016, two actions were open, whose completion is expected in the first half-year of 2017) and that, during the performance of level II controls, the risk level for the area is confirmed as "limited".

By May 2017, the self-assessment of the AML risk (already performed in May 2016, based on the method indicated by the Surveillance Authority, with a medium-low inherent level as an outcome) shall be concluded in October 2015 in line with the Bank of Italy's requests. During 2016, the Internal Audit Function performed two AML audits (a standard audit with a globally "satisfactory" outcome and a "special investigation" initiated upon request of the Surveillance Authority).

The Bank initiated - pursuant to the Provisions of the Bank of Italy that entered into force in September 2011 - adequate and prompt information flows towards Corporate Bodies and top management about the situation of FinecoBank's corporate control centres for the prevention of money-laundering and terrorism financing risk. With respect to AML controls, upon request of the Board of Statutory Auditors, since 2015 the Bank has already initiated a process for reporting any transactions recorded late in the Single Computer Archive to the aforementioned Board. Following reports received in 2016, the Board (apart from forwarding them to the Surveillance Authority, as detailed below) promptly liaised with the Compliance Function to request the early assessment of the presence of any procedural deficiencies in level I and level II controls implemented by the Bank with respect to anti-money laundering and shall evaluate with FinecoBank's CAE the appropriateness of specific actions on the effectiveness of controls implemented for the correct and prompt updating of the Single Computer Archive. The "Internal Audit Activity and Results" Report (so-called IAAR) for 2016 deemed the controls pertaining to the main risks in the management of the obligations set out by Anti-money laundering legislation as adequate overall.

In 2016, the Internal Audit Function carried out various audits on topics pertaining to the compliance activity issues, which were all concluded with a final "satisfactory" outcome.

The Board of Directors also considered the "Report on total complaints received by FinecoBank S.p.A. in 2016" (hereinafter, also the "Report on Complaints"), prepared by the Compliance Function on the complaints about the investment service, as well as on "other complaints". The Report on complaints detected a percentage increase in the number of complaints received in 2016 versus those received in 2015, highlighting that the number of complaints received is still, in absolute terms, limited if assessed against the growth in the number of clients and the transactions executed by the Bank. The highest number of complaints pertains to "Loans and mortgages", with respect to complaints on transactions for loans against one fifth of the salary, a type of product that was dismissed in 2008 and is no longer marketed by FinecoBank.

Level II controls performed on the complaints area showed the absence of specific criticalities in the Bank's service/product offering and compliance with response times to be in line with regulatory provisions.

In February 2016 the Bank complied with a request issued by CONSOB with respect to financial instruments transactions effected by Customers, organisational measures implemented to capture new regulations for the sale of complex financial products and management procedures for consultancy services provided to Customers.

On 15 February 2016 the Bank received an update request on the implementation of ESMA guidelines on systems and controls for automated trading systems used by the Bank for the collection, transmission and execution of financial instruments purchase and sale orders issued by CONSOB. In April and May, two replies were provided to the Regulator's request.

On 11 October 2016, the Bank received from CONSOB a request for data and information regarding discrepancies found between transactions and positions on derivative contracts negotiated on behalf of Customers in reports to ESMA. The analysis of the reply shows that the majority of the discrepancies was due to technical errors that were subsequently overcome.

Whilst performing its activity, the Board met with the Compliance Representative on several occasions, verifying and recommending in particular compliance with the deadlines provided for during the Compliance Risk Evaluation quarterly audits for closing corrective actions identified from time to time and with particular focus on residual risks highlighted during such audits.

Report of the Board of Statutory Auditors (CONTINUED)

Finally, it should be noted that annual Report of the Compliance Function usually includes the "Report of the Anti-Money Laundering Officer of FinecoBank S.p.A." as part of the attachments; for 2016, however, in agreement with the Parent Company, this Report shall be presented to the Board of Directors' meeting scheduled for next May, together with the self-assessment required by the Bank of Italy, and, therefore, in a separate document from the aforementioned Compliance Report.

Processing of inside information

The Board of Directors, in the meeting held on 15 April 2014, approved the Procedure about the processing of Inside Information aimed at preventing that such processing may take place in an untimely, incomplete or inadequate manner.

In compliance with the provisions of TUF and the Issuers' Regulation and in order to transpose regulatory updates following the entry into force of (EU) Regulation of the European Parliament and of the Council no. 596/2014 of 16 April 2014, the Board of Directors, on 20 September 2016, approved the current version of the Code of Conduct on internal dealing to regulate the management, processing and communication of information on FinecoBank's shares and listed debt instruments, as well as on derivatives and related financial instruments.

Surveillance activity pursuant to the Consolidated Law on Statutory Audits - Relationship with the Independent Statutory Auditors.

The Board of Statutory Auditors, identified in the Consolidated Law on Statutory Audits as the "Committee for internal control and the statutory audit", monitored the: (i) financial reporting process; (ii) efficiency of internal control, audit and risk management systems; (iii) yearly statutory audit of the Bank's Financial Statements; (iv) independence of the Independent Statutory Audit, particularly with respect to the provision of non-audit services.

The Statutory Board of Auditors examined the Report prepared by the Independent Statutory Auditor Deloitte & Touche S.p.A..

The Report of Independent Statutory Auditors, issued without any remarks on 17 March 2017 pursuant to Articles 14 and 16 of Italian Legislative Decree 39/2010, highlighted that the Financial Statements have been prepared in accordance with IAS/IFRS accounting principles issued by the International Standards Board and adopted by the European Union, as well as with the provisions implementing Article 9 of Italian Legislative Decree 38/2005. Therefore, they were prepared clearly and were a true and correct reflection of the assets and the financial situation, the income statement result and the cash flows for the financial year ended at 31 December 2016. Moreover, in the opinion of the Independent Statutory Auditor, the Report on Operations and the information under paragraph 1 c), d), f), l) m) and paragraph 2b) of Article 123-bis of TUF, included in the Report on Corporate Governance and Ownership Structure, were coherent with the Financial Statements documentation.

The Board of Statutory Auditors, moreover, assessed the Report on the most relevant issues emerged during the statutory audit issued by the Independent Statutory Auditor on 17 March 2017 pursuant to Article 19 of Italian Legislative Decree no.39/2010, from which it can be evinced that no substantial deficiencies were found in the internal control system with respect to financial reporting that required being brought to the attention of the Internal control and Audit Committee.

The Board met periodically with the Independent Statutory Auditor, pursuant to Article no. 150, paragraph 3, of Italian Legislative Decree no. 58/98 and the provisions of Italian Legislative Decree no. 39/2010 – examining the 2016 audit activity plan and exchanging data and information relevant to the performance of respective tasks in a timely manner - with no particular results that need to be reported or any omissions requiring the drafting of specific reports pursuant to Article 155, paragraph 2, of TUF being identified. The minutes of periodic meetings between the Independent Statutory Auditor and the Board of Statutory Auditors were forwarded by the latter, in line with the provisions of FinecoBank's "Corporate Bodies' Regulation", to the Chair of the Audit and Related Parties Committee. The Notes to the Financial Statements provide information about statutory audit fees, as well as fees for other services provided as at 31 December 2016 to FinecoBank by the Independent Statutory Auditors and the units of the network to which the latter belong.

The Board finds that the Company Deloitte & Touche S.p.A. duly performed its mandate of Independent Statutory Audit of the Financial Statements for the financial year, including monitoring the correct keeping of corporate accounts, the faithful presentation of the results of operation, the signing (as far as this is within its remit based on the mandate received) of tax records and the limited audit of the Interim Financial Statements.

The Board also notes that it has received confirmation by the Independent Statutory Auditors, pursuant to Article 17, paragraph 9, of Italian Legislative Decree no. 39/2010 of the fact that in the period from 16 March 2016 to 17 March 2017 it did not find either situations that may have compromised the independence of the aforementioned Company or grounds for incompatibility pursuant to Articles 10 and 17 of Italian Legislative Decree no. 39/2010 and the relevant implementing provisions.

The fees (net of VAT and expenses) paid to the Independent Statutory Auditors are detailed below:

(figures in euros)

SERVICE TYPE	SERVICE PROVIDER	FEES
Audit	Deloitte & Touche S.p.A.	154,285
Certification services	Deloitte & Touche S.p.A.	40,000

"Certification services" refers to the performance of procedures for the issuing of the BCE comfort letter and the statutory auditing for the reporting package at 30 September 2016 only.

Surveillance activities on the financial reporting process - Comments on the adequacy of the administrative and accounting system.

The Financial Reporting Officer was appointed for an indefinite term on 13 May 2014 with the favourable opinion of the Board of Statutory Auditors. The Board of Directors of 7 February 2017 verified its compliance with the "interlocking ban" .

The Board of Statutory Auditors verified compliance with the internal regulations pertaining to the process that allows the Financial Reporting Officer and the Chief Executive Officer to issue the certifications provided for by Article 154-bis of TUF. The administrative and accounting procedures for preparing the Financial Statements and any other financial communication were drafted under the Responsibility of the relevant Manager who, together with the Chief Executive Officer, in the periodical reporting of the aforementioned information and, finally, in the "Report on the internal control system on financial reporting in compliance with Law no. 262/2005" approved by the Board of Directors of 7 February 2017, certified their adequacy and effective implementation for the preparation of the Financial Statements at 31 December 2016 and of the reporting package towards UCI Holding on 31 December 2016 on the basis of tests of the actual implementation of controls. The Financial Reporting Officer, during his/her meetings with the Board of Statutory Auditors, did not highlight any deficiencies in the operating and control processes that may impact on the assessment of adequacy and effective implementation of administrative and accounting procedures for correct economic, asset and financial reporting of the events of operations in compliance with the accounting principles adopted. The Financial Reporting Officer regularly updates the Board of Directors on the activities performed and reports on the progress of improvement measures for the Internal Control System for Financial Reporting.

During the periodical meetings organised to exchange information, just like in the report prepared pursuant to Article 19 of Italian Legislative Decree no. 39/2010, the Independent Statutory Auditor did not report any substantial issues of the internal control system with respect to the financial reporting process.

The Board acknowledges that the Financial Statements as at 31 December 2016 were drawn up in accordance with the accounting standards issued by the International Accounting Standards Board, including the SIC and IFRIC interpretation documents, approved by the European Commission up to 31 December 2016, as established by European Union Regulation no. 1606/2002 of 19 July 2002 and transposed by Italian Legislative Decree no. 38/2005.

The Financial Statements as at 31 December 2016 consist of the Balance Sheet, the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Shareholders' Equity, the Statement of Cash Flow and the Notes to the Financial Statements, in addition to the "Directors' Report on Operations" and the Certification of the Financial Statements provided for by Article 81-ter of CONSOB Regulation no. 11971 of 14 May 1999 and subsequent amendments and additions issued on 7 February 2017. The Financial Statements also follow Financial Statements and relevant Notes formats set out by Bank of Italy's provisions with Circular no. 262 of 22 December 2005, and subsequent updates and amendments.

Pursuant to Bank of Italy/Consob/Isvap Document no. 4 of 3 March 2010 and the internal regulations implementing Law no. 262/2005, it is hereby acknowledged that the Board of Directors approved, prior to and separately from the approval of the Financial Statements, the impairment test procedure for goodwill. The results confirmed the sustainability of the goodwill value recognised in the financial statements.

In 2016, the Administration Department periodically forwarded information to the Parent Company for the purposes of calculating the Regulatory Capital and the Second Pillar Capital. On 31 December 2016, the CET1 Capital ratio (Tier one capital/Risk-weighted assets) was equal to 22.94%, as detailed in the dedicated section of the Financial Statements "Part F – Information on assets".

The Board of Statutory Auditors, in light of the information received and the documentation examined and the activity performed, assesses the process of the preparation of financial reporting as substantially adequate.

It is acknowledged that FinecoBank is obliged to publish the "Disclosure pursuant to EC Regulation 575/2013" at 31 December 2016. The aforementioned regulation provides that the disclosure by Entities must be effected both at consolidated and separate business unit level if the bank is the "most important subsidiary". FinecoBank – whose Board of Directors of 9 January 2017 approved the findings of the assessment and identification of financial information to be disclosed - is responsible for publishing such information, approved by the Board of Directors of 9 February 2017, on its website together with the Draft Financial Statements at 31 December 2016.

Complaints under Article 2408 of the Italian Civil Code – Reports - Notifications

In 2016 the Board of Statutory Auditors did not receive any complaints under Article 2408 of the Italian Civil Code or petitions from third parties.

In January, October and November 2016 and in January 2017, the Board of Statutory Auditors sent no. 4 notifications pursuant to Article 52, paragraph 2 of Italian Legislative Decree no. 231/2007 to the Supervisory Authorities.

Opinions and remarks pursuant to the Law.

The Board was asked to express its opinion in the following circumstances:

- favourable and individual opinion of all members of the Board of Statutory Auditors, with the affected member abstaining, issued about the provision of a credit facility to a company representative;
- opinion issued to the Board of Directors on the Bank's Operational Risk Management System in implementation of the AMA model;
- prior opinion issued in November 2016 following the co-optation of a Member of the Board of Directors after the resignation of another Member.

Report of the Board of Statutory Auditors (CONTINUED)

Moreover, the Board expressed its remarks about Reports pursuant to Articles 13, 14 and 16 of Bank of Italy and CONSOB's Regulation (adopted with provision of 29 October 2007, in line with Article 6, paragraph 2-bis, of TUF) and its "Remarks on the "Outsourcing of company functions" document). "Annual Report of the Internal Audit function".

Conclusions

The Board also points out that, in the performance of its duties, it did not find any irregularities, omissions and/or anomalies and did not become aware of any transactions that did not comply with sound administration principles, which were not resolved on or implemented in compliance with the Law and the Articles of Association, were not in the interest of FinecoBank, were against the resolutions taken by the Shareholders' Meeting, were manifestly imprudent or risky, such as to compromise the integrity of the share capital.

The Board of Statutory Auditors does not deem it necessary to exercise the right to submit proposals to the Shareholders' Assembly pursuant to Article 153, second paragraph, of TUF.

Taking into account the results reported in the Financial Statements and the content of the "Directors' Report" that supplements it, the contents of the Certification of the Financial Statements pursuant to Article 81-ter of CONSOB Regulation no. 11971 of 14 May 1999 and subsequent amendments and integrations, signed by the Chief Executive Officer, the General Manager and the Financial Reporting Manager, and considering the content of the Reports drafted by the Independent Statutory Auditor, the Board of Directors does not find, insofar this is within its remit, any impediments to the approval of the draft Financial Statements as at 31 December 2016 and the relevant profit allocation proposal made by the Board of Directors.

Milan, 17 March 2017

The Statutory Auditors

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Aloisi Barbara

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