ANNUAL REPORT 2016

16TH YEAR OF OPERATIONS

Banca Patrimoni Sella & C. S.p.A.
Via Lagrange n.20 – 10123 Turin
Tel. +39 011 5607111
Fax +39 011 5618245
www.bancapatrimoni.it

Banca Sella Group

Mission statement

Taking care

of our customers'

assets

faithfully

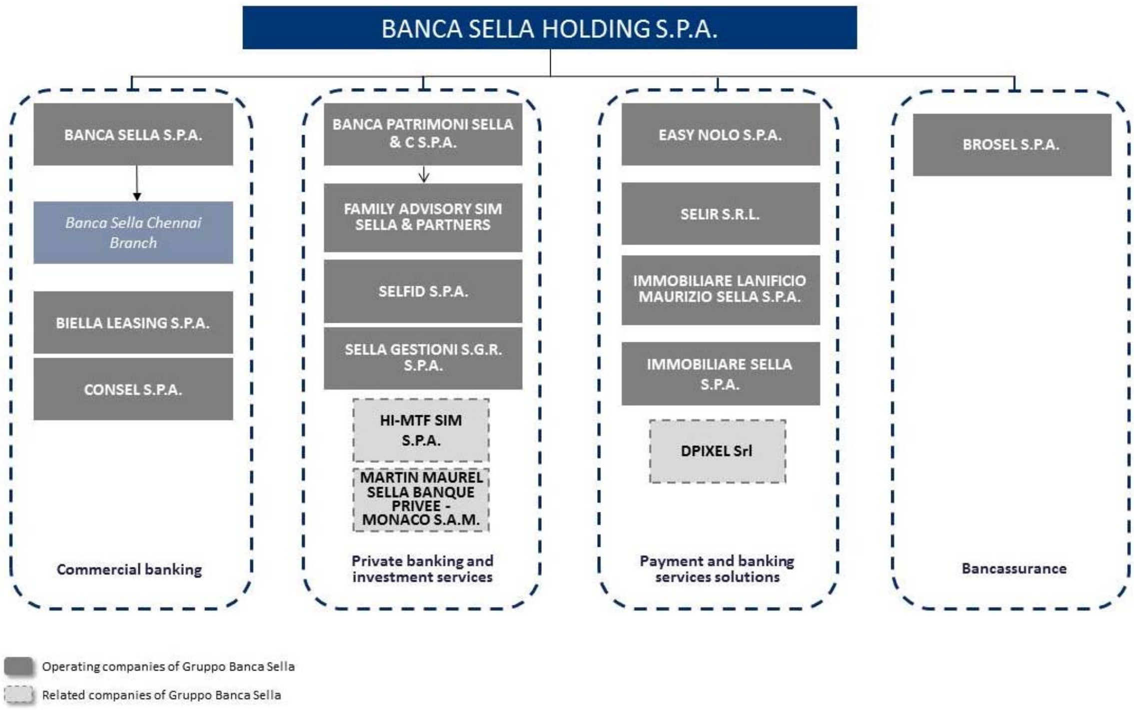
and constantly

Banca Patrimoni Sella & C.

CONTENTS

Banca Patrimoni Sella & C.

Banca Sella Group map at 31 December 2016



Banca Patrimoni Sella & C.

Corporate offices

BOARD OF DIRECTORS

In office until approval of the 2018 financial statements

Chairman of the Board of Directors	Maurizio Sella
Deputy Chairmen	Mario Renzo Deaglio Massimo Coppa
CEO and Managing Director	Federico Sella
Director and Honorary Chairman	Giovanni Coppa
Directors	Eugenio Brianti Veronica Buzzi Gregorio Chiorino Silva Maria Lepore Carlo Maria Mascheroni Priscilla Pettiti Sebastiano Sella Attilio Viola

BOARD OF STATUTORY AUDITORS

In office until approval of the 2018 financial statements

Standing Auditor - Chairman	Mario Pia
Standing Auditors	Pier Vincenzo Pellegrino Emanuele Menotti Chieli
Alternate Auditors	Giovanni Rayneri Marina Mottura

INDEPENDENT AUDITORS

Independent Auditors	Deloitte & Touche S.p.A.

Banca Patrimoni Sella & C.

Management Report

Banca Patrimoni Sella & C.

Financial highlights

Financial highlights (in thousands of EUR)

BALANCE SHEET FIGURES	31/12/2016	31/12/2015	Changes	
			Absolute	%
Total assets	1,473,991.9	1,097,704.6	376,287.30	34.3%
Financial assets (1)	132,435.0	282,002.1	(149,567.1)	-53.0%
Total cash lending (2)	364,529.9	350,324.8	14,205.1	4.1%
Investments	430.0	430.0	-	0.0%
Property, plant and equipment and intangible assets	30,878.8	29,952.6	926.2	3.1%
Total funding (3)	11,398,796.6	10,905,262.5	493,534.1	4.5%
Direct funding (4)	1,297,006.2	913,319.3	383,686.9	42.0%
Direct funding from banks (5)	44,355.5	51,176.2	(6,820.7)	-13.3%
Third-party assets under management - gross	1,565,501.0	1,816,617.8	(251,116.8)	-13.8%
Third-party assets under management - net (6)	1,208,681.3	1,468,965.5	(260,284.2)	-17.7%
Guarantees given	6,910.2	13,720.4	(6,810.1)	-49.6%
Equity	75,478.5	72,938.9	2,539.7	3.5%
CET 1 capital	70,814.9	66,949.6	3,865.2	5.8%
T2 capital	95.4	123.9	(28.5)	-23.0%
Total own funds	70,910.2	67,073.5	3,836.7	5.7%
RECLASSIFIED INCOME STATEMENT FIGURES (7)	**31/12/2016**	**31/12/2015**	**Changes**	
			Absolute	**%**
Interest margin	8,934.1	8,469.6	464.5	5.5%
Gross revenue from services (8)	86,040.4	87,433.6	(1,393.2)	-1.6%
Fee and commission expense	43,456.0	42,863.9	592.1	1.4%
Net revenue from services (net of fee and commission expense)	42,584.4	44,569.7	(1,985.4)	-4.5%
Net interest and other banking income	51,518.5	53,039.3	(1,520.9)	-2.9%
Operating expense net of tax and duty recoveries	39,260.8	37,219.0	2,041.8	5.5%
Operating result	12,257.7	15,820.3	(3,562.7)	-22.5%
Net value adjustments/reversals for impairment losses	64.4	(426.9)	491.3	-115.1%
Other income statement items (9)	(1,722.1)	(1,402.4)	(319.8)	22.8%
Income taxes	(3,428.4)	(4,985.2)	1,556.8	-31.2%
Profit (loss) for the year	7,171.5	9,005.9	(1,834.4)	-20.4%

(1) The aggregate is the sum of the following asset items of the Balance Sheet: item 20 - Financial assets held for trading and item 40 - Available-for-sale financial assets.
(2) The aggregate refers to asset item 70 - Due from customers in the Balance Sheet.
(3) The aggregate corresponds to Internal Control figures prepared and approved monthly by the Board of Directors. In this respect, note that from 1 January 2016, the Group monitoring of funding (both stock and flows) was improved. In particular, bonds were designated at fair value and no longer recognised at nominal value. For comparison purposes, the figures at 31 December 2015 were also updated.
(4) Direct funding corresponds to liabilities item 20 - Due to customers in the Balance Sheet.
(5) This refers to direct funding through intermediaries, classified in the financial statements under "due to banks" and, for operating purposes and their characteristics, under "direct funding". The item contributes to forming the total funding. The balances indicated are reconciled with the accounting data.
(6) The aggregate represents the total AUM mandates, net of customers who deposit through Group banks and are assisted by private bankers. Note that, considering the Group's improved funding monitoring procedures adopted from 1 January 2016, in order to aid comparison, the figure at 31 December 2015 was also updated.
(7) As for the items highlighted in the reclassified income statement.
(8) The aggregate represents the sum of the following reclassified income statement items: fee and commission income, net gains from trading and hedging and gains (losses) on disposal or repurchase of receivables, available-for-sale financial assets, financial assets held to maturity and financial liabilities.
(9) Given by the sum of the following items: 160 - Allocations net of provisions for risks and charges; 130 - Net adjustments/reversals for impairment of AFS financial assets and other financial transactions; 240 - Gains (losses) from disposal of investments.

Banca Patrimoni Sella & C.

Alternative Performance Indicators

Alternative Performance Indicators

PROFITABILITY RATIOS (%)	31/12/2016	31/12/2015
R.O.E. (return on equity) (1)	10.4%	14.2%
R.O.A. (return on assets) (2)	0.5%	0.8%
Interest margin (3)/Net interest and other banking income (3)	17.3%	16.0%
Net revenue from services (3)/Net interest and other banking income (3)	82.7%	84.0%
Cost to income (4)	75.9%	69.7%
Cost to income net of European guarantee fund contributions (5)	74.2%	68.4%

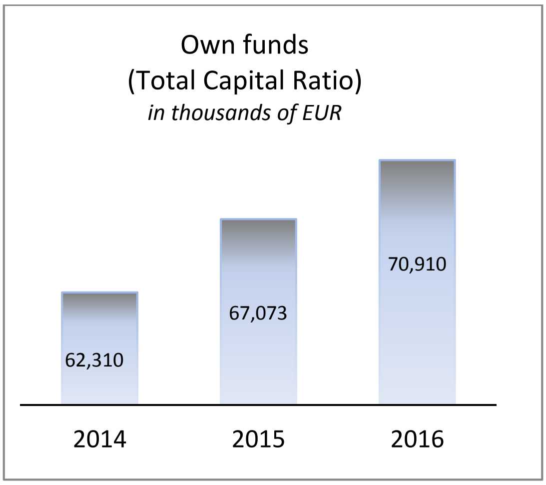
PRODUCTIVITY RATIOS (in thousands of EUR)	31/12/2016	31/12/2015
Net interest and other banking income/Average no. of employees (6)	221.6	255.0
Operating result/Average no. of employees (6)	52.7	76.1
Cash lending/Employees at year end (7)	1,500.1	1,578.0
Direct funding/Employees at year end (7)	5,337.5	4,114.1
Total funding/Employees at year end (7)	46,908.6	48,415.5

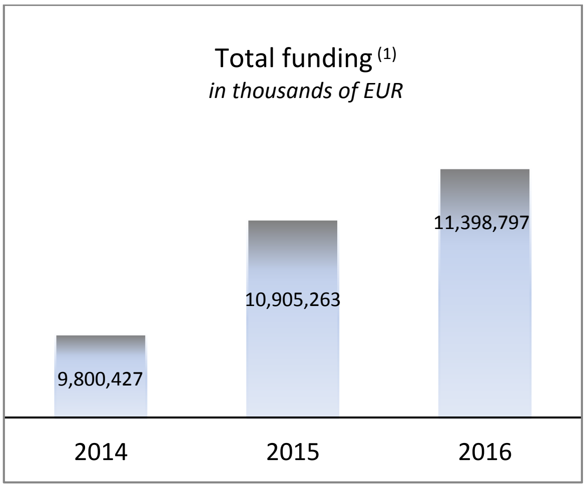
EQUITY AND LIQUIDITY RATIOS (%)	31/12/2016	31/12/2015
Cash lending/Direct funding	28.1%	38.4%
Cash lending/Total assets	24.7%	31.9%
Direct funding/Total assets	88.0%	83.2%

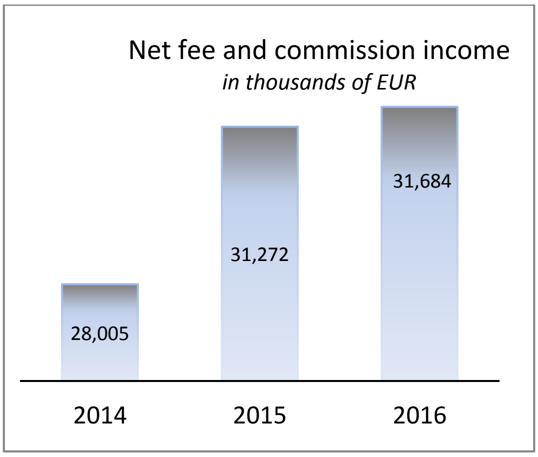
SOLVENCY RATIOS (%)	31/12/2016	31/12/2015
CET 1 capital ratio	16.57%	15.80%
Tier 1 capital ratio	16.57%	15.80%
Total capital ratio	16.59%	15.83%

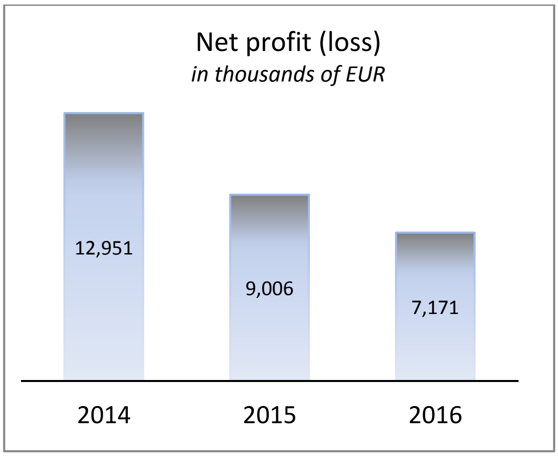
(1) Ratio between “Profit (loss) for the year” and the sum of liability items 160 “Reserves”, 170 “Share premium reserve”, 180 “Capital” in the Balance Sheet.
(2) Ratio between “Net profit (loss)” and “Total assets”.
(3) As per the reclassified income statement.
(4) Ratio between operating expense, net of IRAP on personnel costs and net of losses associated with operational risk, and the net interest and other banking income.
(5) Cost to income calculated by subtracting contributions to the European guarantee fund SRF (Single Resolution Fund) and the DGS (Deposit Guarantee Scheme).
(6) The average no. of employees was 232.50, calculated as the average of the number of employees at the end of 2015 and at the end of 2016.
(7) The no. of employees at year end was 243. See paragraph 7.1 of the Management Report.

Highlights 2016

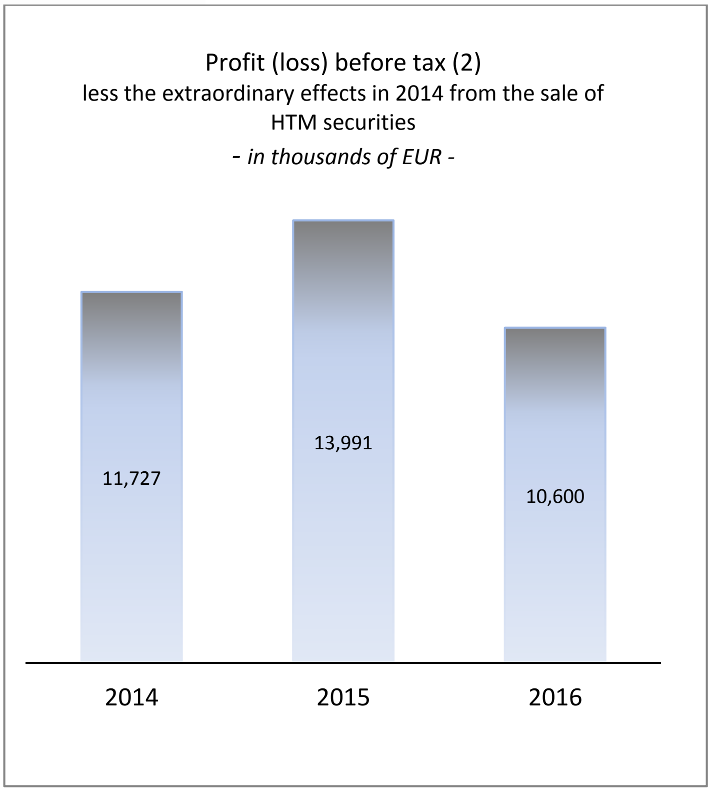


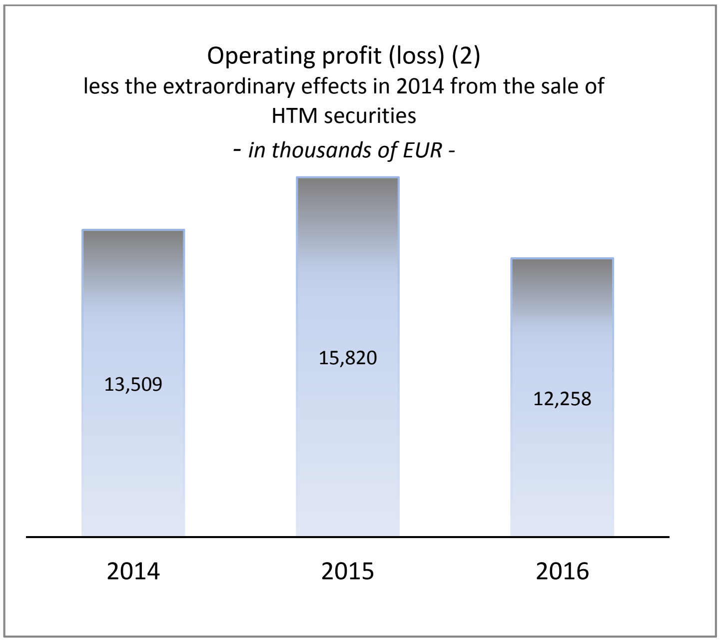






(1) Takes into consideration the improved Group funding monitoring procedures (for both stock and flows) adopted from 1 January 2016. In this respect, for the purpose of comparison of figures with those at 31 December 2016, the related 31 December 2014 and 2015 were also updated. Operating highlights.





(2) Figures refer to the reclassified income statement.

1 - The Bank's strategy

1.1 The business model

The heart of the Banca Patrimoni Sella & C. business model are the customer and that customer's assets. Every customer is given the same welcome and support, as we make no distinction between small and large customers. Every asset deserves the same attention and dedication. Hence the mission of Banca Patrimoni Sella & C., which aims to care for its customers' assets faithfully and constantly.

Banca Patrimoni Sella & C. uses its private bankers to assist customers with their investment needs and at the same time the key drivers are not only customers' specific needs, but above all their satisfaction with the services provided. Knowing how to create a "feeling at home" sensation, as motivation and sense of belonging in their careers, has always been one of Banca Patrimoni Sella & C.'s prime objectives, which understands how to welcome customers with motivated, skilled and efficient personnel.

1.2 Geographic presence

Banca Patrimoni Sella & C.'s geographic presence is ensured through a structure of in-house account managers and private bankers (the "hybrid" model), operating from 21 offices for the private financial advisors and 12 branch offices, organised into 3 geographic areas.

At 31 December 2016 the Bank had 243 employees and 359 private bankers, compared with a 2015 workforce of 222 employees and 356 financial advisors. Towards the end of 2016 there was also a full reorganisation of the sales structure with a new organisational structure of the branches, grouped into three macro areas compared to five previously, with the aim of simplifying processes, improving overall coordination and optimising synergies in the business areas.

The Bank is strongly customer-led, offering an extensive and complete range of quality products and services, particularly asset-related services (asset management, multi-manager UCITS, assets administration, insurance-financial and advisory services).

The training and monitoring of account managers is an essential element of the personnel policies, these too aimed at ensuring the best possible assistance to customers by well-trained, respected personnel. A special focus is given to the quality of conduct in relations with customers and other individuals: compliance with the principles of fairness, transparency and honesty, and with Group values is fundamental (amongst which, "creating value for the customer" plays a key role).

1.3 Sales policies, product mix and marketing

The strong focus on customer relations and maintaining a high level of credibility and quality in support to the private bankers have always been, and will continue to be, a priority for Banca Patrimoni Sella & C.

The capacity during the year to generate positive performances in terms of asset management and advisory services was good, providing services able to satisfy our customers, including identifying and meeting the various needs concerned.

As part of this overall vision, the key features of the business approach can be summarised as follows:

- ✓ providing an asset advisory services that ensures the identification and satisfaction of customers' long-term financial needs, also using "pricing fee only" tools;
- ✓ in terms of asset management, with particular reference to the asset management service, prompt and rapid updating of the product mix, with particular attention to market developments and new demands from customers;
- ✓ as part of the open architecture for the UCITS, maintaining and developing agreements with the best partners on the market;
- ✓ with a view to protecting customers' assets, selecting and formalising reliable partnerships in offering insurance-financial products and services;
- ✓ organising local events and "meet the customers" opportunities;
- ✓ ongoing development of the sales network, also through grouping professionals of proven experience and seniority;
- ✓ providing technologically advanced services to private customers and to account managers with the aim of best use of the investment services offered (Internet services, mobile banking, digital signatures, web collaboration).

The services provided to customers cover a vast range, including:

- ✓ asset management, first and foremost through the home asset management vehicle, and through the UCITS placement under multi-manager administration;
- ✓ advisory services for financial instruments under administration, the purpose of which is to maximise returns and the assumption of risks proportionate to the customers' objectives, through suitable portfolio diversification;
- ✓ traditional accessory banking services, including current accounts, credit (as an accessory component of the core business), traditional and electronic payment systems, Internet banking, mobile banking and trading online;

- ✓ insurance and pension-related services, through unit-linked and multi-segment capitalisation products;
- ✓ acceptance, transmission and execution of orders received from private and institutional customers;
- ✓ direct service to institutional customers.

In addition, the operations throughout Italy of the Institutional and Large Customers Office, as well as the performances achieved from assets under management, have given the market a positive view of the Bank. The Bank therefore became a provider of investment services for other intermediaries, both asset management and advisory (under administration and insurance-finance) through appropriate contracts.

Under the new business model, the Marketing strategies proved to be of fundamental strategic support in achieving the budget objectives. During the year, in fact, consolidation of the image of Banca Patrimoni Sella & C. continued through communications activities and through institutional initiatives to increase brand awareness.

2 - Events during the year

2016 closed with a net profit of EUR 7.2 million, in line with the budget forecasts for the year (EUR 7.1 million). The results and performances associated with our business in 2016 appeared solid and comforting, despite the difficult market conditions and uncertain macroeconomic scenario. This equates to significant confirmation of the effectiveness and soundness of the business model.

2016 confirmed the trend for volume growth, with net funding of EUR 724 million, compared to a budget of EUR 622 million[1]. The increase in net funding confirms the quality and dynamic nature of the product mix, strongly oriented towards customer needs through a network of highly qualified bankers and towards taking care of customers' assets.

The asset management mandates, less the deposits made by customers with Banca Sella and assisted by our private bankers, stood at EUR 1,209 million, compared with the balance at 31 December 2015 of EUR 1,469 million.

Total funding at year end reached EUR 11,399 million[2] (see the table "Financial highlights"), marking a 4.52% increase on 2015 when the figure was EUR 10,905 million.

With reference to total funding, it is important to note that this corresponds to an operating figure and that since 1 January 2016 the monitoring procedures for funding adopted by the Banca Sella Group, both stock and flows, were improved for the purpose of fair value measurement of bonds.

[1] Operating figures at 31 December 2016.
[2] Operating figures as per the monthly position submitted for Board of Directors approval.

Two new branches were opened last year (in Padua in March and Cuneo in November) to improve coverage in geographic areas considered strategic and to support the private bankers operating in those areas.

At year end, therefore, there were 12 Banca Patrimoni Sella & C. branches in Italy covering three geographic macro areas: North-West, North-East and Central-South.

3 - Macroeconomic scenario

GLOBAL PANORAMA

In 2016 **the global economy** continued to expand at a pace essentially in line with that of 2015. The International Monetary Fund's final projection for global growth in 2016, from its January 2017 update, was 3.1%. This synthetic figure was based on the 1.6% growth recorded by advanced economies and the 4.1% by emerging countries.

The **United States economy**, after a modest 1.4% growth recorded in the first half, saw a recovery in the second half and should have closed 2016, again according to IMF forecasts, with growth of 1.6%, in any event lower than the 2.6% seen in 2015. Private consumption was the major contributor to the GDP trend, supported by gradual strengthening of the employment figures. As regards other components, the weakness of private investments intensified, public spending was confirmed as the supporting element for growth, whilst net foreign demand did not generate value for the US economy. Unemployment dropped from 5% to 4.7% with the jobs market seeing the creation of a good number of new posts during 2016. Inflation rose from 0.1% in 2015 to 1.3% as a result of the good performance of the more stable components and the less negative contribution from energy. At its December meeting, the Federal Reserve increased the benchmark spread on federal funds by 25 basis points, from 0.5% to 0.75%. The central bank reiterated that monetary conditions in any event remain accommodating and that the reinvestment policy in securities close to maturity will be pursued until normalisation of the cost of money level is at an advanced stage. The guidelines on the official rate continue to illustrate the Monetary Policy Committee's willingness to move gradually with a series of increases, allowing itself to be driven by progress achieved and forecast as regards the dual mandate of supporting employment and price stability.

The **Eurozone** continued to expand in 2016 at a relative sustained pace, driven by the accommodative monetary policy of the European Central Bank, stability of the Euro, encouraging signs from lending to households and businesses and a falling unemployment rate (below 10% for the first time since 2011). Forecasts indicate the final GDP growth for last year at 1.7%, so in line with the United States for the first time in many years. Disparity among Eurozone countries was seen once again in 2016. Spain was among the best (more than +3%), with good growth levels recorded by Germany (+1.7%), and among those with the slowest growth were France (+1.3%) and **Italy** (+0.9%, the closing progressive figure for the year). In Italy, 2016 growth was supported mainly by the domestic demand components, particularly private consumption, which nevertheless showed a trend of moderation during the year, in line with the weakening climate of consumer confidence. Investments in machinery and transport equipment confirmed their recovery, whilst net exports made a modest contribution to the GDP growth. As regards consumer prices, the continued downsizing of the negative contribution from energy formed the basis for the gradual upturn in the inflation rate, in the Eurozone rising from the year's minimum rate of -0.2% in April to 1.1% in December. Core inflation, calculated net of the more volatile components, showed no sign of recovery however. During 2016 the European Central Bank held to its extremely accommodative monetary policy, cutting the official interest rates still further. It also increased the total monthly purchases of securities from EUR 60 billion to EUR 80 billion as part of the quantitative easing plan, including non-financial corporate bonds among the financial assets available for purchase and extending the time horizon for purchases. It was only in the last meeting of the year that Draghi announced a number of initial measures to reduce monetary stimulus, particularly as regards monthly purchases. The ECB reported firmly that the measures announced will in any event depend on the macroeconomic performance of the area.

The **United Kingdom** saw a year characterised by the June decision by the majority of voters to exit the European Union. This unexpected outcome led to highly penalising forecasts for the British economy which did not, however, materialise in 2016. GDP growth in the last year, in fact, was close to 2%, only slightly lower than the previous year. Penalised at present are only the currency, which lost a lot of ground against the major world currencies, and property prices.

Japan recorded a growth, according to IMF forecasts, of a modest 0.9% in 2016, also as a result of support in the final part of the year from the new economy stimulus package of 7.5 trillion Yen. The country continues to find it difficult to position itself on a path of sustained expansion: the solid domestic jobs market conditions (unemployment close to 3%) struggle to translate into a more lively acceleration in salary and private consumption trends. Likewise, improving business profits have done little to generate a sustainable recovery of the business investment cycle.

For the **emerging economies**, despite widely differing macroeconomic conditions, in 2016 a general trend of improved growth scenarios prevailed, in some cases expressed by signs of exiting the deep recessions of the last two years. Inflation proved to be under control with an average of 4.5%, down compared to 2015. In **China**, GDP rose by 6.7%, in line with five-year forecasts, with advancement of the transition phase towards more inclusive, sustainable growth in which the state and its investments in any event continue to play a fundamental role. For **India**, the IMF forecasts that growth will slow to 6.6% in 2016 compared to the brighter forecasts at the start of the year, mainly due to the temporary effect of the government measure to withdraw and replace the large banknotes that have led to slowing the country's economic activity. Inflation has stabilised and the Indian Central Bank lowered the cost of money by 50 basis points during the year. In **Russia** the GDP rate of decline has gradually slowed after the considerable drop recorded in 2015. With inflation dropping to 5.4% in December 2016, from figures of over 10% the previous year, the Central Bank has adopted a more accommodative prudent policy, cutting the benchmark rate by 100 basis points during the year. In **Brazil**, 2016 was even more difficult with a decline in GDP by almost 3.5% and the change in leadership after more than a decade of Workers' Party government. The administration headed by the new

President Temer has submitted a number of major structural reforms to Parliament with the aim of turning the country around. The decisive downward trend seen in inflation led to the Central Bank's easement of the monetary policy cycle, cutting the cost of money by 125 basis points in the final part of the year.

The **frontier markets** saw mixed performances. Compared to accelerated growth for the **Middle East and North Africa** where GDP rose by 3.8%, countries strongly associated with commodity price trends such as Nigeria (1.5% recession) and a number of former Soviet republics have struggled. The highest growths were recorded in the **Far East** (Myanmar, Laos, Cambodia, all with GDP rates between 7% and 8.5%) and in **Africa** (Côte d'Ivoire, Tanzania and Senegal the countries with the strongest growth rates).

THE FINANCIAL MARKETS

The **bond markets** in 2016 saw both sides of the medallion. In the first half of the year, returns were extremely low or even negative, representing absolute all-time records and raising many questions about the limits of the extraordinary monetary intervention implemented by the developed countries' central banks from the financial crisis onwards. From July, however, almost all returns saw an upturn, driven by expectations of higher inflation, clear signs of the end of quantitative easing stimuli, a Federal Reserve continuing its cycle of rate increases and, lastly, more expansive fiscal policies implemented or planned for 2017, also due to the surprise result of the US presidential election. In 2016 the average rate for the 10-year German bond was 0.14%, compared to 0.54% in 2015. In Italy, uncertainties over the constitutional referendum heightened the upward trend in returns on 10-year BTPs but did not neutralise the previous decline, achieving an average of 1.46% in 2016, below the 1.7% recorded in the previous year. The spread between returns on 10-year Italian and German bonds widened during the year to reach 160 basis points (100 b.p. at the end of 2015). Credit spreads saw a narrowing for both the investment grade and high yield components. Bonds of emerging countries recorded a decline in average returns on maturity both for issues in strong currencies and issues in local currency.

The **equity markets** recorded a more than discreet result for the year (MSCI World in USD at +7% on a total return basis, which for the Eurozone investor becomes +11% due to the positive currency effect resulting from the weakness of the Euro against the US Dollar), but highly volatile and characterised by relentless trend changes. After a complicated start to the year, with sectors most closely associated with commodities and the European financial sector penalising listed prices, we saw a more favourable trend that overcame the negative but rapid effect of the result of the Brexit referendum and later benefited from the promises carried in the policies announced by Trump. The Italian stock market closed at a disappointing -10%, penalised by the poor performance of bank bonds. Stock markets of emerging countries outperformed the developed markets (MSCI Emerging Markets +15% in Euro, again on a total return basis), aided by the highly positive performance of stock markets such as Brazil, Russia and South Africa, also driven by strongly recovering local currencies.

In terms of **currency**, the Euro appreciated by around 1% in effective nominal terms against its trade partners in 2016. The Euro lost ground against the currencies of certain developed countries (US Dollar +3%, Japanese Yen +7%, Canadian Dollar and Norwegian Krone +6%) and emerging countries (Brazilian Real +25%, South African Rand +17%), whilst gaining against the GB Pound (-14%), Mexican Peso (-13%) and Chinese Renminbi (-3%). The US Dollar was the only currency among developed countries able to sustain a major appreciation trend lasting more than five years and which became more lively after the rate spread between the United States and other developed countries began to grow strongly again in the last few months of the year.

Commodities saw an overall rise in 2016, with the best results recorded by oil, up 25% on prices at the beginning of January, and certain base metals. Gold is on the rise (+8%), whilst most agricultural commodities saw a decline.

ITALIAN BANKING SYSTEM

Lending in the Italian banking system has shown signs of recovery, benefiting from the moderate improvement in business activities and the easing of lending terms applied by banks. Credit spreads narrowed as the drop in market rates and competitive pressure on pricing of loans to customers were only partly offset by the reduced cost of funding, particularly institutional. The increase in the level of non-performing positions halted towards the end of the third quarter of the year and the flows of new entries to the defaulted category have slowed, laying the foundations for a decrease in credit risk.

The stock of Italian banks' **loans** to the Italian private sector stood at EUR 1,406 billion at the end of 2016, marking a marginal annual decline. Lending to non-financial companies continued to reduce in 2016 to reach EUR 786 billion (end of November figure). The stock of loans to households instead continued the growth that began in 2015 to reach EUR 624 billion for the same period.

In 2016 the process of deterioration of credit quality came to a halt. For the first time after seven years of increases, from September the annual growth rate in **gross non-performing loans** was negative. The stock of gross non-performing loans at year end stood at just under EUR 200 billion, with an impact on gross total lending of 10.5% and a net defaulted-lending ratio of 4.8%. The decrease in net non-performing loans was also stronger with a final figure of EUR 85 billion compared to EUR 89 billion at the end of 2015.

In November 2016, **funding** of Italian banks in Euro, represented by deposits from Italians and non-Italians and from bonds, reached the level of EUR 2,212 billion, marking a slight decline. This decline is entirely attributable to the reduction of the bond component, which closed the year at EUR 541 billion, down 10%, compared to an increase in total deposits to EUR 1,608 billion. The recomposition of the funding mix of banks therefore continues with the replacement of maturing bonds with deposits and more liquid forms of funding.

As regards income statement balances, the listed banking groups closed the first nine months of the year with modest, downsized **profitability** compared to the corresponding period of the previous year, due to an overall decline in typical banking revenue (interest margin and net fees and commissions both down), an increase in operating costs explained largely by contributions to funds set up to manage the banking crises and the increase in net adjustments to loans which aimed to increase hedging levels in preparation for future extraordinary transactions for the factoring of non-performing loans. The **capital strengthening** of Italian banks continued also in 2016, and at the end of the third quarter the average CET 1 ratio of the listed leading Italian banking groups was 12.3%, compared to 12% at the end of 2015.

ASSET MANAGEMENT AND PRIVATE BANKING IN ITALY

2016 was a positive year for the Italian industry with inflows recorded by the operators. According to the most recent date (source: AIPB), more than 628,000 households with financial wealth exceeding **EUR 1,000 billion** are included in the private segment (financial assets of at least EUR 500,000). Expanding the data to all households, including the retail segment, the figure stands at EUR 3,900 billion (source: Bank of Italy). The last year once again saw growth in the segment for **asset management** products, with assets under management today representing 19% of total financial wealth, followed by investment funds and SICAVs with 18% and insurance-based products reaching 12% (AIPB data on the private segment).

The numbers provided by Assogestioni confirm positive net funding again for 2016 (around **EUR 55 billion**), despite this being clearly lower than that of the previous year which had reached the record EUR 141 billion. Collective forms of asset management (mutual funds and SICAVs) recorded net positive flows of EUR **35 billion** for the period (almost exclusively bonds and flexible products), whilst **asset management** closed 2016 with **20 billion** in net inflows. As regards total stock, the figures show a near equal split between collective management (EUR 948 billion) and individual management (EUR 989 billion). The growth recorded in asset management is partly due to the shift from assets under administration to assets under management, which also continued in 2016, and naturally also to the effect of prices which was positive and brought the total figure to EUR 1,937 billion, an absolute record.

The growth in the asset gatherers category, which includes the Bank, continued to achieve control of around 8% of the total market, in which the major players remain the large commercial banks and the Italian post office. The top three private banking players (Intesa Sanpaolo Group, Unicredit Group and UBI Group) still control 35% of the Italian market.

Banca Patrimoni Sella & C.

4 - Profitability - the profit and loss result

Reclassified income statement (in thousands of EUR)

Items	31/12/2016	31/12/2015	% Change on 31/12/2015
10. Interest income and similar income	10,592.2	11,689.8	-9.4%
20. Interest expense and similar charges	(1,916.2)	(3,360.1)	-43.0%
70. Dividends and similar income	258.0	139.9	84.4%
INTEREST MARGIN AND DIVIDENDS	**8,934.1**	**8,469.6**	**5.5%**
40. Fee and commission income	75,140.3	74,136.1	1.4%
50. Fee and commission expense	(43,456.0)	(42,863.9)	1.4%
Net fee and commissions	**31,684.3**	**31,272.2**	**1.3%**
80. Net gains (losses) from trading	5,549.8	5,636.5	-1.5%
90. Net hedging gains	12.8	8.3	54.6%
100. Gains (losses) from disposal or repurchase of:	5,337.5	7,652.7	-30.3%
b) available-for-sale financial assets	5,337.5	7,652.7	-30.3%
NET REVENUE FROM SERVICES	**42,584.4**	**44,569.7**	**-4.5%**
NET INTEREST AND OTHER BANKING INCOME	**51,518.5**	**53,039.3**	**-2.9%**
150. Administrative expense			
a) personnel expense	(23,727.3)	(22,273.4)	6.5%
IRAP on cost of personnel and seconded staff - net (1)	(95.4)	(117.3)	-18.6%
Total personnel expense and IRAP	**(23,822.7)**	**(22,390.7)**	**6.4%**
b) other administrative expense	(24,171.9)	(24,070.4)	0.4%
Recovery of stamp duty and other taxes (2)	10,421.8	10,319.2	-1.0%
Total administrative expense and tax recovery	**(13,750.1)**	**(13,751.2)**	**0.0%**
170. Impairment losses on property, plant and equipment	(1,205.1)	(979.5)	23.0%
180. Impairment losses on intangible assets	(627.1)	(410.1)	52.9%
190. Other operating expense/income (less recovered stamp duty and other taxes)	144.2	312.5	-53.9%
Operating costs	**(39,260.8)**	**(37,219.0)**	**5.5%**
OPERATING RESULT	**12,257.7**	**15,820.3**	**-22.5%**
160. Net allocations to provisions for risks and charges	(1,216.2)	(951.2)	27.9%
130. Net value adjustments/reversals for impairment losses on:			
a) receivables	64.4	(426.9)	-115.1%
b) available-for-sale financial assets	(490.0)	(208.2)	135.3%
d) other financial transactions	(16.0)	(96.2)	-83.4%
240. Gains (losses) from disposal of investments	-	(146.7)	-100.0%
PROFIT (LOSS) FROM CURRENT OPERATIONS BEFORE TAX	**10,599.9**	**13,991.1**	**-24.2%**
260. Income taxes for the year from current operations (less “IRAP on cost of personnel and seconded staff - net”)	(3,428.4)	(4,985.2)	-31.2%
PROFIT (LOSS) FROM CURRENT OPERATIONS AFTER TAXES	**7,171.5**	**9,005.9**	**-20.4%**
PROFIT (LOSS) FOR THE YEAR	**7,171.5**	**9,005.9**	**-20.4%**

(1) Minus the item “Income taxes for the year from current operations”.
(2) Minus the item “Other operating income/expenses”: this refers to the recovery of stamp duty from customers, reimbursement by the IDPF of the contribution paid by the Bank for Banca Tercas. For further details, see paragraph 4.5.

Income Statement classification criteria

In order to provide a more immediate representation of profit and loss results, an income statement was prepared based on presentation criteria more suited to representing the item contents in accordance with standard operating principles.

The reclassifications mainly concerned:

- ✓ item 70. "Dividends and other income", included under Interest margin;
- ✓ the item "IRAP on the cost of personnel", removed from item 260. "Income taxes for the year on current operations" and included under item 150.a) "Personnel expense";
- ✓ the item "Recovery of stamp duty and other taxes", removed from item 190. "Other operating income/expense" and included under item 150.b) "Other administrative expense".

4.1 – Profit and loss result

2016 closed with a profit of EUR 7.2 million, compared with EUR 9 million in 2015.

Net revenue from services reached the level of EUR 42.6 million, compared with EUR 44.6 million recorded in the previous year.

The trend in these figures was affected by internal and market factors:

- the interest margin recorded a limited increase (+5.5%), due mainly to the persisting downward trend of interest rates which has a strong impact on the profitability of lending, with a negative impact on potential growth of the interest margin;
- a limited increase in commission income, whereby net fee and commission income at 31 December 2016 was up 1.3% on the previous year, due to the effect of higher funding and the greater impact on commissions earned by the new advisory service introduced from the second half of 2015.

Operating costs reached EUR 39.3 million, up on the 2015 figure of EUR 37.2 million.

Allocations and net adjustments totalled EUR 1,657.8 thousand, down 1.5% on 2015 when they amounted to EUR 1,682.5 thousand, due mainly to the good performance of the credit segment which during the year led to lower value adjustments for impairment.

The operating profit before tax was therefore EUR 10.6 million.

The taxes payable for the year, amounting to EUR 3.4 million, show a decrease of 31.2% compared to 31 December 2015, with an overall tax rate standing at 33.24%[3].

4.2 - Interest margin

The interest margin, including dividends and other income, reached EUR 8.9 million, up on the EUR 0.5 million of 31 December 2015 (+5.5%).

[3] Excluding IRAP on personnel expense.

Within this aggregate we can see a decrease in interest income, attributable in part to market rate performance which stayed down also during last year, as well as to changes affecting the banking book. In particular, the volume of investments in the banking book was lower than in previous years. The decline in values had most impact from August onwards when disposals were arranged of medium/long-term bonds reaching maturity.
In addition, note how the persisting downward trend in interest rates was partly offset by a corresponding monitoring of rates applied to customers, which limited the interest expense, as well as - at the same time - the grown in average lending volumes.

The breakdown of interest income and expense is as follows:

Amounts in thousands of EUR	31/12/2016	31/12/2015	Change	% Change
INTEREST INCOME	**10,592.2**	**11,689.8**	**-1,097.6**	**-9.4%**
Treasury	4,400.8	4,594.4	-193.6	**-4.2%**
Due from banks	658.4	1,060.6	-402.2	**-37.9%**
Due from customers	5,522.4	6,016.2	-493.8	**-8.2%**
Hedging derivatives	4.5	3.7	0.8	**21.6%**
Other assets	6.1	14.9	-8.8	**-59.1%**
INTEREST EXPENSE	**1,916.2**	**3,360.1**	**-1,444.0**	**-43.0%**
Due to banks	52.4	255.9	-203.5	-79.5%
Due to customers	927.9	2,637.3	-1,709.4	-64.8%
Financial liabilities held for trading	252.1	109.4	142.7	130.4%
Other liabilities and provisions	341.9	2.2	339.7	15,440.9%
Hedging derivatives	341.9	355.3	-13.4	-3.8%
Dividends and similar income	258.0	139.9	118.1	84.4%
Interest margin and dividends	**8,934.1**	**8,469.6**	**464.5**	**5.5%**

4.3 - Net fee and commissions

The fee and commissions aggregate reached a level of EUR 31.7 million, up 1.3% on the EUR 31.3 million of 2015. This increase is mainly due to the good performance of the asset management segment (AUM and UCITS under administration) and insurance, as well as to the higher funding volumes. A significant factor in 2016 was also the higher incidence of volumes associated with the new paid advisory service ("On top" and "Fee only") introduced from the end of 2015.
Vice versa, there was the increase of 1.4% in interest expense. On this point it is important to consider that the changes in the retrocession of commissions to the private bankers envisage a percentage of total fee and commissions. Therefore, given the increase in fee and commission income for the reasons stated above, the fee and commission expense also increased.

Amounts in thousands of EUR	31/12/2016	31/12/2015	Change	% Change
FEE AND COMMISSION INCOME	**75,140.3**	**74,136.1**	**1,004.2**	**1.4%**
Guarantees given	52.1	52.1	-	0.0%
Portfolio management	30,189.0	29,318.3	870.7	3.0%
Custody and administration of securities	220.5	208.3	12.2	5.9%
Securities placement	23,214.3	24,425.2	-1,210.9	-5.0%
Order acceptance and transmission	8,265.7	9,034.2	-768.5	-8.5%
Trading	237.4	318.2	-80.8	-25.4%
Advisory activities	1,093.4	253.8	839.6	330.8%
Distribution of third-party services	10,767.0	9,747.0	1,020.0	10.5%
Collection and payment services	178.8	148.3	30.5	20.6%
Current accounts management	262.5	226.0	36.5	16.2%
Other services	659.6	404.7	254.9	63.0%
FEE AND COMMISSION EXPENSE	**43,456.0**	**42,863.9**	**592.1**	**1.4%**
Guarantees received	2.5	1.8	0.7	38.9%
Financial instruments trading	1,604.8	1,495.5	109.3	7.3%
Portfolio management	500.1	553.5	-53.4	-9.6%
Custody and administration of securities	237.1	221.4	15.7	7.1%
Door-to-door sales of financial instruments, products and services	41,001.5	40,485.6	515.9	1.3%
Collection and payment services	5.7	5.9	-0.2	-3.4%
Other services	104.3	100.2	4.1	4.1%
Net fee and commission	**31,684.3**	**31,272.2**	**412.1**	**1.3%**

4.4 - Net gains (losses) from trading, hedging and disposals/repurchases

The net gains from activities referred to in items 80, 90 and 100 of the reclassified Income Statement comprise the gains (losses) from trading of financial assets in the securities portfolio held for trading, realised gains and losses from financial assets held in the AFS portfolio and any gains (losses) from hedging.

At year end, this aggregate shows a negative trend compared to 2015, both in reference to the net gains from trading (down 1.5% compared to 31 December 2015) and the gains from disposal of AFS securities (down 30.3% compared to 31 December 2015). In particular, with regard to AFS disposals, comparison with the previous year takes into account the positive extraordinary impact of the disposal of AFS securities in the first half of 2015, the effect and changes in which were not repeated in 2016.

4.5 - Operating costs

The operating costs aggregate comprises personnel expense, other administrative expense, depreciation of property, plant and equipment, amortisation of intangible assets and other operating income and expense.

At 31 December 2016 it amounted to EUR 39.3 million, recording a limited increase of 5.5% on the previous year.

Amounts in thousands of EUR	**31/12/2016**	**31/12/2015**	**Change**	**% Change**
Personnel expense (including IRAP on cost of personnel and seconded staff - net)	23,822.7	22,390.7	1,432.0	6.4%
Other administrative expense (net of recovery of stamp duty and other taxes)	13,750.1	13,751.2	-1.1	0.0%
Net value adjustments to property, plant, equipment and intangible assets	1,832.2	1,389.6	442.6	31.9%
Other income and charges (less the recovery of stamp duty and other taxes)	-144.2	-312.5	168.3	53.9%
Operating costs	**39,260.8**	**37,219.0**	**2,041.8**	**5.5%**
Recovery of stamp duty and other taxes	**10,421.8**	**10,319.2**	**102.6**	**1.0%**

In remuneration terms, an increase was recorded in personnel expense which, considered net of IRAP on the cost of personnel, stood at EUR 23.7 million compared to EUR 22.3 million in the previous year. This increase was due in particular to the recruitment of 27 resources during 2016, employees mostly destined to enhance the sales network, with already proven professionalism and with the aim of maximising business development.

The breakdown is as follows:

Amounts in thousands of EUR	31/12/2016	31/12/2015	Change	% Change
PERSONNEL EXPENSE	**23,727.3**	**22,273.4**	**1,453.9**	**6.5%**
Salaries and wages	16,685.9	15,512.6	**1,173.3**	**7.6%**
Social security charges	4,112.0	3,860.5	**251.5**	**6.5%**
Employee severance indemnity	3.0	2.2	**0.8**	**36.4%**
Allocations to Employee severance indemnity	7.1	6.0	**1.1**	**18.3%**
Payments to INPS for Employee severance indemnity	450.9	260.5	**190.4**	**73.1%**
Payments to external supplementary pension plans	516.0	391.7	**124.3**	**31.7%**
Other personnel in service	99.7	637.6	**-537.9**	**-84.4%**
Other employee benefits	821.8	582.3	**239.5**	**41.1%**
Directors and statutory auditors	881.5	854.3	**27.2**	**3.2%**
Recoveries for staff seconded to other companies	-92.3	-103.2	**10.9**	**10.6%**
Reimbursements for third-party staff seconded to the company	241.7	268.9	**-27.2**	**-10.1%**

Other administrative expense amounted to EUR 13.7 million, in line with the previous year when the total was also EUR 13.7 million. This performance shows the enormous efforts in 2016 to contain costs, as an important aspect in overcoming the difficult market conditions whilst keeping competitiveness and service quality high.

This amount, in order to give a clearer idea of the extent of the phenomenon, was expressed net of the recovery of stamp duty of EUR 10.4 million. To complete the information on this issue, in fact, it is important to remember that, in the Income Statement, stamp duty is recorded under “Other administrative expense”, whilst its recovery is detailed under “Other income and charges”.

With regard to stamp duty on financial instruments, the rate was confirmed at 0.2%, whereas the minimum duty of EUR 34.20 to align with 2015 was repealed. In reference to stamp duty on current accounts, however, the fixed rate of EUR 34.20 was confirmed for amounts higher than EUR 5,000, whilst current accounts with lower balances were exempt.

In addition, to align the figure even more with the real administrative expense for the period, the amount recovered from the Interbank Deposit Protection Fund (IDPF), which reimbursed the amount of EUR 131.3 thousand paid by Banca Patrimoni Sella & C. for Banca Tercas, was deducted. To this end it should be emphasised that the European Commission established that the support received by Banca Tercas in 2014 qualified as State Aid incompatible with the domestic market, and therefore ordering its reimbursement. Consequently, through the IDPF, Banca Tercas repaid the amount it had received to the banking syndicate. At the same time, the Voluntary Scheme resolved to intervene in support of Banca Tercas for an amount equal to that reimbursed, divided among a smaller number of member banks.

Administrative expense also includes the extraordinary charges on the contribution to the European DGS (Deposit Guarantee Schemes) and SRF (Single Resolution Fund), introduced by European directives 49 and 59 in 2014 and relating to the new resolution mechanism for banks in crisis and the new deposit guarantee system, as well as the contribution to the IDPF Voluntary Scheme for Banca Tercas.

In particular, the ordinary portion of the DGS allocation was EUR 326.6 thousand, whilst the portion referring to the SRF was EUR 122.9 thousand. Furthermore, in December 2016 it became necessary to make an additional allocation to the SRF for EUR 246.5 thousand, taking into account the immediate financial needs of the FNR in relation to the well-publicised resolution plan for four Italian banks (Banca Marche, Banca Popolare dell'Etruria e del Lazio, Carichieti and Cassa di Risparmio di Ferrara).

Overall, therefore, considering all the above changes, the total contribution to resolution funds was EUR 828.0 thousand, with an impact on the 2016 Income Statement of EUR 696.7 thousand due to the aforementioned reimbursement.

Amounts in thousands of EUR	**31/12/2016**	**31/12/2015**	**Change**	**% Change**
A. Other administrative expense	**12,866.3**	**12,916.8**	**-50.5**	**-0.4%**
Professional and advisory services	5,708.8	6,048.1	-339.3	-5.6%
Legal and notary advisory services	142.4	129.3	13.1	10.1%
Rent and lease expense, hardware, software and other assets	2,452.4	2,183.0	269.4	12.3%
Maintenance of hardware, software and other assets	409.9	366.9	43.0	11.7%
Property management	513.6	398.6	115.0	28.9%
Telephones and data transmission	289.2	299.0	-9.8	-3.3%
Other expense	3,350.0	3,491.9	-141.9	-4.1%
B. Indirect taxes	**11,305.6**	**11,153.6**	**152.0**	**1.4%**
Total	**24,171.9**	**24,070.4**	**101.5**	**0.4%**

In the table above, "Other expense" can be broken down as follows:

Amounts in thousands of EUR	31/12/2016	31/12/2015	Change	% Change
Other expense	**3,350.0**	**3,491.9**	**-142.0**	**-4.1%**
Travel expenses	407.8	486.3	-78.5	-16.1%
Printed materials, stationery and consumables	53.8	45.2	8.6	19.0%
Transport and relocations	136.5	219.0	-82.5	-37.7%
Security	161.9	136.9	25.0	18.2%
Membership fees	243.7	236.6	7.1	3.0%
Information and record searches	27.5	27.7	-0.2	-0.7%
Books and magazines	18.5	21.5	-3.0	-14.0%
Mailing costs	76.1	73.8	2.3	3.1%
Insurance premiums	311.1	321.1	-10.0	-3.1%
Advertising and promotions	219.1	247.3	-28.2	-11.4%
Entertainment expense	287.8	379.4	-91.6	-24.1%
Contributions to organisations and associations	39.7	75.4	-35.7	-47.3%
Personnel studies	1.3	-	1.3	0.0%
Welfare costs for private bankers and agents	1,223.8	1,054.8	169.0	16.0%
Purchase of sundry DPC materials	19.3	17.9	1.4	7.8%
Other residual expense	122.1	149	-26.9	-18.1%

The item "Other operating expense/income", less recovered stamp duty and other taxes, at 31 December 2016 totalled EUR 144.2 thousand, down 53.9% on the corresponding period of the previous year. This was mainly attributable to the increase in amortisation and depreciation of leased assets, in view of the lease of new offices fitted out as bank branches.

As regards the value adjustments to fixed assets, note the increase in depreciation/amortisation of both forms of long-term investments.

In line with previous years, in 2016 Banca Patrimoni Sella & C. was involved in technology updates and the constant development of its organisational structure, with direct investments in IT products and projects in support of the planned strategies mainly for advisory services, asset management and insurance. Therefore the conclusion of IT investments led to an increase in the current amortisation of intangible assets. This rose from EUR 2.1 million in 2015 to EUR 2.5 million in 2016. Consequently, note that the related value adjustments increased to EUR 627.1 thousand last year compared to EUR 410.1 thousand in 2015.

Similar considerations apply in relation to the value adjustments to property, plant and equipment for which, against long-term investments in property, plant and equipment which increased from EUR 27.8 million in 2015 to EUR 28.3 million in 2016, the related depreciation amounts also increased. In fact, value adjustments to property, plant and equipment rose by 23%, from EUR 979.5 thousand in 2015 to EUR 1,205.1 thousand in 2016.

Banca Patrimoni Sella & C.

4.6 - Allocations and value adjustments

Allocations net of provisions for risks and charges amounted to EUR 1,216.2 thousand, compared to EUR 951.2 thousand in 2015 and recording an increase of 27.9% compared to 31 December 2015. This increase is mainly attributable to the provision for agents' leaving indemnities, the annual allocation to which was raised compared to 2015 due to the persisting decline in market rates in 2015 and to the liability recognised. The provision for agents' leaving indemnities represents the liability allocated to the indemnity that the Bank is required to pay to a private banker if the agency agreement should be terminated and the conditions envisaged in Art. 1751 of the Italian Civil Code are met. Allocations to the provision in 2016 amounted to EUR 1,103.7 thousand.

Against this change, which affected the provisions for risks and charges during the year, the situation of liability item 120 "Provisions for risks and charges" in the Balance Sheet at 31 December 2016 is as follows:

Amounts in thousands of EUR	**31/12/2016**	**31/12/2015**	**Change**	**% Change**
Legal proceedings as defendant	1,830.6	2,074.9	-244.3	-11.8%
Customer complaints	324.3	423.8	-99.5	-23.5%
Personnel charges	374.4	324.3	50.1	15.4%
Provision for agents' leaving indemnities	5,137.2	4,251.2	886.0	20.8%
Other risks and charges	114.1	168.6	-54.5	-32.3%
Total provisions for risks and charges (Liability item 120, Balance Sheet)	**7,780.6**	**7,242.8**	**537.8**	**7.4%**

Value adjustments net of impairment losses at year end totalled EUR 441.6 thousand, down EUR 289.7 thousand on the previous year. This overall decrease is due in part to lower impairment losses on receivables, offset by stronger write-downs of available-for-sale financial assets.

Specifically, as regards financial assets, impairment tests showed that write-down of 2 AFS securities was necessary for a total of EUR 303.8 thousand: namely, the Agria Finance and Portugal Telecom bonds.

2 investments in minority interests classed as AFS were also written down. The investments concerned were Art Defender S.r.l. and Aziende Agricole Sella S.r.l. The value adjustments totalled EUR 137 thousand.

In addition, as a result of action by the IDPF Voluntary Scheme in favour of Cassa di Risparmio di Cesena, with same-time recognition of a financial asset in the bank's financial statements, remeasurement became necessary. After indicating its accounting treatment as an AFS equity instrument, the Scheme also provided instructions regarding its measurement at fair value, which led to a write-down of EUR 49.2 thousand for the bank.

On the other hand, as regards impairment losses on loans, the write-downs were lower than in 2015, whether individual on non-performing loans or collective on performing loans. The impairment losses on receivables are in any event considered limited if compared to the rest of the banking system. In particular, note that there are very few disputed cases. In detail, at 31 December 2016 the delinquent loans written off referred to 2 customers, 1 of which

classified as such during 2016, whereas there are 12 defaulted loan positions, 2 of which entered this category in 2016. In December, the Bank resolved to write-off the residual debt on 7 non-performing loans.
These figures are compared with those at 31 December 2015, when the delinquent loans written off referred to 5 customers and there were 19 defaulted loan positions.

4.7 - Income taxes

The percentage impact of income taxes (excluding IRAP relating to personnel expense reclassified as an increase in this component) on profit from current operations before tax was 33.24%, compared to a nominal IRES and IRAP rate of 33.08%.

The alignment between the nominal IRES and IRAP rates and the effective rate is mainly due to the tax benefits deriving from the ACE (Aid to Economic Development) and the tax credit[4] for the economic contribution to a cinematographic production[5]. These benefits, however, were partly offset by an increase in the tax rate due to administrative expense non-deductible for IRES and IRAP purposes.

The tax benefits determined by the ACE essentially constitute a reduced imbalance in tax treatment between companies financed by debt and companies self-financed, therefore strengthening the capital structure of the companies and of Italian production, and offering a deduction of a corresponding amount in the notional return on the new equity. In 2016 this regulation led to a tax saving of a total EUR 201.3 thousand.

As a subsidiary, Banca Patrimoni Sella & C. adopted the national tax consolidation with the parent Banca Sella Holding acting as controlling and consolidating entity.

4.8 - Comprehensive income

The comprehensive income comprises the profit for the year and other components that make up the year's result but are not recognised in the Income Statement. Included in this situation are the change in the valuation reserves for AFS securities and the actuarial gains/losses on defined benefit plans. In relation to the latter, note that the decrease in rates had a negative effect on the actuarial component of Employee severance indemnity.

[4]The provisions on the Cinematographic Tax Credit envisage the option of offsetting tax payables (IRES, IRAP, IRPEF, VAT, social security and insurance contributions) with the credit accrued following an investment in the film industry. In addition to companies in the cinema, audio and visual sectors, beneficiaries also include companies not operating in this industry but are entitled to a share of the profits from a film earned by its producer.
[5]The film is entitled "Fai Bei Sogni", directed by Marco Bellocchio, produced by IBC Movie S.r.l.

STATEMENT OF COMPREHENSIVE INCOME

		31/12/2016	31/12/2015
10.	**Profit (loss) for the year**	**7,171,512**	**9,005,886**
	Other income components after tax, without reversal to the income statement		
40.	Defined benefit plans	(104,334)	72,777
	Other income components after tax, with reversal to the income statement		
100.	Available-for-sale financial assets	(925,014)	(4,768,948)
130.	**Total other income components after tax**	**(1,029,348)**	**(4,696,171)**
140.	**Comprehensive income (Items 10+130)**	**6,142,164**	**4,309,715**

5 - Balance Sheet and Shareholders' Equity figures

Reclassified balance sheet - ***amounts in thousands of EUR***

Assets	31/12/2016	31/12/2015	Change	% Change
Financial assets (1)	132,435.0	282,002.1	-149,567.1	-53.0%
Due from banks	884,696.7	368,915.5	515,781.2	139.8%
Cash lending (2)	364,529.9	350,324.8	14,205.1	4.1%
Investments	430.0	430.0	-	0.0%
Property, plant and equipment and intangible assets (3)	30,878.7	29,952.6	926.1	3.1%
Tax assets	8,869.0	11,212.9	-2,344.0	-20.9%
Other asset items (4)	52,152.6	54,866.7	-2,714.1	-4.9%
TOTAL ASSETS	**1,473,991.9**	**1,097,704.6**	**376,287.3**	**34.3%**

Liabilities and Shareholders' Equity	31/12/2016	31/12/2015	Change	% Change
Due to banks	59,354.9	63,197.8	-3,842.9	-6.1%
Direct funding (5)	1,297,006.2	913,319.3	383,686.9	42.0%
Financial liabilities	1,405.3	380.1	1,025.2	269.7%
Tax liabilities	3,795.5	6,163.3	-2,367.8	-38.4%
Other liability items (6)	27,297.8	32,715.7	-5,417.9	-16.6%
Provisions for specific purposes (7)	9,653.8	8,989.5	664.3	7.4%
Shareholders' Equity (8)	75,478.5	72,938.8	2,539.7	3.5%
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**1,473,991.9**	**1,097,704.6**	**376,287.3**	**34.3%**

(1) Given by the sum of the following asset items: 20 "Financial assets held for trading", 40 "Available-for-sale financial assets" and 50 "Financial assets held to maturity".
(2) Given by the sum of the following asset items: 70 "Due from customers".
(3) Given by the sum of the following asset items: 110 "Property, plant and equipment" and 120 "Intangible assets".
(4) Given by the sum of the following asset items: 10 "Cash and cash equivalents", 80 "Hedging derivatives", 90 "Value adjustments to financial assets underlying generic hedges" and 150 "Other".
(5) Given by the sum of the following liability items: 20 "Due to customers" and 30 "Outstanding securities".
(6) Given by the sum of the following liability items: 60 "Hedging derivatives" and 100 "Other liabilities".
(7) Given by the sum of the following liability items: 110 "Employee severance indemnity" and 120 "Provisions for risks and charges".
(8) Given by the sum of the following liability items: 130 "Valuation reserves", 160 "Reserves", 170 "Share premium reserve", 180 "Capital" and 200 "Profit (loss) for the year".

At 31 December 2016 the Bank's total assets stood at EUR 1,473.9 million, up by 34.3% on the previous year.

Intermediation with customers saw a positive performance, particularly in the following items:

- cash lending increased by 4.1% (EUR 364.5 million, compared to EUR 350.3 million in 2015);
- direct funding, coinciding with liability item 20 - Due to customers in the Balance Sheet, recording an improvement of 42.0% to reach EUR 1,297.0 million.

With regard to financial assets at 31 December 2016, these totalled EUR 132.4 million, down 53% compared to the previous year.

5.1 - Direct funding

Customer deposits totalled EUR 1,297.0 million at 31 December 2016. This amount coincides with liability item 20 - Due to customers in the Balance Sheet.

Amounts in thousands of EUR	**31/12/2016**	**31/12/2015**	**Change**	**% Change**
Current accounts and demand deposits	1,289,605.7	895,199.5	394,406.2	44.1%
Term deposits	2,723.0	4,612.9	-1,889.9	-41.0%
Loans	5.7	9,471.6	-9,465.9	-99.9%
Reverse repurchase agreements	*5.7*	*9,471.6*	*-9,465.9*	*-99.9%*
Other payables	4,671.7	4,035.3	636.4	15.8%
Total	**1,297,006.2**	**913,319.3**	**383,686.9**	**42.0%**

In view of the downward trend in rates throughout the year, note the decrease in the debt position relating to term deposits and repurchase agreements, against which our customers preferred other forms of investment qualifying as indirect funding.

5.2 - Lending

5.2.1 - Financial assets

Amounts in thousands of EUR	**31/12/2016**	**31/12/2015**	**Change**	**% Change**
Financial assets held for trading	4,160.0	4,399.3	-239.4	-5.4%
Available-for-sale financial assets	128,275.0	277,602.8	-149,327.8	-53.8%
Total financial assets	**132,435.0**	**282,002.1**	**-149,567.1**	**-53.0%**

The Treasury Office of Banca Patrimoni Sella & C. is responsible for investing the surplus liquidity from the disbursement of credit, adopting prudential rules and complying with external regulatory provisions and internal policy, the latter approved by the Board of Directors. In particular, the operations were undertaken within the limits of the Risk Appetite Framework[6] (RAF), this too approved by the Board of Directors.

The business objective is to create value by selecting and managing investments, optimising and keeping under control the risk-return ratio.

At 31 December 2016, the Bank's securities portfolio totals EUR 132.4 million, down by 53.0% compared to the previous year. This performance was particularly influenced by the disposal of AFS securities that began in August and continued until the end of the year, with the aim of maximising returns on the investments made. In particular, the disposals involved Italian and European government securities and corporate bonds with a medium/long-term maturity, thereby benefiting from the reduced interest rate risk. Overall, transactions on the AFS securities portfolio led to realised capital gains of around EUR 5.3 million in 2016.

2016 was also characterised by the approach to purchasing new investment instruments such as:

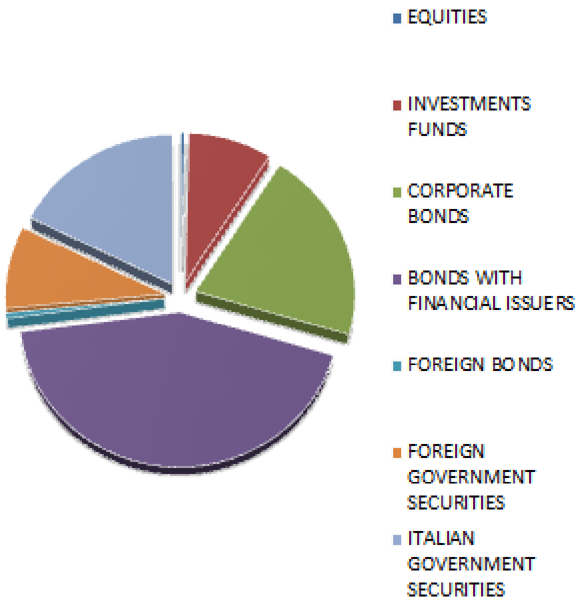
- minibond funds, which invest in corporate bonds issued by Italian SMEs;
- private debt funds, which operate in the SME credit segment;
- private equity funds, which invest in company shares.

On the whole, therefore, the operations undertaken were suitably focused on optimising the issuer risk diversification, adequately balancing the type of securities, maturities and counterparties.

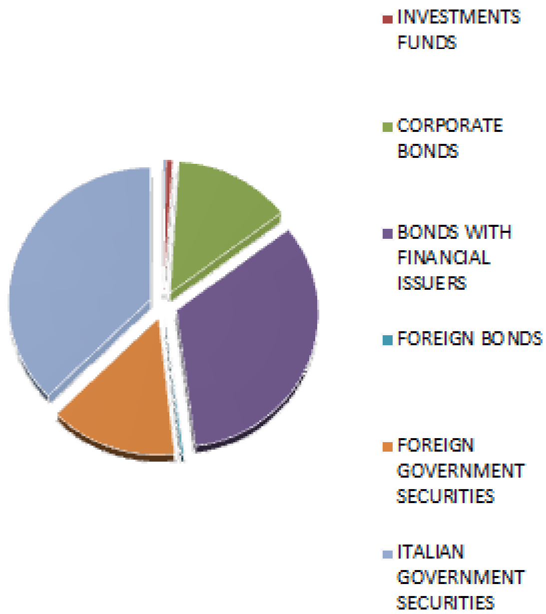
[6] The RAF is the reference framework which - in line with the maximum assumed risk, the business model and strategic plan - defines the risk appetite, the tolerance thresholds, risk limits, risk management policies and the reference processes required to define and implement them.

In view of the above changes, developments in the securities portfolio of Banca Patrimoni Sella & C. in the period 2015-2016, focusing on the HFT and AFS components, therefore appears significant and can be illustrated as follows:

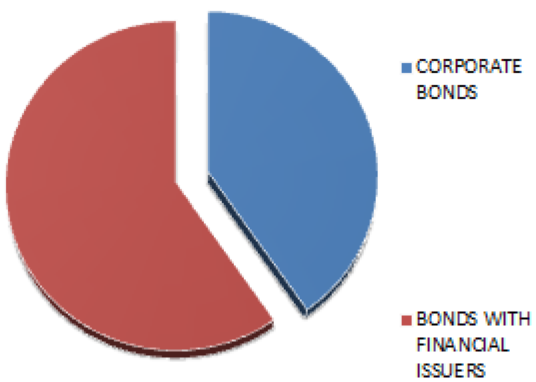
AFS portfolio at 31/12/2016



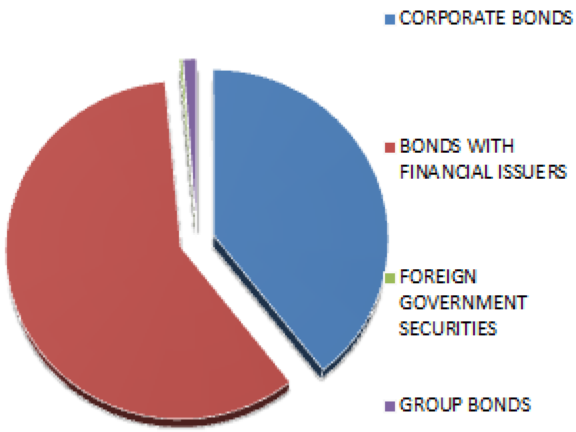
AFS portfolio at 31/12/2015



HFT portfolio at 31/12/2016



HFT portfolio at 31/12/2015



5.2.2 - Receivables

Amounts in thousands of EUR	**31/12/2016**	**31/12/2015**	**Change**	**% Change**
Due from banks	884,696.7	368,915.5	515,781.2	139.8%
Due from customers	364,529.9	350,324.8	14,205.1	4.1%
Total receivables	**1,249,226.6**	**719,240.3**	**529,986.4**	**73.7%**

At Banca Patrimoni Sella & C., the disbursement of loans to customers has in recent years seen a regular yet constant increase. However, it continues to be an accessory component compared to Banca Patrimoni Sella & C.'s core business, i.e. the management of customers' assets and the placement of financial products.

All matters relating to the disbursement of credit is primarily assigned to the Credit Division at the Bank's central office. As regards the organisational structure of the division and the geographic distribution of credit management, no appreciable changes were recorded in 2016.

In relation to new disbursements, during last year Banca Patrimoni Sella & C. gave preference to its consolidated customers and those acquired following the recruitment of new Private Bankers. Most of the credit facilities granted were collateralised, in particular by pledges on the total value or irrevocable mandate to sell to the Bank on financial instruments deposited with the Bank by the customer.

Also proportionately significant was the percentage of mortgages and mortgage-backed land loans.

The disbursement of loans to customers in 2016 recorded a positive trend, up slightly on the previous year. The stock disbursed at 31 December 2016 amounted to EUR 364.5 million, recording an increase of 4.1% on the previous year. The figure for unsecured loans remained essentially stable. In particular, the short-term facilities disbursed to financial institutions totalled EUR 50 million, of which EUR 40 million to Biella Leasing and EUR 10 million to Consel (both companies in the Banca Sella Group). During the year the Bank also disbursed a collateralised loan for EUR 15 million to another bank.

During the year, there was an absolute focus on the disbursement of credit meeting regulatory capital requirements, with a pricing policy designed to facilitate the granting of low capital absorption loans.

The Bank did not disburse subsidised loans in 2016 and did not perform any securitisation or restructuring transactions.

The gross non-performing loans totalled EUR 1.5 million, with no significant new entries to the category during the year. Net non-performing loans totalled EUR 739 thousand. The Bank continued to apply its policy of care and prudence in disbursements, limiting the assumption of risk by acquiring suitable guarantees. The value reversals amounted to EUR 64 thousand.

This attention, and the constant obtaining of collateral on loans granted, allowed the Bank to record a very limited value for non-performing loans out of the total loan portfolio.

The position of the portfolio of loans to customers at 31 December 2016, with breakdown of performing and non-performing amounts is as follows:

Amounts in thousands of EUR	**Cash exposure**	**Specific value adjustments**	**Portfolio value adjustments**	**Net exposure**
Non-performing loans	1,501.4	761.7	-	739.7
Unlikely to pay loans	1,253.4	46.3	-	1,207.1
Impaired past due loans	39.5	8.1	-	31.4
Performing	362,827.5	-	275.8	362,551.7
Total due from customers	**365,621.8**	**816.2**	**275.8**	**364,529.9**

"Due from banks" amounted to EUR 884.7 million at 31 December 2016, recording a consistent increase on the EUR 368.9 million of the previous year. In particular, the breakdown of amounts due from banks is as follows:

Amounts in thousands of EUR	**31/12/2016**	**31/12/2015**	**Change**	**% Change**
Due from central banks - compulsory reserve	10,551.7	8,339.8	2,211.9	26.5%
Current accounts and demand deposits	857,918.8	358,617.8	499,301.0	139.2%
Other loans	15,726.1	1,457.8	14,268.3	978.8%
Debt securities	500.1	500.1	-	0.0%
Total due from banks	**884,696.7**	**368,916.0**	**515,780.7**	**139.8%**

There was a considerable increase in current accounts and demand deposits due to the higher liquidity left on deposit on interbank accounts. This situation is attributable on the one hand to the increase in direct funding, and on the other to treasury investment decisions that reduced the investments in view of the adverse market conditions.

This asset item is further evidence that Banca Patrimoni Sella & C. is extremely liquid and sound, as also demonstrated by the capital ratios approved and illustrated in this report.

5.3 – Shareholders' Equity and regulatory capital

At 31 December 2016, Shareholders' Equity stood at EUR 75.5 million, after recognition of the profit for the year of EUR 7.2 million and considering the deterioration of valuation reserves. The AFS reserves show a decrease of EUR 925 thousand, largely due to the market performance of securities in portfolio, determined as follows:

- EUR 831.3 thousand to debt securities
- EUR 93.6 thousand to equity instruments and UCITS units

for a total of EUR (455) thousand, compared to EUR 469 thousand in 2015.

The new harmonised regulations for banks and investment companies contained in Regulation 575/2013 (CRR) and Directive 2013/36/EU (CRD IV) entered into force from 1 January 2014, transposing the standards defined by the Basel Committee on Banking Supervision (Basel 3) into EU law.

In order to implement and facilitate application of the new EU regulations, and to conduct a complete review and simplification of the banking supervision regulations, on 17 December 2013 the Bank of Italy issued Circular no. 285 "Supervisory instructions for banks" which:

i) includes the CRD IV rules, the implementation of which, pursuant to the Consolidated Banking Act, is the responsibility of the Bank of Italy;

ii) indicates the methods for exercising national discretion attributed to national authorities by the EU regulations;

iii) outlines a complete, systematic, rational and integrated regulatory framework with directly applicable EU provisions to facilitate use by the operators.

In Banca Patrimoni Sella & C. the monitoring of capital adequacy is ensured by the Capital Management activities.

The Capital Management Plan is defined concurrently with the strategic plan and Risk Appetite Framework (RAF) and consists in assessing the impact of ordinary activities and defining any extraordinary transactions required to pursue the capitalisation goals (represented by the Common Equity Tier 1 ratio) as deemed necessary and appropriate to place the Bank in a position of current and future soundness and sustainability.

The Capital Management Plan is systematically monitored by the Risk Management Service of the Parent Company as regards the extent of capitalisation and absorption which envisage:

i) final monthly calculation based on the operating results gradually achieved;

ii) quarterly simulation of future developments with a view to preventing any situations of failure to achieve the defined levels.

The Bank's solvency ratios form part of the monthly reporting prepared by the Board of Directors and for the Group Performance Alignment and Verification Meeting.

Detailed below are the key characteristics of shares included in Common Equity Tier 1 (CET 1) of Banca Patrimoni Sella & C. at 31 December 2016:

- ✓ 28,000,000 ordinary shares with a nominal value of EUR 1 each;
- ✓ At 31 December 2016 there were no financial instruments eligible for Additional Tier 1 capital;
- ✓ Tier 2 (T2) included financial instruments as the Bank does not have its own issues of financial instruments.

Banca Patrimoni Sella & C.

Regulatory capital - Quantitative information - *amounts in thousands of EUR*

	Total 31/12/2016	Total 31/12/2015
A. Common Equity Tier 1 (CET1) before application of prudential filters	**72,610**	**69,336**
of which CET1 instruments subject to transitional provisions	-	-
B. CET1 prudential filters (+/-)	(6)	(6)
C. CET1 gross of deductible elements and the effects of the transitional regime (A +/- B)	**72,604**	**69,330**
D. Elements to be deducted from CET1	**2,530**	**2,076**
E. Transitional regime - Impact on CET1 (+/-)	**741**	**(305)**
F. Total Common Equity Tier 1 (CET1) (C - D +/- E)	**70,815**	**66,949**
G. Additional Tier 1 (AT1)	**-**	**-**
of which AT1 instruments subject to transitional provisions	-	-
H. Elements to be deducted from AT1	**-**	**-**
I. Transitional regime - Impact on AT1 (+/-)	**-**	**-**
L. Total Additional Tier 1 (AT1) (G - H +/- I)	**-**	**-**
M. Tier 2 (T2) gross of elements to be deducted and effects of the transitional regime	**-**	**-**
of which T2 instruments subject to transitional provisions	-	-
N. Elements to be deducted from T2	**-**	**-**
O. Transitional regime - Impact on T2 (+/-)	**95**	**124**
P. Total Tier 2 (T2) (M - N +/- O)	**95**	**124**
Q. Total own funds (F + L + P)	**70,910**	**67,073**

Based on the prudential supervisory instructions, the total requirement is equal to the sum of prescribed capital requirements for credit risk and counterparty risk, for the risk of credit valuation adjustment, and for settlement risk, market risk and operational risk.

The capital requirements calculation methods generally refer to the standardised approach with regard to credit and market risks, and to the basic indicator approach (BIA) as regards operational risk.

The Bank’s capital management policies propose to guarantee that the Tier 1 capital is consistent with the level of risk assumed, regulatory restrictions and the corporate development plans.

Capital adequacy - Quantitative information - *amounts in thousands of EUR*

Categories/Values	Unweighted		Weighted / requirements	
	31/12/2016	31/12/2015	31/12/2016	31/12/2015
A. RISK ASSETS				
A.1 Credit risk and counterparty risk	1,388,502	1,022,126	334,409	330,463
1. Standardised approach	1,388,502	1,022,126	334,409	330,463
2. Internal ratings based approach	-	-	-	-
2.1 Basic	-	-	-	-
2.2 Advanced	-	-	-	-
3. Securitisations	-	-	-	-
B. REGULATORY CAPITAL REQUIREMENTS				
B.1 Credit risk and counterparty risk			26,753	26,437
B.2 Risk of credit valuation adjustment			2	8
B.3 Settlement risk			96	16
B.4 Market risk			400	731
1. Standardised approach			400	731
2. Internal models			-	-
3. Concentration risk			-	-
B.5 Operational risk			6,943	6,704
1. Basic indicator approach			6,943	6,704
2. Standardised approach			-	-
3. Advanced approach			-	-
B.6 Other calculation elements			-	-
B.7 Total prudential capital requirements			34,193	33,896
C. RISK ASSETS AND ADEQUACY RATIOS				
C.1 Risk-weighted assets			427,418	423,702
C.2 Common Equity Tier 1/RWA (CET1 capital ratio)			16.57%	15.80%
C.3 Tier 1 capital/RWA (Tier 1 capital ratio)			16.57%	15.80%
C.4 Total own funds/RWA (Total capital ratio)			16.59%	15.83%

The capital ratios remain high, up compared to 2015 and higher than regulatory requirements.

Based on the prudential supervisory instructions, the total requirement is equal to the sum of prescribed capital requirements for credit risk and counterparty risk, for the risk of credit valuation adjustment, and for settlement risk, market risk and operational risk.

The capital requirements calculation methods generally refer to the standardised approach with regard to credit and market risks, and to the basic indicator approach (BIA) as described previously.

The Bank’s capital management policies propose to guarantee that the Tier 1 capital is consistent with the level of risk assumed, regulatory restrictions and the corporate development plans.

6 - Products offered and the service model

6.1 - Individual asset management

Asset management is a strategic area of operation for Banca Patrimoni Sella & C. and also in 2016 investments were made to enhance the level of resources dedicated to this segment, the level of information sources available to asset managers and the level of applications and software.

The Bank's Investments Department has 35 staff and is organised into teams. Three areas of expertise are headed by the Division Manager:

- Managers following centralised guidelines whereby customers leave decisions completely to the Bank and are assisted by a middle office structure handling order transmission to the market, withdrawals and payments relating to the underlying procedures.
- Managers following private guidelines, by which the customers are able to customise their investment decisions to a greater degree.
- The Market Analysis Office performs research with the task of helping to identify opportunities and risks present on the global financial markets.

Banca Patrimoni Sella & C. offers its customers a wide range of management lines both for securities and funds. There are lines with reference benchmarks or absolute returns, and it is possible to choose from among lines that invest exclusively or prevalently in the Eurozone or products with high-level exposure to other currencies and geographic areas.

The categories of the lines offered are:

- *Gamma Equilibrio Private*, which includes seven lines ranging from bonds-only management, to balanced lines and to equities-only lines. This range uses securities and ETFs, funds, SICAVs and ETCs. Then there are three absolute-return lines offering greater operating flexibility, have no specific reference benchmark and must be able to generate returns by maintaining a lower correlation with the financial markets and volatility that remains within established limits.
- *Gamma Equilibrio Private Internazionale*, which includes three management lines with features similar to those described above, but with an investment area decidedly less Eurocentric and can therefore span multiple countries and currencies.
- *Gamma Profilo*, which includes six management lines internally using only UCITS, choosing from funds, SICAVs and ETFs depending on the type of investment made, the asset class and the time horizon.
- *Gamma Multilinea*, designed to allow customers more freedom in using individual “investment bricks” representing geographic areas, industries, equity markets, bond segments or currencies.

- *Gamma Regime Amministrato*, structured to allows those with capital losses, from positions not related to assets under management, to use them as part of a form of asset management focusing in particular on optimising their absorption.
- *Gamma Linee di matrice quantitativa*, at present including just one product that uses mathematical-statistical input to determine the portfolio composition. This line uses only fund units and SICAV segments.

The Investments Division is able to access numerous sources of information that allow them to be correctly informed of economic and market developments.

Through the open architecture adopted by Banca Patrimoni Sella & C., managers are able to receive information and communicate with:

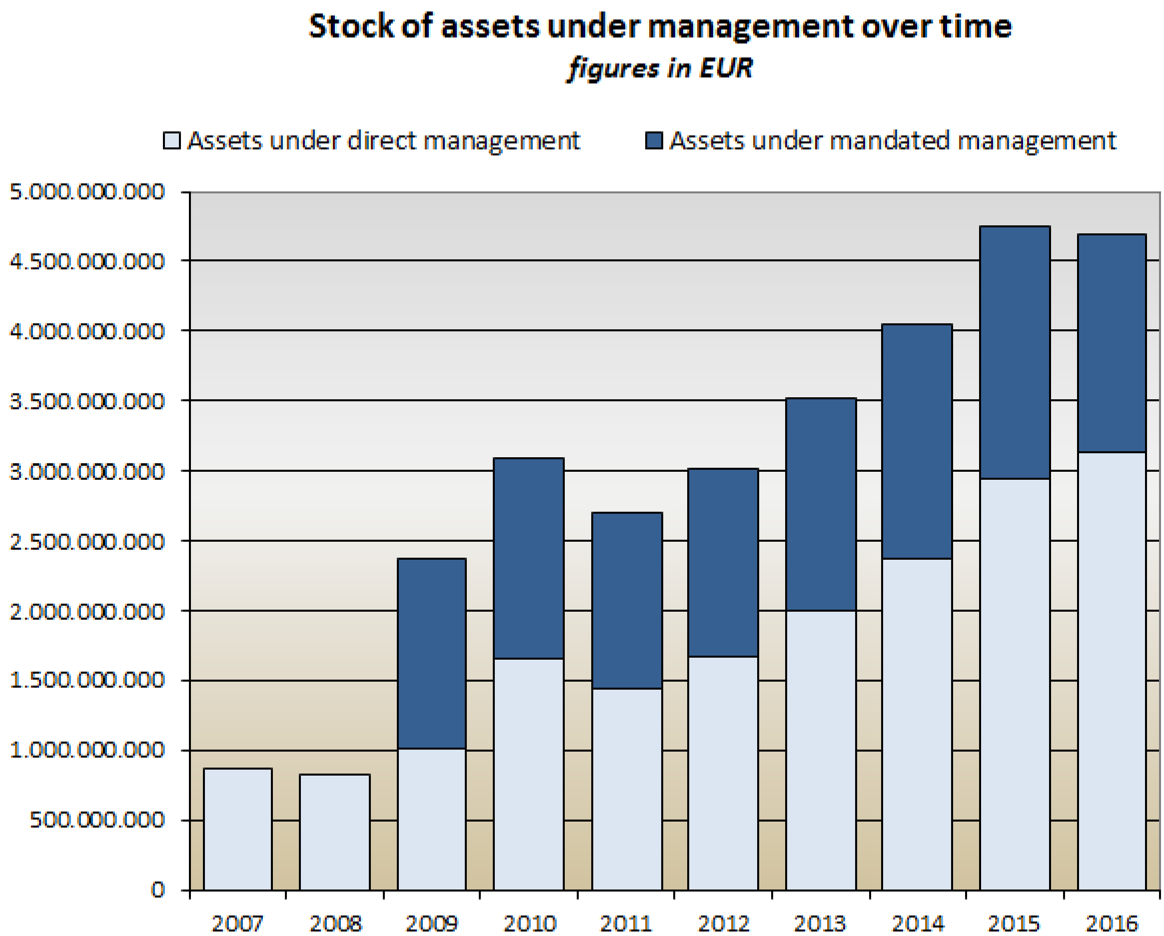
- the leading global information providers
- independent research and analysis companies
- investment banks and brokers
- managers of big name funds and small specialist fund boutiques
- the Bank's sales network.

Banca Patrimoni Sella & C. allows its Managers and Analysts to move inside and outside Italy to attend events dedicated to finance, economy and the markets in order to increase their personal know-how, and therefore that of the entire Division.

Also worth noting is the option for asset management of funds and SICAV segments to use sixty different product houses, even including highly specific products that are quite unique on the Italian market.

In total, the stock of assets under direct management and under mandate amount to EUR 4,698[7] million at 31 December 2016, essentially stable compared to the previous year. The excellent growth continued of assets under management deposited with the bank, increasing from EUR 2,937 million in 2015 to EUR 3,133[8] million at the end of 2016 (+6.5%). During 2016 the Bank maintained the management mandate assigned to Banca Sella. The total assets assigned amounted to EUR 1,565 million, down from EUR 1,817 million at the end of 2015. This decline is mainly due to the exit of an institutional customer.

The following chart illustrates developments over time of the stock of assets under management.

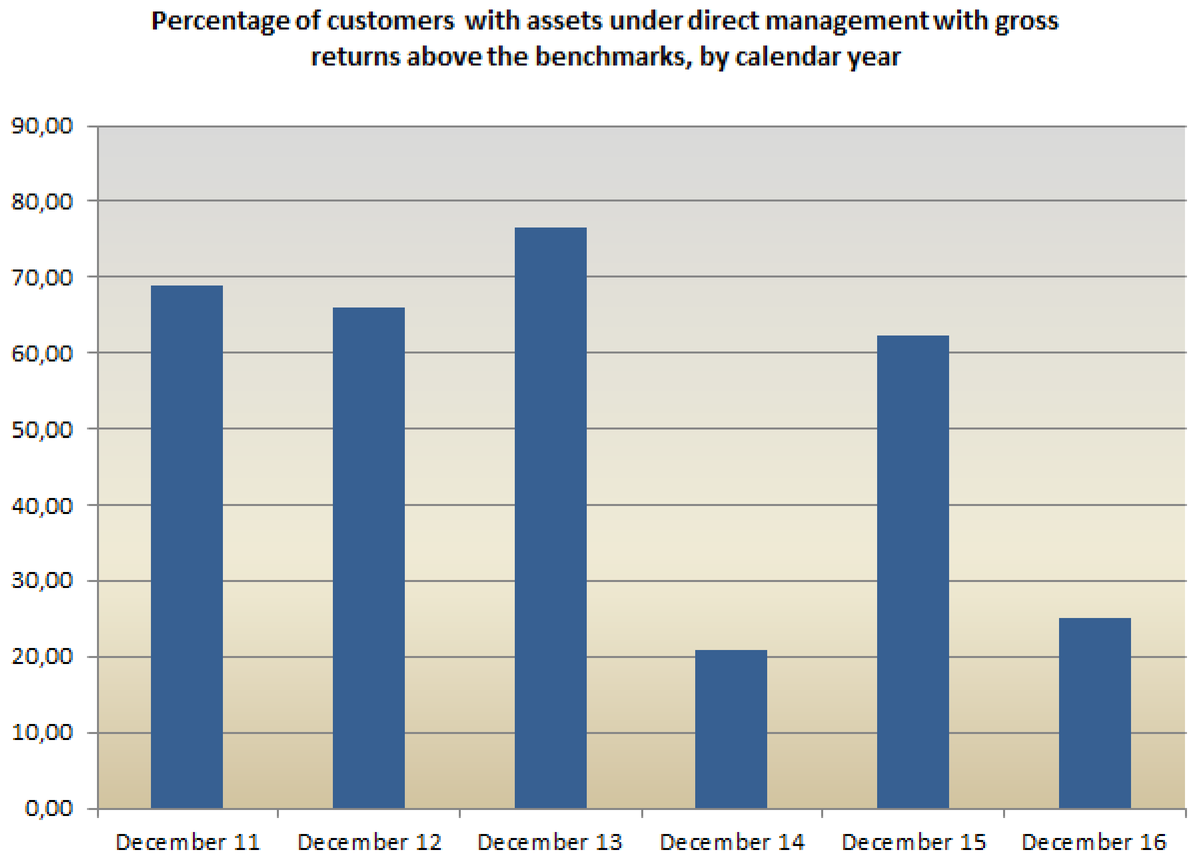


The Bank continues its management activities and remains a depositary for domestic funds attributable to insurance policies issued by In Chiaro Life (formerly CBA Vita), a company previously a member of the Banca Sella Group but sold during 2016 to the German company HDI (Talanx Group). Also note the departure from mandated asset management of four domestic funds pertaining to the Zurich Mult*Invest* product managed through UCITS.

[7] Figure includes liquidity under management
[8] Figure includes liquidity under management

Customer positioning essentially remains unchanged compared to previous years and is concentrated mainly in balanced investment lines. It should be emphasised that, except for contractually envisaged hedging purposes, derivatives are not used as part of the asset management.

The gross returns offered to customers are higher than the reference benchmarks in 25.15% of cases.



7 - Human resources

7.1 - Employees

The headcount at 31 December 2016 numbered 243 individuals comprising 20 Executives, 78 third-and fourth-level Managers, 40 first- and second-level Managers and 105 other employees (of which 3 apprentices and 4 employees with fixed-term contracts). A net increase of 21 was recorded compared to 2015.

In 2016, 27 new employees were recruited, 24 of which on permanent contracts. A further 2 were recruited on fixed-term contracts and 1 as apprentice.

The headcount at year end breaks down as follows: 236 on permanent contracts, of which 11 part-time, 3 apprentices and 4 on fixed-term contracts.

7.2 - Breakdown of human resources

The incidence of graduates is 44.86%. The average age of employees is 45, whilst the percentage of women is 43.62%.

The breakdown of personnel can therefore be summarised as follows:

	TOTAL 2016			TOTAL 2015		
	WOMEN	MEN	Total	WOMEN	MEN	Total
Executives	-	*20*	**20**	*1*	*16*	**17**
Third-and fourth-level Managers	*18*	*60*	**78**	*16*	*47*	**63**
First- and second-level Managers	*23*	*17*	**40**	*22*	*11*	**33**
Other	*65*	*40*	**105**	*65*	*44*	**109**
Totals	**106**	**137**	**243**	**104**	**118**	**222**

7.3 - Training

Training activities in 2016 led to the provision of over 3,740 full days' training, with a percentage increase of around 75% compared to the previous year and an average of approximately 6 days' training per employee. Training is provided without distinction to employees, private bankers and other agents.

For the Bank, human resource training is designed to achieve the necessary professional development, plays a fundamental role and requires consistent, unavoidable investments, as growth, along with the sense of belonging to the company and professional ethics, are indispensable elements to competing on any type of market.

Specialist in-depth professional skills are ensured through participating in higher education courses provided by leading advisory companies experts in the field or by university professors.

In addition to traditional-format training, at the Bank and with external companies, the use of self-training continued with the aid of the special e-learning platform.

In terms of quality, the training action aims to:

- enhance the managerial and conduct skills by classroom training held for heads of service, focusing on self-efficacy enhancement;

- increasing English language skills, organised through a leading language school;
- provide preparation courses for the entrance exam for the register of financial advisors, reserved for certain young, recently-recruited employees;
- complete the second year of the IVASS regulatory refresher course, adopting methods in line with Guidelines in Regulation no. 6/2014, focusing on the correct methods for proposing insurance products to customers.

The following specialist topics are particularly targeted: anti-money laundering, transparency, credit control, accounting and financial statements, administrative liability, protection of occupational health and safety.

Activities also continued in 2016 in relation to the Managerial Model Project, which has involved resources from all the Banca Sella Group and will end in 2017.

7.4 - Trade union relations

On 27 September 2016 the Level 2 Contract was signed between Banca Patrimoni Sella & C. and the trade unions. Amongst other things, the agreement confirmed practices already adopted for support in balancing work and home life.

Also, on 29 April 2016, the Group Agreement was signed on the corporate welfare bonus for 2015 and 2016, which offers workers the option of designating all or part of the bonus to a supplementary pension plan or to use it for access to conventional services.

7.5 - Human resources selection

In order to ease the professional decisions of students through direct knowledge of work and in view of greater integration with the education system, in 2016 the Bank confirmed its willingness to support training activities in high schools and universities. No less than 30 teenagers, male and female, completed work experience and careers guidance in many sectors of the Bank. Of these, 3 were confirmed to service with apprenticeships or fixed-term contracts, 1 of which decided to become a financial advisor.

In 2016, selection activities focused on covering key positions and enhancing the sales structure.

8 - Financial wealth of households (private segment)

At the end of 2016, the financial wealth of “private” Italian households, i.e. of families with financial assets for at least EUR 500,000 (potential market), totalled roughly EUR 1,029 billion (source: AIPB - Italian Private Banking Association), up slightly compared to the previous year.

The wealth of Italian households in the private segment, intermediated through specialist structures in the private banking service (**market served**) rose to EUR 691 billion (at 30 September 2016 - source: AIPB), a figure which confirms the trend that has held a steady pace since 2011 (note the strong increase from 2014 to 2015, due also to new operators joining the Italian Private Banking Association).

The market share of private banking facilities in Italy is therefore well over 50% of the potential market, standing at 67%.

PRIVATE SEGMENT FINANCIAL WEALTH

	2009	2010	2011	2012	2013	2014	2015	2016
stock (in billions of EUR)	859	882	859	904	955	985	1,017	1,029
% change	8.0%	2.7%	-2.6%	5.3%	5.6%	3.1%	3.3%	1.2%
effect of global performance	3.3%	0.5%	-3.3%	4.9%	4.7%	1.8%	1.7%	0.1%
effect of flow	4.7%	2.2%	0.7%	0.4%	0.9%	1.3%	1.6%	1.1%

ANNUAL DEVELOPMENT OF BUSINESS VOLUMES SERVED BY PRIVATE BANKING

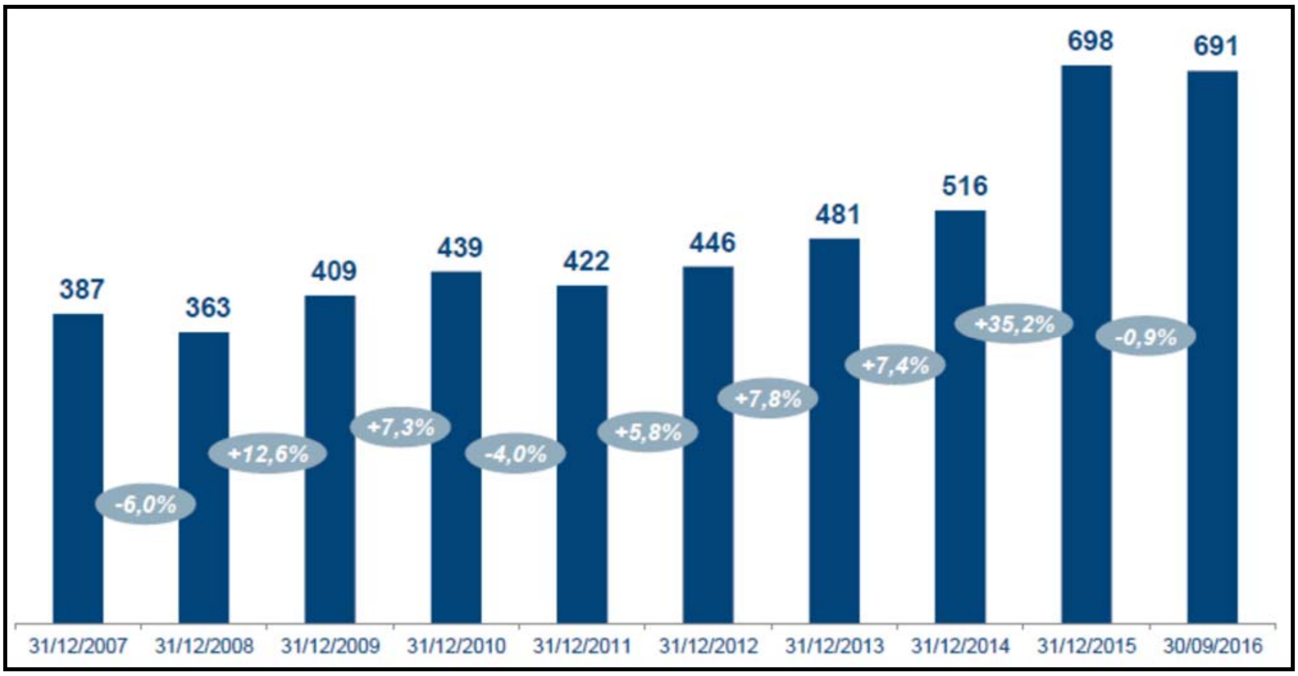


Table source: AIPB - Italian Private Banking Association

9 - The organisation and the IT system

In line with development in the previous three-year period, direct investments continued in IT products and projects to support the sales strategies based on advanced advisory services, asset management and the insurance segment.

For assets under administration, the platform for the investments advisory service was consolidated, in effect creating the conditions to take on projects relating to MIFID2 regulations in 2017. The lion's share of organisational efforts and investments in 2016 was dedicated to the integration of a new multi-guarantee insurance product.

For assets under management, new software was introduced and made operational for the portfolio and orders management system to ensure the best possible service pending further enhancements due for completion in 2017 to improve operating efficiency and reporting. As regards administrative services, action was taken on management control reporting and new treasury management software was installed. Also completed was the IT management project for the remuneration of multi-year sales commission bonuses to the private bankers.

The Banca Patrimoni Sella & C. Portal (Magellano) went live, now representing the first Intranet access point for all employees and collaborators, internal and external. Preliminary activities were launched for door-to-door operations, which represent a major strategic project for the next three years.

The review of intercompany outsourcing agreements was completed, as regards the outsourcing process and for the IT systems, with the direct involvement of the CEO and the managers of outsourced activities.

The reorganisation and review of the Network Support Services was also completed with a view to efficiency improvements and better management of relations with the sales network.

Lastly, in organisational terms, the definition of responsibilities of the business, organisational and IT departments was reviewed with the aim of improving quality and efficiency in the implementation and development of the IT system.

10 - The risk management system and exposure

10.1 - Internal Control System

The Bank's Internal Control System plays a key role in the organisation, where the Control Committee meetings are an occasion for overall review for the managers of company departments responsible for Level II and III controls. The Committee focuses in particular on information flows generated by the departments with a view to ensuring that all the company control functions are fully aware of any critical issues emerging from audits.

The main activities of the Committee include monitoring the efficiency of the risk management process and the analysis of requests and reports received from the Supervisory Body pursuant to Italian Legislative Decree 231/01.

10.2 - Internal Audit Department

The Internal Audit Department activities are based on a three-year Audit Plan, submitted each year to the Bank's Board of Directors. The Plan indicates the audit tasks to be carried out by the department, identified on the basis of different reference drivers, including: compulsory activities envisaged by the Bank of Italy, the risk levels of the existing company processes and the new business indicated in the current Strategic Plan, as well as periodic on-site audits of the network of private bankers and the branches.

10.3 - Anti-Money Laundering Department

The department's plan of action contains process innovations and improvements which, given the restrictions and strengths of the internal organisation, aim to increase efficiency of the monitoring and control tools used. These were developed in coordination with the Parent Company and referred to:

- ✓ further fine-tuning of the continuous definition and management process for the anti-money laundering risk profile of customers in order to improve constant control throughout the relationship and, where the risk profile is "High", the improvement of systems to gain in-depth knowledge of the customer in compliance with the tougher obligations on adequate controls;
- ✓ enhancement of the IT monitoring tools available to operators for regulatory compliance purposes;
- ✓ suitable ongoing monitoring by the Anti-Money Laundering Department through:
  - upholding the significant commitment to staff training, especially those in more direct contact with customers;
  - ongoing departmental skills enhancement;
  - dialogue with other level II and III control departments of the Bank in order to learn of any additional significant elements relating to anti-money laundering and anti-terrorism resulting from their reports and/or further documentation.

The department is also involved in the constant monitoring of developments in the reference regulatory context, particularly the issue of Italian regulations transposing Anti-Money Laundering Directive IV and the resulting activities to formulate proposals for the review of internal regulations, processes and procedures to ensure the Bank's compliance with external regulations.

10.4 - Compliance Department

In line with regulatory developments, the strategic lines of the department refer to:

- ✓ implementation of technological solutions offering the automation of compliance processes (e.g. formalisation and reporting);
- ✓ participation in the BSH Compliance Project relating to the implementation of automated compliance risk management tools - KRI (RegTech) to define the database required for implementing the controls;
- ✓ enhancement of the department in terms of ICT Compliance;
- ✓ skills enhancement in relation to innovative technologies and business approaches through participation in specialist courses, self-training and dialogue with trade associations.

10.5 Risk Management Department

The Risk Management Department is a key player in defining the RAF (Risk Appetite Framework) and related risk management policies.

The department's mission, in fact, is to:

- ✓ Identify, measure and monitor Pillar I and II risks, Basel 3;
- ✓ Assess the sustainability of risks in relation to capital;
- ✓ Play an active supporting role to management in the risk management process, in line with current regulations and the risk appetite defined by the body responsible for strategic supervision.

The main responsibilities of the department can be summarised as follows:

- ✓ Assist in defining the risk management policies through ex ante assessment of the potential risks based on quantitative and qualitative measurement approaches;
- ✓ Assist in defining the Bank's risk management process;
- ✓ Ensure periodic monitoring of the risk profile through truthful and accurate representation and disclosure of the findings;
- ✓ Ensure information flows that allow the corporate bodies to maintain an overall view of the different risks and their interaction;
- ✓ Constantly improve the methods and tools for quantitative and qualitative measurement of risk exposure;
- ✓ Encourage dissemination of the culture of risk;
- ✓ Ensure constant alignment with the principles and methods defined by the Parent Company Risk Management structures.

The department is in constant liaison with all other company departments and reports on a monthly basis to the Board of Directors.

10.6 - Supervisory Body pursuant to Italian Legislative Decree 231/01

In 2016 the Bank completed the project for review of the "Organisation, management and control model pursuant to Italian Legislative Decree 231/01", making use of the specialist advice of O.A.S.I. - Outsourcing Applicativo e Servizi Innovativi S.p.A. (a company in the Istituto Centrale delle Banche Popolari Italiane S.p.A. Banking Group).

The "Model" updating project aimed to verify the effectiveness of existing internal controls for activities that are risk-231/01 crime sensitive. In addition to a preliminary examination of the governance and organisational structures of the Bank (Articles of Association, organisation chart, regulations, policies and procedures, etc.), the activities involved planning a series of interviews with all the key managers in order to examine the reference operating context. During the course of the meetings, input was also given to the personnel sensitisation procedure, particularly as regards presentation of the regulatory framework.

The task of supervising the "Model" and arranging its updating falls to the Supervisory Body, which is expected to: The main activities of the Supervisory Body are to:

- ✓ perform periodic audit and control tasks of a continuous nature and, if appropriate, perform surprise audits of the various action areas or types of activities and the respective critical issues;
- ✓ ensure that the Board of Directors arranges constant updating of the Model, where necessary formulating requests to the Board for updating and adaptation where the need arises as a result of: i) significant violations of the Model provisions; ii) significant changes in the Bank's internal structure and/or the methods of conducting its business activities; iii) regulatory amendments;
- ✓ verify compliance with the procedures envisaged in the Model and identify any change in conduct emerging from the information flow and reports analysis for which the various departments are responsible;
- ✓ ensure the periodic updating of the system to identify sensitive areas and the mapping and classification of sensitive activities;
- ✓ promote communications and training on the contents of Italian Legislative Decree 231/2001 and the Model, on the impact of regulations on the Bank's activities and on codes of conduct, also establishing attendance monitoring with programmes differentiated in relation to the different sensitive business areas in which the trainees will operate;
- ✓ verify the preparation of an effective internal communications system to allow the transmission of important reports for Legislative Decree 231/2001 purposes, guaranteeing protection and confidentiality of the reporter;
- ✓ verify and assess the suitability and effectiveness of the disciplinary system pursuant to Italian Legislative Decree 231/2001;
- ✓ comply with obligations envisaged in Art. 52, Italian Legislative Decree 231/07 on anti-money laundering.

11 - Business outlook

THE SCENARIO

The global economy should see a moderate acceleration in growth in 2017. The latest forecasts and projections indicate a +3.2% for global GDP as a result of maintaining growth in the developed economies and an increase compared to 2016 for the emerging economies.

In the United States the fiscal policy initiatives that the new Republican presidency of the country has declared it wishes to implement, albeit with a considerable degree of uncertainty, appear destined to translate into a stimulus for growth. The positive impact on the American economy in 2017 appears to be limited, taking into account the implementation timing of the manoeuvres announced and the potential opposing effects associated with higher interest rates as the monetary policy gradually becomes less expansive, and a stronger dollar is possible. A factor of particular uncertainty is, without doubt, the direction that Donald Trump's administration intends to follow in the USA as regards international trade relations.

The Eurozone will continue to see a moderate growth, supported by the continuation of highly accommodative monetary conditions, the slightly expansionary fiscal policy and the forecast recovery in foreign demand. Risk factors persist, however, that condition the growth prospects for the area, such as necessary financial statement adjustments in different sectors of the economy, the numerous elections to be held in 2017, the launch of Brexit negotiations between the UK and the EU, and the task of cleaning up the financial statements of banks still in progress in various countries. In Italy the economic recovery that began in 2013 will continue, even if the growth rate will still remain below the Eurozone average.

Despite extensive disparity of the prospects of individual economies, emerging countries should record slightly accelerating GDP growth rates, with levels remaining decisively higher than those of advanced economies. A watchful eye remains on China and the methods adopted for handling the slowing economy, the consequences of a credit boom and continuous outflow of capital from the country.

In terms of consumer prices, it is forecast that the major advanced economies will see an acceleration of the low levels of inflation recorded in 2016, supported mainly by a recovery in oil prices and consequently an end to the negative contribution from the energy component. In the emerging countries, inflation is expected on the whole to remain under control and still mild. The **ECB** will confirm a more expansive monetary policy, almost certainly keeping policy rates at current levels and continuing the purchase of securities envisaged in the quantitative easing plan at around EUR 80 billion a month until March, and then at EUR 60 billion a month. The **Federal Reserve** is expected to gradually continues its cycle of official rate increases, in accordance with timing based on the macroeconomic scenario developing during the year. Further reductions in the unemployment rate, accompanied by a more sparkling salary trend and perhaps continued recovery in commodity prices could mean a more rapid adjustment of monetary conditions proves necessary.

In line with the expected developments in the Italian macroeconomic scenario for 2017, bank credit to the non-financial private sector should continue along its growth path and credit quality should improve further, to the benefit of banking system profitability. The attention of the Regulator to ensure that banks efficiently and credibly manage the reduction in levels of non-performing loans is even more manifest in Italy, given the heavy load of non-performing loans accumulated in the financial statements of Italian banks during the recession. Disposals of non-performing loans will continue in the short term and will probably lead to an increase in non-recurring adjustments.

It is presumed that the interest rates remaining at particularly low levels will keep the interest margin low, inducing banks to encourage growth of the revenue from services component by diversifying assets other than credit. Given the likely further pressure on revenue, in 2017 the focus will remain on innovation of the business models, efficiency improvements in the operating structures and implementation of targeted investments.

12 - Research and development

Banca Patrimoni Sella & C. is constantly committed to technology upgrades and continuous development of its organisational structure, in partnership with the Parent Company Banca Sella Holding and with Banca Sella. In particular, a description of the renewal and implementation of IT systems, adapting to regulations and to the needs of customers, is provided in paragraph 9 of this report - "The organisation and the IT system" - which illustrates the main activities carried out in this respect during 2016.

13 - Going concern: the Bank's strategy and profitability

This report describes the results for the period. Note that the performances recorded, activities carried out, the capital management processes and the financial position of the Bank all confirm a continuation of the usual policy of prudence. Cash flow was kept at a more than adequate level. Likewise, note also that the profit and equity ratios for the period confirm the good operating performance.

The results and performances associated with our business in 2016 therefore appeared solid and comforting, despite the difficult market conditions and uncertain macroeconomic scenario.

Also in view of the forecast developments in the external scenario, it is expected that business development and the growth of assets under management will continue. Growth will derive from internal lines, development of the customer base and through the inclusion of new bankers.

In line with guidelines in the strategic plan, any transactions of an extraordinary nature, either internal or external to the Group, can be assessed, if in line with the business model and economically sustainable.

In line with the objective of strengthening the Company's position in the Italian private banking industry, the policy of development across the entire country will continue, also in areas where the Bank is not currently present.

After full examination of the prerequisites, the Board of Directors has concluded that there are no problems as regards going concern.

14 - Significant events after year end

On 7 February 2017, as part of its normal supervisory activities, the Bank of Italy began an audit of Banca Sella Holding, referring to the Group, for the purpose of: "Analysis of the governance system and risk management and control system for operational and IT risk; analysis of the efficiency and reliability of the information-accounting system". This action consists in an opportunity for improvement, taking into consideration the requests for documentation and any comments from the investigators on imperfections and/or measures to be adopted, and for implementing as quickly as possible everything they hope for or recommend.

15 - Treasury shares and shares of the Parent Company

The company does not hold treasury shares, nor shares of the Parent Company Banca Sella Holding.

16 - Self-assessment process for senior management

Since 2015 the Banca Sella Group has adopted the Regulation on the Self-Assessment Process for strategic supervision and management bodies, in view of the regulatory context outlined in the Bank of Italy's Supervisory Instructions which posed particular attention upon this process, to be carried out strictly and in depth.

The self-assessment of the Board of Directors was performed, as every year since 2009, through completion by each Director of a questionnaire divided into the following sections:

- self-assessment of Directors;
- membership of the Board of Directors and board activities;
- assessment of the Chairman of the Board of Directors;
- assessment of the CEO;
- self-assessment of the Chairman of the Board of Directors;
- self-assessment of the CEO.

The results and remarks gathered through the questionnaires, examined during a Board meeting, confirmed the adequacy of the membership in quality and quantity terms and of the Board's operations.

17 - Relations with Group companies

As part of relations with Group companies, the most significant balances refer mainly to Banca Sella and Banca Sella Holding S.p.A.

With specific reference to Banca Sella, outsourcing fees are significant because Banca Patrimoni Sella & C. has insourced and continues to primarily insource from Banca Sella. Note that correspondence current accounts were opened with the Parent Company.

Reference should be made to the section of this report that illustrates relations between Banca Patrimoni and the Group companies as part of the table on intercompany figures.

A special section of the explanatory notes also illustrates the essential figures of the last financial statements of the Parent Company Banca Sella Holding.

As part of intercompany relations, note that since 2010 the Bank has a controlling interest of 85% in Family Advisory Sim S.p.A. - Sella & Partners. The latter, with share capital of EUR 500,000, closed 2016 with a profit of EUR 58,528, down compared to the EUR 228,110 of 2015.

In the next year the Bank will continue to pursue the growth prospects (in terms of dimension and quality) to be sought in the sales strategies for customer base development and in the consolidation of customers acquired, as well as growth strategies in terms of quality to improve the efficiency and productivity and at the same time guarantee adequate monitoring of legal and regulatory compliance.

In relation to this controlling interest, also note that in compliance with the reference regulations (Art. 2359 of the Italian Civil Code, Italian Legislative Decree no. 127 of 9 April 1991 and IFRS 10), the consolidation is arranged by Banca Sella Holding S.p.A.

Banca Patrimoni Sella & C.

Relations with Group companies: balance sheet data *(amounts in thousands of EUR)*

	Other assets - other	Other liabilities - other	Financial assets held for trading - derivatives	Due from banks	Due from customers	Due to banks - other	Due to customers - other	Hedging derivatives	Financial liabilities held for trading - derivatives
Banca Sella Holding S.p.A.	29	646	556	848,724	-	14,997	-	1,436	845
Sella Gestioni S.g.r.	295	5	-	-	-	-	-	-	-
Biella Leasing S.p.A.	5	-	-	-	40,000	-	37	-	-
Selfid S.p.A.	12	-	-	-	-	-	7	-	-
Consel S.p.A.	-	7	-	-	10,000	-	7	-	-
Easy Nolo S.p.A.	1	-	-	-	-	-	-	-	-
Brosel S.p.A.	1	2	-	-	-	-	-	-	-
Selir S.r.L.	-	18	-	-	-	-	-	-	-
Banca Sella S.p.A.	2,598	3,347	-	9,901	-	-	-	-	-
Family Advisory Sim S.p.A.	8	52	-	-	-	-	-	-	-
Total	**2,948**	**4,075**	**556**	**858,624**	**50,000**	**14,997**	**52**	**1,436**	**845**

Relations with Group companies: income statement figures *(amounts in thousands of EUR)*

	Other operating expense	Other operating income	Other operating income - services provided to Group companies	Fee and commission income	Fee and commission expense	Ordinary dividends and similar income - on other investments	Interest income and similar income	Interest expense and similar charges - other	Net hedging gains	Net gains (losses) from trading	Administrative expense: other administrative expense	Administrative expense: personnel expense - Recoveries (*)	Administrative expense: personnel expense - Reimbursements (**)
Banca Sella Holding S.p.A.	-	45	-	341	1,907	-	783	875	111	-801	-276	40	-168
Sella Gestioni S.g.r.	-	-	-	1,190	-	13	-	-	-	-	-	-2	-21
Biella Leasing S.p.A.	-	-	-	18	-	-	428	-	-	-	-	-	-
Immobiliare Lanificio Maurizio Sella S.p.A.	-	-	-	-	-	-	-	-	-	-	-46	-	-
Selfid S.p.A.	2	-	-	1	-	-	-	-	-	-	2	23	-
Consel S.p.A.	-	-	-	-	-	-	73	-	-	-	-	-	-7
Easy Nolo S.p.A.	-	-	-	6	-	-	-	-	-	-	-	-	-
Brosel S.p.A.	-	-	-	1	-	-	-	-	-	-	-2	-	-
C.B.A. Vita S.p.A.	-	-	-	16	-	-	-	4	-	-	-	-	-
Sella Life Ltd	-	-	-	776	-	-	-	9	-	-	-	-	-
Selir S.r.L.	-	-	-	-	-	-	-	-	-	-	-127	-	-
Banca Sella S.p.A.	-	3	200	15,891	2	-	-	10	-	-	-3,324	28	-46
Family Advisory Sim S.p.A.	-	20	-	7	-	-	-	-	-	-	-226	3	-
Total	**2**	**68**	**200**	**18,247**	**1,910**	**13**	**1,284**	**898**	**111**	**-801**	**-3,999**	**92**	**-242**

(*) expense for Banca Patrimoni Sella & C. employees seconded to Group companies
(**) expense for Group company employees seconded to Banca Patrimoni Sella & C.

Banca Patrimoni Sella & C.

18 - Proposed allocation of profit

Dear Shareholders,

The Balance Sheet and Income Statement at 31 December 2016, prepared in Euro in accordance with current regulations and after application of all necessary amortisation, depreciation and allocations, show a net profit for the year of EUR 7,171,511.66 which we propose to allocate as follows:

Profit for the year	EUR 7,171,511.66
- to the “Legal Reserve”, as per the Articles of Association	EUR 358,575.58
the remaining	EUR 6,812,936.08
to Shareholders:	
- dividend of EUR 0.10245 for each of the	
28,000,000 shares	EUR 2,868,600.00
and the remainder to the “Extraordinary reserve”	EUR 3,944,336.08

Turin, 3 March 2017

On behalf of the Board of Directors

Chairman of the Board of Directors

(Maurizio Sella)

Banca Patrimoni Sella & C.

Financial Statements at 31 December 2016

Banca Patrimoni Sella & C.

Balance Sheet

BALANCE SHEET - ASSETS

Assets	31/12/2016	31/12/2015	% Change
10. Cash and cash equivalents	492,791	452,502	8.90%
20. Financial assets held for trading	4,159,983	4,399,313	-5.44%
40. Available-for-sale financial assets	128,275,051	277,602,802	-53.79%
60. Due from banks	884,696,735	368,915,486	139.81%
70. Due from customers	364,529,907	350,324,814	4.05%
90. Value adjustment to financial assets underlying generic hedges (+/-)	1,369,716	1,467,538	-6.67%
100. Investments	430,000	430,000	0.00%
110. Property, plant and equipment	28,348,659	27,876,368	1.69%
120. Intangible assets	2,530,089	2,076,213	21.86%
of which:			
- goodwill	-	-	0.00%
130. Tax assets	8,868,942	11,212,910	-20.90%
a) current	5,773,261	8,494,903	-32.04%
b) deferred	3,095,681	2,718,007	13.90%
of which Law 214/2011	869,228	952,002	-8.69%
150. Other assets	50,290,063	52,946,642	-5.02%
Total assets	**1,473,991,936**	**1,097,704,588**	**34.28%**

BALANCE SHEET - LIABILITIES

Liabilities and shareholders' equity	31/12/2016	31/12/2015	% Change
10. Due to banks	59,354,914	63,197,846	-6.08%
20. Due to customers	1,297,006,186	913,319,295	42.01%
40. Financial liabilities held for trading	1,405,326	380,145	269.68%
60. Hedging derivatives	1,436,048	1,551,124	-7.42%
80. Tax liabilities	3,795,458	6,163,267	-38.42%
a) current	3,450,460	5,930,907	-41.82%
b) deferred	344,998	232,360	48.48%
100. Other liabilities	25,861,718	31,164,539	-17.02%
110. Employee severance indemnity	1,873,109	1,746,725	7.24%
120. Provisions for risks and charges	7,780,645	7,242,799	7.43%
a) pensions and similar obligations	-	-	0.00%
b) other provisions	7,780,645	7,242,799	7.43%
130. Valuation reserves	(705,679)	323,669	-318.02%
160. Reserves	36,530,110	31,126,704	17.36%
170. Share premium reserve	4,482,589	4,482,589	0.00%
180. Capital	28,000,000	28,000,000	0.00%
200. Profit (loss) for the year (+/-)	7,171,512	9,005,886	-20.37%
Total liabilities and shareholders' equity	**1,473,991,936**	**1,097,704,588**	**34.28%**

Banca Patrimoni Sella & C.

Income Statement

INCOME STATEMENT

Items	31/12/2016	31/12/2015	% Change
10. Interest income and similar income	10,592,242	11,689,761	-9.39%
20. Interest expense and similar charges	(1,916,174)	(3,360,071)	-42.97%
30. Interest margin	**8,676,068**	**8,329,690**	**4.16%**
40. Fee and commission income	75,140,335	74,136,068	1.35%
50. Fee and commission expense	(43,456,005)	(42,863,863)	1.38%
60. Net fee and commissions	**31,684,330**	**31,272,205**	**1.32%**
70. Dividends and similar income	258,018	139,912	84.41%
80. Net gains (losses) from trading	5,549,785	5,636,540	-1.54%
90. Net hedging gains	12,778	8,266	54.59%
100. Gains (losses) from disposal or repurchase of:	5,337,498	7,652,734	-30.25%
a) receivables	-	-	0.00%
b) available-for-sale financial assets	5,337,498	7,652,734	-30.25%
c) financial assets held to maturity	-	-	0.00%
d) financial liabilities	-	-	0.00%
120. Net interest and other banking income	**51,518,477**	**53,039,347**	**-2.87%**
130. Net value adjustments/reversals for impairment losses on:	(441,573)	(731,384)	-39.63%
a) receivables	64,389	(426,930)	-115.08%
b) available-for-sale financial assets	(489,982)	(208,227)	135.31%
c) financial assets held to maturity	-	-	0.00%
d) other financial transactions	(15,980)	(96,227)	-83.39%
140. Net profit (loss) from financial management	**51,076,904**	**52,307,963**	**-2.35%**
150. Administrative expense:	(47,899,162)	(46,343,799)	3.36%
a) personnel expense	(23,727,286)	(22,273,368)	6.53%
b) other administrative expense	(24,171,876)	(24,070,431)	0.42%
160. Net allocations to provisions for risks and charges	(1,216,167)	(951,192)	27.86%
170. Net value adjustments/reversals to property, plant and equipment	(1,205,054)	(979,529)	23.02%
180. Net value adjustments/reversals to intangible assets	(627,134)	(410,148)	52.90%
190. Other operating expense/income	10,565,976	10,631,761	-0.62%
200. Operating costs	**(40,381,541)**	**(38,052,907)**	**6.12%**
240. Gains (losses) from disposal of investments	7	(146,709)	-100.00%
250. Profit (Loss) from current operations before tax	**10,695,370**	**14,108,347**	**-24.19%**
260. Income taxes for the year from current operations	(3,523,858)	(5,102,461)	-30.94%
270. Profit (Loss) from current operations after tax	**7,171,512**	**9,005,886**	**-20.37%**
290. Profit (loss) for the year	**7,171,512**	**9,005,886**	**-20.37%**

Banca Patrimoni Sella & C.

Statement of Comprehensive Income

STATEMENT OF COMPREHENSIVE INCOME

		31/12/2016	31/12/2015
10.	**Profit (loss) for the year**	**7,171,512**	**9,005,886**
	Other income components after tax, without reversal to the income statement		
40.	Defined benefit plans	(104,334)	72,777
	Other income components after tax, with reversal to the income statement		
100.	Available-for-sale financial assets	(925,014)	(4,768,948)
130.	**Total other income components after tax**	**(1,029,348)**	**(4,696,171)**
140.	**Comprehensive income (Items 10+130)**	**6,142,164**	**4,309,715**

Statement of Changes in Shareholders’ Equity at 31 December 2015

	Balance at 31/12/2014	Change in opening balances	Balance at 01/01/15	Allocation of the previous year’s result: Reserves	Allocation of the previous year’s result: dividends and other allocations	Changes during the year: Change in reserves	Changes during the year: Equity transactions: Issue of new shares	Changes during the year: Equity transactions: Purchase of treasury shares	Changes during the year: Equity transactions: Extraordinary dividend distribution	Changes during the year: Equity transactions: Change in equity instruments	Changes during the year: Equity transactions: Derivatives on treasury shares	Changes during the year: Equity transactions: Stock options	Changes during the year: Comprehensive income 2015	Shareholders’ Equity at 31/12/2015
Capital:														
a) ordinary shares	28,000,000	-	28,000,000	-	-	-	-	-	-	-	-	-	-	**28,000,000**
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Share premium reserve	4,482,589	-	4,482,589	-	-	-	-	-	-	-	-	-	-	**4,482,589**
Reserves:														
a) profit	21,175,770	-	21,175,770	**9,950,934**	-	-	-	-	-	-	-	-	-	**31,126,704**
b) retained earnings	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
b) other	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Valuation reserves:														
a) available-for-sale financial assets	5,238,926	-	5,238,926	-	-	-	-	-	-	-	-	-	(4,768,948)	**469,978**
b) cash flow hedges	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
c) special revaluation laws	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
d) other	(219,086)	-	(219,086)	-	-	-	-	-	-	-	-	-	72,777	**(146,309)**
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Profit (loss) for the year	12,951,134	-	12,951,134	**(9,950,934)**	**(3,000,200)**	-	-	-	-	-	-	-	9,005,886	**9,005,886**
Shareholders’ Equity	**71,629,333**	**-**	**71,629,333**	**-**	**(3,000,200)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4,309,715**	**72,938,847**

Statement of Changes in Shareholders' Equity at 31 December 2016

	Balance at 31/12/2015	Change in opening balances	Balance at 01/01/16	Allocation of the previous year's result: Reserves	Allocation of the previous year's result: Dividends and other allocations	Changes during the year: Change in reserves	Equity transactions: Issue of new shares	Equity transactions: Purchase of treasury shares	Equity transactions: Extraordinary dividend distribution	Equity transactions: Change in equity instruments	Equity transactions: Derivatives on treasury shares	Equity transactions: Stock options	Comprehensive income 2016	Shareholders' Equity at 31/12/2016
Capital:														
a) ordinary shares	28,000,000	-	28,000,000	-	-	-	-	-	-	-	-	-	-	**28,000,000**
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Share premium reserve	4,482,589	-	4,482,589	-	-	-	-	-	-	-	-	-	-	**4,482,589**
Reserves:														
a) profit	31,126,704	-	31,126,704	**5,403,406**	-	-	-	-	-	-	-	-	-	**36,530,110**
b) retained earnings	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
b) other	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Valuation reserves:														
a) available-for-sale financial assets	469,978	-	469,978	-	-	-	-	-	-	-	-	-	(925,014)	**(455,036)**
b) cash flow hedges	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
c) special revaluation laws	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
d) other	(146,309)	-	(146,309)	-	-	-	-	-	-	-	-	-	(104,334)	**(250,643)**
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Profit (loss) for the year	9,005,886	-	9,005,886	**(5,403,406)**	**(3,602,480)**	-	-	-	-	-	-	-	7,171,512	**7,171,512**
Shareholders' Equity	**72,938,848**	**-**	**72,938,848**	**-**	**(3,602,480)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**6,142,164**	**75,478,532**

Statement of Cash Flows – Direct Method

A. OPERATING ACTIVITIES	31/12/2016	31/12/2015
1. Operations	**2,401,525**	**230,391**
Interest income collected (+)	13,225,310	13,075,958
Interest expense paid (-)	(1,916,174)	(3,360,071)
Dividends and similar income	258,018	139,912
Net fees and commissions (+/-)	31,684,330	31,272,205
Personnel expense	(23,720,201)	(22,267,391)
Other costs (-)	(24,949,928)	(25,000,730)
Other revenue (+)	11,344,028	11,472,969
Taxes and duties (-)	(3,523,858)	(5,102,461)
costs/revenue relating to discontinued operations and net of the tax effect (+/-)	-	-
2. Cash flow generated (absorbed) by financial assets	**(370,342,986)**	**(176,759,581)**
Financial assets held for trading	5,790,009	21,096,814
Available-for-sale financial assets	151,172,199	(61,810,207)
Due from customers	(14,140,704)	(43,245,110)
Due from banks	(515,781,248)	(72,509,125)
Other assets	2,616,758	(20,291,953)
3. Cash flow generated (absorbed) by financial liabilities	**374,342,578**	**183,511,591**
Due to banks	(3,842,932)	15,944,435
Due to customers	383,686,891	165,911,167
Outstanding securities	-	-
Financial liabilities held for trading	1,025,180	(254,890)
Other liabilities	(6,526,561)	1,910,879
Net cash flow generated (absorbed) by operating activities	**6,401,117**	**6,982,401**
B. INVESTING ACTIVITIES	31/12/2016	31/12/2015
1. Cash flow generated by:	**4,457**	**23,661**
Disposal of investments	-	-
Dividends collected from equity investments	-	-
Sale/redemption of financial assets held to maturity	-	-
Sale of property, plant and equipment	1,050	23,661
Sale of intangible assets	3,407	-
Sale of subsidiaries and business units	-	-
2. Cash flow (absorbed) by:	**(2,762,805)**	**(3,935,852)**
Purchase of investments	-	-
Purchase of financial assets held to maturity	-	-
Purchase of property, plant and equipment	(1,678,388)	(2,948,940)
Purchase of intangible assets	(1,084,417)	(986,912)
Purchase of subsidiaries and business units	-	-
Net cash flow generated (absorbed) by investing activities	**(2,758,348)**	**(3,912,191)**
C. FUNDING ACTIVITIES	31/12/2016	31/12/2015
Issue/purchase of treasury shares	-	-
Issue/purchase of equity instruments	-	-
Dividend distribution and other purposes	(3,602,480)	(3,000,200)
Net cash flow generated (absorbed) by funding activities	**(3,602,480)**	**(3,000,200)**
NET CASH FLOW GENERATED (ABSORBED) IN THE YEAR	**40,289**	**70,010**
RECONCILIATION	31/12/2016	31/12/2015
Cash and cash equivalents - opening balance	**452,502**	**382,492**
Total net cash flow generated (absorbed) in the year	40,289	70,010
Cash and cash equivalents - closing balance	**492,791**	**452,502**

Explanatory Notes

Part A - Accounting policies

A.1 - General part

Section 1 - Statement of compliance with international accounting standards

These financial statements were prepared in accordance with IAS/IFRS international accounting standards (including SIC and IFRIC interpretations) issued by the International Accounting Standards Board (IASB) and endorsed by the European Union at 31 December 2016, as established by EU Regulation no. 1606 of 19 July 2002. With reference to the tables and explanatory notes, the financial statements apply the instructions issued by the Bank of Italy in Circular 262/05, as amended, pursuant to its powers established by Art. 9, Italian Legislative Decree 38/2005.

For a better interpretation of the international accounting standards, reference was also made to documents prepared by the OIC and ABI.

The financial statements were therefore prepared with clarity and present a truthful and fair view of the financial position of Banca Patrimoni Sella & C.

Section 2 - General basis of presentation

The financial statements comprise the Balance Sheet, Income Statement, Statement of Comprehensive Income, Statement of Changes in Shareholders' Equity, the Statement of Cash Flows and these Explanatory Notes, and are accompanied by the Management Report, in full continuity with the situation at 31 December 2015. The Explanatory Notes are expressed in thousands of Euro.

The financial statements were prepared with clarity and present a truthful and fair view of the equity position, financial position and economic results for the year.

The general basis of presentation complies with the principles of IAS 1 and is in line with general assumptions envisaged in the Systematic Framework.

The Explanatory Notes contain the information necessary to provide a truthful and fair representation, supplementing the information envisaged in the international accounting standards and instructions in Circular 262/05, as amended.

If in exceptional circumstances the application of a provision in the international accounting standards is incompatible with the truthful and fair representation of the equity, financial and income positions, it is not applied. The Explanatory Notes describe the reasons for any exception and its impact on the representation of the equity, financial and income positions.

The financial statements were prepared in accordance with the same standards and accounting principles used in the previous year, in addition to IFRS standards, amendments and interpretations entering into force with effect from 1 January 2016.

IFRS accounting standards, amendments and interpretations applied from 1 January 2016

Summarised below are the IFRS accounting standards, amendments and interpretations considered most significant that were applied by the Bank and Group for the first time from 1 January 2016. The Bank verified their applicability.

- ✓ amendments to IAS 19 "Defined Benefit Plans: Employee Contributions": relating to recognition in the financial statements of contributions by employees or third parties to defined benefit plants;
- ✓ amendments to IFRS 11 "Accounting for Acquisitions of Interests in Joint Operations": relating to the accounting for interests acquired in a joint operation constituting a business;

- ✓ amendments to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortisation": according to which an amortisation and depreciation criteria based on revenue is normally considered inappropriate, as revenue generated by an initiative that includes use of the amortised asset generally reflects factors other than mere consumption of the economic benefits from that asset, a requirement which is instead required for amortisation;
- ✓ amendment to IAS 1 "Disclosure Initiative": the aim of this amendment is to provide clarification on disclosure elements that can be perceived as a hindrance to the clear, intelligible preparation of financial statements;
- ✓ amendment to IAS 27 "Equity Method in Separate Financial Statements": introduces the option to use the equity method in the separate financial statements of an entity to measure investments in subsidiaries, entities under joint control and associates;
- ✓ amendments to IFRS 10, IFRS 12 and IAS 28 "Investment Entities: Applying the Consolidation Exception": contains amendments relating to issues emerging following application of the consolidation exception granted to investment entities.

The adoption of these amendments had no impact on the financial statements.

Lastly, as part of the annual improvements to the standards, on 12 December 2013 the IASB published the "Annual Improvements to IFRSs: 2010-2012 Cycle" (including IFRS 2 Share Based Payments - Definition of vesting condition, IFRS 3 Business Combinations - Accounting for contingent consideration, IFRS 8 Operating Segments - Aggregation of operating segments and Reconciliation of the total of the reportable segments' assets to the entity's assets, IFRS 13 Fair Value Measurement - Short-term receivables and payables) and on 25 September 2014 the "Annual Improvements to IFRSs: 2012-2014 Cycle" (including IFRS 5 - Non-Current Assets Held for Sale and Discontinued Operations, IFRS 7 - Financial Instruments: Disclosure and IAS 19 - Employee Benefits) which partially supplement the pre-existing standards for improvement purposes. The adoption of these improvements had no impact on the financial statements of the Bank.

IFRS and IFRIC accounting standards, amendments and interpretations endorsed by the European Union but not yet compulsory and not adopted early by the Bank at 31 December 2016

The main standards to be mentioned are IFRS 15 and IFRS 9.

- **IFRS 15 - Revenue from Contracts with Customers**

  This was published by the International Accounting Standards Board (IASB) on 28 May 2014 and supplemented by further clarifications on 12 April 2016.
  The standard is expected to replace IAS 18 - Revenue and IAS 11 - Construction Contracts, as well as interpretations 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.
  The standard establishes a new revenue recognition model which will apply to all contracts with customers except those covered by the scope of application of other IAS/IFRS standards such as leases, insurance contracts and financial instruments. The key steps for the accounting of revenue according to the new model are:
    - identification of the contract with the customer;
    - identification of the performance obligations of the contract;
    - pricing;
    - allocation of price to the contract's performance obligations;
    - the recognition criteria for revenue when the entity satisfies each performance obligation.

The standard applies from 1 January 2018 but early application is permitted. The Clarifications to IFRS 15 - Revenue from Contracts with Customers, published by the IASB on 12 April 2016, however, have not yet been endorsed by the European Union. The Directors do not expect that the application of IFRS 15 will have a significant impact on amounts recognised as revenue or on the related financial statements disclosure. However, a reasonable estimate of the effects cannot be made until the Bank has completed a detailed analysis of the customer contracts.

- **IFRS 9 - Financial Instruments**

On 24 July 2014 the International Accounting Standards Board (IASB) published IFRS 9 - Financial Instruments. The standard includes the results of the IASB project to replace IAS 39.

In particular, the new standard:

- Introduces significant changes to the classification and measurement rules for financial assets, which will be based on the intent of managing the contractual cash flows (the "business model") and on the contractual characteristics of the financial instruments (the SPPI criterion, or "Solely Payment of Principal and Interest). These rules will involve different classification and measurement methods for financial instruments compared to IAS 39;

- Introduces a new impairment accounting model based on an expected approach, the opposite of the present incurred-type model of IAS 39, based on the concept of lifetime expected loss leading to anticipating the losses on financial instruments to be included in the scope of application of the new standard and, in more general term, a structural increase in value adjustments;

- Reviews hedge accounting, rewriting the rules for designation and management of recognised hedges and has the aim of guaranteeing stronger alignment between Risk Management objectives and the resulting representation in the financial statements.

On 29 November 2016 (with publication in the Official Journal of the European Union, L 323/1 of Commission Regulation (EU) 2016/2067 of 22 November 2016) the standard was endorsed and the first-adoption date of 1 January 2018 was therefore confirmed.

As a result of the entry into force of IFRS 9, a review is also planned of the prudential rules for calculating capital absorption on expected losses on receivables. The terms of this review are not yet known.

In 2016, the Banca Sella Group launched a specific project to analyse the impact of the accounting standard and to steer the adaptation to the new accounting standard due to replace IAS 39 in force at present. In particular, in order to achieve regulatory compliance with effect from the date of entry into force of the standard, the identification project has 3 work areas:

- Models area
- Operations area
- Implementation area

For each of the first two areas an assessment stage was defined in preparation for definition of the methodology and functional requirements (design stage) for their implementation.

The implementation of the agreed planning and related tasks is the responsibility of the third work area. Based on the results of the design stage, the Bank will assess the actual implementation and parallel-running action to be taken by the end of 2017.

The entire project was developed with involvement from the Bank's reference structures and the active involvement of the Board of Directors and Senior Management.

At 31 December 2016, the project is at methodology definition stage (design). In particular, for existing credit exposures recognised at amortised cost:

- an analysis of contractual clauses was carried out to identify those that do not reflect the passing of time, credit risk or other remuneration components and would therefore result in a significant change in cash flows.
- for any variable rate remuneration, the re-fixing frequency will be compared with its redetermination frequency resulting from the amortisation plan. A provisional materiality threshold will be defined to verify the significance of this temporary misalignment;
- the primary characteristics of a business management model were identified for such financial assets, with the aim of collecting the contractual flows from these exposures.

For debt securities already in portfolio and measured at amortised cost or classified as available-for-sale financial assets:

- the contractual clauses were analysed to identify those that do not reflect the passing of time, credit risk or other remuneration components and would result in a significant change in cash flows.
- in general and preliminary terms, the business management models for these financial assets were identified, with a view to collecting the contractual flows and to collect contractual cash flows, as well as the proceeds from the sale of such instruments.

Based on analyses conducted to date, the Bank does not expect that measurement at fair value of a significant total of financial assets, currently measured at amortised cost, will have an impact on the income statement, due to the fact that the related contractual flows cannot be considered remuneration only of capital and interest.

As regards the Models area, with particular reference to financial assets measured at amortised cost:

- the assignment stage was defined by analysing the significant deterioration in the internal rating assigned compared to the origination date, but without defining a low credit risk limit, as well as the adoption of other position risk indicators;
- an expected loss at 12 months calculation is envisaged for exposures classified in stage 1, and an expected loss lifetime for exposures classified in stages 2 and 3. Both these metrics include forward-looking elements in the related calculation, i.e. the inclusion of future performance forecasts of macroeconomic variables considered significant in the estimate of risk parameters;
- the expected loss lifetime calculation characterising the positions classified in stage 2 assumes a calculation of the expected loss over the entire residual life of the credit position.

It is expected that the end-of-project milestones will be reached in the second half of 2017.

Given potential developments in the method choices currently defined, also on the basis of recent legal theory and best practices, in these financial statements the Banca Sella Group is unable to provide a sufficiently reliable estimate of the impact from application of the standard.

However, from the analyses conducted to date the following can be reasonably expected:

- a significant increase in the provisioning level for credit exposures classified in stage 2 that could represent exposure of between 5% and 15% of the portfolio;
- a provisioning level essentially in line with that currently adopted for credit exposures classified in stages 1 and 3;

- an increase in the provisioning level on financial assets classed as available for sale, not currently subject to value adjustments;

- an increase in variability of the loss estimates in view of the transfers of exposures between stages 1 and 2 and their inclusion in scenarios using forward-looking data as reference;

- an immaterial number of financial instruments reclassified as financial assets designated at fair value with an impact on the income statement;

- no significant impact as regards the financial instruments for which a hedge accounting relationship had been designated.

Section 3 - Events after the reporting date

On 7 February, as part of its normal supervisory activities, the Bank of Italy began an audit of Banca Sella Holding, referring to the Group, for the purpose of: "Analysis of the governance system and risk management and control system for operational and IT risk; analysis of the efficiency and reliability of the information-accounting system". This action consists in an opportunity for improvement, taking into consideration the requests for documentation and any comments from the investigators on imperfections and/or measures to be adopted, and for implementing as quickly as possible everything they hope for or recommend.

Section 4 - Other aspects

There are no other aspects to report.

A.2 - Part relating to the main financial statement items

1 - Financial assets held for trading

Classification criteria

All financial instruments held for trading are classified under this category. The derivative contracts include those embedded in complex financial instruments which were recognised separately where:

- ✓ their economic and risk characteristics could not be strictly correlated with the characteristics of the underlying contract;
- ✓ bundled instruments, even if unbundled, satisfy the definition of a derivative;
- ✓ the hybrid instruments they refer to are not designated at fair value with related changes in Income Statement.

If there are any unusual events that are unlikely to recur in the short term, it is possible to reclassify financial instruments no longer held for trading into other categories envisaged in IAS 39 if the conditions for recognition are met (Financial assets held to maturity, Available-for-sale financial assets, Receivables). The transfer value is represented by the fair value at the time of reclassification. At that time, they are tested for the presence of any embedded derivative contracts to be unbundled. For further details, reference should be made to Part A.3 of this section.

Recognition criteria

The financial assets are initially recognised on the settlement date for debt securities and equities, and on the subscription date for derivative contracts.

On initial recognition, financial assets held for trading are recognised at cost, intended as the fair value of the instrument. Any derivatives embedded in complex contracts but not strictly correlated and with characteristics satisfying the definition of derivative are unbundled from the primary contract and measured at fair value, whilst the appropriate reference accounting policy is applied to the primary contract.

Valuation criteria

After initial recognition, financial assets held for trading are measured at fair value.

To determine the fair value of financial instruments listed on an active market, the market prices are used. In the absence of an active market, estimation methods and measurement models are used which take into account all the risk factors correlated with the instruments and which are based on data observable on the market, such as: methods based on the measurement of listed instruments with similar characteristics, discounted cash flow calculations, option pricing models, values seen from recent comparable transactions.

Equities and correlated derivatives for which the fair value cannot be reliable determined in accordance with the above guidelines are retained at cost.

Elimination criteria

The financial assets are eliminated when the contractual rights to the cash flows deriving from those contracts lapse or when the financial assets are sold and all associated risks and benefits are essentially transferred.

If a financial asset is not held with a view to short sale or repurchase, the financial asset can be reclassified outside the fair value category and recognised in the statement of comprehensive income only if the following requirements are met:

- ✓ in rare circumstances;
- ✓ if the Bank intends and is able to hold the financial asset for the foreseeable future or until maturity.

2 - Available-for-sale financial assets

Classification criteria

Included in this category are the non-derivative financial assets not otherwise classified as Receivables, Assets held for trading or Assets held to maturity.

In particular, this category includes equity investments not managed for trading purposes and not qualifying as controlling interests, associates or jointly controlled.

In cases permitted by the accounting standards, reclassification is only permitted to Financial assets held to maturity, unless unusual events have occurred and their recurrence is unlikely in the short term. In such cases, debt securities can be reclassified - as envisaged in IAS 39 - into the categories Financial assets held to maturity and Receivables if the recognition conditions are met. The transfer value is represented by the fair value at the time of reclassification. For further details, reference should be made to Part A.3 of this section.

Recognition criteria

The financial asset is initially recognised on the settlement date for debt securities or equities, and on the disbursement date for other financial assets not classed as receivables.

On initial recognition, the assets are recognised at cost, intended as the fair value of the instrument, including transaction costs or proceeds directly attributable to that instrument. If the recognition is the result of reclassification among Assets held to maturity or Assets held for trading, the book value is represented by the fair value at the time of transfer.

Valuation criteria

After initial recognition, available-for-sale assets continue to be designated at fair value, whilst gains or losses from a change in fair value are recognised to a specific equity reserve until the financial asset is eliminated or an impairment loss is recognised. At the time of disposal, the accrued gains or losses are reversed to the income statement.

For a reliable measurement of fair value where no listings on active markets are available, recent transactions are taken into account, even if carried out after the reporting date, which confirm the fair value amounts.

With reference to equity investments not qualifying as controlling interests, associates or jointly controlled, for equity instruments that have no price listed on an active market and for which no recent transactions are observed, as fair value cannot be reliable measured they are retained at cost and written down if any impairment is found.

In accordance with paragraph 58 of IAS 39, at every annual or interim reporting date the company tests financial assets or groups of financial assets for impairment.

In particular, for debt instruments impairment indicators include the existence of qualitative or quantitative information implying financial difficulties such as to jeopardise the collection of capital or interest, as indicated in the provisions of paragraph 59, IAS 39.

For equity instruments, also considered objective evidence of impairment is a significant or prolonged decrease to below cost of the fair value of the financial asset concerned.

Specifically, the severity of the impairment must be assessed in absolute terms in the sense of a negative performance of the security and in terms of the market/business sector performance of the company tested. A decrease in fair value by more than 50% is considered severe.

The durability of the impairment is instead measured in reference to the length of time over which the impairment remains constant and only when this remains continuously for a period of more than 15 months.

The relativity, or the negative nature of certain quality-quantity criteria, results in significant impairment of the minority interest.

The severity, durability and relativity limits are considered alternatives. It is sufficient for just one of the three criteria to indicate impairment to confirm an impairment loss on the investment.

It follows that, if the impairment in the recognised cost value of an investment exceeds the severity or durability limits or if no relativity elements are found, an impairment loss is recognised in the income statement.

Testing for objective evidence of impairment is performed at the end of each annual or quarterly reporting period. If the reasons for impairment no longer apply as a result of an event occurring after recognition, the value is reversed in the income statement for debt securities, or in equity for equity instruments. The amount of the reversal cannot in any event exceed the amortised cost that the instrument would have recorded in the absence of previous adjustments.

Elimination criteria

The financial assets are eliminated when the contractual rights to the cash flows deriving from those contracts lapse or when the financial assets are sold and all associated risks and benefits are essentially transferred.

A financial asset classed as available for sale which, if not designated as such, would have satisfied definition under loans and receivables, can be reclassified from the “available for sale” category to “loans and receivables” if there is the intention and ability to hold it for the foreseeable future or to maturity.

3 - Receivables

Classification criteria

Receivables include loans to customers and to banks, whether disbursed directly or purchased from third parties, which envisage fixed or calculable payments, are not listed on an active market and are not classified from the outset as available-for-sale financial assets. The item receivables also includes trade receivables, repurchase agreements and securities purchased through subscription or private placement, with calculated or calculable payments and not listed on active markets.

Recognition criteria

The initial recognition of a loan is at the disbursement date or, for a debt security, the settlement date, based on the fair value of the financial instrument. The latter is normally equal to the amount disbursed, or the subscription price, including costs/income directly attributable to the individual receivable and calculable from the start of the transaction, even if settled at a later date. Excluded are costs which, despite having the above characteristics, are subject to reimbursement by the payee counterparty or can be considered normal internal costs of an administrative nature. For any lending transactions concluded other than at arm’s length, the fair value is measured using special measurement approaches. The difference compared to the amount disbursed or the subscription price is recognised directly in the income statement. Forward contracts and repurchase agreements with compulsory buy-back or sell-back are recognised in the financial statements as funding or lending transactions. In particular, spot sales and buy-back transactions are recognised in the financial statements as debts for the spot price received, whilst spot purchases or sell-back transactions are recognised as receivables for the spot price paid.

Valuation criteria

After initial recognition, receivables are measured at amortised cost, equal to the value of initial recognition less/plus capital repayments, value adjustments/reversals and amortisation - calculated using the effective interest rate method - of the difference between the amount disbursed and that repayable on maturity, typically referring to the costs/income attributed directly to the individual receivable. The effective interest rate is identified by calculating the rate equal to the present value of future flows on the receivable, for capital and interest, on the amount disbursed, including costs/income attributable to the receivable. This accounting method, based on financial logic, allows distribution of the economic effect of costs and income over the estimated residual life of the receivable. The amortised cost method is not used for receivables whose short life makes the effect of discounting negligible. Such receivables are measured at historic cost and the related costs/income are recognised in the income statement. A similar valuation criterion is adopted for receivables with no defined maturity or good till cancelled.

Collective valuation

Receivables for which no objective evidence of individual impairment is found, normally performing loans, are tested collectively. In accordance with IAS/IFRS, the setup of a generic reserve on performing loans must adopt a model based on incurred loss. The term “incurred loss” defines a loss clearly identifiable as already incurred, even if not yet recorded (an “incurred” but not yet “recognised” loss).

The collective valuation of performing loans involves dividing customers into standard segments in terms of credit risk. The related percentage losses are estimated by considering the probability of default (PD) and the loss given default (LGD), taking into account suitable adjustments to convert the Basel 2 expected loss into incurred loss. The calculation of probability of default and the rate of recovery in the event of default, for every bank in the Group, uses the same method based on its own customer portfolio. With specific reference to the PD variable, this is calculated on the basis of internal rating models where available, and in all other cases on the basis of time series data on default classification.

As regards LGD, the Banca Sella Group has a WorkoutLossGiven Default estimation model based on internal data. The estimate sample is divided into sub-groups with similar risk profiles and the resulting LGD for each sub-group is adopted as the future LGD estimate for all loans with the same characteristics.

The method described above allows estimation of the “latent loss” in each credit category. The collectively-measured value adjustments are recognised in the Income Statement. At every annual and interim reporting date, any additional adjustments or reversals are recalculated separately in reference to the entire performing loans portfolio.

Elimination criteria

Assigned receivables are eliminated from assets in the financial statements only if the disposal involved the essential transfer of all risks and benefits associated with them. Vice versa, if the risks and benefits of the assigned receivables are retained, they continue to be recognised among assets in the financial statements, even if legal ownership of the loan or receivable has effectively been transferred. If essential transfer of the risks and benefits cannot be ascertained, the receivables are eliminated from the financial statements when no form of control over them is retained. Otherwise, the retention of all or part of such control requires keeping the receivables in the financial statements to the extent of the residual involvement, measured by the exposure to changes in the value of the receivables assigned and to changes in their cash flows. Lastly, receivables are eliminated from the financial statements when the contractual rights to receive the related cash flows are retained and, at the same time, liability is accepted to pay such cash flows - and only such cash flows - to other third parties.

4 - Hedging transactions

Classification criteria: hedge type

The asset and liability items include hedging derivatives which, at the reporting date, respectively recorded a positive or negative fair value.

Risk hedging transactions are designed to neutralise potential losses on a given financial instrument or group of financial instruments, attributable to a given risk, by means of gains recorded on a different financial instrument or group of financial instruments if that particular risk should actually arise.

IAS 39 envisages the following types of hedges:

- ✓ fair value hedge, which aims to hedge exposure to changes in the fair value of a financial statements item attributable to a particular risk;
- ✓ cash flow hedge, which aims to hedge exposure to changes in future cash flows attributable to specific risks associated with financial statements items;
- ✓ foreign investment hedge, which aims to hedge risks of an investment in a foreign entity expressed in foreign currency.

Recognition criteria

The derivative is designated as a hedge if there is formal documentation of the relationship between the hedged instrument and the hedging instrument and if it is effective at the time the hedging commences and, in prospective terms, throughout its life. Hedge effectiveness depends on the extent to which fair value changes in the hedged instrument or related expected cash flows are offset by those of the hedging instrument. Therefore, the effectiveness is seen by comparing the aforementioned changes, taking into account the intended aims of the company at the time the hedge was put into place.

Effectiveness is confirmed (within the set limits in the range 80-125%) when the changes in fair value (or cash flows) of the hedging financial instrument almost fully neutralise the changes in the hedged instrument in terms of the risk element hedged. Hedge effectiveness testing is performed on a half-yearly basis using:

- ✓ forward testing, which justifies the application of hedge accounting, to the extent the expected effectiveness is shown;
- ✓ back testing, which shows the degree of hedge effectiveness achieved in the period of reference. In other words, it measures the extent to which the actual results deviate from the perfect hedge.

If testing does not confirm hedge effectiveness, in accordance with the above explanation, hedge accounting is interrupted and the hedging derivative contract is reclassified among trading instruments.

Valuation criteria

Hedging derivatives are measured at fair value, and therefore for fair value hedges the change in fair value of the hedged item is offset against the change in fair value of the hedging instrument. This offsetting is recognised in the income statement as a change in value in reference to the hedged item (as regards changes generated by the underlying risk factor) and to the hedging instrument. Any difference, which represents partial ineffectiveness of the hedge, is consequently the net economic effect.

The fair value measurement of hedged fixed-rate mortgages requires financial coherence between the assets hedged and the IRS taken out as hedging instruments. At every fair value measurement date, therefore, the accumulated stock of hedging IRSs and the accumulated stock of hedged mortgages form the basis of testing, firstly to confirm that there is an initial correspondence between the IRS amortisation profile and the amortisation profile of the hedged mortgages.

Then the weighted average fixed rate of the hedging IRSs is calculated. This rate represents the average market rates in force at the time the various IRSs were taken out and therefore reflects the interest portion they were intended to hedge at the time of hedging the mortgages. In other words, this rate represents the portion of interest effectively hedged by the IRS, distinguishing this from the portion of interest that is instead not hedged and which corresponds to the spread (an expression more of customer risk than rate risk).

At this point, starting from the actual residual amortisation plan for the capital portion of the total mortgages hedged, it becomes reasonable to construct the amortisation plan for the mortgages to be used in identifying the fair value. This will comprise the flows from the capital portions of the mortgages (i.e. the difference between the residual debt for a period compared to the residual debt in the previous period, in accordance with the contractual amortisation plan) and the interest portions obtained by applying the weighted average rate of the hedging IRSs (expressing the hedged interest portion) to the residual debt for the period.

The instalments obtained can then be discounted using the same rate curve as for the calculation of fair value of the hedging IRSs, and reduced based on the hedge effectiveness percentage at the measurement date (surface ratio - i.e. the sum of residual capital portions for the related days existing - of the amortisation plans on the residual notional value of the IRSs divided by the residual amount receivable on the mortgages), to give the present value of the hedged mortgages. The residual receivable at the mortgage measurement date (this too multiplied by the hedging percentage) must then be subtracted from the present value.

This procedure (present value of instalments less the residual debt reduced by the hedging percentage) is then used to calculate the fair value at the end of year T and the fair value at the end of year T-1. The difference between these two values is the difference in fair value of the mortgages to be compared with the difference in fair value of the IRSs.

The calculation of the fair value difference of IRSs uses the following methods:

- ✓ the fair value is calculated by discounting of future cash flows (Net Present Value - NPV): this method consists in discounting the estimated cash flows at a current rate expressing the risk intrinsic in the instrument measured;
- ✓ for the mortgage-hedging IRSs in place at the end of the previous year, the fair value difference is the difference between the fair value at year end and the fair value at the end of the previous year;
- ✓ for the mortgage-hedging IRSs taken out during the year, the fair value difference is the fair value of the IRS at year end;
- ✓ both the market value and intrinsic value are calculated for all IRSs.

5 - Investments

Classification criteria

The item includes interests in associates and subsidiaries. Associates are considered to be minority interests over which significant influence is exercised. It is presumed that the company exercises significant influence in all cases where 20% or more of the voting rights are held and, regardless of the percentage holding if there is the power to participate in operating and financial decisions of the investees.

Recognition criteria

Initial recognition of the financial asset is the date of settlement. On initial recognition, the financial assets in this category are recognised at cost.

Valuation criteria

If there is any indication of impairment of an investee, the recoverable value of the investment is estimated, taking into account the present value of future cash flows, transaction multiples, equity and the discounting method the investment could generate, including the value of final disposal of the investment. If the recoverable value proves lower than the book value, the related difference is recognised in the income statement. If the reasons for impairment no longer apply as a result of an event occurring after its recognition, the value is reversed in the income statement.

6 - Property, plant and equipment

Classification criteria

Property, plant and equipment include technical systems, fixtures and fittings, furnishings and equipment of any kind. Property, plant and equipment are assets held for use in production or the provision of goods and services, for lease to third parties or for administrative purposes, and are expected to be used for more than one reporting period. Leasehold improvements included among these items are improvements and incremental costs associated with identifiable and separable property, plant and equipment. Such investments are normally incurred to prepare property leased from third parties for use.

The improvements and incremental costs relating to identifiable but inseparable property, plant and equipment are instead recorded in Item 160 “Other assets”.

Recognition criteria

Property, plant and equipment are initially recognised at cost, which in addition to the purchase price includes all accessory charges directly attributable to the purchase and the operational start-up of the asset. Extraordinary maintenance expense resulting in an increase in future economic benefits are recorded as an increase in the value of the assets, whilst other maintenance expense is recognised in the income statement.

Valuation criteria

Property, plant and equipment are measured at cost, less any depreciation and impairment losses. The fixed assets are systematically depreciated over their useful life, adopting the straight-line depreciation method.

At every reporting date, if there is any indication of impairment, a comparison is made between the book value of the asset and its recoverable value, equal to the higher between the fair value and related value in use of the asset, intended as the present value of future flows originated by the asset. Any adjustments are recognised in the income statement. If the reasons for recognising the impairment loss should no longer apply, a value reversal is recorded, which cannot exceed the value the asset would have had, net of accumulated depreciation calculated in the absence of previous impairment losses.

Elimination criteria

An item of property, plant and equipment is eliminated from the Balance Sheet at the time of disposal or when the asset is permanently withdrawn from use and when no future economic benefits are expected.

7 - Intangible assets

Classification criteria

Intangible assets include goodwill and application software for multi-year use. Goodwill represents the positive difference between the purchase cost and the fair value of assets and liabilities acquired. Other intangible assets are recognised as such if they are identifiable and originate from legal or contractual rights.

Recognition criteria

An intangible asset can be recorded as goodwill when the positive difference between the fair value of the asset items acquired and the cost of the business combination is represented by the future profit-generating capacity of the assets and liabilities acquired. If the difference is negative (i.e. badwill) or if the goodwill is not justified by the profit-generating capacity of the investee, the difference is recognised directly in the income statement.

Other intangible assets are recognised at cost, inclusive of any accessory charges only if it is likely that future economic benefits attributable to the asset will be realised and if the cost of the asset itself can be reliably determined. Otherwise, the cost of the intangible asset is recognised in the income statement in the year in which it was incurred.

Valuation criteria

With regard to goodwill, every time there is evidence of impairment and in any event at least once a year following preparation of the three-year plan, impairment testing is performed. For this purpose, a cash generating unit is identified to which the goodwill can be attributed. The amount of any impairment loss is calculated on the difference between the recognition value of the goodwill and its recovery value, if lower. This recovery value is equal to the higher between the fair value of the cash generating unit and the related value in use. The value in use is the present value of future cash flows expected from the cash generating units to which the goodwill was attributed. The resulting value adjustments are recognised in the income statement.

The cost of intangible assets is amortised on a straight-line basis over the related useful life. If the useful life is indefinite, amortisation is not applied, but only periodic testing of the recognition value of the assets. At each reporting date, if there is evidence of impairment, the recoverable value of the asset is estimated. The amount of the impairment loss recognised in the income statement is equal to the difference between the book value and recoverable value of the asset.

Elimination criteria

An intangible asset is eliminated from the Balance Sheet at the time of disposal and when no future economic benefits are expected.

8- Current and deferred taxes

The items respectively include current and deferred tax assets, and current and deferred tax liabilities.

Income taxes are recognised in the income statement, except those relating to items charged or credited directly to equity. The provision for income taxes is determined on the basis of a prudential forecast of the current tax charge, deferred tax assets and deferred tax liabilities.

Deferred tax assets and liabilities are calculated on the temporary differences, without time limits, between the book values and tax values of individual assets or liabilities.

Deferred tax assets are recognised in the financial statements if it is probable that they will be recovered. In this respect, art. 2, paragraph 55 to 56-bis of Italian Law 225/2010 established that deferred tax assets recognised against write-downs in receivables and goodwill can be converted to tax credits, particularly when the separate financial statements report a loss for the year. This conversion option introduced an additional and supplementary recovery method suitable for ensuring the recovery of such types of deferred tax assets in every situation, regardless of the company's future profitability. In all cases, therefore, this conversion option is sufficient grounds for recognising and retaining such types of deferred tax assets in the financial statements.

Deferred tax liabilities are recognised in the financial statements, with the only exceptions being assets recognised for amounts higher than the recognised value for tax purposes and untaxed reserves, for which it is reasonable to assume no transactions will be carried out that result in taxation. The recognised deferred tax assets and liabilities are systematically measured to take into account any changes in regulations or tax rates.

9 - Provisions for risks and charges

Other provisions for risks and charges include allocations relating to current obligations arising from a past event for which outlay is probably to comply with that obligation, always provided that the related amount can be reliably estimated.

The sub-item "other provisions" includes provisions for risks and charges allocated to comply with the provisions of international accounting standards, except for write-downs due to impairment of the guarantees given recorded under "other liabilities".

An allocation to provisions for risks and charges is only recognised when:

- ✓ there is a current obligation (legal or implicit) resulting from a past event;

- ✓ it is probable that the use of funds expected to generate economic benefits will be necessary to meet the obligation;
- ✓ the total obligation can be reliably estimated.

The amount allocated represents the best estimate of the charge required to settle the obligation. This estimate takes into consideration the risks and uncertainties associated with the events and circumstances under review.

If the deferral period in incurring the charge is significant, the amount allocated is represented by the present value of the charge that is expected will be necessary to settle the obligation. In such cases, a discounting rate is used which reflects the present market appraisals of the actual cash value. In particular, Banca Patrimoni Sella & C. uses the “zero curve”.

Periodic review is also performed of the fairness of these amounts.

If new, greater or additional information on the risk event is obtained, sufficient to result in updating of the estimate originally performed, the related provision is immediately adjusted.

A provision can only be used against the risk events for which it was originally allocated.

10 - Payables

Classification criteria

The items “due to banks” and “due to customers” include the various forms of interbank and customer funding.

Recognition criteria

The initial recognition of such financial liabilities is at the time of receipt of the amount funded or the issue of the debt securities. Initial recognition is based on the fair value of the liabilities, normally equal to the amount collected or the issue price, plus any additional costs/income attributable directly to the individual funding transaction or issue, and not reimbursed by the credit counterparty. Internal costs of an administrative nature are excluded.

Valuation criteria

After initial recognition, financial liabilities are measured at amortised cost using the effective interest rate method. Exceptions are current liabilities, where the time factor proves negligible, for which the amount collected remains recognised and any recorded costs are attributed to the income statement. Also note that funding instruments that are effectively hedged are measured on the basis of hedge accounting rules.

For structured instruments, if the requirements of IAS 39 are met, the embedded derivative is unbundled from the host contract and recognised at fair value as a trading liability. In the latter case the host contract is recognised at amortised cost.

Elimination criteria

The financial liabilities are eliminated from the financial statements when expired or settled. Elimination is arranged even in the presence of repurchases of securities previously issued. The difference between the book value of the liability and the amount paid for its purchase is recognised in the income statement. The re-placement of own securities on the market after their repurchase is considered a new issue with recognition of the new placement price, with no impact on the income statement.

Banca Patrimoni Sella & C.

11 - Financial liabilities held for trading

Classification criteria

Only the negative value of trading derivative contracts designated at fair value is included in this category.

Also included are the embedded derivatives which, pursuant to IAS 39, were unbundled from the complex host financial instruments and recognised separately since:

- ✓ their economic and risk characteristics could not be strictly correlated with the characteristics of the underlying contract;
- ✓ bundled instruments, even if unbundled, satisfy the definition of a derivative;
- ✓ the hybrid instruments they refer to are not designated at fair value with related changes in the income statement.

Recognition criteria

The financial liabilities are initially recognised on the subscription date for derivative contracts.

On initial recognition, financial liabilities held for trading are recognised at cost, intended as the fair value of the instrument. Any derivatives embedded in complex contracts but not strictly correlated and with characteristics satisfying the definition of derivative are unbundled from the primary contract and measured at fair value, whilst the appropriate reference accounting policy is applied to the primary contract.

Valuation criteria

After initial recognition, financial liabilities held for trading are measured at fair value.

Gains and losses deriving from changes in fair value and/or the disposal of trading instruments are recognised in the income statement.

Elimination criteria

The financial liabilities are eliminated from the financial statements when expired or settled.

12 - Transactions in foreign currency

Initial recognition

At the time of initial recognition, transactions in foreign currency are recorded in the reporting currency, applying the spot rate on the date of the transaction to the foreign currency amount.

Subsequent recognition

At each reporting date, financial statement items in foreign currencies are measured as follows:

- ✓ monetary items are translated at the year-end exchange rate;
- ✓ non-monetary items measured at historic cost are translated at the spot rate on the date of the transaction. To translate revenue and cost elements, an exchange rate approximate to the spot rate at the date of transaction is often used, e.g. an average exchange rate for the period;
- ✓ non-monetary items designated at fair value are converted at the year-end exchange rate.

Banca Patrimoni Sella & C.

Exchange differences deriving from the settlement of monetary items or the translation of non-monetary items at rates other than the initial translation rates, or for translation of previous financial statements, are recognised in the income statement in the period in which they arise.

When a gain or loss relating to a non-monetary item is recognised in equity, the exchange difference for that item is also recognised in equity. Vice versa, when a gain or loss is recorded in the income statement, the income statement also records the related exchange difference.

13 - Other information

Employee benefits

Employee severance indemnity is recognised on the basis of their discounted value. For discounting purposes the projected unit credit method is used, which envisages the projection of future outlay based on statistical time series and the demographic curve, and the financial discounting of these flows based on a market interest rate. The difference between actuarial gains and losses is recognised in equity, whilst the residual components (the discounting effect) will be recognised in the income statement.

Based on the provisions of IAS 19, Employee severance indemnity is a defined benefit, the recognition of which must be through actuarial methods.

In view of the provisions of the 2007 Finance Act, Employee severance indemnity accrued from 1 January 2007 and destined for supplementary pension forms or to the INPS treasury fund are considered defined contribution plans, and therefore no longer subject to discounting.

In relation to the international accounting standards, in fact, Employee severance indemnity cannot be recognised in the financial statements or an amount corresponding to that accrued (assuming all employees leave the company on the reporting date), but rather the liabilities in question must be calculated by projecting the amount already accrued to a future moment in time of termination of the employment contract, then discounting this amount at the reporting date using the projected unit credit method.

Recognition of revenue and costs

Revenue is recognised at the time it is achieved or, in any event, for the sale of goods or products when it is probable that future benefits will be received and such benefits can be reliably quantified or, for the provision of services, at the time such services are provided. In particular:

- ✓ the interest paid is recognised pro rata on the basis of the contractual interest rate, or at the effective interest rate if amortised cost is applied;
- ✓ default interest, if contractually envisaged, is recognised in the income statement only at the actual time of collection;
- ✓ dividends are recognised in the income statement during the year in which distribution is agreed;
- ✓ fees and commissions on service revenue are recognised, based on existing contractual arrangements, in the period in which the services are provided;
- ✓ gains and losses from financial instruments trading are recognised in the income statement at the time of completion of the sale, based on the difference between the price paid or collected and the recognition value of the instruments themselves;
- ✓ revenue from the sale of non-financial assets is recognised at the time of completion of the sale, unless most of the risks and benefits associated with the asset have been retained.

Costs are recognised in the income statement in the period in which the related revenue is recorded. If the association between costs and revenue cannot be performed generically and indirectly, the costs are systematically spread over multiple periods by rational procedures. Costs that cannot be associated with the income are recognised directly in the income statement.

Accruals and deferrals

Accruals and deferrals that include income and charges for the period accrued on assets and liabilities are recognised in the financial statements as an adjustment to the assets or liabilities to which they refer.

Leasehold improvement expense

Restructuring costs for third-party properties are capitalised in consideration of the fact that for the duration of the lease the user company has control of the assets and can draw future economic benefits from them. The aforementioned costs, classified among Other assets as envisaged in Bank of Italy instructions, are amortised over a period equal to the duration of the lease.

Allocations to guarantees given and commitments

Allocations made on a collective basis, in relation to the estimated outlay associated with the credit risk on guarantees, determined by applying the same criteria illustrated previously for receivables, are recorded under Other liabilities as envisage din Bank of Italy instructions.

Use of estimates and assumptions in preparation of the separate financial statements

For the preparation of the financial statements, the Bank made use of estimates and assumptions that can result in effects on the values recognised in the Balance Sheet and the Income Statement. These estimates are prepared through:

- ✓ the use of available information;
- ✓ the adoption of measurements, also based on past experience, used to formulate rational assumptions for the reporting of operating events.

In future years, the present values recognised in the financial statements could differ, even significantly, following changes in the measurements used as, by their nature, the estimates and assumptions adopted can change from year to year.

The main situations in which the use of estimates is more strongly required are:

- ✓ for the calculation of impairment losses on receivables and other financial assets;
- ✓ for the fair value calculation of financial instruments not listed on active markets, the use of measurement models;
- ✓ for goodwill and other intangible assets, their estimated fair value;
- ✓ for provisions for personnel and provisions for risks and charges, their estimated value;
- ✓ for deferred tax assets, the estimates and assumptions regarding their recoverability.

Fair value definition and measurement criteria

On 12 May 2011, the IASB published IFRS 13 “Fair Value Measurement”, which provides full guidance on how to measure the fair value of financial and non-financial assets and liabilities and on the related reporting. IFRS 13 was endorsed by Commission Regulation (EU) 1255/2012 of 11 December 2012.

The new standard applies every time another accounting standard calls for the measurement of an asset or liability at fair value or requires additional information on the fair value measurements.

Based on the provisions of IFRS 13, fair value is defined as "*the price that would be received for the sale of an asset or would be paid for the disposal of a liability in an arm's length transaction between market participants as at the measurement date*".

The standard requires that if there are transactions directly observable on the market, the fair value calculation is immediate. If these conditions are not met, measurement approaches must be adopted. IFRS 13 identifies three widely-used measurement approaches and establishes that every entity, in measuring fair value, must use measurement approaches consistent with one or more of the following:

- ✓ *Market valuation approach*: this approach makes use of prices and other information relating to transactions that involved identical or similar financial assets or liabilities. Measurements based on determining market multiples are included in this method.
- ✓ *Cost approach*: the fair value is represented by the replacement cost of a financial asset.
- ✓ *Income approach*: the fair value equals the present value of future cash flows. These approaches can be based on the present value.

In the calculation of fair value of a financial asset, IFRS 13 envisages the inclusion of a fair value adjustment factor to identify the counterparty risk (CVA). This credit risk must be quantified as would be determined by a market operator when defining the purchase price of a financial asset.

In the calculation of fair value of a financial liability, IFRS 13 also envisages the quantification of a fair value adjustment factor referring to own credit risk (DVA).

As mentioned previously, based on IFRS 13 the fair value measurement of financial instruments should use measurement approaches that maximise recourse to input data observable on the market.

For this purpose, IFRS 13 establishes a fair value hierarchy which classifies the technical inputs adopted for fair value measurement into three levels:

<u>Level 1</u>: prices listed (unadjusted) on active markets for identical assets or liabilities to which the entity has access at the measurement date.

<u>Level 2</u>: inputs other than listed prices included in Level 1, observable directly or indirectly for the asset or liability. The prices of assets or liabilities are deduced from market prices for similar assets or through measurement approaches for which all the significant factors (credit spreads and liquidity) are taken from observable market data.

<u>Level 3</u>: input data not observable for the asset or liability. The prices of assets or liabilities are deduced using measurement approaches based on data processed on the best information available relating to assumptions that would be used by market operators to determine the price of the asset or liability (therefore involving estimates and assumptions by management).

IFRS 13 defines an active market as a "*market on which transactions relating to assets or liabilities are carried out with a frequency or in volumes sufficient to provide useful information for determination of the price on a continuous basis*".

<u>Inputs for fair value measurement</u>

The various input levels to be used in calculating the fair value of financial instruments designated at fair value are illustrated below:

(L1) Instruments whose fair value is represented by the market value (instruments listed on an active market):

- ✓ Securities listed on a regulated market or multilateral trading facility (on which one or more market makers operate on a continuous basis).
- ✓ Securities listed on Bloomberg, provided the issue total is equal to or greater than EUR 500 million and at least one market maker is present with regularly available prices.
- ✓ Funds for which the daily NAV or daily listed price is available.
- ✓ Investments listed on a regulated market.
- ✓ Derivatives listed on regulated markets.

An “active market” refers to:

- ✓ The regulated market on which the instrument is traded and regularly listed;
- ✓ The multilateral trading facility on which one or more market makers operate on a continuous basis;
- ✓ The Bloomberg contribution, provided the issue total is equal to or greater than EUR 500 million and at least one market maker is present with regularly available prices.

(L2) Instruments whose fair value is measured using inputs other than prices listed on an active market, which are observable directly (prices) or indirectly (derived from prices) on the market:

- ✓ Securities for which Bloomberg lists a price characterised by an issue total of less than EUR 500 million or securities, albeit characterised by an issue total of more than EUR 500 million, for which no market maker with regularly available prices is present on Bloomberg.
- ✓ Securities listed on a multilateral trading facility for which no market maker with regularly available prices is present.
- ✓ Bonds issued by the Banca Sella Group, the measurement of which uses the following methods commonly used on the market:
- ✓ Fixed-rate bonds: asset swap spreads
- ✓ Floating-rate bonds: discount margin
- ✓ Structured bonds: net present value (for the bond component)
- ✓ Structured bonds which, in addition to the bond component have an embedded option (derivative), envisage the measurement of the latter on the basis of prices practised by market counterparties and on the basis of external measurement models (e.g. the Black-Scholes model) or proprietary models.
- ✓ Securities defined as illiquid are specifically measured according to a model based on inputs observable directly or indirectly on the market.
- ✓ Funds for which no daily NAV or daily listed price is available, but which periodically express a NAV or a reliable price.
- ✓ Investments with no active market for which a number of transactions is found that is limited but recurring over time.
- ✓ OTC derivatives for which market benchmarks are available for measurement purposes.

(L3) Instruments whose fair value is determined using inputs not based on observable market data:

- ✓ Defaulted or delisted securities in cases where the price reported by the reference provider for each security is greater than zero. If this price is 0, however, such securities are considered “not designated at fair value”.
- ✓ Securities defined as illiquid are specifically measured according to a model based on non-observable inputs.
- ✓ Securities deriving from Mars 2600 securitisations and other ABS.
- ✓ Funds or SICAVS specialising in ABS.
- ✓ Unlisted closed-end funds.
- ✓ Private equity funds.

- ✓ Investments with no active market for which one-off transactions are found or for which measurement approaches are used.
- ✓ OTC derivatives for which no market benchmarks are available for the measurement.

Assessment of the fairness of the instrument's classification compared to the assigned input level is performed on a half-yearly basis (June and December) by the Securities Records Office, which also orders any changes to be made to the specific information contained in the securities records.

In order to calculate the fair value of OTC derivatives in accordance with IFRS 13, they are separated into two levels:

- ✓ L2: Plain vanilla OTC derivatives for which market benchmarks are available for the measurement;
- ✓ L3: OTC derivatives for which no market benchmarks are available for the measurement.

In order to apply the rules envisaged in European Parliament and Council Regulation (EU) 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms (CRR), it is expected that OTC derivatives included in L2 and L3 above are measured on the basis a mark-to-model.

In European Parliament and Council Regulation (EU) 648/2012 of 4 July 2012 on OTC derivatives, the central counterparties and trading data registries (EMIR), only OTC derivatives included in L3 above are to be measured on the basis of a model.

Counterparty risk assessment

In the calculation of fair value of a financial asset, IFRS 13 envisages the inclusion of a fair value adjustment factor to identify the counterparty risk (CVA). This credit risk must be quantified as would be determined by a market operator when defining the purchase price of a financial asset.

In the calculation of fair value of a financial liability, IFRS 13 also envisages the quantification of a fair value adjustment factor referring to own credit risk (DVA).

With regard to bonds issued by the Banca Sella Group (structured and otherwise), the issuer counterparty risk is included in the spread.

As regards the OTC derivatives exposure, the quantification of CVA adjustments (for receivable exposures) and DVA (for payable exposures) is performed by Dealer Wizard for all contracts except those covered by offsetting and collateralisation arrangements (e.g. ISDA, CSA, etc.).

The calculation method for adjusted CVA/DVA implemented in the Dealer Wizard is based on the discounted cash flows approach. This approach, applied to all types of derivatives handled by the Group, envisages the application of a credit spread to the discounting of expected cash flows and leads to the generation of a risk-adjusted fair value, whose difference compared to the risk-free fair value is represented by the CVA/DVA.

The choice of credit spreads to be applied to the discounting of expected cash flows is associated with the direction of flows and with the type of counterparty. Specifically, depending on whether the flows are "receive" or "pay" types, the spread to be applied has to take into account the counterparty credit risk (receive) or the own entity credit risk (pay).

In relation to the type of counterparty, the possible cases to which reference must be made for assignment of the related credit spread are listed below:

Institutional counterparty with which a CSA was NOT stipulated: for the credit spread, reference is made to the CDS listing downloaded from the provider Bloomberg. In the absence of a specific listing for that particular counterparty, reference is made to the CDS price for a counterparty considered comparable in terms of sector, dimension and rating.

Institutional counterparty with which a CSA was stipulated: in this case, the assigned spread is equal to zero as the counterparty risk is mitigated by the collateralisation arrangement, and therefore the risk-adjusted fair value coincides with the risk-free fair value.

GBS customers (retail or corporate): reference is made to the internal assessment provided by the Credit Risk office of the Risk Management Department. Specifically, the internally estimated credit spread represents the rate of return required to cover the two loss components (expected and unexpected) that determine the credit risk. To quantify the impact of expected loss, recourse is made to the probability of default value associated with the rating class of the specific customer (if the customer is subject to calculation of the internal rating), or the average decay rate recorded in the last 24 months in the bank's credit portfolio (if the customer is not subject to calculation of an internal rating). To quantify the impact of unexpected loss, the equity value necessary to satisfy the target return requested by shareholders is estimated, in the case of a 1-year current account loan.

With regard to the Banca Sella Group, the credit spread necessary as input benchmark to calculate the adjusted DVA is determined in line with the spread applied at the same date on ordinary bonds issued by the Group.

The CVA/DVA valuations are performed daily by the OTC Exchange Office of Banca Sella. Risk Management arranges second level sample checks after ex ante validation of the approach and market benchmarks used (agreed with the Finance Division).

The measurements relating to embedded caps, pending full automation of measurement by the Credit Division of Banca Sella and of the Group companies concerned, are performed by the Parent Company Finance Division using the discounted cash flows approach.

As these are options sold to the customer (embedded in maximum-rate mortgages), the adjusted DVA is calculated by applying the credit spread for the Banca Sella Group as indicated above.

Fair value measurement frequency

Measurement of the fair value according to the rules dictated by this Policy is normally performed daily (in general weekly for bonds issued by the Group in view of their low level of volatility, unless a need arises that calls for a shorter frequency).

A.3 - Information on transfers between financial asset portfolios

During the year, the Bank did not make any transfers between financial asset portfolios.

A.4 - Fair value disclosure

Qualitative information

A.4.1 Fair value levels 2 and 3: measurement approaches and inputs used

In relation to the measurement approaches, the inputs and related adjustments used to measure the fair value of level 2 and 3 instruments are illustrated in the following abstract of details specified in the Fair Value Policy adopted by the Group and currently in force.

For the measurement of fixed-rate bonds, the asset swap spread model is used, whilst for floating-rate bonds the discount margin model is used. Recourse to these models is justified by the consideration that at European level they represent the market standard for this type of securities.

As pricing input for the fixed-rate bonds, the Euro swap rate curve is used, derived from infoproviders available to the Bank, whilst the spread levels used deriving from the processing of variables associated with the credit spreads recorded by the same infoproviders. The purpose of such processing is to consider different variables that could affect the pricing procedure.

If the bonds have an embedded option component, if at all possible the pricing model available on Bloomberg is used in order to guarantee an estimate based on the approach widely adopted by the market. For this purpose, in a manner similar to the previous cases, a spread level deduced from the processing of variables associated with the credit spreads recorded by the infoprovider is used as the option-adjusted spread (OAS).

Bonds with a structure that cannot be priced using models available on Bloomberg are instead priced by unbundling the structure into more simple components.

Their measurement is performed using valuations deduced from those provided by the counterparties for the hedging instrument or, if unavailable, from Monte Carlo simulations that use the variables recorded by the leading infoproviders as the input values.

The OTC derivatives generally present in the financial statements refer to swaps, options on interest rates and options on exchange rates.

The swap rate is assessed according to the discounted cash flow (DCF) approach, which in effect represents the market standard, and which uses the swap rate curve relating to the contract's currency as input data. This curve is periodically updated to that published by the main infoproviders (Bloomberg/Reuters) available to the Bank. If the swap structure is more complex, so much so that the contract value cannot be estimated with reasonable certainty, a contract assessment is requested from the transaction counterparty.

For the GBS, the options on interest rates to date refer solely to caps and floors, and are measured using the Black model. This choice is based on the consideration that alternative models could pose a benchmarking problem for the pricing stage and would not provide a significant improvement in the price estimation. Further elements that would point to this choice are associated with the consideration that an extensive implicit volatility matrix is recorded by the leading infoproviders, matched to the option prices by standard maturity.

The plain vanilla and exotic exchange rate options (with European or US barriers) are measured on the basis of the Black&Scholes model. The volatility curves necessary to calculate the implicit volatility of each option, and the prices of market rates and swaps used to assess the contracts, are taken from the leading infoproviders available to the Bank (Bloomberg). For the more complex exotic option structures, that do not allow reasonable certainty as regards the value of the contract, where possible a measurement algorithm is developed internally or, again if possible, an assessment of it is requested from another counterparty to the transaction. These measurements, where present, are used for price setting along with the measurement provided by the transaction counterparty.

The fair value calculation for ABS included in the bank-owned portfolio is based on Bloomberg pricing models. These models are based on the DCF (discounted cash flow) approach, which used the latest data provided by the securitisation company as the input data.

The discount margin level used is deduced from that obtained from research, based on spreads seen on the secondary market for securities that are similar in terms of underlying assets, country and rating. This level can be adjusted, if necessary, to take into account external factors (typical of the security) such as the different quality of the asset, performance, underlying, etc.

For the measurement of AFS investments, the approaches adopted on a case-by-case basis are:

- ✓ the income-based approach, which determines the value of the company based on its profit-generating capacity. For this purpose, the value of the company is calculated by discounting the expected profit and loss results. The average future income is estimated on the basis of corporate data (financial statements, interim reports, budgets, business plans). In addition to the return on risk-free assets, the discounting rate considers a premium for investments in business assets;
- ✓ the multiples approach, which determines the value of the company based on specific indicators that ratio the market prices with book values. The multiples are expressed by a sample of listed companies as similar as possible to the company to be assessed. Numerous factors are taken into account to establish the degree of similarity in the sample: the sector of operations, company size, financial risks deriving from the company's financial structure, market prices, geographic diversification, etc.
- ✓ other measurement approaches commonly used by market operators to price companies, if such approaches have shown that they provide reliable estimates of the prices practised in current market transactions (one such case is recourse to the equity method, which determines the value of the company based on the algebraic balance between assets and liabilities; the analysis is based on historic data available on the corporate databases, financial statements, interim reports, budgets and business plans).

Unlisted closed-end funds and private equity funds are measured on the basis of data provided by the issuer or, if none, on the basis of the amount of the contribution to the fund. Particular attention is paid to ABS funds where, as far as possible, the investor reports on each individual ABS with a significant presence in each fund are analysed.

In relation to the loans issued by each Group bank and hedged, calculation of the fair value to measure the hedge effectiveness uses the discounted cash flow method. For this purpose, the risk-free curve used to measure the hedging derivative is used and the spread paid is deduced from the coupon in accordance with the terms of the hedge contract.

For fixed-rate mortgages hedged, the fair value measurement requires financial coherence between the assets hedged and the IRS taken out as hedging instruments. At every fair value measurement date, therefore, the accumulated stock of hedging IRSs and the accumulated stock of hedged mortgages form the basis of testing, firstly to confirm that there is an initial correspondence between the IRS amortisation profile and the amortisation profile of the hedged mortgages.

Then the weighted average fixed rate of the hedging IRSs is calculated. This rate represents the average market rates in force at the time the various IRSs were taken out and therefore reflects the interest portion they were intended to hedge at the time of hedging the mortgages. In other words, this rate represents the portion of interest effectively hedged by the IRS, distinguishing this from the portion of interest that is instead not hedged and which corresponds to the spread (an expression more of customer risk than rate risk).

At this point, starting from the actual residual amortisation plan for the capital portion of the total mortgages hedged, it becomes reasonable to construct the amortisation plan for the mortgages to be used in identifying the fair value. This will comprise the flows from the capital portions of the mortgages (i.e. the difference between the residual debt for a period compared to the residual debt in the previous period, in accordance with the contractual amortisation plan) and the interest portions obtained by applying the weighted average rate of the hedging IRSs (expressing the hedged interest portion) to the residual debt for the period.

The instalments obtained can then be discounted using the same rate curve as for the calculation of fair value of the hedging IRSs, and reduced based on the hedge effectiveness percentage at the measurement date (surface ratio - i.e.

the sum of residual capital portions for the related days existing - of the amortisation plans on the residual notional value of the IRSs divided by the residual amount receivable on the mortgages), to give the present value of the hedged mortgages. The residual receivable at the mortgage measurement date (this too multiplied by the hedging percentage) must then be subtracted from the present value.

This procedure (present value of instalments less the residual debt reduced by the hedging percentage) is then used to calculate the fair value at the end of year T and the fair value at the end of year T-1. The difference between these two values is the difference in fair value of the mortgages to be compared with the difference in fair value of the IRSs.

A.4.2 Measurement processes and sensitivity

Use of the measurement models and approaches described above calls for the selection and quantification of certain benchmarks, varying based on the financial instrument to be measured.

These benchmarks are selected and applied to the calculation application at the time of the request to measure a new instrument.

The Risk Management Service is responsible for validating the defined benchmarks.

For every fair value calculation frequency for the financial instrument, the above benchmarks are reviewed and updated by the department performing the calculation and by Risk Management.

For example, the main observable benchmarks can refer to:

Rate curve

This consists in a series of rates of return on synthetic zero-coupon securities, in increasing order in relation to their maturities. These rates are obtained by means of consolidated bootstrapping methods from the deposit market rates (for maturities not exceeding 12 months) and the IRS market rates (for maturities not less than 2 years). For measurement purposes, the mid rates are considered. This is the measurement basis for any OTC derivative.

Volatility matrix

This is a table illustrating the related mid volatility value listed by the market for each maturity and strike of the options concerned. This table covers both cap and floor options.

Spreads

To measure bonds issued by the Group (structured and otherwise), two types of spread are taken into consideration:

Rate spread: the spread on the floating rate indexed (for floating-rate securities) or the IRS rate for the same maturity (for fixed rate securities).

Price spread: represents the spread to be deducted from the theoretical price to take into account the degree of structural risk.

Implicit volatility

This refers to the price volatility of listed options on a specific underlying asset.

For every maturity, the at-the-money value of the options is considered, or a weighted average of the price volatility of the listed options (albeit with different strikes) with the same maturity.

Dividend Yield

Among the measurement approaches, this is obtained as the annualised logarithm of the ratio between dividend and price, as recorded by the leading infoproviders (Bloomberg, Reuters, etc.) on maturities similar to those of the derivative under review.

For example, the main unobservable benchmarks can refer to:

Correlation

For correlation calculation, the logarithmic changes in the prices of the two assets concerned (exchange rate and price of the underlying) are used. Normally, the figures for the last 6 months are considered for this purpose.

Historic volatility

If the implicit volatilities of the options are not listed, the historic volatility of the underlying instrument is used, measured on the basis of the standard deviation in logarithmic changes in their prices.

There are no significant observable inputs used to measure the fair value of level 3 assets and liabilities.

A.4.3 Fair value hierarchy

Any transfers from one fair value level to another in the hierarchy are made on the basis of developments in the characteristics of each security and in relation to criteria that distinguish the classification in the different levels of the fair value hierarchy. These are recognised twice a year, in the half-yearly and annual financial statements. The input levels that determine classification in a fair value level are listed in these financial statements in the paragraph “Inputs for fair value measurement” in *Part A.2 - Part relating to the main financial statement items*.

A.4.4 Other information

The Bank does not manage groups of financial assets or liabilities on the basis of its own net exposure to market risks or credit risk.

Banca Patrimoni Sella & C.

Quantitative information

A.4.5 Fair value hierarchy

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

Assets/Liabilities designated at fair value	31/12/2016			31/12/2015		
	L1	L2	L3	L1	L2	L3
1. Financial assets held for trading	2,754	1,406	-	4,027	372	-
2. Financial assets designated at fair value	-	-	-	-	-	-
3. Available-for-sale financial assets	106,297	4,206	17,772	265,867	8,499	3,236
4. Hedging derivatives	-	-	-	-	-	-
5. Property, plant and equipment	-	-	-	-	-	-
6. Intangible assets	-	-	-	-	-	-
Total	**109,051**	**5,612**	**17,772**	**269,893**	**8,871**	**3,236**
1. Financial liabilities held for trading	-	1,405	-	9	371	-
2. Financial liabilities designated at fair value	-	-	-	-	-	-
3. Hedging derivatives	-	1,436	-	-	1,551	-
Total	**-**	**2,841**	**-**	**9**	**1,922**	**-**

Key

L1 = Level 1

L2 = Level 2

L3 = Level 3

The CVA/DVA valuations are performed daily by the OTC Exchange Office of Banca Sella. Risk Management arranges second level sample checks after ex ante validation of the approach and market benchmarks used (agreed with the Finance Division).

The following table summarises the impact of the application of IFRS 13, broken down by derivative type:

Net impact at 31 December 2016 *(in Euro)*

	Banca Patrimoni Sella & C.	
	CVA	**DVA**
IRS	-	-
CAP_FLOOR	-	98
COLLAR	-	-
OPT_CURRENCY OPTION	-	-
NDF_NON DELIVERABLE FORWARD	-100,281	-
OUTRIGHT	-	-
IMPLICIT OPTIONS ON MORTGAGES	-	-
Total	**-100,281**	**98**

A.4.5.2 Changes in the year of assets designated at fair value on a recurring basis (level 3)

	Financial assets held for trading	Financial assets designated at fair value	Available-for-sale financial assets	Hedging derivatives	Property, plant and equipment	Intangible assets
1. Opening balances	**-**	**-**	**3,236**	**-**	**-**	**-**
2. Increases	**40,002**	**-**	**14,814**	**-**	**-**	**-**
2.1. Purchases	39,939	-	9,461	-	-	-
2.2. Gains recognised through:						
2.2.1. Income Statement	-	-	-	-	-	-
- of which capital gains	-	-	-	-	-	-
2.2.2. Shareholders' Equity	X	X	110	-	-	-
2.3. Transfer from other levels	-	-	-	-	-	-
2.4. Other increases	63	-	5,243	-	-	-
3. Decreases	**40,002**	**-**	**278**	**-**	**-**	**-**
3.1. Sales	40,002	-	-	-	-	-
3.2. Repayments	-	-	-	-	-	-
3.3. Losses recognised in:						
3.3.1. Income Statement	-	-	137	-	-	-
- of which capital losses	-	-	137	-	-	-
3.3.2. Shareholders' Equity	X	X	141	-	-	-
3.4. Transfers to other levels	-	-	-	-	-	-
3.5. Other decreases	-	-	-	-	-	-
4. Closing balances	**-**	**-**	**17,772**	**-**	**-**	**-**

Banca Patrimoni Sella & C.

A.4.5.3 Changes in the year of liabilities designated at fair value on a recurring basis (level 3)

Banca Patrimoni Sella & C. had no financial liabilities of this nature at 31 December 2016.

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

Assets/liabilities not designated at fair value or designated at fair value on a non-recurring basis	31/12/2016				31/12/2015			
	BV	**L1**	**L2**	**L3**	**BV**	**L1**	**L2**	**L3**
1. Financial assets held to maturity								
2. Due from banks	884,697		493	884,197	368,916		483	368,416
3. Due from customers	364,530			365,484	350,325			351,745
4. Property, plant and equipment held for investment purposes	5,367			6,500	6,265			6,650
5. Non-current assets and discontinued operations								
Total	**1,254,594**	**-**	**493**	**1,256,181**	**725,506**	**-**	**483**	**726,811**
1. Due to banks	59,355			59,355	63,198			63,198
2. Due to customers	1,297,006			1,297,006	913,319			913,319
3. Outstanding securities								
4. Liabilities associated with assets held for sale								
Total	**1,356,361**	**-**	**-**	**1,356,361**	**976,517**	**-**	**-**	**976,517**

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

A.5 - Information on day one profit/loss

IAS 39 envisages that the initial recognition of financial instruments in the financial statements must be at fair value, normally coinciding with the price at which the purchase transaction was concluded. IFRS 7 then envisages that if the security involved in the transaction is level 3, more discretion is possible in assessment of the price since there is no fixed and specific comparison for the fair value. In this case, initial recognition must always be at the price at which the purchase or sale was concluded, recognising the next fair value measurement as day one profit/loss. This rule clearly applies to the categories of securities for which designation at fair value in the income statement is envisaged and, with specific reference to the Bank’s financial statements, to securities held for trading.

This being said, in 2016 no amounts were identified to be recognised as day one profit/loss in relation to the purchase of securities not listed on an active market and qualifying as HFT securities.

Part B - Information on the Balance Sheet - Assets

Section 1 - Cash and cash equivalents - Item 10

1.1 Cash and cash equivalents: breakdown

	Total 31/12/2016	Total 31/12/2015
a) Cash	493	453
b) Demand deposits at central banks	-	-
Total	**493**	**453**

Section 2 - Financial assets held for trading - Item 20

2.1 Financial assets held for trading: breakdown by type

Item/Value	Total 31/12/2016			Total 31/12/2015		
	Level 1	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
A. Cash assets						
1. Debt securities	2,536	50	-	3,863	48	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	2,536	50	-	3,863	48	-
2. Equities	-	-	-	-	-	-
3 UCITS units	-	-	-	-	-	-
4. Loans	-	-	-	-	-	-
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total A	**2,536**	**50**	**-**	**3,863**	**48**	**-**
B. Derivatives						
1. Financial derivatives:	218	1,356	-	164	324	-
1.1 for trading	218	1,356	-	164	324	-
1.2 associated with the fair value option	-	-	-	-	-	-
1.3 other	-	-	-	-	-	-
2. Credit derivatives:	-	-	-	-	-	-
2.1 for trading	-	-	-	-	-	-
2.2 associated with the fair value option	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
Total B	**218**	**1,356**	**-**	**164**	**324**	**-**
Total (A+B)	**2,754**	**1,406**	**-**	**4,027**	**372**	**-**

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

Item/Value	Total 31/12/2016	Total 31/12/2015
A. CASH ASSETS		
1. Debt securities	**2,586**	**3,910**
a) Governments and central banks	-	-
b) Other public entities	-	-
c) Banks	1,264	1,277
d) Other issuers	1,322	2,634
2. Equities	**-**	**-**
a) Banks	-	-
b) Other issuers:	-	-
- insurance companies	-	-
- financial companies	-	-
- non-financial companies	-	-
- other	-	-
3. UCITS units	**-**	**-**
4. Loans	**-**	**-**
a) Governments and central banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other entities	-	-
Total A	**2,586**	**3,911**
B. DERIVATIVES		
a) Banks	556	149
b) Customers	1,018	340
Total B	**1,574**	**489**
Total (A+B)	**4,160**	**4,399**

Financial assets held for trading decreased by EUR 239.4 thousand (5.44%) compared to the balances at 31 December 2015 due to the investment decisions made.

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

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

Item/Value	31/12/2016			31/12/2015		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	102,761	3,548	-	263,297	8,499	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	102,761	3,548	-	263,297	8,499	-
2. Equities	2,492	-	4,123	2,063	-	1,532
2.1 Designated at fair value	2,492	-	857	2,063	-	529
2.2 Measured at cost	-	-	3,266	-	-	1,003
3. UCITS units	1,044	658	8,406	507	-	1,704
4. Loans	-	-	5,243	-	-	-
Total	**106,297**	**4,206**	**17,772**	**265,867**	**8,499**	**3,236**

AFS impairment testing

As required by IFRS, financial instruments classified as AFS are impairment tested for any objective evidence to suggest that their recognition value is not fully recoverable.

The policy relating to impairment test management envisages testing for impairment indicators and the calculation of any related write-down. Impairment testing is performed quarterly (and any time there is clear objective evidence of impairment), in correspondence with measurements made for the interim reports, half-yearly report and annual financial statements, or in any event at any time it appears necessary following events that could have a negative impact on the value and degree of risk of the investment.

The analyses carried out determined the need to apply value adjustments to certain equity investments and bonds. Specifically:

- the minority interest in Aziende Agricole Sella S.r.l. was written down for EUR 75,600;
- the minority interest in Art Defender S.p.A. was written down for EUR 61,400;
- the equity instrument relating to the Voluntary Scheme of the Interbank Fund for Deposit Protection in favour of Cassa di Risparmio di Cesena was written down for EUR 49,183;
- the Agria Finance bond was fully written-down for EUR 93,724;
- the Portugal Telecom bond was written down for EUR 210,075. The security was later sold and is no longer included in the AFS portfolio.

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

Item/Value	Total 31/12/2016	Total 31/12/2015
1. Debt securities	**106,309**	**271,796**
a) Governments and central banks	30,955	142,154
b) Other public entities	-	-
c) Banks	34,975	74,032
d) Other issuers	40,379	55,610
2. Equities	**6,615**	**3,595**
a) Banks	2,098	-
b) Other issuers:	4,517	3,595
- insurance companies	-	-
- financial companies	1,350	1,132
- non-financial companies	548	292
- other	2,619	2,171
3. UCITS units	**10,108**	**2,211**
4. Loans	**5,243**	**-**
a) Governments and central banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other entities	5,243	-
Total	**128,275**	**277,602**

During the year, no equity instruments were issued by entities classified as non-performing or unlikely to pay.

4.3 Micro-hedged available-for-sale financial assets

Banca Patrimoni Sella & C. had no financial assets of this nature at 31 December 2016.

Available-for-sale financial assets: breakdown of UCITS units

	31/12/2016	31/12/2015
Other segment	3,070	1,704
Equities	2,877	507
Balanced	-	-
Money Market	-	-
Bonds	4,161	-
Total	**10,108**	**2,211**

Section 6 - Due from banks - Item 60

6.1 Due from banks: breakdown by type

Transaction type/Values	Total 31/12/2016				Total 31/12/2015			
	BV	FV			BV	FV		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Due from Central Banks	**10,552**	**-**	**-**	**10,552**	**8,340**	**-**	**-**	**8,340**
1. Term deposits	-	X	X	X	-	X	X	X
2. Compulsory reserve	10,552	X	X	X	8,340	X	X	X
3. Repurchase agreements	-	X	X	X	-	X	X	X
4. Other	-	X	X	X	-	X	X	X
B. Due from banks	**874,145**	**-**	**493**	**873,645**	**360,576**	**-**	**483**	**360,076**
1. Loans	873,645	-	-	873,645	360,076	-	-	360,076
1.1 Current accounts and demand deposits	857,919	X	X	X	358,618	X	X	X
1.2 Term deposits	-	-	-	-	-	-	-	-
1.3 Other loans:	15,726	X	X	X	1,458	X	X	X
- Repurchase agreements	-	X	X	X	-	X	X	X
- Finance leases	-	X	X	X	-	X	X	X
- Other	15,726	X	X	X	1,458	X	X	X
2. Debt securities	500	-	493	-	500	-	483	-
2.1 Structured securities	-	X	X	X	-	X	X	X
2.2 Other debt securities	500	X	X	X	500	X	X	X
Total	**884,697**	**-**	**493**	**884,197**	**368,916**	**-**	**483**	**368,416**

Key
FV = fair value
BV = book value

The amounts due from banks, except debt securities, are all on demand, and therefore the fair value is considered to be aligned with the book value.

6.2 Micro-hedged amounts due from banks

Banca Patrimoni Sella & C. has no outstanding amounts due to banks subject to micro hedging.

6.3 Finance leases

Banca Patrimoni Sella & C. has no outstanding finance lease agreements with banks.

Section 7 - Due from customers - Item 70

7.1 Due to customers: breakdown by type

Transaction type/Values	Total 31/12/2016 Book value			Fair Value			Total 31/12/2015 Book value			Fair Value		
	Performing	Non-performing		L1	L2	L3	Performing	Non-performing		L1	L2	L3
		Purchased	Other					Purchased	Other			
Loans	**362,551**	**-**	**1,979**	**-**	**-**	**365,484**	**346,941**	**-**	**3,384**	**-**	**-**	**351,745**
1. Current accounts	163,999	-	644	X	X	X	143,706	-	1,878	X	X	X
2. Repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
3. Mortgages	112,965	-	1,174	X	X	X	109,365	-	1,449	X	X	X
4. Credit cards, personal loans and salary-based loans	30,768	-	13	X	X	X	31,039	-	1	X	X	X
5. Finance leases	-	-	-	X	X	X	-	-	-	X	X	X
6. Factoring	-	-	-	X	X	X	-	-	-	X	X	X
7. Other loans	54,819	-	148	X	X	X	62,831	-	56	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	**362,551**	**-**	**1,979**	**-**	**-**	**365,484**	**346,941**	**-**	**3,384**	**-**	**-**	**351,745**

The sub-item “Other loans” includes EUR 4.7 million relating to operating loans, represented by advances paid on bonuses pending maturity, disbursed to the private bankers on the basis of the agency agreement governing the relations.

7.2 Due from customers: breakdown by payee/issuer

Transaction type/Values	Total 31/12/2016			Total 31/12/2015		
	Performing	Non-performing		Performing	Non-performing	
		Purchased	Other		Purchased	Other
1. Debt securities	**-**	**-**	**-**	**-**	**-**	**-**
a) Government	-	-	-	-	-	-
b) Other public entities	-	-	-	-	-	-
c) Other issuers	-	-	-	-	-	-
- non-financial companies	-	-	-	-	-	-
- financial companies	-	-	-	-	-	-
- insurance	-	-	-	-	-	-
- other	-	-	-	-	-	-
2. Loans to:	**362,551**	**-**	**1,979**	**346,941**	**-**	**3,384**
a) Government	-	-	-	-	-	-
b) Other public entities	-	-	-	-	-	-
c) Other entities	362,551	-	1,979	346,941	-	3,384
- non-financial companies	97,222	-	1,140	91,523	-	446
- financial companies	52,760	-	2	53,246	-	63
- insurance	-	-	-	4,989	-	-
- other	212,569	-	837	197,183	-	2,875
Total	**362,551**	**-**	**1,979**	**346,941**	**-**	**3,384**

7.3 Micro-hedged amounts due from customers

Banca Patrimoni Sella & C. has no outstanding amounts due to customers subject to micro hedging.

7.4 Finance leases

Banca Patrimoni Sella & C. has no outstanding finance lease agreements with customers.

Section 9 - Value adjustment to financial assets underlying macro hedges - Item 90

9.1 Value adjustment to the hedged assets: breakdown by hedged portfolio

Value adjustment to the hedged assets/Values	Total 31/12/2016	Total 31/12/2015
1. Positive adjustment	**1,370**	**1,468**
1.1 to specific portfolios:	1,370	1,468
a) receivables	1,370	1,468
b) available-for-sale financial assets	-	-
1.2 global	-	-
2. Negative adjustment	**-**	**-**
2.1 to specific portfolios:	-	-
a) receivables	-	-
b) available-for-sale financial assets	-	-
2.2 global	-	-
Total	**1,370**	**1,468**

9.2 Assets subject to macro-hedging against interest rate risk

Hedged assets	31/12/2016	31/12/2015
1. Receivables	7,837	9,063
2. Available-for-sale financial assets	-	-
3. Portfolio	-	-
Total	**7,837**	**9,063**

Section 10 - Investments - Item 100

10.1 Investments: disclosure on investment relationships

Name	Registered Office	% Interest held	% Votes held
A. Fully controlled entities			
Family Advisory Sim S.p.a. - Sella & Partners	Turin	85.00%	85.00%
B. Jointly-controlled entities	-	-	-
C. Entities subject to significant influence	-	-	-

On 15 February 2010, Family Advisory SIM S.p.a. - Sella & Partners was established, a new investment firm of the Banca Sella Group in which Banca Patrimoni Sella & C. holds an interest equal to 85% of the share capital.

Note that this interest is represented by 22,500 Class A shares (75% of the total shares in this class) and 20,000 Class B shares (the total shares in this class).

10.2 Significant investments: book value, fair value and dividends receivable

Name	Book value	Fair value	Dividends receivable
A. Fully controlled entities			
Family Advisory Sim S.p.a. - Sella & Partners	430,000		
B. Jointly-controlled entities			
C. Entities subject to significant influence			
Total	**430,000**	-	-

The fair value column has no recorded values as there are no listed companies among the subsidiaries.

10.3 Significant investments: Accounting data

Name	Cash and cash equivalents	Financial assets	Non-financial assets	Financial liabilities	Non-financial liabilities	Total revenue	Interest margin	Net value adjustments to property, plant, equipment and intangible assets	Profit (Loss) from current operations before tax	Profit (Loss) from current operations after tax	Gains (Losses) on discontinued operations after tax	Profit (loss) for the year (1)	Other income components after tax (2)	Comprehensive income (3) = (1) + (2)
A. Fully controlled entities														
Family Advisory Sim S.p.a. - Sella & Partners	1		1,156	0	472	1,364	-	(7)	107	(48)	-	58	0	58
B. Jointly-controlled entities														
C. Entities subject to significant influence														

10.4 Minority interests: accounting data

Banca Patrimoni Sella & C. has no immaterial equity interests in companies subject to joint control or significant influence.

10.5 Investments: changes in the year

	Total 31/12/2016	Total 31/12/2015
A. Opening balance	**430**	**430**
B. Increases	-	-
B.1 Purchases		
B.2 Reversals		
B.3 Revaluations		
B.4 Other changes		
C. Decreases	-	-
C.1 Sales		
C.2 Value adjustments		
C.3 Other changes		
D. Closing balance	**430**	**430**
E. Total revaluations		
F. Total adjustments		

The equity interest in Family Advisory SIM S.p.A. did not change during 2016.

10.6 - 10.7 Commitments referring to joint interests in subsidiaries or investments in companies subject to significant influence

Banca Patrimoni Sella & C. has no joint interests in subsidiaries or investments in companies subject to significant influence.

10.8 - Significant restrictions

At the reporting date there were no significant restrictions.

10.9 - Other information

For the purpose of impairment testing, as required by IFRS, the presence of indicators of impairment was assessed in order to determine any write-downs. Family Advisory SIM S.p.A. closed 2015 in profit and there are no grounds to believe impairment tests are necessary.

Section 11 - Property, plant and equipment - Item 110

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

Asset/Value	Total 31/12/2016	Total 31/12/2015
1.1 Owned assets	**22,982**	**21,611**
a) land	6,154	5,325
b) building	11,648	11,493
c) fixtures and fittings	3,037	2,607
d) electronic systems	540	479
e) other	1,603	1,707
1.2 Assets acquired under finance leases	**-**	**-**
a) land	-	-
b) building	-	-
c) fixtures and fittings	-	-
d) electronic systems	-	-
e) other	-	-
Total	**22,982**	**21,611**

11.2 Property, plant and equipment held for investment purposes: breakdown of assets measured at cost

Asset/Value	Total 31/12/2016				Total 31/12/2015			
	Book value	Fair value			Book value	Fair value		
		L1	L2	L3		L1	L2	L3
1. Owned assets	**5,367**	**-**	**-**	**6,500**	**6,265**	**-**	**-**	**6,650**
a) land	2,277	-	-	2,600	3,105	-	-	2,660
b) building	3,090	-	-	3,900	3,160	-	-	3,990
2. Assets acquired under finance leases	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) land	-	-	-	-	-	-	-	-
b) building	-	-	-	-	-	-	-	-
Total	**5,367**	**-**	**-**	**6,500**	**6,265**	**-**	**-**	**6,650**

In 2016, property, plant and equipment for use in operations increased by EUR 1.9 million due to higher multi-year investments, particularly regarding the opening of new branches. To this end, note that in 2016 two new branches were opened in Padua and Cuneo.

11.3 Property, plant and equipment for use in operations: breakdown of revalued assets

At the reporting date there were no items of property, plant and equipment used in operations designated at fair value or revalued.

11.4 Property, plant and equipment held for investment purposes: breakdown of assets designated at fair value

At the reporting date there were no items of property, plant and equipment held for investment purposes designated at fair value.

11.5 Property, plant and equipment for use in operations: changes in the year

	Land	Building	Fixtures and fittings	Electronic systems	Other	Total
A. Gross opening balance	**5,325**	**12,275**	**3,985**	**2,123**	**3,630**	**27,338**
A.1 Decreases in total net value	-	(782)	(1,378)	(1,644)	(1,924)	(5,728)
A.2 Net opening balance	**5,325**	**11,493**	**2,608**	**479**	**1,706**	**21,611**
B. Increases	**829**	**419**	**814**	**206**	**239**	**2,507**
B.1 Purchases	-	419	814	206	239	1,678
- of which business combinations	-	-	-	-	-	-
B.2 Capitalised improvement expense	-	-	-	-	-	-
B.3 Reversals	-	-	-	-	-	-
B.4 Positive changes in fair value recognised:	-	-	-	-	-	-
- a) in equity	-	-	-	-	-	-
- b) in the income statement	-	-	-	-	-	-
B.5 Exchange gains	-	-	-	-	-	-
B.6 Transfers from property held for investment purposes	829	-	-	-	-	829
B.7 Other changes	-	-	-	-	-	-
C. Decreases	**-**	**264**	**385**	**145**	**342**	**1,136**
C.1 Sales	-	-	-	-	-	-
- of which business combinations	-	-	-	-	-	-
C.2 Depreciation	-	264	384	144	342	1,134
C.3 Impairment losses recognised:	-	-	1	-	-	1
- a) in equity	-	-	-	-	-	-
- b) in the income statement	-	-	1	-	-	1
C.4 Negative changes in fair value recognised:	-	-	-	-	-	-
- a) in equity	-	-	-	-	-	-
- b) in the income statement	-	-	-	-	-	-
C.5 Exchange losses	-	-	-	-	-	-
C.6 Transfers to	-	-	-	-	-	-
- a) property, plant and equipment held for investment purposes	-	-	-	-	-	-
- b) assets held for sale	-	-	-	-	-	-
C.7 Other changes	-	-	-	1	-	1
D. Net closing balance	**6,154**	**11,648**	**3,036**	**540**	**1,603**	**22,982**
D.1 Decreases in total net value	-	(1,046)	(1,758)	(1,787)	(2,266)	(6,857)
D.2 Gross closing balance	**6,154**	**12,694**	**4,794**	**2,327**	**3,870**	**29,839**
E. Measurement at cost	-	-	-	-	-	-

Items “A1” and “D1 - Decreases in total net value” include the amounts relating to depreciation provisions to align the book value of the asset to its recoverable value. Sub-item “E - Measurement at cost” has no value in accordance with Bank of Italy instructions, since its completion is envisaged only for property, plant and equipment designated at fair value.

11.6 Property, plant and equipment held for investment purposes: changes in the year

	Total	
	Land	Building
A. Opening balance	**3,105**	**3,160**
B. Increases	**-**	**-**
B.1 Purchases	-	-
- of which business combinations	-	-
B.2 Capitalised improvement expenses	-	-
B.3 Positive changes in fair value	-	-
B.4 Reversals	-	-
B.5 Exchange gains	-	-
B.6 Transfers from property for use in operations	-	-
B.7 Other changes	-	-
C. Decreases	**828**	**70**
C.1 Sales	-	-
- of which business combinations	-	-
C.2 Depreciation	-	70
C.3 Negative changes in fair value	-	-
C.4 Impairment losses	-	-
C.5 Exchange losses	-	-
C.6 Transfers to other asset portfolios	828	-
a) property for use in operations	828	-
b) non-current assets held for sale	-	-
C.7 Other changes	-	-
D. Closing balance	**2,277**	**3,090**
E. Designated at fair value	2,600	3,900

11.7 - Commitments to purchase property, plant and equipment (IAS 16/74.C)

At 31 December 2016, Banca Patrimoni Sella & C. had no outstanding commitments to purchase property, plant and equipment.

Section 12 - Intangible assets - Item 120

12.1 Intangible assets: breakdown by asset type

Asset/Value	Total 31/12/2016		Total 31/12/2015	
	Finite life	Indefinite life	Finite life	Indefinite life
A.1 Goodwill	x	-	x	-
A.2 Other intangible assets	2,530	-	2,076	-
A.2.1 Assets measured at cost:	2,530	-	2,076	-
a) Intangible assets generated internally	-	-	-	-
b) Other assets	2,530	-	2,076	-
A.2.2 Assets designated at fair value:	-	-	-	-
a) Intangible assets generated internally	-	-	-	-
b) Other assets	-	-	-	-
Total	**2,530**	**-**	**2,076**	**-**

12.2 Intangible assets: changes in the year

	Goodwill	Other intangible assets: generated internally		Other intangible assets:		Total
		Finite	Indefinite	Finite	Indefinite	
A. Gross opening balance	**-**	**-**	**-**	**10,262**	**-**	**10,262**
A.1 Decreases in total net value	-	-	-	(8,186)	-	(8,186)
A.2 Net opening balance	**-**	**-**	**-**	**2,076**	**-**	**2,076**
B. Increases	**-**	**-**	**-**	**1,084**	**-**	**1,084**
B.1 Purchases	-	-	-	1,084	-	1,084
- of which business combinations	-	-	-	-	-	-
B.2 Increase in internally-generated intangible	x	-	-	-	-	-
B.3 Reversals	x	-	-	-	-	-
B.4 Positive changes in fair value	-	-	-	-	-	-
- in equity	x	-	-	-	-	-
- in the income statement	x	-	-	-	-	-
B.5 Exchange gains	-	-	-	-	-	-
B.6 Other changes	-	-	-	-	-	-
C. Decreases	**-**	**-**	**-**	**630**	**-**	**630**
C.1 Sales	-	-	-	-	-	-
- of which business combinations	-	-	-	-	-	-
C.2 Value adjustments	-	-	-	627	-	627
- Amortisation	x	-	-	627	-	627
- Write-downs	-	-	-	-	-	-
+ equity	x	-	-	-	-	-
+ income statement	-	-	-	-	-	-
C.3 Negative changes in fair value	-	-	-	-	-	-
- in equity	x	-	-	-	-	-
- in the income statement	x	-	-	-	-	-
C.4 Transfers to non-current assets held for sale	-	-	-	-	-	-
C.5 Exchange losses	-	-	-	-	-	-
C.6 Other changes	-	-	-	3	-	3
D. Net closing balance	**-**	**-**	**-**	**2,530**	**-**	**2,530**
D.1 Total net value adjustments	-	-	-	(8,813)	-	(8,813)
E. Gross closing balance	**-**	**-**	**-**	**11,343**	**-**	**11,343**
F. Measurement at cost	-	-	-	-	-	-

12.3 - Intangible assets: other information

There is no information to report other than that already provided in this Section.

Section 13 - Tax assets and liabilities - Asset Item 130 and Liability Item 80

Current tax assets: breakdown

	Total 31/12/2016	Total 31/12/2015
Payments on account to tax authorities	4,788	7,644
Receivables for withholdings	1	-
Assets for adoption of the tax consolidation	-	-
Due from tax authorities	984	851
Total	**5,773**	**8,495**

Payments on account to tax authorities reflect IRES payments made during 2016, net of the credit for 2015, and the IRAP credit resulting from the excess payments on account made in 2015. Due from tax authorities mainly refer to: Art Bonus tax credits, for the contribution to production of the film "Fai bei sogni" and for the reimbursement claims made pursuant to art. 6, Italian Decree Law no. 185 of 29 November 2008 (IRAP deduction for labour costs from the IRAP taxable amount for 2003 to 2011).

Current tax liabilities: breakdown

	Total 31/12/2016	Total 31/12/2015
Provision for direct taxes	3,450	5,931
Provision for indirect taxes	-	-
Total	**3,450**	**5,931**

The provision for direct taxes reflects the allocation for the year for IRES income tax and IRAP regional tax on production. As regards the provision for IRES taxes, it should be emphasised that this liability is considered payable by the Parent Company, since Banca Patrimoni Sella & C. has adopted the national tax consolidation.

13.1 Deferred tax assets: breakdown

	IRES	IRAP	OTHER	31/12/2016	31/12/2015
Losses on receivables	72	17	-	89	93
Provisions for other risks and charges	1,426	1	-	1,427	1,572
Property depreciation and appraisal	122	27	-	149	124
Other administrative expense	76	-	-	76	10
Write-down of investments	-	-	-	-	-
Personnel expense	-	-	-	-	-
Collective measurement of guarantees given	2	-	-	2	3
Mars mortgages	-	-	-	-	-
Goodwill and expense associated with business unit purchase	649	131	-	780	858
Part deriving from tax losses that can be carried forward	-	-	-	-	-
Measurement of AFS financial assets	-	1	-	1	6
Release of consolidated goodwill	-	-	-	-	-
Other assets	72	-	-	72	33
Total deferred tax assets (with balancing entry in the Income Statement)	**2,419**	**177**	**-**	**2,596**	**2,701**
Property depreciation and appraisal	-	-	-	-	-
Measurement of AFS financial assets	407	93	-	500	17
Other assets	-	-	-	-	-
Total deferred tax assets (with balancing entry in Shareholders' Equity)	**407**	**93**	**-**	**500**	**17**

13.2 Deferred tax liabilities: breakdown

	IRES	IRAP	OTHER	31/12/2016	31/12/2015
Gains (Losses) from disposal of available-for-sale financial assets	42	8	-	50	-
Calculation difference in depreciation of property, plant and equipment	-	-	-	-	-
Calculation difference in amortisation of intangible assets	-	-	-	-	-
Contributions to training costs	-	-	-	-	-
Discounting of provisions for other risks and charges	1	-	-	1	1
Mars mortgages	-	-	-	-	-
Discounting of Employee severance indemnity	-	-	-	-	-
Capital gain on business unit disposal	-	-	-	-	-
Impairment of receivables	-	-	-	-	-
Goodwill	-	-	-	-	-
Other liabilities	-	-	-	-	-
Total deferred tax liabilities (with balancing entry in the Income Statement)	**43**	**8**	**-**	**51**	**1**
Measurement of available-for-sale financial assets	240	54	-	294	231
Measurement of property, plant and equipment	-	-	-	-	-
Capital gain on business unit disposal	-	-	-	-	-
Property depreciation and appraisal	-	-	-	-	-
Other liabilities	-	-	-	-	-
Total deferred tax liabilities (with balancing entry in Shareholders' Equity)	**240**	**54**	**-**	**294**	**231**

13.3 Changes in deferred tax assets (with balancing entry in the Income Statement)

	Total 31/12/2016	Total 31/12/2015
1. Opening balance	**2,701**	**2,836**
2. Increases	**270**	**304**
2.1 Deferred tax assets recognised during the year	270	304
a) relating to previous years	-	87
b) due to changes in accounting policies	-	-
c) reversals	-	-
d) other	270	217
2.2 New taxes or tax rate increases	-	-
2.3 Other increases	-	-
- business combinations	-	-
3. Decreases	**375**	**439**
3.1 Deferred tax assets cancelled during the year	375	414
a) reversals	375	414
b) write-downs for uncollectible amounts	-	-
c) changes in accounting policies	-	-
d) other	-	-
3.2 Tax rate decreases	-	-
3.3 Other decreases	-	25
a) transformation into tax credits, Law 214/2011	-	-
b) other	-	25
- of which business combinations	-	-
4. Closing balance	**2,596**	**2,701**

The increases in item “2.1 d) Other” include the deferred tax assets recognised for the year in relation to costs becoming taxable in years after 2016.

The decreases in item “3.1 a) Reversals” include the deferred tax assets used during the year against costs from previous years becoming taxable in 2016.

13.3.1 Changes in deferred tax assets pursuant to Italian Law 214/2011 (with balancing entry in the Income Statement)

	Total 31/12/2016	Total 31/12/2015
1. Opening balance	**952**	**996**
2. Increases	**-**	**35**
- of which business combinations	-	-
3. Decreases	**83**	**79**
3.1 Reversals	83	78
3.2 Transformation into tax credits	-	-
a) deriving from losses for the year	-	-
b) deriving from tax losses	-	-
3.3 Other decreases	-	1
- of which business combinations	-	-
4. Closing balance	**869**	**952**

13.4 Changes in deferred tax liabilities (with balancing entry in the Income Statement)

	Total 31/12/2016	Total 31/12/2015
1. Opening balance	**1**	**3**
2. Increases	**66**	**1**
2.1 Deferred tax liabilities recognised during the year	66	1
a) relating to previous years	-	-
b) due to changes in accounting policies	-	-
c) other	66	1
2.2 New taxes or tax rate increases	-	-
2.3 Other increases	-	-
- of which business combinations	-	-
3. Decreases	**17**	**3**
3.1 Deferred tax liabilities cancelled during the year	17	3
a) reversals	17	3
b) due to changes in accounting policies	-	-
c) other	-	-
3.2 Tax rate decreases	-	-
3.3 Other decreases	-	-
- of which business combinations	-	-
4. Closing balance	**50**	**1**

13.5 Changes in deferred tax assets (with balancing entry in Shareholders' Equity)

	Total 31/12/2016	Total 31/12/2015
1. Opening balance	**17**	**-**
2. Increases	**483**	**17**
2.1 Deferred tax assets recognised during the year	483	17
a) relating to previous years	-	-
b) due to changes in accounting policies	-	-
c) other	483	17
2.2 New taxes or tax rate increases	-	-
2.3 Other increases	-	-
- of which business combinations	-	-
3. Decreases	**-**	**-**
3.1 Deferred tax assets cancelled during the year	-	-
a) reversals	-	-
b) write-downs for uncollectible amounts	-	-
c) due to changes in accounting policies	-	-
d) other	-	-
3.2 Tax rate decreases	-	-
3.3 Other decreases	-	-
- of which business combinations	-	-
4. Closing balance	**500**	**17**

The increases in item "2.1 c) Other" include the deferred tax assets recognised for the year in relation to capital losses from the measurement of AFS securities becoming taxable at the time of actual realisation.

13.6 Changes in deferred tax liabilities (with balancing entry in Shareholders' Equity)

	Total 31/12/2016	Total 31/12/2015
1. Opening balance	**231**	**2,606**
2. Increases	**95**	**194**
2.1 Deferred tax liabilities recognised during the year	95	194
a) relating to previous years	-	-
b) due to changes in accounting policies	-	-
c) other	95	194
2.2 New taxes or tax rate increases	-	-
2.3 Other increases	-	-
- of which business combinations	-	-
3. Decreases	**32**	**2,567**
3.1 Deferred tax liabilities cancelled during the year	32	2,566
a) reversals	32	2,566
b) due to changes in accounting policies	-	-
c) other	-	-
3.2 Tax rate decreases	-	-
3.3 Other decreases	-	1
- of which business combinations	-	-
4. Closing balance	**294**	**231**

The increases in item “2.1 c) Other” include the deferred tax assets recognised for the year in relation to capital gains from the measurement of AFS securities becoming taxable at the time of actual realisation.

13.7 - Other information

There is no information to report other than that already provided in this Section.

Section 15 - Other assets - Item 150

15.1 Other assets: breakdown

	Total 31/12/2016	Total 31/12/2015
Payment instructions from others pending debit	-	-
Current account cheques drawn on third parties	751	812
Current account cheques drawn on the bank	36	20
Advances on commissions	380	495
Fees, commissions and other income pending debit	16,242	15,145
Leasehold improvement expense	1,678	1,598
Portfolio adjustments	-	-
Advances to suppliers and trade receivables	124	108
Charges/invoices to be issued to customers	3,885	7,814
Disputed items not deriving from lending transactions	175	211
Deferral of administrative expense and fees and commissions	11,459	10,273
Due from policyholders, intermediaries and reinsurers	-	-
Tax credits (not income tax)	15,035	15,965
Provisional payments for guarantee purposes pending court decisions	-	-
Other	525	506
Total	**50,290**	**52,947**

The value of Other assets decreased compared to 31 December 2015 due to a drop in invoices to be issued to customers, partly offset by an increase in balances referring to deferrals on administrative expense and fees and commissions.

The sub-item “Deferral of administrative expense and fees and commissions” totalled EUR 11,459 thousand, of which EUR 10,372 thousand **referring to prepaid expense on sales commission bonuses paid to financial advisors**, for which maturity has not yet been completed because the related stability agreements have not yet terminated.

Likewise, note the increase in receivables deriving from “Fees, commissions and other income pending debit”. In particular, this item mainly refers to:

- EUR 11.2 million relating to fee and commission income to be collected from product companies;
- EUR 4.2 million relating to stamp duty to be charged back to customers.

A decrease was seen in tax assets (sub-item “Tax credits”), other than those recognised in item 130 “Tax assets”, i.e. associated with withholding agent activities.

In line with previous years, the sub-item “Other” includes residual credit positions mainly attributable to receivables due from third parties for amounts subject to credit collection.

Part B - Information on the Balance Sheet - Liabilities

Section 1 - Due to banks - Item 10

1.1 Due to banks: breakdown by type

Transaction type/Values	31/12/2016	31/12/2015
1. Due to central banks	**-**	**-**
2. Due to banks	**59,355**	**63,198**
2.1 Current accounts and demand deposits	44,382	51,176
2.2 Term deposits	14,969	12,018
2.3 Loans	-	-
2.3.1 Reverse repurchase agreements	-	-
2.3.2 Other	-	-
2.4 Liabilities for commitments to repurchase own equity instruments	-	-
2.5 Other payables	4	4
Total	**59,355**	**63,198**
Fair value - Level 1	**-**	**-**
Fair value - Level 2	**-**	**-**
Fair value - Level 3	**59,355**	**63,198**
Total Fair Value	**59,355**	**63,198**

The amounts due to banks are all on demand, and therefore the fair value is considered to be aligned with the book value.

1.2 - Breakdown of Item 10 “Due to banks”: subordinated debt

At 31 December 2016, Banca Patrimoni Sella & C. had no outstanding subordinated debt owed to banks.

1.3 - Breakdown of Item 10 “Due to banks”: structured debt

At 31 December 2016, Banca Patrimoni Sella & C. had no outstanding structured debt owed to banks.

1.4 - Micro-hedged amounts due to banks

At 31 December 2016, Banca Patrimoni Sella & C. had no outstanding debt owed to banks subject to micro hedging.

1.5 - Finance lease payables

At 31 December 2016, Banca Patrimoni Sella & C. had no outstanding finance lease payables.

Section 2 - Due to customers - Item 20

2.1 Due to customers: breakdown by type

Transaction type/Values	31/12/2016	31/12/2015
1. Current accounts and demand deposits	1,289,605	895,199
2. Term deposits	2,723	4,613
3. Loans	6	9,472
3.1 Reverse repurchase agreements	6	9,472
3.2 Other	-	-
4. Liabilities for commitments to repurchase own equity instruments	-	-
5. Other payables	4,672	4,035
Total	**1,297,006**	**913,319**
Fair value - Level 1	**-**	**-**
Fair value - Level 2	**-**	**-**
Fair value - Level 3	**1,297,006**	**913,319**
Fair value	**1,297,006**	**913,319**

With reference to the fair value, as the amounts due to banks are primarily on demand, it is considered that this is aligned with the book value.

Amounts due to customers increased, especially in the component relating to current accounts and demand deposits, against a reduction in term deposits attributable to customer decisions, as part of the system rate trends, that saw persisting low interest rates granted to customers on deposits. Similar considerations support the obvious decrease in customers' interest in repo investments, which therefore saw a drastic drop compared to the previous year.

2.2 - Breakdown of Item 20 "Due to customers": subordinated debt

At 31 December 2016, Banca Patrimoni Sella & C. had no outstanding subordinated debt owed to customers.

2.3 - Breakdown of Item 20 "Due to customers": structured debt

At 31 December 2016, Banca Patrimoni Sella & C. had no outstanding structured debt owed to customers.

2.4 - Micro-hedged amounts due to customers

At 31 December 2016, Banca Patrimoni Sella & C. had no outstanding debt owed to customers subject to micro hedging.

2.5 - Finance lease payables

At 31 December 2016, Banca Patrimoni Sella & C. had no outstanding amounts owed to customers on finance leases.

Section 4 - Financial liabilities held for trading - Item 40

4.1 Financial liabilities held for trading: breakdown by type

Transaction type/Values	31/12/2016					31/12/2015				
	VN	FV			FV*	VN	FV			FV*
		L1	L2	L3			L1	L2	L3	
A. Cash liabilities										
1. Due to banks	-	-	-	-	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-	-	-	-	-
3. Debt securities	-	-	-	-	-	-	-	-	-	-
3.1 Bonds	-	-	-	-	-	-	-	-	-	-
3.1.1 Structured	-	-	-	-	x	-	-	-	-	x
3.1.2 Other bonds	-	-	-	-	x	-	-	-	-	x
3.2 Other securities	-	-	-	-	-	-	-	-	-	-
3.2.1 Structured	-	-	-	-	x	-	-	-	-	x
3.2.2 Other	-	-	-	-	x	-	-	-	-	x
Total A	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B. Derivatives										
1. Financial derivatives:	x	-	1,405	-	x	x	9	371	-	x
1.1 For trading	x	-	1,405	-	x	x	9	371	-	x
1.2 Associated with the fair value option	x	-	-	-	x	x	-	-	-	x
1.3 Other	x	-	-	-	x	x	-	-	-	x
2. Credit derivatives	x	-	-	-	x	x	-	-	-	x
2.1 For trading	x	-	-	-	x	x	-	-	-	x
2.2 Associated with the fair value option	x	-	-	-	x	x	-	-	-	x
2.3 Other	x	-	-	-	x	x	-	-	-	x
Total B	**x**	**-**	**1,405**	**-**	**x**	**x**	**9**	**371**	**-**	**x**
Total (A+B)	**x**	**-**	**1,405**	**-**	**x**	**x**	**9**	**371**	**-**	**x**

Key
FV = fair value
FV* = fair value calculated by excluding changes in value due to changes in the issuer credit rating compared to the issue date
VN = nominal or notional value
L1 = Level 1
L2 = Level 2
L3 = Level 3

4.2 - Breakdown of item 40 “Financial liabilities held for trading”: subordinated debt

At 31 December 2016, Banca Patrimoni Sella & C. had no subordinated debt classified under “Financial liabilities held for trading”.

4.3 - Breakdown of item 40 “Financial liabilities held for trading”: structured debt

At 31 December 2016, Banca Patrimoni Sella & C. had no structured debt classified under “Financial liabilities held for trading”.

Section 6 - Hedging derivatives - Item 60

6.1 Hedging derivatives: breakdown by hedge type and hierarchy level

	Fair Value 31/12/2016			VN	Fair Value 31/12/2015			VN
	L1	L2	L3	31/12/2016	L1	L2	L3	31/12/2015
A. Financial derivatives	**-**	**1,436**	**-**	**7,506**	**-**	**1,551**	**-**	**8,320**
1) Fair value	-	1,436	-	7,506	-	1,551	-	8,320
2) Cash Flow	-	-	-	-	-	-	-	-
3) Foreign investments	-	-	-	-	-	-	-	-
B. Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1) Fair value	-	-	-	-	-	-	-	-
2) Cash Flow	-	-	-	-	-	-	-	-
Total	**-**	**1,436**	**-**	**7,506**	**-**	**1,551**	**-**	**8,320**

Key

VN = nominal or notional value

L1 = Level 1

L2 = Level 2

L3 = Level 3

6.2 Hedging derivatives: breakdown by portfolios hedged and by hedge type

Transaction/Hedge type	Fair Value						Cash Flow		Foreign investments
	Micro					Macro	Micro	Macro	
	Interest rate risk	Exchange rate risk	Credit risk	Price risk	Multiple risk				
1. Available-for-sale financial assets	-	-	-	-	-	x	-	x	x
2. Receivables	-	-	-	x	-	x	-	x	x
3. Financial assets held to maturity	x	-	-	x	-	x	-	x	x
4. Portfolio	x	x	x	x	x	1,436	x	-	x
5. Other transactions	-	-	-	-	-	x	-	x	-
Total assets	**-**	**-**	**-**	**-**	**-**	**1,436**	**-**	**-**	**-**
1. Financial liabilities	-	-	-	x	-	x	-	x	x
2. Portfolio	x	x	x	x	x	-	x	-	x
Total liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Transactions pending	x	x	x	x	x	x	-	x	x
2. Financial assets and liabilities portfolio	x	x	x	x	x	-		-	-

Section 8 - Tax liabilities - Item 80

With reference to this section, reference should be made to information contained in Section 13 on Assets in the Balance Sheet.

Section 10 - Other liabilities - Item 100

10.1 Other liabilities: breakdown

	Total 31/12/2016	Total 31/12/2015
Amounts available to customers and banks for transactions pending	106	102
Amounts due to tax authorities on behalf of third parties	3,781	4,780
Due for commitments to the European Single Resolution Fund	246	-
Deferred income	50	80
Fund transfers and other payments to be executed	2,076	3,639
Trade payables and fees and commissions to be charged back to others	11,841	13,692
Payables for personnel expense	6,346	6,076
Payables for collective measurement of guarantees and commitments	6	12
Contributions to be paid to other entities	1,269	1,159
Advances and amounts due to customers	13	3
Other	128	1,622
Total	**25,862**	**31,165**

Other liabilities at 31 December 2016 decreased by 17.02% compared to the previous year, mainly due to the decline in amounts due to suppliers and fees and commissions to be charged back to others, and under the sub-item “Other”. The latter mainly includes residual payables attributable to amounts due to third parties for amounts pending credit. In particular, EUR 77 thousand refer to sale and purchase transactions in securities and foreign currencies still pending settlement at the reporting date.

Instead with regard to the sub-item “Due to suppliers and fees and commissions to be charged back to others”, **this includes the pro rata amount for sales commission bonuses accruing year by year**, the invoiced disbursement of which has not yet occurred, however, as the contractually envisaged disbursement deadline has not yet been reached. The 2016 pro rata total relating to this phenomenon was EUR 2,596 thousand.

Section 11 - Employee severance indemnity - Item 110

11.1 Employee severance indemnity: changes in the year

	Total 31/12/2016	Total 31/12/2015
A. Opening balance	**1,747**	**1,846**
B. Increases	**153**	**20**
B.1 Allocations for the year	7	6
B.2 Other changes	146	14
C. Decreases	**27**	**119**
C.1 Settlements paid	20	15
C.2 Other changes	7	104
D. Closing balance	**1,873**	**1,747**

A summary is provided below of the discounting method used to estimate the allocation for the period.

As indicated in IAS 19R (art. 76), the assumptions relating to phenomena that determine the timing and extent of futures costs to be incurred by the company to pay employee benefits must represent the best estimate of the future trends in the phenomena in question.
The technical bases were reviewed for the purpose of this report, observing the Company's experience in the period 1 July 2011-30 June 2015.

Demographic assumptions

- **Deaths**: the ISTAT survival table was adopted, divided by age and gender, 2015 update;
- **Retirement, resignations/dismissals, contract expiry**: these reasons for elimination were deduced from the observation of corporate data, except retirements for which the assumption was made in accordance with current regulations. For personnel on fixed-term contracts, the time horizon for development was extended up to the envisaged expiry of the contract (as there is no contractual guarantee of continuation of the employment relationship) and it was assumed that there will be no advances paid prior to expiry of the contract. The actuarial valuation considered the starting dates for pension treatment as envisaged in Italian Law Decree no. 201 of 6 December 2011 on "Urgent measures for the growth, fairness and consolidation of public accounts", converted with amendments to Law no. 214 of 22 December 2011, as well as the rules on adapting retirement access to increases in life expectancy pursuant to art. 12, Italian Law Decree no. 78 of 31 May 2010, converted with amendments to Italian Law no. 122 of 30 July 2010;
- **Advances of employee severance indemnity**: in order to take into account the effects these advances have on the disbursement timing of employee severance indemnity, and consequently on the discounting of the company's payable, termination probabilities were constructed for part of the accrued volumes. The annual advance frequency, deduced through observation of corporate data, was set at 2%, whilst the percentage of employee severance indemnity requested in the form of advances was assumed to be 64%;
- **Supplementary pension plans**: those devolving their entire employee severance indemnity to supplementary

pension plans release the Company from employee severance indemnity commitments and, therefore, were not assessed. With reference to other employees, however, the assessments were performed in consideration of the decisions actually expressed by employees updated at 31 December 2016, as disclosed by the Company;

- **Supplementary remuneration (Qu.I.R.)**: the decision of the employee regarding exercise of the option to advance employee severance indemnity with salaries can be made at any time between 1 March 2015 and 30 June 2018 and is irrevocable. The actuarial valuation is carried out by considering the decisions actually stated by employees at the valuation date of 31 December 2016, as disclosed by the Group companies, without any assumption made in this respect.

Economic and financial assumptions

The method envisaged in IAS 19R calls for the adoption of economic and financial approaches that reflect their influence on the future growth of flows (as a result of pay increases and foreseeable inflationary scenarios) and, above all, on the discounting at the valuation date for the estimated amount payable by the Company In fact, the discount rate is the main assumption on which the results of the process are considerably based.
In particular, the assumptions made in the actuarial valuation are:

A. inflation;
B. pay increases;
C. discounting rates.

With reference to the first assumption, it was decided to adopt a 1.5% rate as the average expected inflation scenario as deduced from the “Update to the Document on Economy and Finance 2016”.
As regards pay increases, the phenomenon was considered by taking account two components: the first based on merit and contractual terms, the second inflationary.

- with reference to the first component, a zero annual increase rate was adopted.
- with reference to the second component mentioned, the inflation levels were considered.

It should be remembered that the assumption relating to salary trends was adopted only for Group companies that are not required to deposit employee severance indemnity in the Treasury Fund managed by INPS, in that only for these the actuarial valuation of employee severance indemnity continues to consider future annual amounts of employee severance indemnity accrued by employees (and not paid to pension funds).

Lastly, in accordance with IAS 39, the discounting rate was determined in reference to market yields on major corporate bonds at the valuation date. In this respect, the Composite AA rate curve (source: Bloomberg) at 30 December 2016 was used.

Section 12 - Provisions for risks and charges - Item 120

12.1 Provisions for risks and charges: breakdown

Item/Value	Total 31/12/2016	Total 31/12/2015
1. Company pension funds	-	-
2. Other provisions for risks and charges	7,781	7,243
2.1 legal disputes and customer complaints	2,156	2,499
2.2 personnel charges	374	324
2.3 operational risks	-	-
2.4 agents' leaving indemnities and termination of agency contract	5,137	4,251
2.5 other	114	169
Total	**7,781**	**7,243**

The contents of item "2. Other provisions for risks and charges" are broken down in paragraph 12.4 below.

12.2 Provisions for risks and charges: changes in the year

Item/components	Pension funds	Legal disputes and customer complaints	Operational risks	Personnel charges	Agents' leaving indemnities and termination of agency contract	Other	Total
A. Opening balance	**-**	**2,499**	**-**	**324**	**4,251**	**169**	**7,243**
B. Increases	**-**	**306**	**-**	**50**	**1,104**	**109**	**1,569**
B.1 Allocations for the year	-	305	-	50	1,104	109	1,568
B.2 Changes due to the passage of time	-	-	-	-	-	-	-
B.3 Change due to changes in the discount rate	-	1	-	-	-	-	1
B.4 Other changes	-	-	-	-	-	-	-
- Business combinations	-	-	-	-	-	-	-
- calculated exchange difference (-)	-	-	-	-	-	-	-
- Other changes (+)	-	-	-	-	-	-	-
C. Decreases	**-**	**649**	**-**	**-**	**218**	**164**	**1,031**
C.1 Use during the year	-	377	-	-	138	164	679
C.2 Change due to changes in the discount rate	-	-	-	-	-	-	-
C.3 Other changes	-	272	-	-	80	-	352
- Business combinations	-	-	-	-	-	-	-
- calculated exchange difference (-)	-	-	-	-	-	-	-
- other changes (-)	-	272	-	-	80	-	352
D. Closing balance	**-**	**2,156**	**-**	**374**	**5,137**	**114**	**7,781**

12.3 - Defined-benefit company pension funds

At the reporting date, Banca Patrimoni Sella & C. had no defined-benefit company pension funds.

12.4 - Provisions for risks and charges - other provisions

Other provisions for risks and charges mainly refer to legal disputes and customer complaints. The provision includes amounts allocated against expected outlay for such disputes and complaints.

Other provisions for risks and charges also include the agents' leaving indemnities. This represents the liability allocated to the indemnity that the Bank is required to pay to a private banker if the agency agreement should be terminated and the conditions envisaged in Art. 1751 of the Italian Civil Code are met.
The estimated allocation is measured according to IAS 37, using the actuarial method, pursuant to the legal provisions referred to above, later clarified by the Economic Agreement for the Trade Sector. From an approach point of view, calculation of the indemnities led to a projection of the average future outlay to each agent and the related discounting in accordance with IAS indications. Furthermore, as required by IAS 37, the assessment referred only to indemnities accrued at the time of assessment.

Taking into consideration that, as indicated in IAS 37 "...where the provision to be estimated involves a vast number of elements, the obligation is estimated by weighting the probabilities associated with all possible results...", statistical bases of a demographic and financial nature were adopted.

The item "other" (point 2.5, table 12.1 in this section) refers to provisions for the retention plan in favour of certain private bankers. This provision was also assessed using the actuarial method, based on the regulations for the plan concerned.

Section 14 - Shareholders’ Equity - Items 130, 150, 160, 170, 180, 190 and 200

14.1 “Capital” and “Treasury shares”: breakdown

	31/12/2016			31/12/2015		
A. Capital						
A.1 Ordinary shares	28,000	-	28,000	28,000	-	28,000
A.2 Savings shares	-	-	-	-	-	-
A.3 Preference shares	-	-	-	-	-	-
A.4 Other shares	-	-	-	-	-	-
B. Treasury shares						
B.1 Ordinary shares	-	-	-	-	-	-
B.2 Savings shares	-	-	-	-	-	-
B.3 Preference shares	-	-	-	-	-	-
B.4 Other shares	-	-	-	-	-	-

14.2 Capital - Number of shares: changes in the year

	Ordinary	Other
A. Shares outstanding: opening balance	**28,000,000**	**-**
- fully paid-up	28,000,000	-
- not yet fully paid-up	-	-
A.1 Treasury shares (-)	-	-
A.2 Shares outstanding: opening balance	**28,000,000**	**-**
B. Increases	**-**	**-**
B.1 New issues	-	-
- against payment	-	-
- business combinations	-	-
- bond conversion	-	-
- exercise of warrants	-	-
- other	-	-
- free of charge	-	-
- to employees	-	-
- to directors	-	-
- other	-	-
B.2 Sale of treasury shares	-	-
B.3 Other changes	-	-
C. Decreases	**-**	**-**
C.1 Cancellation	-	-
C.2 Purchase of treasury shares	-	-
C.3 Business disposals	-	-
C.4 Other changes	-	-
D. Shares outstanding: closing balance	**28,000,000**	**-**
D.1 Treasury shares (+)	-	-
D.2 Shares outstanding at year end	28,000,000	-
- fully paid-up	28,000,000	-
- not yet fully paid-up	-	-

The table is expressed in euro.

14.3 Capital: other information

	Total 31/12/2015	Total 31/12/2014
Nominal value per share (zero if the shares have no nominal value)	1	1
- Fully paid-up:		
Number	28,000,000	-
Value	28,000,000	-

The table is expressed in euro.

14.4 Profit reserves: other information

profit reserves:	31/12/2016	31/12/2015
Legal reserve	8,171	7,720
Extraordinary reserve	28,197	23,245
Unrestricted extraordinary reserve	28,197	23,245
Realignment reserve - art. 1, paragraph 469, Italian Law 266/05	162	162
Total profit reserves	**36,530**	**31,127**

Proposed profit allocation

	31/12/2016	31/12/2015
Profit (loss) for the year	7,171,511.66	9,005,885.88
to the Statutory reserve, as per the Articles of Association	-	-
to the Legal reserve, as per the Articles of Association	358,575.58	450,294.29
to Shareholders		
dividend	2,868,600.00	3,602,480.00
number of shares	28,000,000	28,000,000
to the provision for charity and similar donations	-	-
the remainder to the Extraordinary reserve	3,944,336.08	4.953.11,59

As required by art. 2427, paragraph 22-septies of the Italian Civil Code, the proposed profit allocation is included. Note that the table is expressed in Euros to two decimal points.

Breakdown of the use of Reserves (prepared pursuant to art. 2427, paragraph 7-bis of the Italian Civil Code)

	Amount	Usage options (*)	Distributable portion	Summary of uses in the previous three years	
		.	.	Loss coverage	Other reasons
Capital	**28,000**				
Capital reserves					
Share premium reserve	4,483	A - B - C	4,483	-	-
Profit reserves					
Legal reserve	8,171	A [(1)] - B	-	-	-
Statutory reserve	-	B	-	-	-
Extraordinary reserve	28,197	A - B - C	28,197	-	-
Restricted realignment reserve, art. 1, paragraph 469, Italian Law 266/05	162	A - B[(2)] - C[(3)]	162	-	-
Reserve from transfers of business units from Group companies	(1,274)	A - B[(2)] - C[(3)]	(1,274)	-	-
Valuation reserves					
Valuation reserve for available-for-sale assets, art. 7 paragraph 2 of Italian Legislative Decree 38/05	(455)	---[(4)]	-	-	-
Actuarial reserves for employee severance indemnity	(251)	---	(251)	-	-
Other reserves					
Reserve from transfers of business units from Group companies	1,274	A - B[(2)] - C[(3)]	1,274	-	-
Total	**68,307**		**32,591**		
Restricted portion, art. 2426, paragraph 5, Italian Civil Code			-		
Residual distributable portion			32,591		

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

(1) Usable for share capital increase (A) for the portion exceeding one-fifth of the share capital.

(2) If used as loss coverage (B), no distribution of profit can be arranged until the reserve is topped up or reduced by a corresponding amount. The reduction must be on the basis of an extraordinary shareholders' meeting resolution, without compliance with the provisions of art. 2445, paragraphs 2 and 3 of the Italian Civil Code.

(3) If not attributed to capital, the reserve can only be reduced in compliance with the provisions of art. 2445, paragraphs 2 and 3 of the Italian Civil Code. If distributed to shareholders it forms part of the Company's taxable income.

(4) The reserve is restricted pursuant to art. 6, Italian Legislative Decree 38/2005.

Other Information

1. Guarantees given and commitments

Transactions	Amount 31/12/2016	Amount 31/12/2015
1) Financial guarantees given	7	-
a) Banks	-	-
b) Customers	7	-
2) Commercial guarantees given	6,903	13,720
a) Banks	-	-
b) Customers	6,903	13,720
3) Irrevocable commitments to disburse funds	18,656	12,270
a) Banks	7,210	4,415
i) use certain	7,210	4,415
ii) use uncertain	-	-
b) Customers	11,446	7,855
i) use certain	2,771	671
ii) use uncertain	8,675	7,184
4) Commitments underlying credit derivatives: protection sales	-	-
5) Assets pledged as guarantees on third-party bonds	-	-
6) Other commitments	-	-
Total	**25,566**	**25,990**

2. Assets pledged as guarantees on own liabilities and commitments

Portfolio	Amount 31/12/2016	Amount 31/12/2015
1. Financial assets held for trading	-	-
2. Financial assets designated at fair value	-	-
3. Available-for-sale financial assets	16,505	9,484
4. Financial assets held to maturity	-	-
5. Due from banks	706	1,458
6. Due from customers	-	-
7. Property, plant and equipment	-	-

The column for 2015 includes items relating to “Due from banks” for easier comparison with 2016.

4. Management and intermediation for third parties

Type of service	Amount 31/12/2016	Amount 31/12/2015
1. Order execution on behalf of customers	**-**	**-**
a) purchases	-	-
1. regulated	-	-
2. unregulated	-	-
b) sales	-	-
1. regulated	-	-
2. unregulated	-	-
2. Portfolio management	**4,238,867**	**4,460,833**
a) Individual	4,238,867	4,460,833
b) Collective	-	-
3. Custody and administration of securities	**7,254,700**	**7,347,319**
a) third-party securities under custody: associated with involvement of the custodian bank (excluding portfolio management)	-	-
1. securities issued by the bank preparing the financial statements	-	-
2. other securities	-	-
b) third-party securities under custody (excluding portfolio management): other	2,372,252	2,235,924
1. securities issued by the bank preparing the financial statements	-	-
2. other securities	2,372,252	2,235,924
c) third-party securities deposited with third parties	3,977,354	4,095,116
d) own securities deposited with third parties	905,094	1,016,279
4. Other transactions	**17,044,015**	**23,812,671**

Other transactions include the volume of order acceptance and transmission business, for EUR 8,582 million in purchases and EUR 8,461 million in sales.

Also note that, in reference to the figures for 2015, it was necessary to correct a material error. In particular, this led to adjustment of the amount relating to the item “custody and administration of securities”, aggregate b) other securities and aggregate c) third-party securities deposited with third parties, following alignment of the nominal value of a fund.

Banca Patrimoni Sella & C.

5. Financial assets subject to offsetting in the financial statements, or subject to offsetting framework agreements or similar arrangements

Type	Gross total of financial assets (a)	Total financial assets offset (b)	Net total of financial assets recognised (c=a-b)	Correlated amounts not subject to offsetting		Net total 31/12/2016 (f=c-d-e)	Net total 31/12/2015
				Financial instruments (d)	Cash deposits received as guarantee (e)		
1. Derivatives	556	-	556	556	-	-	-
2. Repurchase agreements	-	-	-	-	-	-	-
3. Securities lending	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
Total 31/12/2016	**556**	**-**	**556**	**556**	**-**	**-**	**x**
Total 31/12/2015	**148**	**-**	**148**	**148**	**-**	**x**	**-**

6. Financial liabilities subject to offsetting in the financial statements, or subject to offsetting framework agreements or similar arrangements

Type	Gross total of financial liabilities (a)	Total financial liabilities offset (b)	Net total of financial liabilities recognised (c=a-b)	Correlated amounts not subject to offsetting		Net total 31/12/2016 (f=c-d-e)	Net total 31/12/2015
				Financial instruments (d)	Cash deposits given as guarantee (e)		
1. Derivatives	2,281	-	2,281	556	706	1,019	168
2. Repurchase agreements	-	-	-	-	-	-	-
3. Securities lending	-	-	-	-	-	-	-
4. Other transactions	-	-	-	-	-	-	-
Total 31/12/2016	**2,281**	**-**	**2,281**	**556**	**706**	**1,019**	**x**
Total 31/12/2015	**1,773**	**-**	**1,773**	**148**	**1,458**	**x**	**167**

Part C - Information on the Income Statement

Section 1 - Interest - Items 10 and 20

1.1 interest income and similar income: breakdown

Item/Type	Debt securities	Loans	Other transactions	Total 31/12/2016	Total 31/12/2015
1. Financial assets held for trading	146	-	358	504	526
2. Available-for-sale financial assets	3,897	-	-	3,897	4,068
3. Financial assets held to maturity	-	-	-	-	-
4. Due from banks	6	652	-	658	1,060
5. Due from customers	-	5,522	-	5,522	6,016
6. Financial assets designated at fair value	-	-	-	-	-
7. Hedging derivatives	x	x	5	5	4
8. Other assets	x	x	6	6	15
Total	**4,049**	**6,174**	**369**	**10,592**	**11,690**

Interest income decreased by 9.4% compared to 31 December 2015, mainly due to market rate performance which stayed down also during last year, as well as to changes affecting the banking book.

In particular, the volume of investments in the banking book was lower than in previous years. The decline in values had most impact from August onwards when disposals were arranged of medium/long-term bonds reaching maturity.

The breakdown of interest accrued on non-performing, unlikely to pay, past due and restructured positions is provided below:

Interest income and similar income: breakdown of interest accrued on non-performing positions

	31/12/2016	31/12/2015
Accrued on non-performing loans	-	-
Accrued on unlikely to pay loans	33	59
Accrued on past due loans	25	2

1.3 Interest income and similar income: other information

1.3.1 Interest income on financial assets in foreign currencies		
	31/12/2016	31/12/2015
Interest income on financial assets in foreign currencies	638	381

1.3.2 Interest income on financial lease transactions

Banca Patrimoni Sella & C. does not carry out this type of transaction.

1.4 Interest expense and similar charges: breakdown

Item/Type	Payables	Securities	Other transactions	Total 31/12/2016	Total 31/12/2015
1. Due to central banks	-	x	-	-	-
2. Due to banks	52	x	-	52	256
3. Due to customers	928	x	-	928	2,637
4. Outstanding securities	x	-	-	-	-
5. Financial liabilities held for trading	-	-	252	252	110
6. Financial liabilities designated at fair value	-	-	-	-	-
7. Other liabilities and provisions	x	x	342	342	2
8. Hedging derivatives	x	x	342	342	355
Total	**980**	**-**	**936**	**1,916**	**3,360**

The decrease in interest expense is mainly due to the rate trends during the year. Consider for this purpose that the amount due to customers, against which the decrease in interest is recorded, showed an increase but mainly concentrated in demand deposits, the return on which is influenced by system rate performance.

In addition, note how the persisting downward trend in interest rates was partly offset by a corresponding monitoring of rates applied to customers, which limited the interest expense, as well as - at the same time - the grown in average lending volumes.

1.5 Interest expense and similar charges: differences relating to hedging transactions

	31/12/2016	31/12/2015
A. Positive spreads on hedging transactions	5	4
B. Negative spreads on hedging transactions	342	355
C. Balance (A-B)	**(337)**	**(351)**

1.6 Interest expense and similar charges: other information

1.6.1 Interest expense on liabilities in foreign currencies

	31/12/2016	31/12/2015
Interest expense on financial liabilities in foreign currencies	299	127

1.6.2 Interest expense on liabilities for finance lease transactions

Banca Patrimoni Sella & C. has no outstanding finance lease transactions.

Section 2 - Fees and commissions - Items 40 and 50

2.1 Fee and commission income: breakdown

Type of service/Value	Total 31/12/2016	Total 31/12/2015
a) Guarantees given	52	52
b) Credit derivatives	-	-
c) Management, intermediation and advisory services:	73,987	73,304
1. Financial instruments trading	-	3
2. Foreign currency trading	237	316
3. Portfolio management	30,189	29,318
3.1. Individual	30,189	29,318
3.2. Collective	-	-
4. Custody and administration of securities	221	208
5. Custodian bank	-	-
6. Securities placement	23,214	24,425
7. Order acceptance and transmission	8,266	9,034
8. Advisory activities	1,093	254
8.1 investment-related	1,093	254
8.2 financial structure-related	-	-
9. Distribution of third-party services	10,767	9,746
9.1 Portfolio management	2,321	2,294
9.1.1. Individual	2,321	2,294
9.1.2. Collective	-	-
9.2 Insurance products	5,658	3,906
9.3 Other products	2,788	3,546
d) Collection and payment services	179	148
e) Servicing for securitisation transactions	-	-
f) Factoring services	-	-
g) Rate and tax collection	-	-
h) Management of multilateral trading facilities	-	-
i) Current account management	262	226
j) Other services	660	406
Total	**75,140**	**74,136**

Fee and commission income increased due to the good performance of the asset management (AUM and UCITS under administration), insurance and advisory services segments, as well as to the higher funding volumes. Specifically, indirect funding saw a growth in the types of investments referred to above, associated with which was the positive performance of returns in terms of commissions. A significant factor in 2016 was also the higher incidence of volumes associated with the new paid advisory service (“On top” and “Fee only”) introduced from the end of 2015.

The breakdown of the sub-item “Other services” is provided below:

Fee and commission income: breakdown of the sub-item “Other services”

	31/12/2016	31/12/2015
Credit and debit cards	31	28
Recovery of expense on loans to customers	2	1
Fees and commissions on relations with credit institutions	-	-
Lease of safe deposit boxes	15	13
Recovery of mailing costs, printing, etc.	70	45
Commissions on loans to customers	141	62
Other	401	257
Total “Other services”	**660**	**406**

2.2 Fee and commission income: distribution channels of products and services

Channel/Value	Total 31/12/2016	Total 31/12/2015
a) At own branches		
1. portfolio management	11,276	12,011
2. securities placement	1,992	2,380
3. third-party services and products	1,033	1,047
b) Private Bankers		
1. portfolio management	18,913	17,307
2. securities placement	21,222	22,046
3. third-party services and products	9,734	8,700
c) Other distribution channels		
1. portfolio management	-	-
2. securities placement	-	-
3. third-party services and products	-	-

2.3 Fee and commission expense: breakdown

Service/Value	Total 31/12/2016	Total 31/12/2015
a) Guarantees received	2	2
b) Credit derivatives	-	-
c) Management and intermediation services:	43,344	42,756
1. Financial instruments trading	1,605	1,495
2. Foreign currency trading	-	-
3. Portfolio management:	500	554
3.1 own	239	265
3.2 third-party mandates	261	289
4. Custody and administration of securities	237	221
5. Financial instruments placement	-	-
6. Door-to-door sales of financial instruments, products and services	41,002	40,486
d) Collection and payment services	6	6
e) Other services	104	100
Total	**43,456**	**42,864**

The increase in fee and commission expense is mainly attributable to the growth in funding volumes, which consequently led to higher retrocession of commission expense to the private bankers in relation to the investment products and services provided.

The item “Fee and commission expense” also includes the cost for the year relating to sales commission bonuses paid to the private bankers. Specifically, these are included in item c)6. “Door-to-door sales of financial instruments, products and services” and amount to EUR 7,638 thousand with breakdown as follows:

- EUR 1,756 thousand: impact on the income statement for the year of sales commission bonuses accruing
- EUR 5,882 thousand: impact on the Income Statement for the year of sales commission bonuses already paid.

Fee and commission expense: breakdown of sub-item “Other services”

	31/12/2016	31/12/2015
Bank commissions	2	2
Loans	-	-
Intermediation	-	-
Other	102	98
Total “Other services”	**104**	**100**

Section 3 - Dividends and similar income - Item 70

3.1 Dividends and similar income: breakdown

Item/Income	Total 31/12/2016		Total 31/12/2015	
	Dividends	Income from UCITS units	Dividends	Income from UCITS units
A. Financial assets held for trading	6	-	-	-
B. Available-for-sale financial assets	197	55	28	112
C. Financial assets designated at fair value	-	-	-	-
D. Investments	-	x	-	x
Total	**203**	**55**	**28**	**112**

Section 4 - Net trading income - Item 80

4.1 Net trading income: breakdown

Transactions/Income components	Capital gains (A)	Trading gains (B)	Capital losses (C)	Trading losses (D)	Net gains (losses) [(A+B) - (C+D)]
1. Financial assets held for trading	**8**	**4,620**	**(34)**	**(262)**	**4,332**
1.1 Debt securities	8	4,618	(34)	(244)	4,348
1.2 Equities	-	1	-	(18)	(17)
1.3 UCITS units	-	-	-	-	-
1.4 Loans	-	-	-	-	-
1.5 other	-	-	-	-	-
2. Financial liabilities held for trading	**-**	**-**	**-**	**-**	**-**
2.1 Debt securities	-	-	-	-	-
2.2 Payables	-	-	-	-	-
2.3 Other	-	-	-	-	-
3. Financial assets and liabilities: exchange differences	**x**	**x**	**x**	**x**	**11**
4. Derivatives	**120**	**-**	**(59)**	**(5)**	**1,208**
4.1 Financial derivatives:	120	-	(59)	(5)	1,208
- On debt securities and interest rates	19	-	(16)	-	3
- On equities and share indices	101	-	(43)	(5)	53
- On foreign currency and gold	x	x	x	x	1,152
- Other	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
Total	**128**	**4,620**	**(93)**	**(267)**	**5,550**

Section 5 - Net result of hedging activity - Item 90

5.1 Net result of hedging activity: breakdown

Income component/Values	Total 31/12/2016	Total 31/12/2015
A. Gains related to:		
A.1 Fair value hedging derivatives	128	305
A.2 Financial assets subject to fair value hedges	-	-
A.3 Financial liabilities subject to fair value hedges	-	-
A.4 Cash flow hedging derivatives	-	-
A.5 Assets and liabilities in other currencies	-	-
Total hedging gains	**128**	**305**
B. Losses related to:		
B.1 Fair value hedging derivatives	17	-
B.2 Financial assets subject to fair value hedges	98	297
B.3 Financial liabilities subject to fair value hedges	-	-
B.4 Cash flow hedging derivatives	-	-
B.5 Assets and liabilities in other currencies	-	-
Total hedging losses (B)	**115**	**297**
C. Net result of hedging activity (A-B)	**13**	**8**

Section 6 - Gains (Losses) from disposal/repurchase - Item 100

6.1 Gains (Losses) from disposals/repurchases: breakdown

Item/Income components	Total 31/12/2016			Total 31/12/2015		
	Gains	Losses	Net gain (loss)	Gains	Losses	Net gain (loss)
Financial assets						
1. Due from banks	-	-	-	-	-	-
2. Due from customers	-	-	-	-	-	-
3. Available-for-sale financial assets	7,973	2,636	5,337	9,483	1,830	7,653
3.1 Debt securities	7,924	2,565	5,359	9,084	1,220	7,864
3.2 Equities	49	71	(22)	159	74	85
3.3 UCITS units	-	-	-	240	536	(296)
3.4 Loans	-	-	-	-	-	-
4. Financial assets held to maturity	-	-	-	-	-	-
Total assets	**7,973**	**2,636**	**5,337**	**9,483**	**1,830**	**7,653**
Financial liabilities						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Outstanding securities	-	-	-	-	-	-
Total liabilities	**-**	**-**	**-**	**-**	**-**	**-**

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

8.1 Net value adjustments/write-backs for deterioration of loans: breakdown

Transactions/Income components	Value adjustments (1)			Write-backs (2)				Total	
	Specific		Portfolio	Specific		Portfolio		31/12/2016	31/12/2015
	Write-offs	Other		A	B	A	B		
A. Due from banks									
- Loans	-	-	-	-	-	-	-	-	-
- Debt securities	-	-	-	-	-	-	-	-	-
B. Due from customers									
Non-performing loans purchased									
- Loans	-	-	x	-	-	-	x	-	-
- Debt securities	-	-	x	-	-	-	x	-	-
Other receivables									
- Loans	(6)	(133)	-	27	166	-	10	64	(427)
- Debt securities	-	-	-	-	-	-	-	-	-
C. Total	**(6)**	**(133)**	**-**	**27**	**166**	**-**	**10**	**64**	**(427)**

A = interest

B = other recoveries

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

Transactions/Income components	Value adjustments (1)		Write-backs (2)		Total 31/12/2016	Total 31/12/2015
	Specific		Specific			
	Write-offs	Other	A	B		
A. Debt securities	-	(304)	-	-	(304)	-
B. Equities	-	(186)	x	x	(186)	(208)
C. UCITS units	-	-	x	-	-	-
D. Loans to banks	-	-	-	-	-	-
E. Loans to customers	-	-	-	-	-	-
F. Total	**-**	**(490)**	**-**	**-**	**(490)**	**(208)**

A = interest
B = other recoveries

The value adjustments for impairment losses refer to equities held in the AFS portfolio as minority interests and to two debt securities.

In particular, as regards the value adjustments involving equity instruments, the breakdown is as follows:

- ✓ Aziende Agricole Sella S.r.l., written down for a total of EUR 75,600;
- ✓ Art Defender S.p.A., written down for a total of EUR 61,400;
- ✓ Equity instrument relating to the Voluntary Scheme of the Interbank Fund for Deposit Protection in favour of Cassa di Risparmio di Cesena for EUR 49,183.

With regard to debt securities, on the other hand, the write-downs referred to:

- ✓ Agria Finance bond for EUR 93,754;
- ✓ Portugal Telecom bond for EUR 210,075.

8.3 Net value adjustments for deterioration of financial assets held to maturity: breakdown

The Bank does not hold securities held to maturity in portfolio.

8.4 Net value adjustments for deterioration of other financial transactions: breakdown

Transactions/Income components	Value adjustments (1)			Write-backs (2)				Total	
	Specific		Portfolio	Specific		Portfolio		31/12/2016	31/12/2015
	Write-offs	Other		A	B	A	B		
A. Guarantees given	-	-	-	-	-	-	6	6	(4)
B. Credit derivatives	-	-	-	-	-	-	-	-	-
C. Commitments to disburse funds	-	-	-	-	-	-	-	-	-
D. Other transactions	-	(24)	-	-	2	-	-	(22)	(93)
E. Total	**-**	**(24)**	**-**	**-**	**2**	**-**	**6**	**(16)**	**(97)**

A = interest

B = other recoveries

“Other” includes value adjustments on credit positions recognised under “Other assets”.

Section 9 - Administrative expense - Item 150

9.1 Personnel expense: breakdown

Type of expense/Values	Total 31/12/2016	Total 31/12/2015
1) Employees	22,596	20,616
a) Salaries and wages	16,686	15,513
b) Social security charges	4,112	3,861
c) Employee severance indemnity	454	263
d) Welfare charges	-	-
e) Allocation to employee severance indemnity	7	6
f) Allocation to the provision for pensions and similar obligations:	-	-
- defined contribution plans	-	-
- defined benefit plans	-	-
g) Payments to external supplementary pension plans:	516	392
- defined contribution plans	516	392
- defined benefit plans	-	-
h) Costs deriving from share-based payment arrangements on own equity instruments	-	-
i) Other employee benefits	821	581
2) Other personnel in service	100	638
3) Directors and statutory auditors	881	854
4) Retired personnel	-	-
5) Recovery of expense for personnel seconded to other companies	(92)	(103)
6) Reimbursement of expense for third-party staff seconded to the company	242	269
Total	**23,727**	**22,274**

9.2 Average number of employees by category

	Total 31/12/2016	Total 31/12/2015
1) Employees	**236**	**212**
a) executives	20	16
b) managers	116	92
c) remaining personnel	101	104
2) Other personnel	**1**	**4**
Total	**237**	**216**

9.3 Defined-benefit company pension funds: costs and revenue

Banca Patrimoni Sella & C. has no defined-benefit company pension funds.

9.4 Other employee benefits

Type of expense/Values	Total 31/12/2016	Total 31/12/2015
Staff leaving incentives and income support fund	12	-
Benefits for children of employees	8	5
Benefits in kind	431	312
Insurance expense	176	164
Professional updating courses	163	75
Business travel expenses	-	-
Other	31	25
Total	**821**	**581**

9.5 Other administrative expense: breakdown

Type of service/Value	Total 31/12/2016	Total 31/12/2015
Legal and notary costs	142	129
IT support and miscellaneous advisory services	2,156	2,325
Printed materials and stationery	54	45
Electronic machines and software on lease	137	100
Other fees and costs for services provided by third parties	3,553	3,723
Fees for data transmission and telephony	278	292
Mailing costs	76	74
Transport costs	136	219
Office cleaning	206	174
Surveillance and security transport	162	137
Electricity and heating	210	177
Office rental	2,315	2,083
Other insurance	311	321
Announcements and advertising	219	247
Entertainment expense	288	379
Donations	40	75
Membership fees	244	237
Subscriptions and books	20	22
Information and record searches	27	28
Travel expenses	408	486
Service costs for interbank network	11	7
Welfare charges for financial advisors	1,224	1,055
Other	141	167
Maintenance and repair costs	**508**	**415**
- Owned property	98	48
- Moveable assets	64	76
- Hardware and software	346	291
Indirect taxes and duties	**11,306**	**11,154**
- Stamp duty	10,238	10,232
- Substitute tax, Italian Presidential Decree 601/73	84	61
- Single municipal tax	39	32
- DGS and SRF contribution	828	706
- Other indirect taxes	117	123
Total	**24,172**	**24,071**

The increase in administrative expense is considered minimal and attributed to normal business performance. This performance shows the enormous efforts in 2016 to contain costs, as an important aspect in overcoming the difficult market conditions whilst keeping competitiveness and service quality high. Almost all types of expense items, therefore, were essentially stable, except for certain types such as lease expense following the opening of new branches. “Other” mainly includes: token purchases for customers, donations to students for casual work (remuneration for work experience) as well as sundry consumables and other expense for network services.

The stamp duty paid in 2016 amounted to EUR 10.2 million, in line with the EUR 10.4 million recovered as seen in the item “Other income and charges”.

Administrative expense also includes the extraordinary charges on the contribution to the European DGS (Deposit Guarantee Schemes) and SRF (Single Resolution Fund), introduced by European directives 49 and 59 in 2014 and relating to the new resolution mechanism for banks in crisis and the new deposit guarantee system.

In particular, the ordinary portion of the DGS allocation was EUR 326.6 thousand, whilst the portion referring to the SRF was EUR 122.9 thousand. Furthermore, in December 2016 it became necessary to make an additional allocation to the SRF for EUR 246.5 thousand, taking into account the immediate financial needs of the FNR in relation to the well-publicised resolution plan for four Italian banks (Banca Marche, Banca Popolare dell'Etruria e del Lazio, Carichieti and Cassa di Risparmio di Ferrara).

Overall, therefore, considering all the above changes, the total contribution to resolution funds was EUR 828 thousand, with an impact on the 2016 Income Statement of EUR 696 thousand due to reimbursement of the amount paid for Banca Tercas.

Pursuant to art. 2427, paragraph 16-bis of the Italian Civil Code, the information required on remuneration paid to the independent auditors are reported in the Explanatory Notes to the Consolidated Financial Statements of the Banca Sella Group.

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

10.1 Net allocations to provisions for risks and charges: breakdown

	Balance at 31/12/2016	Balance at 31/12/2015
Allocations to provisions for personnel charges	50	115
Provisions for legal proceedings as defendant	306	205
Provisions for customer complaints	-	39
Allocations to the provision for agents' leaving indemnities	1,104	740
Allocations to other provisions	109	96
Reversals to the income statement relating to legal proceedings as defendant	(212)	(81)
Reversals to the income statement relating to customer complaints	(61)	(75)
Reversals to the income statement relating to provisions for agents' leaving indemnity	(80)	(72)
Reversals to the income statement relating to other provisions	-	(16)
Total	**1,216**	**951**

Section 11 - Net value adjustments/write-backs to property, plant and equipment - Item 170

11.1 Net value adjustments to property, plant and equipment: breakdown

Assets/Income component	Depreciation (a)	Impairment losses (b)	Write-backs (c)	Net gain (loss) (a + b + c) 31/12/2016
A. Property, plant and equipment				
A.1 Owned	1,204	1	-	1,205
- For use in operations	1,134	1	-	1,135
- As investment	70	-	-	70
A.2 Acquired under finance leases	-	-	-	-
- For use in operations	-	-	-	-
- As investment	-	-	-	-
Total	**1,204**	**1**	**-**	**1,205**

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

12.1 Net value adjustments to intangible assets: breakdown

Assets/Income component	Amortisation (a)	Impairment losses (b)	Write-backs (c)	Net gain (loss) (a + b + c) 31/12/2016
A. Intangible assets				
A.1 Owned	627	-	-	627
- Generated within the company	-	-	-	-
- Other	627	-	-	627
A.2 Acquired under finance leases	-	-	-	-
Total	**627**	**-**	**-**	**627**

Section 13 - Other operating income and expense - Item 190

Other operating expense/income

	31/12/2016	31/12/2015
Total other operating expense	778	842
Total other operating income	11,344	11,474
Other operating expense/income	**10,566**	**10,632**

The item "Other operating expense/income", less recovered stamp duty and other taxes, at 31 December 2016 totalled EUR 144.2 thousand, down 53.9% on the corresponding period of the previous year when, again net of recovered stamp duty, showed a balance of EUR 312.5 thousand. This was partly attributable to the increase in amortisation and depreciation of leased assets, in view of the lease of new offices fitted out as bank branches, as well as to the decrease in Other operating income.

13.1 Other operating expense: breakdown

	Total 31/12/2016	Total 31/12/2015
Amortisation of leasehold improvement expense	332	196
Losses associated with operational risks	90	126
Reimbursement of interest on collection and payment transactions	-	-
Penalties payable for contractual default	2	-
Reimbursement to customers of Funds-SICAV incentives (MiFID)	12	31
Other charges	342	488
Total	**778**	**841**

In Table 13.1, "Other charges" mainly include the cost incurred during the year for the payment of portfolio disposal indemnities to the private bankers for which this contractual option was envisaged, as well as the impact on the income statement of payment of the agents' leaving indemnities for the part exceeding allocation to the specific provision for risks.

13.2 Other operating income: breakdown

	Total 31/12/2016	Total 31/12/2015
Lease and rental income	342	378
Charges borne by third parties and reimbursements received:	10,290	10,319
- tax recoveries	10,290	10,319
- insurance premiums and reimbursements	-	-
Recovery of expense and other income on deposits and current accounts	39	40
Income from software services	200	200
Recovery of interest on collection and payment transactions	1	4
POS lease income	-	-
Administrative services to third parties	20	-
Penalties receivable for contractual default	29	34
Recovery of expense for credit collection services provided	54	48
Recovery of other expense	43	29
Other income	326	421
Total	**11,344**	**11,473**

In Table 13.2, the sub-item “Other income” mainly includes

- ✓ contributions to training costs;
- ✓ the reimbursement by the Interbank Fund for Deposit Protection of the contribution paid for Banca Tercas as support[9];
- ✓ contributions for loans disbursed by the FOC (National Occupational Support Fund for the credit sector) in relation to staff recruitment/stabilisation;
- ✓ contingent assets from agents’ leaving indemnities not requested by private bankers and relating to previous years
- ✓ as well as a contingent asset deriving from operations with institutional customers.

Lastly, for ease of comparison with 2016, note that in the column relating to 2015 a line is dedicated to the sub-item “Recovery of other expense”, originally classified in the macro-item “Other income”.

[9] For further details, see paragraph 4.5 of the Management Report.

Section 17 - Gains (losses) from disposal of investments - Item 240

17.1 Gains (losses) from disposal of investments: breakdown

Income component/Values	Total 31/12/2016	Total 31/12/2015
A. Properties	-	-
- Gains from disposal	-	-
- Losses from disposal	-	-
B. Other assets	-	(147)
- Gains from disposal	-	2
- Losses from disposal	-	(149)
Net gain (loss)	**-**	**(147)**

Section 18 - Income taxes for the year from current operations - Item 260

18.1 Income taxes for the year from current operations: breakdown

Income component/Values	Total 31/12/2016	Total 31/12/2015
1. Current taxes (+/-)	(3,489)	(4,935)
2. Change in current taxes from previous years (+/-)	(43)	(35)
3. Decrease in current taxes for the year (+)	-	-
3.bis Decrease in current taxes for the year as a result of tax credits pursuant to Italian Law 214/2011 (+)	163	-
4. Change in deferred tax assets (+/-)	(105)	(135)
5. Change in deferred tax liabilities (+/-)	(50)	3
6. Taxes for the year	(3,524)	(5,102)

18.2 Reconciliation between theoretical and effective tax charges			
Description	**Taxable amount**	**Rate**	**Income taxes**
Profit (Loss) from current operations before tax	10,695		
Nominal rate [1]		33.08%	3,538
IRES reconciliation:			-
Non-deductible interest expense	63	0.16%	17
Dividends excluded from taxes	(101)	-0.26%	(28)
Write-down of investments	137	0.35%	38
Non-deductible costs	408	1.05%	112
IRAP on labour costs deductible for IRES purposes	(94)	-0.24%	(26)
IRAP one-off 10% deductible from IRES	(85)	-0.22%	(23)
ACE (“Aid to Economic Development”) tax benefit	(732)	-1.88%	(201)
Tax credit for contribution to a cinematographic production		-1.50%	(160)
Other tax benefits (energy savings, art bonus)		-0.07%	(8)
Higher prior years’ taxes		0.41%	44
Other adjustments	(206)	-0.53%	(57)
Adjusted rate		30.35%	**3,246**
IRAP reconciliation:			-
Dividends excluded from the taxable amount	(56)	-0.03%	(3)
Non-deductible interest expense	63	0.03%	4
Non-deductible personnel expense	1,711	0.89%	95
Net value adjustments on non-deductible receivables	16	0.01%	1
Net value adjustments for impairment losses on debt securities and investments	441	0.23%	25
Allocations net of the use of non-deductible provisions for risks and charges	1,216	0.63%	68
Administrative expense and non-deductible amortisation/depreciation	2,590	1.35%	144
Lower prior years’ taxes	-		(1)
Other amounts excluded from the taxable amount	(980)	-0.51%	(55)
Effective rate	-	32.42%	**3,524**

(1) IRES rate + weighted average IRAP rate based on the geographic distribution of the taxable amount.

Part D - Comprehensive income

Banca Patrimoni Sella & C.

STATEMENT OF COMPREHENSIVE INCOME

	Items	Gross amount	Income taxes	Net amount
10.	**Profit (loss) for the year**	**X**	**X**	**7,172**
	Other income components, without reversal to the income statement			
20.	Property, plant and equipment	-	-	-
30.	Intangible assets	-	-	-
40.	Defined benefit plans	(144)	40	(104)
50.	Non-current assets held for sale	-	-	-
60.	Portion of valuation reserves for investments measured at equity	-	-	-
	Other income components, with reversal to the income statement			
70.	**Foreign investment hedges:**	**-**	**-**	**-**
	a) changes in fair value	-	-	-
	b) reversal to the income statement	-	-	-
	c) other changes	-	-	-
80.	**Exchange differences:**	**-**	**-**	**-**
	a) changes in value	-	-	-
	b) reversal to the income statement	-	-	-
	c) other changes	-	-	-
90.	**Cash flow hedges:**	**-**	**-**	**-**
	a) changes in fair value	-	-	-
	b) reversal to the income statement	-	-	-
	c) other changes	-	-	-
100.	**Available-for-sale financial assets:**	**(1,345)**	**420**	**(925)**
	a) changes in fair value	(126)	17	(109)
	b) reversal to the income statement	(1,219)	403	(816)
	- impairment losses	94	(31)	63
	- realised gains/losses	(1,313)	434	(879)
	c) other changes	-	-	-
110.	**Non-current assets held for sale:**	**-**	**-**	**-**
	a) changes in fair value	-	-	-
	b) reversal to the income statement	-	-	-
	c) other changes	-	-	-
120.	**Portion of valuation reserves for investments measured at equity**	**-**	**-**	**-**
	a) changes in fair value	-	-	-
	b) reversal to the income statement	-	-	-
	- impairment losses	-	-	-
	- realised gains/losses	-	-	-
	c) other changes	-	-	-
130.	**Total other income components**	**(1,489)**	**460**	**(1,029)**
140.	**Comprehensive income (Items 10+130)**			**6,142**

Part E - Information on risks and related hedging policies

Introduction

Lending activities, though growing constantly, are not the core business of the Bank and are performed with the aim of completing the range of services offered, particularly to depositors.

Given the above, lending mainly targets individuals and is backed by collateral or guarantees, or by irrevocable mandates to sell financial instruments deposited with the Bank.

Collateral is considered very carefully in order to allow access to credit, both to reduce risks associated with disbursement and for the mitigation that such instruments offer. The main types are credit facility opening, loans (mortgages or unsecured), interest-free loans and letters of credit.

The Bank has a specific organisational structure to manage lending in a highly centralised manner. The decision-making process is strongly centralised and the preparatory stage and limited decision-making powers are devolved to the peripheral structures. Decision-making powers are assigned to individuals, not on the basis of the office held but rather on the respective expertise and technical skills, as well as to central boards and committees.

Information of a general nature is provided below on credit risk management by Banca Patrimoni Sella & C.

Section 1 - Credit risk

Qualitative information

1. General aspects

Banca Patrimoni Sella & C. assigns considerable importance to credit risk measurement and management. Lending activities have always been considered accessory to the Bank's core business, which instead focuses on the management of customers' financial investments. The credit policies and credit disbursement and monitoring practices are consequently defined in such a way as to combine customer requirements with the need to guarantee that the quality of lending activities is maintained.

With specific reference to credit risk control activities, these are the responsibility of the Risk Management Department[10] and the Credit Division of the Bank jointly with the branches. The first has the duty of monitoring and quantifying the credit risk assumed by the Bank, assessing its sustainability and, through the use of shared tools, encouraging effective and proactive management, as well as verifying that performance monitoring of individual credit exposures is carried out correctly. The second is instead dedicated to more traditional monitoring, primarily the analysis of single credit positions and a number of variables considered significant for credit risk control.

[10] The Risk Management Department of Banca Patrimoni also makes use of activities performed by the Parent Company's Risk Management Department in accordance with the specific outsourcing contract.

2. Credit risk management policies

2.1 Organisational aspects

In general, loan applications are received directly by the Bank's branches, which then handle the initial phase of gathering documentation and starting the investigations necessary for the subsequent assessment of creditworthiness and the final decision. In support of the assessment process, the bank has adopted scoring and rating systems. The decision-making officer can, at his or her own discretion, accept, deny or occasionally amend the application (for example, requesting additional guarantees or proposing a reduction in the amount requested or a different type of facility).

Based on the amount and type of credit requested, the granting of loans is decided by individuals or bodies with specific decision-making powers, up to and including the Board of Directors.

After disbursement, the positions granted must be reviewed periodically to verify continuation of the credit rating and to assess any new needs of the customer.

2.2 Management, measurement and control systems

With regard to management, measurement and control systems for credit risk exposure, the Risk Management Department is responsible for developing credit risk measurement approaches and for providing support in the creation of specific models to measure the risk components in each credit portfolio. The Risk Management Department is also responsible for supervisory activities, preparing periodic reports to all levels.

As regards default risk assessment, different management procedures and analysis tools are available based on customer segmentation consistent with Basel 3 Standardised Approach benchmarks, as indicated in Regulation 575/2013. As mentioned previously, lending is not the core business of Banca Patrimoni and that business primarily targets private customers.

Note the existence at Group level of the Credit Risk Control Committee, which aims to enhance coordination of the credit risk profile monitoring of all Banca Sella Group entities with credit exposures. The Committee meetings:

a - discuss the performance and forecast developments of macroeconomic variables in relation to developments in the risk profile of the loans and risk metrics;

b - monitor the deviation between final monthly values and the forecast values relating to RAF limits and credit adjustments;

c - lastly, the Committee keeps a register of the main critical issues emerging and the responsibilities assigned; monitors compliance with deadlines and the effectiveness of remedial action associated with anomalies or the outcome of controls pursuant to Circular 285 (formerly 263/2006);

d - plans meetings for in-depth discussion of specific points for attention and verification of the entities' compliance with governance defined in the Parent Company's Risk Management Policy.

With dedicated personnel and in cooperation with the branches, the Credit Department supervises the adequacy of credit risk control through constant monitoring of performance and customer data and through supervision of the distribution network operations.

2.3 Credit risk mitigation approaches

The allocation of loans involves an initial selection that is highly detailed in terms of potential borrowers, taking into consideration the actual capacity of the borrower to meet commitments assumed on the basis of their capacity to generate adequate cash flows and carefully assessing the forms of credit risk protection offered by the type of credit and the presence of guarantees.

In this respect, note the particular nature of the borrowers of Banca Patrimoni Sella & C., often depositors for whom the credit component obtained from the Bank is only a part, even a modest part, of the total assets under the Bank's management or administration.

The guarantees normally obtained from the counterparties are those characteristic of banking activities, i.e. mainly: personal guarantees and collateral on properties and financial instruments. Banca Patrimoni Sella & C. does not make use of offsetting arrangements in relation to recorded and off-balance sheet transactions, nor in the purchase of credit derivatives.

Banca Patrimoni Sella & C. is fully aware that the credit risk mitigation approaches are more effective if acquired and managed in a manner compliant with the provisions of Basel 3 in every possible situation: legal, prompt realisation, organisational and specific to every guarantee.

With specific reference to the guarantee acquisition phase, the process is supported by a special IT procedure that intervenes at decision-making and finalisation stages of the facility in order to manage guarantee acquisition (pledges, mortgages and sureties) and restricts finalisation until the envisaged controls prove successful.

In general, the credit disbursement practices do not envisage the acceptance of guarantees that contemplate contractual restrictions that could compromise their legal validity.

2.4 Impaired financial assets

Throughout 2016, such instances had a very modest impact on Banca Patrimoni Sella & C. operations. Information of a general nature is provided, however, on the management methods adopted by the Banca Sella Group.

In accordance with IAS 39, impaired loans are subject to collective or analytical measurement depending on the impairment status and the amount involved. The total adjustment to any receivable is equal to the difference between the present value of expected future cash flows, calculated by applying the original effective interest rate, and the book value at the time of measurement.

For the portion of impaired receivables written off, the Non-Performing Exposures Department of Banca Sella, which manages credit collection activities in disputed cases for the Banca Sella Group, outsources the activities on behalf of Banca Patrimoni Sella & C. from the time of cancellation of the facilities to the management of enforcement action.

Quantitative information

A. Credit quality

For the purpose of quantitative information on credit quality, the term “credit exposures” refers solely to equity instruments and UCITS units, whilst the broader term “exposures” includes these elements.

A.1 Non-performing and performing credit positions: balances, value adjustments, trends, economic and geographic distribution

A.1.1 Breakdown of financial assets by related portfolio and by credit quality (book values)

Portfolio/quality		Non-performing loans	Unlikely to pay loans	Impaired past due loans	Performing past due loans	Performing loans	Total
1. Available-for-sale financial assets		-	-	-	-	111,552	111,552
2. Financial assets held to maturity		-	-	-	-	-	-
3. Due from banks		-	-	-	-	884,697	884,697
4. Due from customers		740	1,208	31	7,226	355,325	364,530
5. Financial assets designated at fair value		-	-	-	-	-	-
6. Financial assets held for sale		-	-	-	-	-	-
Total	**31/12/2016**	**740**	**1,208**	**31**	**7,226**	**1,351,574**	**1,360,779**
Total	**31/12/2015**	**815**	**2,461**	**108**	**1,176**	**986,475**	**991,036**

A.1.2 Breakdown of credit exposures by related portfolio and by credit quality (gross and net values)

Portfolio/Quality		Impaired assets			Performing assets			Total (Net exposure)
		Gross exposure	Specific adjustments	Net exposure	Gross exposure	Portfolio adjustments	Net exposure	
1. Available-for-sale financial assets		-	-	-	111,552	-	111,552	111,552
2. Financial assets held to maturity		-	-	-	-	-	-	-
3. Due from banks		-	-	-	884,698	(1)	884,697	884,697
4. Due from customers		2,795	(816)	1,979	362,826	(275)	362,551	364,530
5. Financial assets designated at fair value		-	-	-	X	X	-	-
6. Financial assets held for sale		-	-	-	-	-	-	-
Total	**31/12/2016**	**2,795**	**(816)**	**1,979**	**1,359,076**	**(276)**	**1,358,800**	**1,360,779**
Total	**31/12/2015**	**4,353**	**(969)**	**3,384**	**987,937**	**(286)**	**987,652**	**991,035**

Portfolio/Quality	Assets of clearly poor credit quality		Other assets
	Accumulated capital losses	Net exposure	Net exposure
1. Financial assets held for trading	-	-	4,160
2. Hedging derivatives	-	-	-
Total 31/12/2016	**-**	**-**	**4,160**
Total 31/12/2015	**-**	**-**	**4,399**

A.1.3 Cash and off-balance sheet credit exposures to banks: gross values, net values and past due range

Exposure type/values	Gross exposure					Specific value adjustments	Portfolio value adjustments	Net exposure
	Impaired assets				Performing assets			
	Up to 3 months	More than 3 months and up to 6 months	More than 6 months and up to 1 year	More than 1 year				
A. CASH EXPOSURES								
a) Non-performing loans	-	-	-	-	X	-	X	-
- of which: forbearance exposures	-	-	-	-	X	-	X	-
b) Unlikely to pay loans	-	-	-	-	X	-	X	-
- of which: forbearance exposures	-	-	-	-	X	-	X	-
c) Impaired past due loans	-	-	-	-	X	-	X	-
- of which: forbearance exposures	-	-	-	-	X	-	X	-
d) Performing past due loans	X	X	X	X	-	X	-	-
- of which: forbearance exposures	X	X	X	X	-	X	-	-
e) Other performing exposures	X	X	X	X	920,938	X	1	920,937
- of which: forbearance exposures	X	X	X	X	-	X	-	-
TOTAL A	**-**	**-**	**-**	**-**	**920,938**	**-**	**1**	**920,937**
B. OFF-BALANCE SHEET EXPOSURES								
a) Impaired	-	-	-	-	X	-	X	-
b) Performing	X	X	X	X	1,994	X	-	1,994
TOTAL B	**-**	**-**	**-**	**-**	**1,994**	**-**	**-**	**1,994**
TOTAL (A+B)	**-**	**-**	**-**	**-**	**922,932**	**-**	**1**	**922,931**

A.1.6 Cash and off-balance sheet credit exposures to customers: gross values, net values and past due range

Exposure type/values	Gross exposure					Specific value adjustments	Portfolio value adjustments	Net exposure
	Impaired assets				Performing assets			
	Up to 3 months	More than 3 months and up to 6 months	More than 6 months and up to 1 year	More than 1 year				
A. CASH EXPOSURES								
a) Non-performing loans	-	-	-	1,502	X	762	X	740
- of which: forbearance exposures	-	-	-	-	X	-	X	-
b) Unlikely to pay loans	1,152	92	-	10	X	46	X	1,208
- of which: forbearance exposures	15	-	-	-	X	2	X	13
c) Impaired past due loans	-	17	10	12	X	8	X	31
- of which: forbearance exposures	-	-	-	-	X	-	X	-
d) Performing past due loans	X	X	X	X	7,232	X	6	7,226
- of which: forbearance exposures	X	X	X	X	1,078	X	1	1,077
e) Other performing exposures	X	X	X	X	433,492	X	269	433,223
- of which: forbearance exposures	X	X	X	X	185	X	-	185
TOTAL A	**1,152**	**109**	**10**	**1,524**	**440,724**	**816**	**275**	**442,428**
B. OFF-BALANCE SHEET EXPOSURES	-	-	-	-	-	-	-	-
a) Impaired	11	-	-	-	X	-	X	11
b) Performing	X	X	X	X	25,144	X	6	25,138
TOTAL B	**11**	**-**	**-**	**-**	**25,144**	**-**	**6**	**25,149**
TOTAL (A+B)	**1,163**	**109**	**10**	**1,524**	**465,868**	**816**	**281**	**467,577**

A.1.7 Credit exposures on a cash basis to customers: changes in gross impaired loans

Reasons/Categories	Non-performing loans	Unlikely to pay loans	Impaired past due loans
A. Gross exposure - opening balance	**1,597**	**2,643**	**113**
- of which: assigned but not yet eliminated	-	-	-
B. Increases	**150**	**816**	**289**
B.1 Transferred from performing loans	-	720	275
B.2 Transferred from other impaired loan categories	68	90	9
B.3 other increases	82	6	5
- of which: business combinations	-	-	-
C. Decreases	**245**	**2,205**	**363**
C.1 transferred to performing loans	-	276	262
C.2 eliminations	157	-	-
C.3 collections	88	1,852	-
C.4 gains realised on disposals	-	-	-
C.5 losses realised on disposals	-	-	-
C.6 transfers to other impaired loan categories	-	77	90
C.7 other decreases	-	-	11
- of which: business combinations	-	-	-
D. Gross exposure - closing balance	**1,502**	**1,254**	**39**
- of which: assigned but not yet eliminated	-	-	-

A.1.7bis Credit exposures on a cash basis to customers: changes in gross forbearance exposures broken down by credit quality

Reasons/Categories	Forbearance exposures: impaired	Forbearance exposures: performing
A. Gross exposure - opening balance	**-**	**1,256**
- of which: assigned but not yet eliminated	-	-
B. Increases	**15**	**88**
B.1 Transferred from performing exposures without forbearance	15	88
B.2 Transferred from performing forbearance exposures	-	X
B.3 Transferred from impaired forbearance exposures	X	-
B.4 other increases	-	-
- of which: business combinations	-	-
C. Decreases	**2**	**82**
C.1 transferred to performing exposures without forbearance	X	-
C.2 transferred to performing forbearance exposures	-	X
C.3 Transferred to impaired forbearance exposures	X	-
C.4 eliminations	-	-
C.5 collections	-	-
C.6 gains realised on disposals	-	-
C.7 losses realised on disposals	-	-
C.8 other decreases	2	82
D. Gross exposure - closing balance	**13**	**1,262**
- of which: assigned but not yet eliminated	-	-

A.1.8 Credit exposures on a cash basis to customers: changes in total value adjustments

Reasons/Categories	Non-performing loans		Unlikely to pay loans		Impaired past due loans	
	Total	Of which: forbearance exposures	Total	Of which: forbearance exposures	Total	Of which: forbearance exposures
A. Total adjustments - opening balance	**782**	**-**	**182**	**-**	**5**	**-**
- of which: assigned but not yet eliminated	-	-	-	-	-	-
B. Increases	**206**	**-**	**6**	**2**	**15**	**-**
B.1 value adjustments	169	-	6	2	11	-
B.2 losses from disposal	-	-	-	-	-	-
B.3 transfers from other impaired loan categories	37	-	-	-	-	-
B.4 other increases	-	-	-	-	4	-
C. Decreases	**226**	**-**	**142**	**-**	**12**	**-**
C.1 reversals following measurement	53	-	2	-	-	-
C.2 reversals due to collections	15	-	103	-	-	-
C.3 gains from disposal	-	-	-	-	-	-
C.4 eliminations	158	-	-	-	-	-
C.5 transfers to other impaired loan categories	-	-	37	-	-	-
C.6 other decreases	-	-	-	-	12	-
D. Total adjustments - closing balance	**762**	**-**	**46**	**2**	**8**	**-**
- of which: assigned but not yet eliminated	-	-	-	-	-	-

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

The table below illustrates exposures by external rating classes assigned by Fitch to Banca Patrimoni Sella & C. customers.

A.2.1 Breakdown of credit exposures on a cash basis and off-balance sheet by external rating classes

Exposures	External rating classes						Unrated	Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
A. Credit exposures on a cash basis	**2,418**	**11,718**	**41,679**	**30,913**	**-**	**147**	**1,286,598**	**1,373,473**
B. Derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**1,574**	**1,574**
B.1 Financial derivatives	-	-	-	-	-	-	1,574	1,574
B.2 Credit derivatives	-	-	-	-	-	-	-	-
C. Guarantees given	**-**	**-**	**-**	**-**	**-**	**-**	**6,910**	**6,910**
D. Commitments to disburse funds	**-**	**-**	**-**	**-**	**-**	**-**	**18,656**	**18,656**
E. Other	**-**	**-**	**-**	**-**	**-**	**-**	**1**	**1**
Total	**2,418**	**11,718**	**41,679**	**30,913**	**-**	**147**	**1,313,739**	**1,400,614**

The external rating classes are shown in accordance with ECAI rating mapping recognised by the Bank of Italy.

The mapping illustrated in the table refers to long-term ratings assigned by Fitch Ratings:

- ✓ credit rating class 1 includes Fitch ratings from AAA to AA-;
- ✓ credit rating class 2 includes Fitch ratings from A+ to A-;
- ✓ credit rating class 3 includes Fitch ratings from BBB+ to BBB-;
- ✓ credit rating class 4 includes Fitch ratings from BB+ to BB-;
- ✓ credit rating class 5 includes Fitch ratings from B+ to B-;
- ✓ credit rating class 6 includes Fitch ratings CCC+ and lower.

It should be emphasised that more than 70% of unrated exposures of Banca Patrimoni Sella & C. refer to companies included in the scope of consolidation of the Banca Sella Group.

A.2.2 Breakdown of cash and off-balance sheet exposures by internal rating classes

This table is omitted as the coverage is minimal and less than 2%.

With regard to internal ratings, note that all banks in the Group have an internal model for the assignment of credit ratings to Corporate and Large Corporate companies and a model also for Small Businesses and SMEs.

The internal ratings are not currently used to calculate capital requirements.

The rating assignment and calculation for Banca Patrimoni Sella & C. customers, as a result of the higher concentration of counterparties in the consumer household sector, has not reached significant coverage levels with respect to the overall portfolio size.

A.3 Breakdown of guaranteed exposures by guarantee type

A.3.1 Credit exposures to banks - with guarantees

p.1

	Net exposure	Collateral (1)				Personal guarantees (2)		
						Credit derivatives		
							Other derivatives	
		Properties, Mortgages	Properties, finance leases	Securities	Other collateral	CLNs	Governments and Central Banks	Other public entities
1. Credit exposures on a cash basis -	15,020	-	-	12,041	2,979	-	-	-
1.1 fully guaranteed	15,020	-	-	12,041	2,979	-	-	-
- of which impaired	-	-	-	-	-	-	-	-
1.2 part-guaranteed	-	-	-	-	-	-	-	-
- of which impaired	-	-	-	-	-	-	-	-
2. Off-balance sheet credit	-	-	-	-	-	-	-	-
2.1 fully guaranteed	-	-	-	-	-	-	-	-
- of which impaired	-	-	-	-	-	-	-	-
2.2 part-guaranteed	-	-	-	-	-	-	-	-
- of which impaired	-	-	-	-	-	-	-	-

A.3.1 Credit exposures to banks - with guarantees

p.2

	Personal guarantees (2)						Total (1) + (2)
	Credit derivatives		Unsecured				
	Other derivatives						
	Banks	Other entities	Governments and Central Banks	Other public entities	Banks	Other entities	
1. Credit exposures on a cash basis -	-	-	-	-	-	-	15,020
1.1 fully guaranteed	-	-	-	-	-	-	15,020
- of which impaired	-	-	-	-	-	-	-
1.2 part-guaranteed	-	-	-	-	-	-	-
- of which impaired	-	-	-	-	-	-	-
2. Off-balance sheet credit exposures	-	-	-	-	-	-	-
2.1 fully guaranteed	-	-	-	-	-	-	-
- of which impaired	-	-	-	-	-	-	-
2.2 part-guaranteed	-	-	-	-	-	-	-
- of which impaired	-	-	-	-	-	-	-

A.3.2 Credit exposures to customers - with guarantees

p.1

	Net exposure	Collateral (1)				Personal guarantees (2)		
						Credit derivatives		
							Other derivatives	
		Properties, Mortgages	Properties, finance leases	Securities	Other collateral	CLNs	Governments and Central Banks	Other public entities
1. Credit exposures on a cash basis -	285,200	108,050	-	147,329	19,651	-	-	-
1.1 fully guaranteed	260,538	108,050	-	132,779	18,611	-	-	-
- of which impaired	1,804	1,174	-	505	18	-	-	-
1.2 part-guaranteed	24,662	-	-	14,550	1,040	-	-	-
- of which impaired	-	-	-	-	-	-	-	-
2. Off-balance sheet credit exposures	6,240	-	-	5,696	90	-	-	-
2.1 fully guaranteed	3,184	-	-	3,095	89	-	-	-
- of which impaired	-	-	-	-	-	-	-	-
2.2 part-guaranteed	3,056	-	-	2,601	1	-	-	-
- of which impaired	-	-	-	-	-	-	-	-

A.3.2 Credit exposures to customers - with guarantees

p.2

	Personal guarantees (2)						Total (1) + (2)
	Credit derivatives		Unsecured				
	Other derivatives						
	Banks	Other entities	Governments and Central Banks	Other public entities	Banks	Other entities	
1. Credit exposures on a cash basis -	-	-	-	-	-	1,052	276,082
1.1 fully guaranteed	-	-	-	-	-	1,020	260,460
- of which impaired	-	-	-	-	-	107	1,804
1.2 part-guaranteed	-	-	-	-	-	32	15,622
- of which impaired	-	-	-	-	-	-	-
2. Off-balance sheet credit exposures	-	-	-	-	-	50	5,836
2.1 fully guaranteed	-	-	-	-	-	-	3,184
- of which impaired	-	-	-	-	-	-	-
2.2 part-guaranteed	-	-	-	-	-	50	2,652
- of which impaired	-	-	-	-	-	-	-

B. Breakdown and concentration of credit exposures

B.1 Breakdown by sector of credit exposures on a cash basis and off-balance sheet to customers (book value)

p.1

Exposures/Counterparties	Government authorities			Other public entities			Financial companies		
	Net exposure	Specific value adjustments	Portfolio value adjustments	Net exposure	Specific value adjustments	Portfolio value adjustments	Net exposure	Specific value adjustments	Portfolio value adjustments
A. Cash exposures									
A.1 Non-performing	-	-	x	-	-	x	-	-	x
- of which: forbearance exposures	-	-	x	-	-	x	-	-	x
A.2 Unlikely to pay	-	-	x	-	-	x	-	-	x
- of which: forbearance exposures	-	-	x	-	-	x	-	-	x
A.3 Impaired past due	-	-	x	-	-	x	2	-	x
- of which: forbearance exposures	-	-	x	-	-	x	-	-	x
A.4 Performing	30,955	x	-	-	x	-	81,210	x	3
- of which: forbearance exposures	-	x	-	-	x	-	-	x	-
Total A	**30,955**	**-**	**-**	**-**	**-**	**-**	**81,212**	**-**	**3**
B. Off-balance-sheet exposures									
B.1 Non-performing	-	-	x	-	-	x	-	-	x
B.2 Unlikely to pay	-	-	x	-	-	x	-	-	x
B.3 Other impaired assets	-	-	x	-	-	x	-	-	-
B.4 Performing	2	x	-	1,953	x	-	1,191	x	-
Total B	**2**	**-**	**-**	**1,953**	**-**	**-**	**1,191**	**-**	**-**
Total (A+B) 31/12/2016	**30,957**	**-**	**-**	**1,953**	**-**	**-**	**82,403**	**-**	**3**
Total (A+B) 31/12/2015	**142,165**	**-**	**-**	**550**	**-**	**-**	**90,454**	**21**	**3**

B.1 Breakdown by sector of credit exposures on a cash basis and off-balance sheet to customers (book value)

p.2

Exposures/Counterparties	Insurance companies			Non-financial companies			Other entities		
	Net exposure	Specific value adjustments	Portfolio value adjustments	Net exposure	Specific value adjustments	Portfolio value adjustments	Net exposure	Specific value adjustments	Portfolio value adjustments
A. Cash exposures									
A.1 Non-performing	-	-	x	364	206	x	376	556	x
- of which: forbearance exposures	-	-	x	-	-	x	-	-	x
A.2 Unlikely to pay	-	-	x	773	23	x	434	23	x
- of which: forbearance exposures	-	-	x	-	-	x	13	2	x
A.3 Impaired past due	-	-	x	2	-	x	27	7	x
- of which: forbearance exposures	-	-	x	-	-	x	-	-	x
A.4 Performing	5,243	x	-	110,472	x	94	212,570	x	178
- of which: forbearance exposures	-	x	-	97	x	-	1,165	x	1
Total A	**5,243**	**-**	**-**	**111,611**	**229**	**94**	**213,407**	**586**	**178**
B. Off-balance-sheet exposures									
B.1 Non-performing	-	-	x	-	-	x	-	-	x
B.2 Unlikely to pay	-	-	x	-	-	x	-	-	x
B.3 Other impaired assets	-	-	x	-	-	x	10	-	x
B.4 Performing	-	x	-	12,443	x	4	9,548	x	3
Total B	**-**	**-**	**-**	**12,443**	**-**	**4**	**9,558**	**-**	**3**
Total (A+B) 31/12/2016	**5,243**	**-**	**-**	**124,054**	**229**	**98**	**222,965**	**586**	**181**
Total (A+B) 31/12/2015	**7,446**	**-**	**11**	**115,835**	**200**	**87**	**217,066**	**749**	**196**

B.2 Breakdown by geographic area of credit exposures on a cash basis and off-balance sheet to customers (book value)

p.1

Exposures/Geographic area		Italy		Other EU countries		America
		Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure
A. Cash exposures						
A.1 Non-performing		740	762	-	-	-
A.2 Unlikely to pay		1,207	46	-	-	-
A.3 Impaired past due		31	8	-	-	-
A.4 Performing		401,526	273	34,014	1	4,695
Total A		**403,504**	**1,089**	**34,014**	**1**	**4,695**
B. Off-balance-sheet exposures						
B.1 Non-performing		-	-	-	-	-
B.2 Unlikely to pay		-	-	-	-	-
B.3 Other impaired assets		10	-	-	-	-
B.4 Performing		19,028	6	198	-	10
Total B		**19,038**	**6**	**198**	**-**	**10**
Total (A+B)	**31/12/2016**	**422,542**	**1,095**	**34,212**	**1**	**4,705**
Total (A+B)	**31/12/2015**	**491,813**	**1,255**	**68,516**	**12**	**11,916**

B.2 Breakdown by geographic area of credit exposures on a cash basis and off-balance sheet to customers (book value)

p.2

Exposures/Geographic area		America	Asia		Rest of the world	
		Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments
A. Cash exposures						
A.1 Non-performing		-	-	-	-	-
A.2 Unlikely to pay		-	-	-	-	-
A.3 Impaired past due		-	-	-	-	-
A.4 Performing		-	-	-	214	-
Total A		**-**	**-**	**-**	**214**	**-**
B. Off-balance-sheet exposures						
B.1 Non-performing		-	-	-	-	-
B.2 Unlikely to pay		-	-	-	-	-
B.3 Other impaired assets		-	-	-	-	-
B.4 Performing		-	-	-	5,901	-
Total B		**-**	**-**	**-**	**5,901**	**-**
Total (A+B)	**31/12/2016**	**-**	**-**	**-**	**6,115**	**-**
Total (A+B)	**31/12/2015**	**-**	**-**	**-**	**1,272**	**-**

B.2 Breakdown by geographic area of credit exposures on a cash basis and off-balance sheet to customers (book value) - Italy

Exposures/Geographic area	North-West Italy		North-East Italy		Central Italy		Southern Italy and Islands	
	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments
A. Cash exposures								
A.1 Non-performing	522	620	126	39	38	47	54	56
A.2 Unlikely to pay	1,103	33	-	-	13	2	92	11
A.3 Impaired past due	16	5	2	-	8	2	5	1
A.4 Performing	222,335	143	64,792	54	69,485	39	44,914	38
Total A	**223,976**	**801**	**64,920**	**93**	**69,544**	**90**	**45,065**	**106**
B. Off-balance-sheet exposures								
B.1 Non-performing	-	-	-	-	-	-	-	-
B.2 Unlikely to pay	-	-	-	-	-	-	-	-
B.3 Other impaired assets	11	-	-	-	-	-	-	-
B.4 Performing	6,527	2	1,304	-	7,219	1	3,979	3
Total B	**6,538**	**2**	**1,304**	**-**	**7,219**	**1**	**3,979**	**3**
Total (A+B) 31/12/2016	**230,514**	**803**	**66,224**	**93**	**76,763**	**91**	**49,044**	**109**
Total (A+B) 31/12/2015	**235,477**	**941**	**67,531**	**113**	**156,814**	**109**	**31,990**	**93**

B.3 Breakdown by geographic area of credit exposures on a cash basis and off-balance sheet to banks (book value)

p.1

Exposures/Geographic area		Italy		Other EU countries		America
		Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure
A. Cash exposures						
A.1 Non-performing		-	-	-	-	-
A.2 Unlikely to pay		-	-	-	-	-
A.3 Impaired past due		-	-	-	-	-
A.4 Performing		912,582	1	5,724	-	1,730
Total A		**912,582**	**1**	**5,724**	**-**	**1,730**
B. Off-balance-sheet exposures						
B.1 Non-performing		-	-	-	-	-
B.2 Unlikely to pay		-	-	-	-	-
B.3 Other impaired assets		-	-	-	-	-
B.4 Performing		1,415	-	-	-	-
Total B		**1,415**	**-**	**-**	**-**	**-**
Total (A+B)	**31/12/2016**	**913,997**	**1**	**5,724**	**-**	**1,730**
Total (A+B)	**31/12/2015**	**427,452**	**-**	**11,802**	**-**	**6,468**

B.3 Breakdown by geographic area of credit exposures on a cash basis and off-balance sheet to banks (book value)

p.2

Exposures/Geographic area		America	Asia		Rest of the world	
		Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments
A. Cash exposures						
A.1 Non-performing		-	-	-	-	-
A.2 Unlikely to pay		-	-	-	-	-
A.3 Impaired past due		-	-	-	-	-
A.4 Performing		-	-	-	901	-
Total A		**-**	**-**	**-**	**901**	**-**
B. Off-balance-sheet exposures						
B.1 Non-performing		-	-	-	-	-
B.2 Unlikely to pay		-	-	-	-	-
B.3 Other impaired assets		-	-	-	-	-
B.4 Performing		-	-	-	579	-
Total B		**-**	**-**	**-**	**579**	**-**
Total (A+B)	**31/12/2016**	**-**	**-**	**-**	**1,480**	**-**
Total (A+B)	**31/12/2015**	**-**	**-**	**-**	**2,189**	**-**

B.3 Breakdown by geographic area of credit exposures on a cash basis and off-balance sheet to banks (book value) - Italy

Exposures/Geographic area		North-West Italy		North-East Italy		Central Italy		Southern Italy and Islands	
		Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments
A. Cash exposures									
A.1 Non-performing		-	-	-	-	-	-	-	-
A.2 Unlikely to pay		-	-	-	-	-	-	-	-
A.3 Impaired past due		-	-	-	-	-	-	-	-
A.4 Performing		884,243	1	9,260	-	19,079	-	-	-
Total A		**884,243**	**1**	**9,260**	**-**	**19,079**	**-**	**-**	**-**
B. Off-balance-sheet exposures									
B.1 Non-performing		-	-	-	-	-	-	-	-
B.2 Unlikely to pay		-	-	-	-	-	-	-	-
B.3 Other impaired assets		-	-	-	-	-	-	-	-
B.4 Performing		1,269	-	146	-	-	-	-	-
Total B		**1,269**	**-**	**146**	**-**	**-**	**-**	**-**	**-**
Total (A+B)	**31/12/2016**	**885,512**	**1**	**9,406**	**-**	**19,079**	**-**	**-**	**-**
Total (A+B)	**31/12/2015**	**387,940**	**-**	**14,356**	**-**	**25,156**	**-**	**-**	**-**

Banca Patrimoni Sella & C.

B.4 Large exposures

	31/12/2016
a) Total (book value)	1,123,800
b) Total (weighted value)	110,838
c) Number	19

C. Securitisations

The Bank did not perform any securitisations during the year.

D. Information on unconsolidated structured entities (other than securitisation vehicles)

Qualitative information

The Bank has exposures to unconsolidated structured entities due to the effect of investments in units of UCITS qualifying as structured entities in accordance with IFRS 12.

Quantitative information

Information on unconsolidated structured entities (other than securitisation vehicles)

Item/structured entity type	Asset portfolios	Total assets (A)	Liability portfolios	Total liabilities (B)	Net book value (C=A-B)	Maximum exposure to risk of loss (D)	Difference between exposure to risk of loss and book value (E=D-C)
UCITS	AFS	10,108	-	-	10,108	10,108	0

E. Disposals

A. Financial assets sold but not fully eliminated

Qualitative information

The “Financial assets sold but not fully eliminated” refer to reverse repurchase agreements with customers and with underlying Italian Government securities.

Quantitative information

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

part 1

Type/Portfolio	Financial assets held for trading			Financial assets designated at fair value		
	A	B	C	A	B	C
A. Cash assets	**-**	**-**	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-	-	-
2. Equities	-	-	-	-	-	-
3. UCITS	-	-	-	-	-	-
4. Loans	-	-	-	-	-	-
B. Derivatives	**-**	**-**	**-**	**x**	**x**	**x**
Total 31/12/2016	**-**	**-**	**-**	**-**	**-**	**-**
of which: impaired	-	-	-	-	-	-
Total 31/12/2015	**-**	**-**	**-**	**-**	**-**	**-**
of which: impaired	-	-	-	-	-	-

A = financial assets sold and fully recognised (book value)
B = financial assets sold and partly recognised (book value)
C = financial assets partly recognised (full value)

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

part 2

Type/Portfolio	Available-for-sale financial assets			Financial assets held to maturity		
	A	B	C	A	B	C
A. Cash assets	**-**	**-**	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-	-	-
2. Equities	-	-	-	x	x	x
3. UCITS	-	-	-	x	x	x
4. Loans	-	-	-	-	-	-
B. Derivatives	**x**	**x**	**x**	**x**	**x**	**x**
Total 31/12/2016	**-**	**-**	**-**	**-**	**-**	**-**
of which: impaired	-	-	-	-	-	-
Total 31/12/2015	**9,484**	**-**	**-**	**-**	**-**	**-**
of which: impaired	-	-	-	-	-	-

A = financial assets sold and fully recognised (book value)
B = financial assets sold and partly recognised (book value)
C = financial assets partly recognised (full value)

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

part 3

Type/Portfolio	Due from banks			Due from customers			Total	
	A	B	C	A	B	C	31/12/2016	31/12/2015
A. Cash assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**9,484**
1. Debt securities	-	-	-	-	-	-	-	9,484
2. Equities	x	x	x	x	x	x	-	-
3. UCITS	x	x	x	x	x	x	-	-
4. Loans	-	-	-	-	-	-	-	-
B. Derivatives	**x**	**x**	**x**	**x**	**x**	**x**	**-**	**-**
Total 31/12/2016	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**x**
of which: impaired	-	-	-	-	-	-	-	x
Total 31/12/2015	**-**	**-**	**-**	**-**	**-**	**-**	**x**	**9,484**
of which: impaired	-	-	-	-	-	-	x	-

A = financial assets sold and fully recognised (book value)
B = financial assets sold and partly recognised (book value)
C = financial assets partly recognised (full value)

E.2 Financial liabilities associated with financial assets sold but not eliminated: book value

Liability/Asset portfolio	Financial assets held for trading	Financial assets designated at fair value	Available-for-sale financial assets	Financial assets held to maturity	Due from banks	Due from customers	Total
1. Due to customers	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) associated with assets recognised in full	-	-	-	-	-	-	-
b) associated with assets partly recognised	-	-	-	-	-	-	-
2. Due to banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) associated with assets recognised in full	-	-	-	-	-	-	-
b) associated with assets partly recognised	-	-	-	-	-	-	-
3. Outstanding securities	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) associated with assets recognised in full	-	-	-	-	-	-	-
b) associated with assets partly recognised	-	-	-	-	-	-	-
Total 31/12/2016	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total 31/12/2015	**-**	**-**	**9,472**	**-**	**-**	**-**	**9,472**

Banca Patrimoni Sella & C.

E.3 Disposals with liabilities for reversal only against the assets sold: fair value

p.1

Type/Portfolio	Financial assets held for trading		Financial assets designated at fair value		Available-for-sale financial assets		Financial assets held to maturity
	A	B	A	B	A	B	A
A. Cash assets	-	-	-	-	-	-	-
1. Debt securities	-	-	-	-	-	-	-
2. Equities	-	-	-	-	-	-	-
3. UCITS	-	-	-	-	-	-	-
4. Loans	-	-	-	-	-	-	-
B. Derivatives	-	-	-	-	-	-	-
Total Assets	-	-	-	-	-	-	-
C. Associated liabilities	-	-	-	-	-	-	-
1. Due to customers	-	-	-	-	-	-	-
2. Due to banks	-	-	-	-	-	-	-
Total Liabilities	-	-	-	-	-	-	-
Net value 31/12/2016	-	-	-	-	-	-	-
Net value 31/12/2015	-	-	-	-	12	-	-

A = financial assets sold and fully recognised
B = financial assets sold and partly recognised

E.3 Disposals with liabilities for reversal only against the assets sold: fair value

p.2

Type/Portfolio	Financial assets held to	Due from banks (fair value)		Due from customers (fair value)		Total	
	B	A	B	A	B	31/12/2016	31/12/2015
A. Cash assets	-	-	-	-	-	-	**9,484**
1. Debt securities	-	-	-	-	-	-	9,484
2. Equities	x	x	x	x	x	-	-
3. UCITS	x	x	x	x	x	-	-
4. Loans	-	-	-	-	-	-	-
B. Derivatives	x	x	x	x	x	-	-
Total Assets	-	-	-	-	-	-	**9,484**
C. Associated liabilities	-	-	-	-	-	x	x
1. Due to customers	-	-	-	-	-	x	x
2. Due to banks	-	-	-	-	-	x	x
Total Liabilities	-	-	-	-	-	-	**9,472**
Net value 31/12/2016	-	-	-	-	-	-	x
Net value 31/12/2015	-	-	-	-	-	x	**12**

A = financial assets sold and fully recognised
B = financial assets sold and partly recognised

B. Financial assets sold and fully eliminated with recognition of continuous involvement

The Bank had no assets of this nature during the year.

F. Credit risk measurement models

The Bank does not use internal portfolio models to measure credit risk exposure.

The capital requirement for credit risk is currently calculated by applying the standardised approach.

Section 2 - Market risks

Market risk refers to unexpected changes in market factors such as interest rates, exchange rates and price changes dependent on the fluctuations of market variables and specific issuer or counterparty factors that can result in an increase or decrease in the market values of positions in financial instruments and/or foreign currencies held by a financial intermediary.

2.1 Interest rate risk and price risk - regulatory trading portfolio

For the purpose of completing this section, only financial instruments (assets and liabilities) in the "regulatory trading portfolio" are included, as defined in the instructions relating to regulatory reporting on market risks (see Circular no. 286 of 17 December 2013 issued by the Bank of Italy).

Qualitative information

A. General aspects

The Bank's trading book mainly comprises bonds, shares, UCITS units and listed hedging derivatives of positions. The bond component of the portfolio is largely made up of medium-term bonds. The main portion of the risk portfolio refers to issuer risk and interest rate risk.

The underlying objectives and strategies of trading activities carried out on the portfolio of own securities aim to limit risks and maximise profitability of the portfolio within the sphere of action established by Group regulations on such matters.

B. Management processes and measurement approaches

The market risk management process for the trading book is governed by specific company regulations, approved by the Board of Directors and subject to periodic review. These regulations formalise the Risk Management Department's activities as regards market risk, defines the duties and responsibilities assigned to the different organisational units concerned and, amongst other things, specifies the measurement approaches, exposure limits, information flows and any mitigation measures. Investment and trading activities are therefore performed in compliance with the aforementioned regulations and is carried out as part of a system of operating powers and within the framework of a regulation that envisages operating limits defined in terms of instruments, amounts, investment markets, issue and issuer types, sectors and ratings.

The Risk Management Department monitors market risk exposure and verifies that it matches the risk appetite defined by the corporate bodies in the Risk Appetite Framework and its compliance with the limits system. In line with the Risk Appetite Framework adopted by the Banca Sella Group, market risk exposure is monitored in reference to the current portfolio (comprising the financial instruments classified as held for trading and available for sale), held mainly for medium/long-term investment purposes.
Suitable information flows are provided regularly and promptly to the corporate bodies and management departments.

For prudential purposes, in measuring interest rate risk and price risk intrinsic to the regulatory trading portfolio, the Banca Sella Group applies the standardised approach defined in Bank of Italy Circular no. 285/2013, as amended. It follows that the capital absorption as regards market risk is represented by the sum of capital requirements for each risk qualifying as market risk based on the "building block approach".

When drafting the ICAAP Report (capital adequacy assessment in accordance with Basel 3 Pillar 2), and therefore at least on an annual basis, the Parent Company carries out stress tests on the current portfolio. Stress testing consists in the analysis of economic results as specific negative events - extreme but plausible - occur (for example, downgrading of the credit rating of issuers of securities in portfolio).

Quantitative information

1. **Regulatory trading portfolio: breakdown by residual life (repricing date) of cash financial assets and liabilities and financial derivatives**

As permitted by Circular 262/2005, as amended, this table is not prepared as the explanatory notes provide details of interest rate risk sensitivity analysis based on internal models and other approaches.

2. **Regulatory trading portfolio: breakdown of exposures in equities and share indices by the main listing market countries**

As permitted by Circular 262/2005, as amended, this table is not prepared as the explanatory notes provide details of price risk sensitivity analysis based on internal models and other approaches.

3. **Regulatory trading portfolio: internal models and other methods for sensitivity analysis**

For management purposes, the trading portfolio market risk is measured and monitored based on VaR (value at risk) analysis calculated mainly using the time-series simulation approach. The VaR measures the maximum potential loss which, with a given confidence interval, can occur if the portfolio is kept unchanged for a certain period of time. Time-series simulation envisages the daily remeasurement of positions based on market price trends over a suitable observation period. The empiric breakdown of resulting gains/losses is analysed to determine the effect of extreme market changes on the portfolios. The distribution value at the percentile corresponding to the established confidence interval represents the VaR measurement.

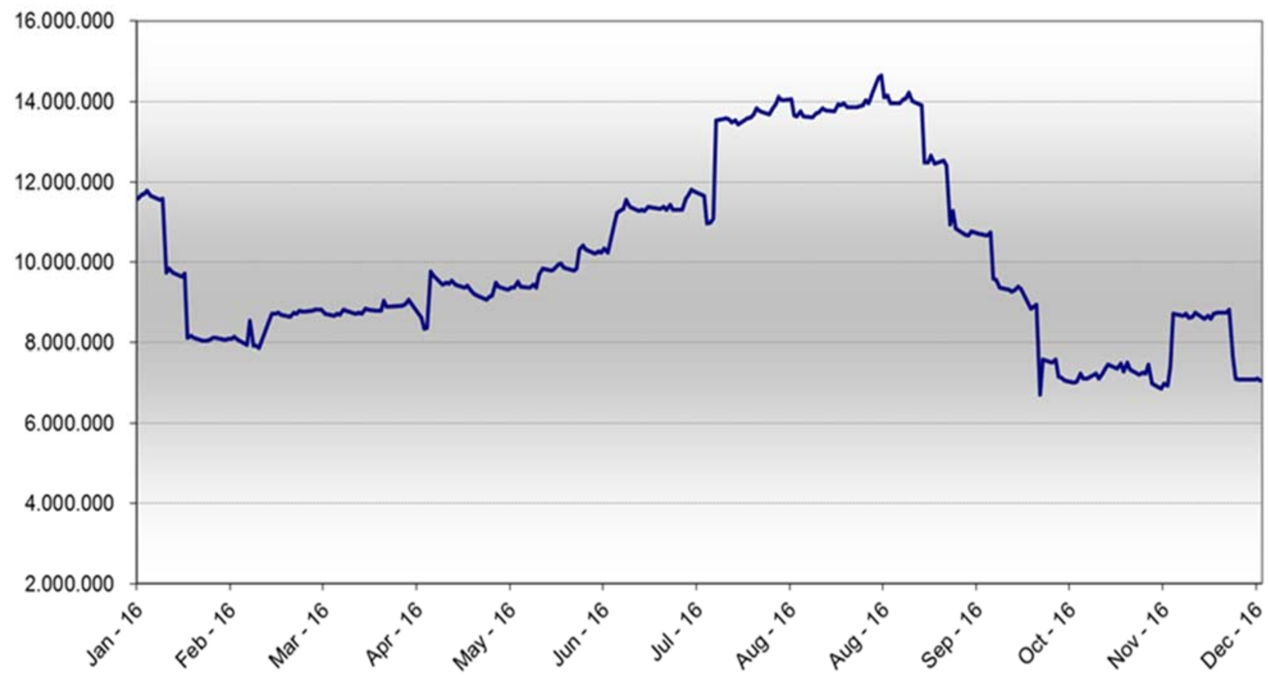
Risk Management performs checks on VaR performance (time horizon: 3 months and confidence interval: 99%) of the owned portfolios and analyses the sensitivity factors such as portfolio duration and the effects of instant rate shock. Lastly, continuous verification of the operating limits for investments in securities is guaranteed.
The average duration of the current portfolio of Banca Patrimoni Sella & C. at 31 December 2016 was 3.84 years whilst its sensitivity, estimated on a parallel shift of +100 basis points in the interest rate curve, was around EUR 4.451 million (equal to approximately 3.84% of the portfolio).

The VaR performance of Banca Patrimoni Sella & C. (99% confidence interval, 3-month time horizon) is indicated in the chart below.

No prudential limits decided by the Bank were exceeded during the year.

Banca Patrimoni Sella & C. – Current Portfolio

Market Risk VaR (3-month time horizon - 99% confidence interval)



2.2 Interest rate risk and price risk - banking book

The banking book comprises all the financial instruments (assets and liabilities) not included in the trading portfolio referred to in section 2.1, mainly amount due from and to banks and customers and securities not included in the regulatory trading portfolio.

Qualitative information

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

The main sources of interest rate risk generated in the banking book can be attributed to:

- ✓ timing mismatches in due dates (risk associated with the exposure of positions to changes in the inclination and form of the yield curve);
- ✓ mismatches deriving from imperfect correlation of changes in rates receivable and payable on the different instruments (indexing risk)

Interest rate risk is primarily generated by funding and lending with customers, fixed and floating rate securities in the banking book and interbank deposits (receivable and payable), in addition to derivatives arranged to mitigate exposure to interest rate risk. The Group’s policy is that of strong hedging of items and the strategic and management decisions aim to minimise volatility of the overall economic value as the rates structure changes.

Internal interest rate risk management processes are founded on an organisational structure based on which the information is examined at operating level and critically measured by the Group ALM Committee on a monthly basis. This Committee also provides suitable operating guidelines.

On a monthly basis, the Risk Management Department monitors interest rate risk exposure and verifies that it matches the risk appetite defined by the corporate bodies in the Risk Appetite Framework and its compliance with the limits system. Suitable information flows are provided regularly and promptly to the corporate bodies and management departments.

The measurement of interest rate risk in the banking book is performed by quantifying the interest rate risk ratio, i.e. the ratio between the change in economic value of the banking book after an interest rate shock and the regulatory capital.

The risk ratio is calculated using different approaches, according to the purpose:

- compliance testing: measurement using the standard approach indicated by the Bank of Italy in Annex C to its Circular no. 285/2013. Through measurement adopting the standard approach, the impact of a hypothetical change in interest rates of +/-200[11] basis points on the interest rate risk exposure is assessed. The risk rate ratio calculated in this manner should not exceed 20%[12], the limit beyond which the Bank of Italy investigates the results with the bank and reserves the right to take suitable measures.

- RAF and ICAAP measurement: through an internal approach that envisages the use of demand items modelling and adjustment of the positions to take into account the prepayment effect. Internal

[11] In compliance with the restriction on non-negativity of rates envisaged in Annex C to Title III, Chapter 1 of Circular no. 285/2013.
[12] Art. 97, paragraph 5, CRD IV;

measurement uses the standard approach referred to in the previous point, except as regards representation of the risk profile generated by demand items and the prepayment effect.

The demand items model, developed internally by the Risk Management Department of the Parent Company envisages the use of an econometric model that reflects the behavioural characteristics of demand deposits in terms of persistence (stability over time) and stickiness (reactivity to the cost of demand deposit funding as market rates change).

To measure the prepayment effect, the Constant Prepayment Rate (CPR) model is adopted, which measures the annual prepayment percentage of the items analysed by applying the prepayment rate to the repayment profiles for fixed-rate mortgages.

For management purposes, internal limits were envisaged - in addition to the stickiness indicator for compliance testing - of a more prudential nature, exceeding which triggers operating strategy assessments to mitigate such risk.

At consolidated level, the Banca Sella Group performs stress tests to measure and control interest rate risk on the banking book at least annually, at the time of preparation of the ICAAP Report. The stress testing variables can be deduced from external measurements (e.g. ABI forecasts) or processed internally with support from the Group Financial Analysis Department. The stress tests can contemplate situations of parallel and immediate shock on the rate curve, also with impacts other than 200 basis points.

B. Fair value hedging

Hedging transaction strategies largely aim to mitigate exposure to the interest rate risk implicit in the financial instruments, which mainly derive from forms of credit disbursement (macro hedges, such as those on mortgages).

The exposure to interest rate risk implicit in credit disbursement forms is hedged through amortizing interest rate swaps and cap options, based on the total mortgages portfolio and on the average maturities of the portfolio. Additional hedging is arranged for the purpose of mitigating interest rate risk generated by the types of funding. Hedges are also arranged to mitigate interest rate risk or exchange rate risk through simple derivatives such as domestic currency swaps, currency options and overnight interest swaps negotiated with customers of the Group banks.

The measurement methods and approaches generally adopted are based on the Black-Scholes, Monte Carlo and Net Present Value models, using a number of benchmarks that vary depending on the financial instrument to be measured. These benchmarks, validated by the Risk Management Department of Banca Sella Holding, are selected and applied to the calculation application at the time of the request to measure a new instrument. For every fair value calculation frequency for the financial instrument, first and second level controls are performed on the above benchmarks.

C. Cash flow hedging

Given the essential balance in the asset and liability structures, hedges against interest rate risk from cash flows generated by floating-rate items are not arranged.

D. Foreign investment hedging

Given the marginal volumes of foreign investments, no hedging is arranged on the interest rate risk they generate.

Quantitative information

1. Banking book: breakdown by residual life (repricing date) of financial assets and liabilities

As permitted by Circular 262/2005, as amended, this table is not prepared as the explanatory notes provide details of price risk sensitivity analysis based on internal models and other approaches, as described below.

2. Banking book: internal models and other methods for sensitivity analysis

As indicated in the section on "Qualitative information", interest rate risk is measured using proprietary models for liability items with an undefined contractual due date (demand items) and to measure the phenomenon of early repayment (prepayment effect). For all other asset and liability items, the rules defined in Bank of Italy Circular no. 285/2013, as amended, are used. The control is performed by taking into consideration all positions adopted in the financial statements and off-balance sheet, limited to profit-generating assets and costly liabilities.

For the calculation of internal capital, parallel shifts in the rate curve are assumed of +200 basis points (upturn scenario) and -40 basis points (downturn scenario, compatible with the restriction of non-negativity of rates), respectively.

The sensitivity analysis results at 31 December 2016 show limited risk on the banking book of Banca Patrimoni Sella & C. (see the table below on total and percentage impact on economic value).

Shift	Total Sensitivity	Regulatory Capital	% Sensitivity
+200 bps / -40 bps	2.45	70.91	3.45%

Amounts in EUR millions

The price risk of the portfolio is mainly attributable to investments held as permanent interests. These are positions adopted directly in accordance with measures authorised by the Board of Directors and managed in operational terms by the Bank's Treasury Department. The price risk monitoring for these financial instruments is by means of the investment management approach.

2.3 Exchange rate risk

The scope of application of this risk profile includes all assets and liabilities (in the financial statements and off-balance sheet) in foreign currencies, including transactions in euro indexed to exchange rate trends of other currencies. Gold transactions are similar to those in foreign currency.

Exchange rate risk is monitored in reference to the entire financial statements.

Qualitative information

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

Exchange rate risk is monitored by applying the standardised rate defined in Bank of Italy Circular no. 285/2013. At 31 December 2016, the Bank's net open position in exchange rates was higher than the regulatory limit of 2% of own funds, and therefore a capital requirement for exchange rate risk is generated for EUR 198,573. This exposure is generated mainly from securities in foreign currency included in the Bank's portfolio.

The Risk Management Department monitors the values for exchange rate risk exposure and reports these to the Group ALM Committee. This Committee, with support from the Treasury Department of the Parent Company, assesses any hedging action to be taken in the event of significant exposures to certain currencies.

B. Foreign currency hedging

Hedging of Banca Patrimoni Sella & C. operations in foreign currency is managed on a daily basis. The Bank assets exposed to this risk are typically lending, customer deposits and own securities denominated in foreign currency.

Quantitative information

1. Breakdown by denomination currency of assets, liabilities and derivatives

Items	Currency					
	USD	CHF	GBP	AUD	CAD	OTHER CURRENCIES
A. Financial assets	**18,353**	**2,280**	**2,945**	**903**	**91**	**921**
A.1 Debt securities	762	-	173	841	-	691
A.2 Equities	-	-	-	-	-	-
A.3 Loans to banks	17,590	2,280	2,772	62	91	230
A.4 Loans to customers	1	-	-	-	-	-
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	**22**	**1**	**7**	**-**	**-**	**1**
C. Financial liabilities	**17,349**	**2,308**	**2,039**	**51**	**91**	**141**
C.1 Due to banks	50	27	-	-	-	1
C.2 Due to customers	17,299	2,281	2,039	51	91	140
C.3 Debt securities	-	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
D. Other liabilities	**-**	**-**	**-**	**-**	**-**	**-**
E. Financial derivatives	**(179)**	**-**	**(727)**	**(3)**	**-**	**(79)**
- Options	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-
+ Long positions	30,769	2,068	46	453	55	18
+ Short positions	30,948	2,068	773	456	55	97
Total Assets	**49,144**	**4,349**	**2,998**	**1,356**	**146**	**940**
Total Liabilities	**48,297**	**4,376**	**2,812**	**507**	**146**	**238**
Imbalance (+/-)	**847**	**(27)**	**186**	**849**	**-**	**702**

2.4 Derivatives

The following tables include financial and credit derivatives traded as stand-alones and derivatives embedded in structured instruments. Exceptions to the latter are those embedded in structured products classified in the regulatory trading portfolio, for prudential purposes treated on the basis of a series of sensitivity positions on significant risk factors.

A. Financial derivatives

A.1 Regulatory trading portfolio: notional values at year end

Underlying assets/Derivative type	Total 31/12/2016		Total 31/12/2015	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates	**1,930**	**-**	**3,315**	**-**
a) Options	1,930	-	2,126	-
b) Swaps	-	-	-	-
c) Forwards	-	-	1,189	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
2. Equities and share indices	**218**	**-**	**3,070**	**-**
a) Options	218	-	3,070	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
3. Foreign currency and gold	**65,369**	**-**	**36,962**	**-**
a) Options	-	-	-	-
b) Swaps	32,273	-	18,481	-
c) Forwards	33,096	-	18,481	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
4. Merchandise	**-**	**-**	**-**	**-**
5. Other underlying assets	**-**	**-**	**-**	**-**
Total	**67,517**	**-**	**43,347**	**-**

A.2 Banking book: notional values at year end

A.2.1 Hedging

Underlying assets/Derivative type	Total 31/12/2016		Total 31/12/2015	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates	**7,506**	**-**	**8,320**	**-**
a) Options	-	-	-	-
b) Swaps	7,506	-	8,320	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
2. Equities and share indices	**-**	**-**	**-**	**-**
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
3. Foreign currency and gold	**-**	**-**	**-**	**-**
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
4. Merchandise	**-**	**-**	**-**	**-**
5. Other underlying assets	**-**	**-**	**-**	**-**
Total	**7,506**	**-**	**8,320**	**-**

A.2.2 Other derivatives

Underlying assets/Derivative type	Total 31/12/2016		Total 31/12/2015	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates	**43,973**	**-**	**61,850**	**-**
a) Options	43,973	-	61,850	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
2. Equities and share indices	**-**	**-**	**-**	**-**
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
3. Foreign currency and gold	**-**	**-**	**-**	**-**
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
4. Merchandise	**-**	**-**	**-**	**-**
5. Other underlying assets	**-**	**-**	**-**	**-**
Total	**43,973**	**-**	**61,850**	**-**

Banca Patrimoni Sella & C.

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

Portfolio/Derivative type	Positive fair value			
	Total 31/12/2016		Total 31/12/2015	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Regulatory trading portfolio	**1,524**	**-**	**425**	**-**
a) Options	219	-	174	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity Swap	-	-	-	-
e) Forwards	505	-	82	-
f) Futures	-	-	-	-
g) Other	800	-	169	-
B. Banking book - hedging	**-**	**-**	**-**	**-**
a) Options	-	-	-	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity Swap	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
C. Banking book - other derivatives	**50**	**-**	**64**	**-**
a) Options	50	-	64	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity Swap	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
Total	**1,574**	**-**	**489**	**-**

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

Portfolio/Derivative type	Negative fair value			
	Total 31/12/2016		Total 31/12/2015	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Regulatory trading portfolio	**1,364**	**-**	**322**	**-**
a) Options	1	-	3	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity Swap	-	-	-	-
e) Forwards	845	-	229	-
f) Futures	-	-	-	-
g) Other	518	-	90	-
B. Banking book - hedging	**1,436**	**-**	**1,551**	**-**
a) Options	-	-	-	-
b) Interest rate swaps	1,436	-	1,551	-
c) Cross currency swaps	-	-	-	-
d) Equity Swap	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
C. Banking book - other derivatives	**41**	**-**	**58**	**-**
a) Options	41	-	58	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity Swap	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
Total	**2,841**	**-**	**1,931**	**-**

A.5 OTC financial derivatives - regulatory trading portfolio: notional values, gross positive and negative fair values by counterparty - contracts not qualifying as offsetting arrangements

Contracts not qualifying as offsetting arrangements	Governments and Central Banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities
1. Debt securities and interest							
- notional value	-	-	-	-	-	757	208
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	1	-
- future exposure	-	-	-	-	-	-	-
2. Equities and share indices							
- notional value	-	-	-	7	-	211	-
- positive fair value	-	-	-	7	-	211	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	5	-	138	-
3. Foreign currency and gold							
- notional value	-	-	-	-	-	25,401	6,873
- positive fair value	-	-	-	-	-	798	3
- negative fair value	-	-	-	-	-	188	330
- future exposure	-	-	-	-	-	243	65
4. Other values							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-

A.6 OTC financial derivatives - regulatory trading portfolio: notional values, gross positive and negative fair values by counterparty - contracts qualifying as offsetting arrangements

Contracts qualifying as offsetting arrangements	Governments and Central Banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities
1. Debt securities and interest rates							
- notional value	-	-	965	-	-	-	-
- positive fair value	-	-	1	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
2. Equities and share indices							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
3. Foreign currency and gold							
- notional value	-	-	33,095	-	-	-	-
- positive fair value	-	-	505	-	-	-	-
- negative fair value	-	-	845	-	-	-	-
4. Other values							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-

A.7 OTC financial derivatives - banking book: notional values, gross positive and negative fair values by counterparty - contracts not qualifying as offsetting arrangements

Contracts not qualifying as offsetting arrangements	Governments and Central Banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities
1. Debt securities and interest							
- notional value	-	-	-	42	-	8,389	31,402
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	3	38
- future exposure	-	-	-	-	-	-	-
2. Equities and share indices							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
3. Foreign currency and gold							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
4. Other values							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-

A.8 OTC financial derivatives - banking book: notional values, gross positive and negative fair values by counterparty - contracts qualifying as offsetting arrangements

Contracts qualifying as offsetting arrangements	Governments and Central Banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities
1. Debt securities and interest rates							
- notional value	-	-	11,646	-	-	-	-
- positive fair value	-	-	50	-	-	-	-
- negative fair value	-	-	1,436	-	-	-	-
2. Equities and share indices							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
3. Foreign currency and gold							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
4. Other values							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-

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

Underlying assets/residual life	Up to 1 year	More than 1 year and up to 5 years	Over 5 years	Total
A. Regulatory trading portfolio	**65,369**	**218**	**1,930**	**67,517**
A.1 Financial derivatives on debt securities and interest rates	-	-	1,930	1,930
A.2 Financial derivatives on equities and share indices	-	218	-	218
A.3 Financial derivatives on foreign exchange and gold rates	65,369	-	-	65,369
A.4 Financial derivatives on other securities	-	-	-	-
B. Banking book	**893**	**9,019**	**41,567**	**51,479**
B.1 Financial derivatives on debt securities and interest rates	893	9,019	41,567	51,479
B.2 Financial derivatives on equities and share indices	-	-	-	-
B.3 Financial derivatives on foreign exchange and gold rates	-	-	-	-
B.4 Financial derivatives on other securities	-	-	-	-
Total 31/12/2016	**66,262**	**9,237**	**43,497**	**118,996**
Total 31/12/2015	**37,936**	**10,816**	**64,766**	**113,518**

B. Credit derivatives

At 31 December 2016 and during the year, the Bank did not carry out this type of transaction.

C. Financial and credit derivatives

C.1 OTC financial and credit derivatives: net fair value and future exposure by counterparty

	Governments and Central Banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities
1) Bilateral agreements - Financial derivatives	**-**	**-**	**4,195**	**-**	**-**	**-**	**-**
- positive fair value	-	-	556	-	-	-	-
- negative fair value	-	-	2,281	-	-	-	-
- future exposure	-	-	434	-	-	-	-
- net counterparty risk	-	-	924	-	-	-	-
2) Bilateral agreements - 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 approaches for liquidity risk

Liquidity risk is the risk deriving from an incapacity to meet own payment commitments, which can be caused by an inability to generate funds (funding liquidity risk) or by the presence of limited asset disinvestment options (market liquidity risk).

The Banca Sella Group’s management of liquidity risk ensures that the economic and financial balance conditions of the Group are maintained and guarantees that the objectives of sound and prudent management are pursued. The governance model defined to manage Banca Sella Group liquidity risk is based on the following principles:

- prudent management of liquidity risk in order to guarantee solvency even in stress conditions;
- compliance with the processes and methods used for liquidity risk management and monitoring with indications of the prudential supervision;
- sharing of decisions and transparency on the responsibilities of management, control and operating bodies.

Liquidity level management is assigned to the Finance Department of Banca Sella Holding. The Finance Department has the task of guiding, coordinating and controlling the financial activities of the Banca Sella Group, pursuing careful risk management and a solid liquidity position. In particular, a central role in this is played by the ALM and Treasury Department of Banca Sella Holding, which performs strict liquidity management of the Group and contributing, in compliance with the risk parameters set in the Risk Appetite Framework, to increasing the value of the company over time. The ALM and Treasury Department also contributes to the measurement of liquidity reserves. Where present, the Treasury Departments of the Group banks are responsible for liquidity management in line with the principles and strategic guidelines valid for the Group.

The Risk Management Department of Banca Sella Holding is responsible for liquidity risk measurement, determining the liquidity position at consolidated level under normal operating and stress conditions, defining the risk objectives in terms of the Risk Appetite Framework, their monitoring and the related reporting and warning activities. The BSH Risk Management Department activities also include the measurement of liquidity reserves. The Risk Management Departments of the Group companies are assigned the responsibility of controlling and monitoring liquidity risk, verifications for compliance with the limits agreed in line with group levels, and adequate reporting to their respective corporate bodies.

In addition, the liquidity position is examined and measured critically by the Group ALM Committee on a monthly basis. This Committee also provides suitable operating guidelines.

For liquidity risk management in stress conditions, the Banca Sella Group has adopted a Contingency Funding Plan (CFP). The CFP is a plan for managing any liquidity contingency situations to overcome adverse conditions for obtaining funding and for guaranteeing prompt economic and financial stability of the Banca Sella Group.

Liquidity risk management uses different time horizons: Intraday, Short-term and Structural. The Group also performs independent assessment of the liquidity level of financial instruments held as liquidity reserves.

For the measurement, an extensive set of indicators is envisaged, focusing on the performance of the systemic and specific liquidity situations, including for example the regulatory ratios LCR (Liquidity Coverage Ratio) and NSFR (Net Stable Funding Ratio).

To supplement the information provided by the liquidity ratios, the Risk Management Department of Banca Sella Holding and the Finance Department of the Banca Sella Group have the task of performing stress testing on the Group's liquidity reserves.

The approach underlying the stress tests consists in using the Maturity Ladder[13] to measure the resilience to a liquidity crisis (measured in days) of the entire Banca Sella Group when a systemic-specific crisis situation occurs. The resilience is calculated on the assumption that the business structure and equity profile of the Group do not change.

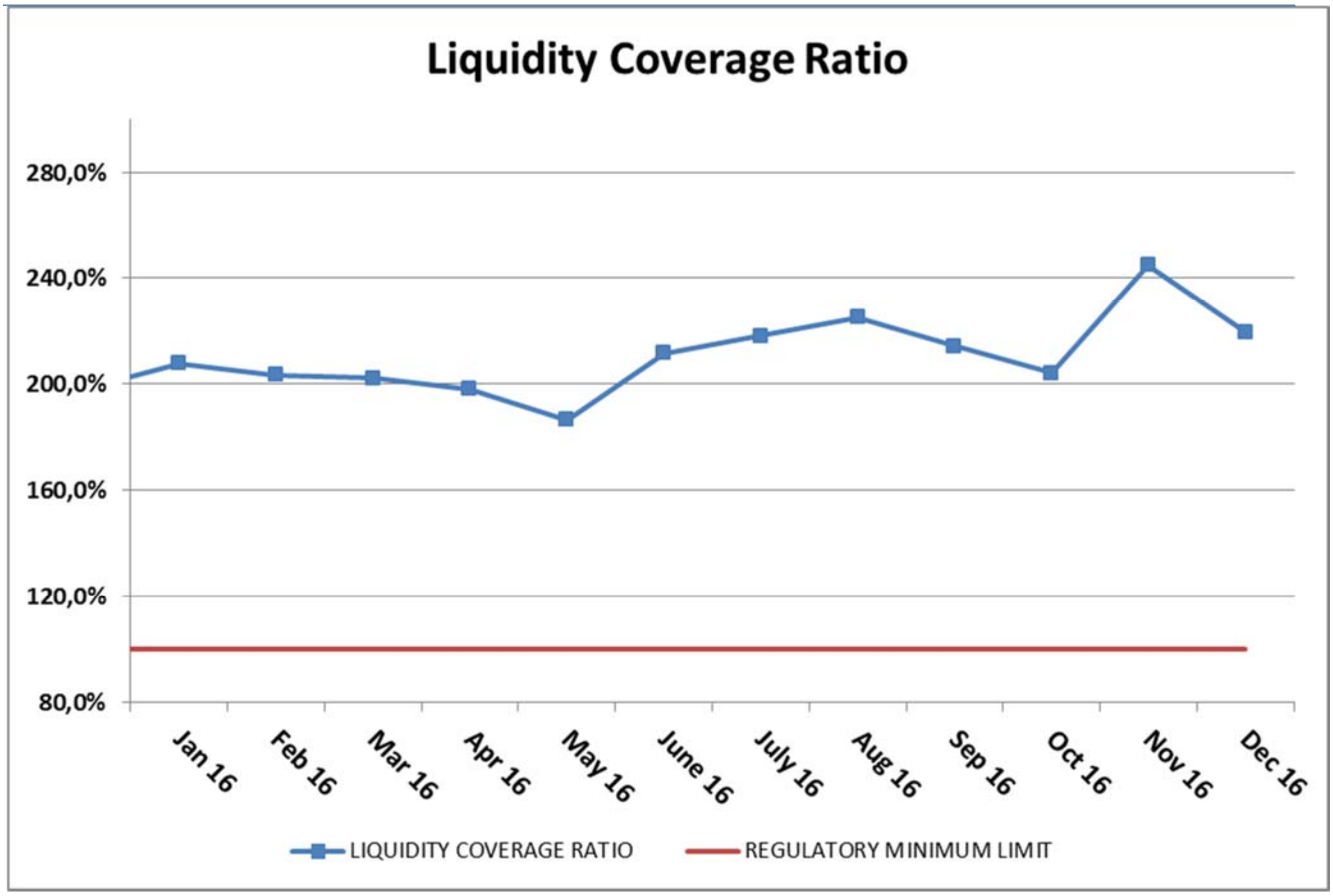
The Maturity Ladder is constructed by time horizon mapping (horizon of up to 3 months) of cash flows, certain and assumed, together with items considered to be "potential reserves" of liquidity. This tool offers an overview of the liquidity net financial position in different time buckets applying different operating scenarios (business as usual and stress scenario)

Stress testing has always shown that the Group's liquid funds, or readily-liquidated funds, are adequate to overcoming any crisis of a systemic or specific origin.

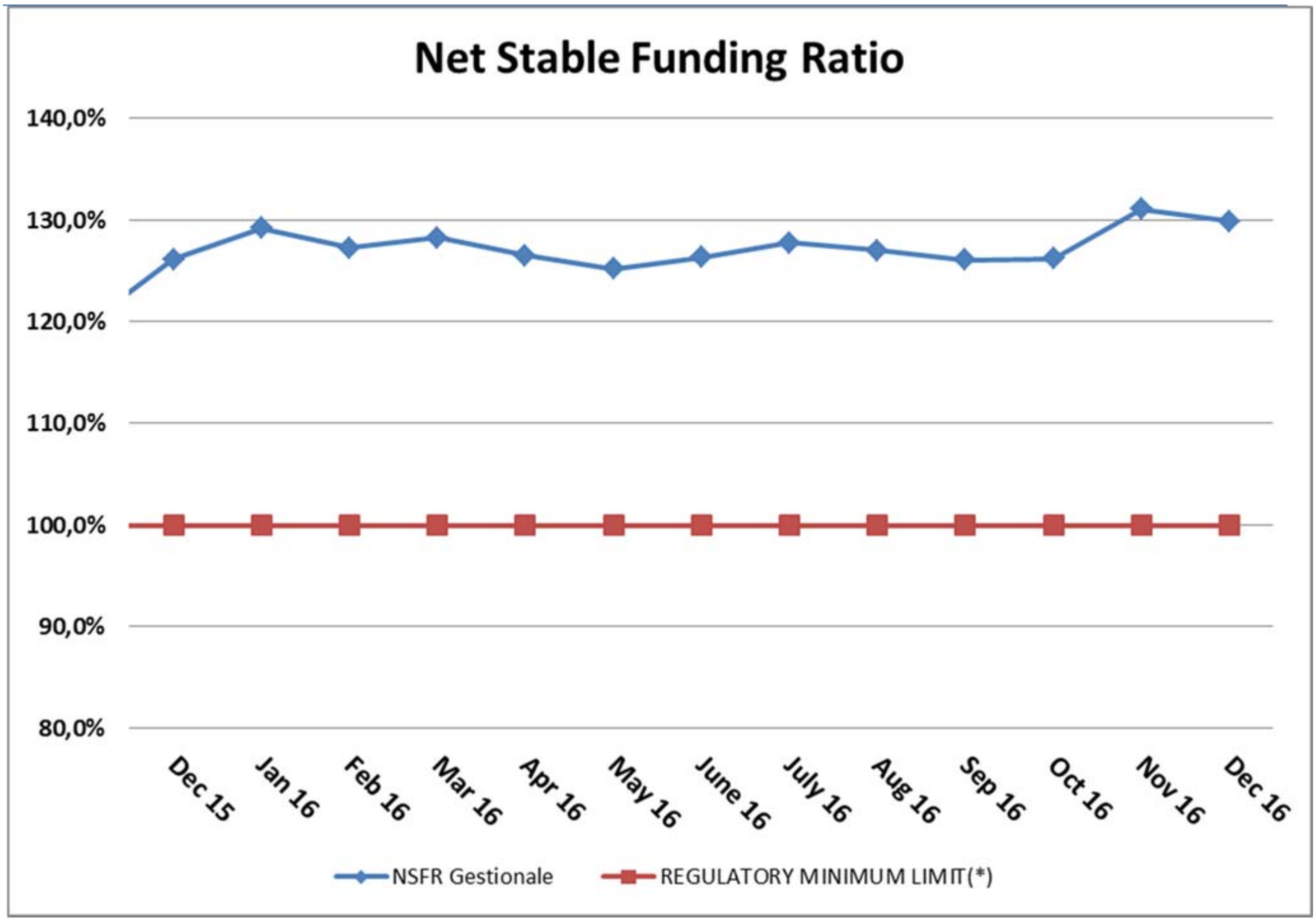
The chart below illustrates the performance of the liquidity coverage ratio (LCR) of the Banca Sella Group, which gives an indication of the Group's capacity to overcome net cash outflows over a 30-day horizon with a stock of high quality liquid assets. The minimum regulatory limit for this indicator is 100%[14].

[13]The Maturity Ladder is the projection of the net financial position over time.

[14] The regulatory limit of 100% will enter into force from 1 January 2018. The limit indicated in Delegated Regulation (EU) 61/2015 is still in force and envisages a gradual 3-year phase-in. From 1 January 2016 the regulatory limit is 70%.



The chart below illustrates the net stable funding ratio (NSFR) of the Banca Sella Group, calculated at management level, which gives an indication of the Group's capacity to have an adequate level of stable funding to finance medium/long-term commitments. This ratio will enter into force in January 2018 with a regulatory minimum limit of 100%.


Net Stable Funding Ratio
140,0%
130,0%
120,0%
110,0%
100,0%
90,0%
80,0%
Dec 15
Jan 16
Feb 16
Mar 16
Apr 16
May 16
June 16
July 16
Aug 16
Sep 16
Oct 16
Nov 16
Dec 16
NSFR Gestionale
REGULATORY MINIMUM LIMIT(*)

Quantitative information

1. Distribution over time by contractual residual life of financial assets and liabilities

Denomination currency: EURO

Item/Time brackets	On demand	More than 1 day to 7 days	More than 7 days to 15 days	From 15 days to 1 month	More than 1 month and up to 3 months	More than 3 months and up to 6 months	More than 6 months and up to 1 year	More than 1 year and up to 5 years	Over 5 years	Indefinite life
Cash assets	**1,060,096**	**215**	**2,441**	**1,722**	**4,509**	**7,909**	**18,803**	**129,076**	**111,341**	**13,252**
A.1 Government securities	-	-	-	-	175	39	509	150	28,532	-
A.2 Other debt securities	490	-	2,100	663	658	2,042	5,742	46,698	14,774	2,700
A.3 UCITS units	10,108	-	-	-	-	-	-	-	-	-
A.4 Loans	1,049,498	215	341	1,059	3,676	5,828	12,552	82,228	68,035	10,552
- Banks	850,636	-	-	-	-	-	-	-	-	10,552
- Customers	198,862	215	341	1,059	3,676	5,828	12,552	82,228	68,035	-
Cash liabilities	**1,316,685**	**6**	**-**	**398**	**41**	**81**	**1,115**	**16,098**	**-**	**-**
B.1 Deposits and current accounts	1,312,020	-	-	398	41	81	1,115	16,098	-	-
- Banks	44,304	-	-	-	-	-	-	15,000	-	-
- Customers	1,267,716	-	-	398	41	81	1,115	1,098	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	4,665	6	-	-	-	-	-	-	-	-
Off-balance sheet transactions										
C.1 Financial derivatives with equity										
- Long positions	386	8,784	-	13,491	421	8,422	-	3,314	3,242	-
- Short positions	386	7,787	-	1,514	412	7,380	-	3,463	3,241	-
C.2 Financial derivatives without										
- Long positions	1	-	-	-	-	-	-	-	-	-
- Short positions	1	30	-	-	36	95	144	815	326	-
C.3 Deposits and loans to be received										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to										
- Long positions	5,798	-	-	-	-	-	9	2,622	7,751	-
- Short positions	5,808	-	-	-	2,622	744	7,007	-	-	-
C.5 Financial guarantees given	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with equity										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without equity										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

1. Distribution over time by contractual residual life of financial assets and liabilities

Denomination currency: OTHER CURRENCIES

Item/Time brackets	On demand	More than 1 day to 7 days	More than 7 days to 15 days	From 15 days to 1 month	More than 1 month and up to 3 months	More than 3 months and up to 6 months	More than 6 months and up to 1 year	More than 1 year and up to 5 years	Over 5 years	Indefinite life
Cash assets	**24,684**	**-**	**-**	**7**	**8**	**175**	**492**	**2,017**	**-**	**-**
A.1 Government securities	-	-	-	-	-	-	-	-	-	-
A.2 Other debt securities	1,660	-	-	7	8	175	492	2,017	-	-
A.3 UCITS units	-	-	-	-	-	-	-	-	-	-
A.4 Loans	23,024	-	-	-	-	-	-	-	-	-
- Banks	23,024	-	-	-	-	-	-	-	-	-
- Customers	-	-	-	-	-	-	-	-	-	-
Cash liabilities	**21,978**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B.1 Deposits and current accounts	21,968	-	-	-	-	-	-	-	-	-
- Banks	78	-	-	-	-	-	-	-	-	-
- Customers	21,890	-	-	-	-	-	-	-	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	10	-	-	-	-	-	-	-	-	-
Off-balance sheet transactions										
C.1 Financial derivatives with equity										
- Long positions	71	2,826	-	1,518	411	8,026	-	994	1,417	-
- Short positions	71	3,809	-	14,017	411	8,922	-	994	1,417	-
C.2 Financial derivatives without										
- Long positions	800	-	-	-	-	-	-	-	-	-
- Short positions	519	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be received										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees given	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with equity										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without equity										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

Section 4 - Operational risks

Qualitative information

A. General aspects, management processes and measurement approaches for operational risk

Operational risk is the risk of losses deriving from the inadequacy or malfunction of procedures, human resources and internal systems, or from external events. Amongst others, this type includes losses deriving from internal/external fraud, human error, operations stoppages, system crashes, contractual default and natural catastrophes. Operational risk includes legal risk, whilst strategic risk and reputational risk are excluded.

The Parent Company Banca Sella Holding carries out the management and coordination function by controlling the exposure to risks assumed by Banca Patrimoni Sella & C. during normal and extraordinary activities, delegating operational aspects to the Risk Management Department. This department is responsible for measuring, monitoring and managing the entire Group's exposure to Pillars 1 and 2 risks of Basel 3, constantly improving the tools and approaches for the quantitative and qualitative measurement of the exposure to such risks.

The operational risk measurement, management and control systems adopted by the Bank, in alignment with the Banca Sella Group, can be summarised by the operational risk management framework comprising:

- operating loss and income statement data collection;
- organisational monitoring of mitigation and control;
- measurement of operational risk exposure;
- output and support tools for operational risk management.

The data collection activity gathers the data necessary to perform the measurement of operational risk exposure of the Group as a whole and of individual companies, including Banca Patrimoni Sella & C. In addition, data collection allows the Risk Management Department to be promptly informed of any operational risk-related events that occur and the related operating losses, in order to implement any action necessary. The operational risk measurement tools include:

- the IT applications used to collect data on operating losses (Anomaly Reporting procedure in support of the "Control Cycle");
- the factors in the operational context and the internal control system, i.e. specific KPI (Key Performance Indicators) or KRI (Key Risk Indicators) that reflect the improvement or deterioration of the bank/group's risk profile following action undertaken or the strengthening of controls (e.g. service level indicators, anomalies and internal audits, process ratings and business growth).

The Control Cycle is an internal process, adopted efficiently for the entire Group some years ago, which governs the treatment of anomalies, and the removal of effects and causes that generated them. This process, through the use of a special IT application, monitors the recording, monitoring and management of all anomalous events occurring in each Group company, in order to facilitate resulting follow-up activities.

The ex ante and ex post organisational monitoring, arranged to mitigate and control operational risk, allow the monitoring and limiting of operational risk events and the related losses. In fact, effective organisational monitoring allows the prompt identification of any inefficiencies and the preparation of suitable mitigation strategies.

Among the main organisational controls adopted by the Banca Sella Group to mitigate and control operational risk, in addition to the Control Cycle already mentioned, are the mapping and validation of company processes, the certification and final calculation of service levels and line controls, controls performed through "alarm bells" (automated processing and/or KRI relating to the recording, accounting changes, use of products and access to services designed to identify and/or prevent potential operational anomalies).

As part of the validation of company processes an operational risk rating is assigned to the process (which assesses the risk factors on the process without taking in account the mitigating effect of existing controls) and a residual operational risk rating of the process (obtained by assessing the mitigating effect of the controls on implicit risks). The risk ratings are measured on a discreet scale ranging from 1 (minimum risk) to 5 (maximum risk).

The introduction of new processes or changes to existing processes with a residual operational risk rating equal to or greater than 4 is examined and assessed in advance by the Operational Risks Committee.

With a view to early interception of symptoms of vulnerability in the processes and having an immediate perception of the areas most exposed to risks, the end-to-end mapping of company processes is arranged.[15] This activity involves grouping of the processes into macro-processes and the latter into macro-classes, with the assignment of an operational risk rating not only to individual processes but also at higher grouping levels, with the aim of providing an overview of the areas of action along the entire process chain and of planning action to reduce the overall exposure to operational risk.

Risk monitoring also translates into reporting targeting all levels of the company organisation, in compliance with regulations that envisage prompt reporting of operational risks. The Control Cycle provides the information base which, when a reported anomalous event occurs and according to a precise escalation, generates reporting flows to the parties concerned.

In addition, in order to offer an assessment of the operational risk management performance, the Risk Management Department produces regular summary and detailed tables which for each Group company and the Group as a whole show final figures on the level of risk assumed in relation to:

- anomalous events and operating losses reported on the Control Cycle database, highlighting the more serious anomalies;
- the result of line controls;
- the service level performance.

With different levels of detail depending on the seriousness, these figures are brought to the attention of the risk control managers, the CEOs, related Committees and Corporate Bodies of the companies.

With regard to legal disputes pending, note that most of the legal proceedings involving the Bank originated with the various companies merged into it over time, if arising after the merger, where based on their past normal business activities. Though the final outcome cannot be predicted with certainty, it is considered that any adverse outcome of such proceedings, either individually or as a whole, would not have a significant negative effect on the Bank's financial and economic position.

For calculation of the capital requirement with regard to operational risk exposure, the Basic Indicator Approach (BIA) was adopted. In the basic approach, the capital requirement is calculated by applying a fixed capital ratio of 15% to the three-year average of the relevant indicator[16].

[15] The process is defined end-to-end as it is implemented in such a way as to be a total logic "value flow" to satisfy the internal or external client user function, starting from a request and up to provision of the service.

[16] Art. 316, Title III, Part Three of Regulation (EU) 575/2013 of the European Parliament and Council of 26 June 2013 itemises the elements to be added together to calculate the relevant indicator. Table 1 in this article refers to: 1) Interest income and similar income; 2) Interest expense and similar expense; 3) Income from shares, units and other securities with a floating/fixed rate of return; 4) Fee and commission income; 5) Fee and commission expense; 6) Profit (loss) from financial transactions; 7) Other operating income.

Quantitative information

From analysis of the information contained in the Group Loss Data Collection, the operating loss data for the period 1 January 2016-31 December 2016 is in line with the previous year's performance and there are no events with a significant impact on the Bank's financial and economic position to report.

Part F - Information on equity

Section 1 - Company assets

A. Qualitative information

The new harmonised regulations for banks and investment companies contained in Regulation 575/2013 (CRR) and Directive 2013/36/EU (CRD IV) entered into force from 1 January 2014, transposing the standards defined by the Basel Committee on Banking Supervision (Basel 3) into EU law.

In order to implement and facilitate application of the new EU regulations, and to conduct a complete review and simplification of the banking supervision regulations, on 17 December 2013 the Bank of Italy issued Circular no. 285 "Supervisory instructions for banks" which:

i) includes the CRD IV rules, the implementation of which, pursuant to the Consolidated Banking Act, is the responsibility of the Bank of Italy;

ii) indicates the methods for exercising national discretion attributed to national authorities by the EU regulations;

iii) outlines a complete, systematic, rational and integrated regulatory framework with directly applicable EU provisions to facilitate use by the operators.

In Banca Patrimoni Sella & C. the monitoring of capital adequacy is ensured by the Capital Management activities.

The Capital Management Plan is defined concurrently with the strategic plan and Risk Appetite Framework (RAF) and consists in assessing the impact of ordinary activities and defining any extraordinary transactions required to pursue the capitalisation goals (represented by the Common Equity Tier 1 ratio) as deemed necessary and appropriate to place the Bank in a position of current and future soundness and sustainability.

The Capital Management Plan is systematically monitored by the Risk Management Department of the Parent Company as regards the extent of capitalisation and absorption which envisage:

i) final monthly calculation based on the operating results gradually achieved;

ii) quarterly simulation of future developments with a view to preventing any situations of failure to achieve the defined levels.

The Bank's solvency ratios form part of the monthly reporting prepared by the Board of Directors and for the Group Performance Alignment and Verification Meeting.

B. Quantitative information

B.1 Company assets: breakdown

Item/Value	Amount 31/12/2016	Amount 31/12/2015
1. Capital	28,000	28,000
2. Share premium reserve	4,483	4,483
3. Reserves	36,530	31,127
- profit	36,368	30,964
a) legal	8,171	7,720
b) statutory	-	-
c) treasury shares	-	-
d) other	28,197	23,244
- other	162	162
3.5 Advances on dividends	-	-
4. Equity instruments	-	-
5. (Treasury shares)	-	-
6. Valuation reserves	(706)	324
- Available-for-sale financial assets	(455)	470
- Actuarial gains (losses) relating to defined benefit plans	(251)	(146)
7. Profit (loss) for the year	7,172	9,006
Total	**75,479**	**72,939**

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

Asset/Value	Total 31/12/2016		Total 31/12/2015	
	Positive reserve	**Negative reserve**	**Positive reserve**	**Negative reserve**
1. Debt securities	-	(855)	139	-
2. Equities	-	(102)	43	(35)
3. UCITS units	339	-	322	-
4. Loans	163	-	-	-
Total	**502**	**(957)**	**504**	**(35)**

B.3 Valuation reserves of available-for-sale financial assets: changes in the year

	Debt securities	Equities	UCITS units	Loans
1. Opening balances	**139**	**8**	**322**	**-**
2. Positive changes	**1,426**	**153**	**109**	**163**
2.1 Increases in fair value	516	115	109	163
2.2 Reversal to the income statement of negative reserves	910	38	-	-
- impairment	63	-	-	-
- realised	847	38	-	-
2.3 Other changes	-	-	-	-
- of which: business combinations	-	-	-	-
3. Negative changes	**2,420**	**263**	**92**	**-**
3.1 Decreases in fair value	660	259	92	-
3.2 Impairment losses	-	-	-	-
3.3 Reversal to the income statement of positive reserves:	1,760	4	-	-
3.4 Other changes	-	-	-	-
- of which: business combinations	-	-	-	-
4. Closing balance	**(855)**	**(102)**	**339**	**163**

B.4 Valuation reserves relating to defined benefit plans: changes in the year

	31/12/2016
1. Opening balances	**-146**
2. Positive changes	-
2.1 Positive measurement component	-
2.2 New entries	-
3. Negative changes	**-105**
3.1 Negative measurement component	-105
3.2 New exits	-
4. Closing balance	**-251**

Section 2 - Own funds and capital adequacy ratios

2.1 Own funds

A. Qualitative information

1. Common Equity Tier 1 (CET1)
   As required by Circular 262/05, as amended, detailed below are the key characteristics of shares included in Common Equity Tier 1 (CET 1) of Banca Patrimoni Sella & C. at 31 December 2016:
   - 28,000,000 ordinary shares with a nominal value of EUR 1 each.

2. Additional Tier 1 capital (AT1)
   The Additional Tier 1 capital at 31 December 2016 did not include financial instruments.

3. Tier 2 capital (T2)
   Tier 2 capital at 31 December 2016 did not include financial instruments as the Bank has no issues of subordinated instruments of its own.

B. Quantitative information

Regulatory capital - B. Quantitative information

	Total 31/12/2016	Total 31/12/2015
A. Common Equity Tier 1 (CET1) before application of prudential filters	**72,610**	**69,336**
of which CET1 instruments subject to transitional provisions	-	-
B. CET1 prudential filters (+/-)	(6)	(6)
C. CET1 gross of deductible elements and the effects of the transitional regime (A +/- B)	**72,604**	**69,330**
D. Elements to be deducted from CET1	**2,530**	**2,076**
E. Transitional regime - Impact on CET1 (+/-)	**741**	**(305)**
F. Total Common Equity Tier 1 (CET1) (C - D +/- E)	**70,815**	**66,949**
G. Additional Tier 1 (AT1)	**-**	**-**
of which AT1 instruments subject to transitional provisions	-	-
H. Elements to be deducted from AT1	**-**	**-**
I. Transitional regime - Impact on AT1 (+/-)	**-**	**-**
L. Total Additional Tier 1 (AT1) (G - H +/- I)	**-**	**-**
M. Tier 2 (T2) gross of elements to be deducted and effects of the transitional regime	**-**	**-**
of which T2 instruments subject to transitional provisions	-	-
N. Elements to be deducted from T2	**-**	**-**
O. Transitional regime - Impact on T2 (+/-)	**95**	**124**
P. Total Tier 2 (T2) (M - N +/- O)	**95**	**124**
Q. Total own funds (F + L + P)	**70,910**	**67,073**

2.2 Capital adequacy

A. Qualitative information

Based on the prudential supervisory instructions, the total requirement is equal to the sum of prescribed capital requirements for credit risk and counterparty risk, for the risk of credit valuation adjustment, and for settlement risk, market risk and operational risk.

The capital requirements calculation methods generally refer to the standardised approach with regard to credit and market risks, and to the basic indicator approach (BIA) as regards operational risk.

The capital management policies of Banca Patrimoni Sella & C. propose to guarantee that the Tier 1 capital is consistent with the level of risk assumed, regulatory restrictions and the corporate development plans.

At 31 December 2016, the capital ratios were higher than the minimum requirements envisaged in reference regulations in force at that date:

- Common Equity Tier 1 ratio: stands at 16.57% compared to the minimum level of 5.125%;
- Tier 1 ratio: stands at 16.57% compared to the minimum level of 6.625%;
- Total Capital Ratio: stands at 16.59% compared to the minimum level of 8.625%.

B. Quantitative information

2.2 Capital adequacy - B. Quantitative information

Categories/Values	Unweighted		Weighted / requirements	
	31/12/2016	31/12/2015	31/12/2016	31/12/2015
A. RISK ASSETS				
A.1 Credit risk and counterparty risk	1,388,502	1,022,126	334,409	330,463
1. Standardised approach	1,388,502	1,022,126	334,409	330,463
2. Internal ratings based approach	-	-	-	-
2.1 Basic	-	-	-	-
2.2 Advanced	-	-	-	-
3. Securitisations	-	-	-	-
B. REGULATORY CAPITAL REQUIREMENTS				
B.1 Credit risk and counterparty risk			26,753	26,437
B.2 Risk of credit valuation adjustment			2	8
B.3 Settlement risk			96	16
B.4 Market risk			400	731
1. Standardised approach			400	731
2. Internal models			-	-
3. Concentration risk			-	-
B.5 Operational risk			6,943	6,704
1. Basic indicator approach			6,943	6,704
2. Standardised approach			-	-
3. Advanced approach			-	-
B.6 Other calculation elements			-	-
B.7 Total prudential capital requirements			34,194	33,896
C. RISK ASSETS AND CAPITAL ADEQUACY RATIOS				
C.1 Risk-weighted assets			427,418	423,700
C.2 Common Equity Tier 1/RWA (CET1 capital ratio)			16.57%	15.80%
C.3 Tier 1 capital/RWA (Tier 1 capital ratio)			16.57%	15.80%
C.4 Total own funds/RWA (Total capital ratio)			16.59%	15.83%

Part G - Business combinations involving companies or business units

Section 1 - Transactions carried out during the year

There were no business combinations in 2016.

Section 2 - Transactions carried out after year end

There were no business combinations after the end of 2016.

Section 3 - Retrospective adjustments

As no business combinations took place in 2016, there were no retrospective adjustments.

Part H - Related party transactions

1. Information on remuneration of key managers

The types of related party, based on indications provided in IAS 24, in relation to the specific organisational and governance structure mentioned below, include:

a) Banca Sella Holding S.p.A. as the parent company of Banca Patrimoni Sella & C.;
b) Directors, Statutory Auditors and Senior Management of Banca Patrimoni Sella & C. (Key managers);
c) Subsidiaries or associates of one of the parties in point b);
d) close relatives of one or more of the parties in point b);
e) Directors, Statutory Auditors and Senior Management of the parent company Banca Sella Holding (Key managers);
f) the Group companies and Banca Patrimoni Sella & C. to the extent they are subject to management and coordination by Banca Sella Holding S.p.A.

With the 9th update of 12 December 2011, the Bank of Italy introduced the following to Circular 263: “New regulations for the prudential supervision of banks”, the new Title V - Chapter 5 (Section 4), “Risk assets and conflict of interest regarding associates”, in application of ICCS Resolution no. 277 of 29 July 2008 and art. 53, paragraphs 4, 4-ter and 4-quater, Italian Legislative Decree no. 385 of 1 September 1993.

The Bank of Italy introduced the aforementioned measures, specifying that “The regulations for related party transactions aim to monitor the risk that the proximity of certain parties to the decision-making bodies of the bank might compromise the objectiveness and impartiality of decisions related to lending and to other transactions with those parties, with potential distortion of the resource allocation process, exposure of the bank to risks not adequately measured or monitored, and potential damage to depositors and shareholders”.

As Parent Company, Banca Sella Holding S.p.A. prepared suitable group procedures to comply with the above measures, the general regulation of which is dictated by two internal regulations: the “Group regulation for the management of related party transactions” and “Internal Control Policies”.

Both documents were approved by the Board of Directors of the Parent Company and later adopted by the Bank.

The following table illustrates the remuneration due to key managers. The key managers also include the directors and members of the Board of Statutory Auditors.

Banca Patrimoni Sella & C.

Remuneration paid to key managers (figures in thousands of EUR)

Items	Total 31/12/2016
a) Short-term benefits for employees	558
b) Employee severance indemnity	-
c) Other long-term benefits	27
d) Employee severance indemnities	-
e) Share-based payments	-
Total	**585**

Remuneration paid to Directors and Statutory Auditors (figures in thousands of EUR)

Items	Total 31/12/2016
Directors	773
Statutory Auditors	108
Total	**881**

2. Information on related party transactions

Related party transactions are normally carried out at conditions equivalent to those applied in transactions performed with independent third parties.
Summarised below are the changes in economic and equity items compared to the regulatory requirement envisaged in IAS 24:

	ITEMS	Current year 31/12/2016				
		Parent company and entities with joint control or exercising significant influence	Subsidiaries and other group entities	Associates and joint ventures	Key managers of the entity or its parent company	Other related parties
		10	20	30	40	50
10	Interest income	783	501	-	6	2
20	Interest expense	875	14	9	5	3
30	Dividend income	-	13	-	-	-
40	Commission income and remuneration	341	17,130	776	20	66
50	Commission expense and remuneration	2,183	3,725	-	77	62
60	Gains or losses from derecognition of financial assets and liabilities not designated at fair value recognised in the statement of comprehensive income	-	-	-	-	-
70	Gains or (-) losses from derecognition of non-financial assets	-	-	-	-	-
80	Increase or (-) decrease during the year in impairments and provisions for debt instruments that have suffered impairment, and for guarantees and commitments with default status	-	-	-	-	-

	ITEMS	Current year				
		31/12/2016				
		Parent company and entities with joint control or exercising significant influence	Subsidiaries and other group entities	Associates and joint ventures	Key managers of the entity or its parent company	Other related parties
		10	20	30	40	50
010	**Selected financial assets**	**-848,568**	**-60,370**	**0**	**-330**	**0**
020	Equity instruments		-469			
030	Debt securities	-550				
040	Loans and advances	-848,018	-59,901		-330	0
050	of which: impaired financial assets					
060	**Selected financial liabilities**	**14,997**	**52**	**0**	**3,136**	**25,580**
070	Deposits	14,997	52		3,136	25,580
080	Debt securities issued					
090	Nominal amount of commitments to disburse loans, financial guarantees and other known commitments	1,138			297	
100	of which: default status					
110	Commitments to disburse loans, financial guarantees and other commitments received	1,285				
120	Notional amount of derivatives	45,707			530	
130	Related parties: accrued impairment losses, accrued changes in fair value due to credit risk and provisions for impaired loans					

Contracts relating to outsourced activities and sundry lease instalments

Banca Patrimoni Sella & C. has outsourced a number of Group company activities. Likewise, the Bank acts as outsourcer for certain services for the Family Advisory SIM Group and provides IT services to Banca Sella. These activities, governed by specific contracts, are carried out after assessment of their mutual convenience and at arm's length with the aim of creating value within the Group.

The fees paid by Banca Patrimoni Sella & C. for services received are summarised below:

Outsourcing fees paid by Banca Patrimoni Sella & C. to Group companies (figures in thousands of EUR)

Company	Amount at 31/12/2016
Banca Sella Holding S.p.A.	263
Banca Sella S.p.A.	3,145
Selir S.r.l.	127

Sundry fees paid by Banca Patrimoni Sella & C. to Group companies (figures in thousands of EUR)

Company	Amount at 31/12/2016
Family Advisory SIM S.p.A. - Sella & Partners	226

The fees collected by Banca Patrimoni Sella & C. in payment for outsourcing and IT services are summarised below:

Company	Amount at 31/12/2016
Family Advisory SIM S.p.A. - Sella & Partners	20
Banca Sella S.p.A.	200

Part I - Share-based payment arrangements

The Bank does not make use of this type of arrangement.

Part L - Segment reporting

As permitted by the 3rd updated to Circular 262/05, segment reporting for Banca Patrimoni Sella & C. is optional and prepared at Group level. Reference should therefore be made to the consolidated financial statements of the Banca Sella Group.

Other Information

Parent Company or European controlling bank

Name
Banca Sella Holding S.p.A.
Registered Office
Piazza Gaudenzio Sella n.1 – BIELLA
Biella Register of Companies - Tax Code 01709430027
Register of Banking Groups no. 03311

Financial statements of the company exercising management and coordination

Attached are the Balance Sheet and Income Statement of Banca Sella Holding S.p.A. for the years 2015 and 2014, as the company which at 31 December 2016 exercised management and coordination.

BALANCE SHEET - ASSETS

Assets	31/12/2015	31/12/2014	% Change
10. Cash and cash equivalents	-	-	0.00%
20. Financial assets held for trading	509,884,023	594,420,994	-14.22%
40. Available-for-sale financial assets	668,233,278	704,428,359	-5.14%
50. Financial assets held to maturity	-	-	0.00%
60. Due from banks	681,701,800	1,411,566,068	-51.71%
70. Due from customers	488,312,388	224,838,030	117.18%
80. Hedging derivatives	-	571,758	-100.00%
90. Value adjustment to financial assets underlying macro hedges (+/-)	-	-	0.00%
100. Investments	792,063,779	838,804,223	-5.57%
110. Property, plant and equipment	36,494,338	36,738,375	-0.66%
120. Intangible assets	2,218,404	1,539,440	44.10%
of which:			0.00%
- goodwill	-	-	0.00%
130. Tax assets	22,744,648	18,704,118	21.60%
a) current	9,296,268	5,356,044	73.57%
b) deferred	13,448,380	13,348,074	0.75%
of which Law 214/2011	9,682,401	9,679,642	0.03%
140. Non-current assets and discontinued operations	52,748,147	-	0.00%
150. Other assets	17,777,212	15,437,356	15.16%
Total assets	**3,272,178,017**	**3,847,048,721**	**-14.94%**

BALANCE SHEET - LIABILITIES

Liabilities and shareholders’ equity	31/12/2015	31/12/2014	% Change
10. Due to banks	1,988,411,893	2,330,560,139	-14.68%
20. Due to customers	51,267,881	39,188,065	30.83%
30. Outstanding securities	270,391,385	439,135,632	-38.43%
40. Financial liabilities held for trading	176,729,421	263,215,500	-32.86%
60. Hedging derivatives	-	-	0.00%
80. Tax liabilities	4,736,725	9,365,291	-49.42%
a) current	1,978,416	6,293,268	-68.56%
b) deferred	2,758,309	3,072,023	-10.21%
90. Liabilities associated with assets held for sale	-	-	0.00%
100. Other liabilities	111,218,904	119,800,290	-7.16%
110. Employee severance indemnity	2,286,245	2,625,242	-12.91%
120. Provisions for risks and charges:	20,107,390	20,519,234	-2.01%
a) pensions and similar obligations	-	-	0.00%
b) other provisions	20,107,390	20,519,234	-2.01%
130. Valuation reserves	7,648,895	5,463,380	40.00%
160. Reserves	402,010,934	388,440,935	3.49%
170. Share premium reserve	105,550,912	105,550,912	0.00%
180. Capital	107,013,670	107,013,670	0.00%
200. Profit (loss) for the year (+/-)	24,803,762	16,170,431	53.39%
Total liabilities and shareholders' equity	**3,272,178,017**	**3,847,048,721**	**-14.94%**

Banca Patrimoni Sella & C.

INCOME STATEMENT

Items	31/12/2015	31/12/2014	% Change
10. Interest income and similar income	23,974,724	33,516,199	-28.47%
20. Interest expense and similar charges	(10,936,954)	(14,758,897)	-25.90%
30. Interest margin	**13,037,770**	**18,757,302**	**-30.49%**
40. Fee and commission income	15,325,664	14,556,008	5.29%
50. Fee and commission expense	(8,050,240)	(11,394,673)	-29.35%
60. Net fees and commissions	**7,275,424**	**3,161,335**	**130.14%**
70. Dividends and similar income	12,636,855	10,767,041	17.37%
80. Net gains (losses) from trading	12,749,194	10,331,685	23.40%
90. Net hedging gains	(9,036)	18,308	-149.36%
100. Gains (losses) from disposal or repurchase of:	25,098,384	22,355,834	12.27%
a) receivables	(4,091)	-	0.00%
b) available-for-sale financial assets	25,121,645	7,425,192	238.33%
c) financial assets held to maturity	-	14,949,657	-100.00%
d) financial liabilities	(19,170)	(19,015)	0.82%
110. Net gains (losses) from financial assets and liabilities designated at fair value	-	-	0.00%
120. Net interest and other banking income	**70,788,591**	**65,391,505**	**8.25%**
130. Net value adjustments/reversals for impairment losses on:	(4,837,637)	(3,678,820)	31.50%
a) receivables	(31,755)	(2,027)	1466.60%
b) available-for-sale financial assets	(4,855,141)	(3,461,596)	40.26%
c) financial assets held to maturity	-	-	0.00%
d) other financial transactions	49,259	(215,197)	-122.89%
140. Net profit (loss) from financial management	**65,950,954**	**61,712,685**	**6.87%**
150. Administrative expense:	(40,988,333)	(35,857,444)	14.31%
a) personnel expense	(19,171,048)	(17,323,900)	10.66%
b) other administrative expense	(21,817,285)	(18,533,544)	17.72%
160. Net allocations to provisions for risks and charges	(631,491)	(868,950)	-27.33%
170. Net value adjustments/reversals to property, plant and equipment	(1,884,747)	(1,935,659)	-2.63%
180. Net value adjustments/reversals to intangible assets	(661,680)	(455,968)	45.12%
190. Other operating expense/income	3,176,035	2,865,362	10.84%
200. Operating costs	**(40,990,216)**	**(36,252,659)**	**13.07%**
210. Gains (Losses) on investments	(1,581,516)	(2,771,671)	-42.94%
220. Net gains (losses) from the fair value measurement of property, plant, equipment and intangible assets	-	-	0.00%
230. Value adjustments to goodwill	-	-	0.00%
240. Gains (losses) from disposal of investments	3,279	(8,267)	-139.66%
250. Profit (Loss) from current operations before tax	**23,382,501**	**22,680,088**	**3.10%**
260. Income taxes for the year from current operations	(60,660)	(6,509,657)	-99.07%
270. Profit (Loss) from current operations after tax	**23,321,841**	**16,170,431**	**44.23%**
280. Gains (Losses) on groups of assets held for sale after tax	1,481,921	-	0.00%
290. Profit (loss) for the year	**24,803,762**	**16,170,431**	**53.39%**

Banca Patrimoni Sella & C. is ready to welcome you all over Italy

Branches

BIELLA	**BI**	VIALE MATTEOTTI, 2	13900	015/2525311
BOLOGNA	**BO**	VIA RIZZOLI, 9	40125	051/2917311
CAGLIARI	**CA**	VIALE ARMANDO DIAZ, 123	09125	070/7590310
CUNEO	**CN**	PIAZZA TANCREDI GALIMBERTI, 2	12100	0171/451311
GENOA	**GE**	SALITA SANTA CATERINA, 4 int.7	16121	010/25476241
MILAN	**MI**	VIA SANTA MARGHERITA, 4	20121	02/806401
NAPLES	**NA**	VIA DEI MILLE, 40	80121	081/2512511
PADUA	**PD**	VIA SAN FRANCESCO, 34	35121	049/9863400
PALERMO	**PA**	VIA MARIANO STABILE, 172	90139	091/7798611
ROME	**RM**	LARGO GIUSEPPE TARTINI, 3/4	00198	06/93370301
TURIN	**TO**	VIA LAGRANGE, 20	10123	011/5607111
VENTIMIGLIA	**IM**	VIA CAVOUR, 35/E	18039	0184/236711

Private Bankers Offices

AGRIGENTO	**AG**	VIA ATENEA, 72	92100	0922/401770
ALICE CASTELLO	**VC**	PIAZZA G. CROSIO, 19	13040	0161/909806
BIELLA	**BI**	VIA ITALIA, 2	13900	015/2529340
BIELLA	**BI**	VIA VOLPI, 2/D	13900	015/2529156
BRESCIA	**BS**	VIA VITTORIO EMANUELE II, 22	25122	030/8357190
CALTANISSETTA	**CL**	VIA CANONICO FRANCESCO PULCI 9/15	93100	0934/582951
CENTO	**FE**	VIA ACCARISIO, 26	44042	051/0569120
CHIAVARI	**GE**	VIA SAN GIOVANNI, 4	16043	0185/323213
COSSATO	**BI**	VIA MAZZINI, 57	13836	015/9842123
ERBA	**CO**	CORSO XXV APRILE, 111/113	22036	031/4493029
IVREA	**TO**	VIA PALESTRO, 62	10015	0125/1968801
LECCE	**LE**	VIA COLONNELLO COSTADURA, 2/C	73100	0832/1811519
MODENA	**MO**	VIA ZUCCONI, 88	41124	059/2927288
PADUA	**PD**	VIA SAN MARCO, 11/C	35129	049/7808878
SALERNO	**SA**	VIA ROMA, 45	84121	089/9922481
TURIN	**TO**	CORSO MONTE GRAPPA, 6	10145	011/7715067
TREVISO	**TV**	VIALE MONTE GRAPPA, 2	31100	0422/218911

BANCA PATRIMONI SELLA & C. S.p.A.
Registered office at Via Lagrange 20 - Palazzo Bricherasio, Turin
Share capital EUR 28,000,000, fully paid-up
Turin Register of Companies reg. no., Tax Code and VAT no. 08301100015
Bank entered in the register pursuant to art. 13, Italian Legislative Decree 385/93 and a member of the Banca Sella Group,
entered in the register pursuant to art. 64 of the same Legislative Decree,
subject to management and coordination by Banca Sella Holding S.p.A., with registered office at Piazza Gaudenzio Sella 1, Biella

BOARD OF STATUTORY AUDITORS REPORT

TO THE 2016 FINANCIAL STATEMENTS

To the Shareholders' Meeting of

"Banca Patrimoni Sella & C. S.p.A."

Dear Shareholders,

We have examined the draft financial statements and the Management Report, prepared by the Directors and duly submitted to the Board of Statutory Auditors.

This report - divided into two sections - refers to the supervisory activities performed by the Board of Statutory Auditors in 2016 with regard to the lawfulness of operations, pursuant to the provisions of art. 2403 et seq. of the Italian Civil Code, with regard to the procedure for preparing the 2016 financial statements and, lastly, in relation to the requirements of art. 2429, paragraph 2 of the Italian Civil Code.

Introduction

The Board of Directors of your company approved the Draft Financial Statements for 2016 on 3 March 2017.

Deloitte & Touche S.p.A., the Independent Auditors appointed to audit the accounts, submitted its own Report on 27 March 2017 pursuant to art. 14, Italian Legislative Decree no. 39 of 27 January 2010, expressing an unqualified opinion and with no emphasis of matter.

The procedure for preparing the financial statements was correctly and promptly applied, in compliance with legal provisions.

With reference to the above, the Board of Statutory Auditors and the Independent Auditors arranged meetings to exchange relevant data and information, reaching agreements in relation to the timing, notification and filing of the respective Reports.

The ordinary Shareholders' Meeting of your company is to be held on first call on 21 April 2017.

Supervisory activities

In compliance with our institutional duties pursuant to art. 2403, paragraph 1 of the Italian Civil Code, also making use of information flows from the various company departments and internal control departments:

- we monitored compliance with the law, the articles of association and the principles of sound administration;
- we attended the Shareholders' Meetings (one) and meetings of the Board of Directors (twelve), all conducted according to governing statutory, legal and regulatory provisions and, in reference to these we can reasonably confirm that the resolutions carried were compliant with the law and the articles of association;
- we also performed supervisory activities through periodic institutional meetings, as well as external meetings, for a total of thirteen meetings held during 2016;
- we obtained information from the Directors on the operating performance and on the most significant transactions carried out by the Company, in terms of size or characteristics, and can reasonably assume that the action taken was compliant with the law and the articles of association;
- we are not aware of any manifestly imprudent or risky transactions, or in potential conflict of interest, or in conflict with resolutions carried by the Shareholders' Meeting and, in any event, of a nature likely to compromise the integrity of corporate assets. Furthermore, we found no non-compliance with the provisions of art. 2391 of the Italian Civil Code or any atypical transactions. All of the above without expressing an opinion - which is not the responsibility of this Board - on the operating decisions of the Directors;
- we arranged information exchanges, also through meetings with the Boards of Statutory Auditors of the Group companies, and verified the instructions given by the parent company Banca Sella Holding S.p.A. to the subsidiaries;
- specifically, with reference to the above, we checked that intercompany transactions were suitably supported by contracts/agreements with contents compliant with the law and - taking into account the situation referred to in the next paragraph - with full freedom of the parties and with prices in line with equivalent terms applied by independent third parties. In this respect, we remind you that the Company is subject to management and coordination by Banca Sella Holding S.p.A. in accordance with art. 2497 et seq. of the

Italian Civil Code. This situation, together with its particular features and effects, is covered in the Management Report;

- we gained insight of and supervised the adequacy of the Company's organisational structure, also by gathering information from the various department managers;
- we assessed and verified the adequacy of the administrative and accounting system as well as its reliability in correctly representing operating events, through reports obtained from the respective department managers, the Independent Auditors and additional examination of corporate documents and accounting positions.

  We remind you that, pursuant to art. 2381 of the Italian Civil Code, the management and assessment of these structures, systems and functions are, respectively, the responsibility of the appointed body, as regards management and reporting, and the Board of Directors, as regards assessment. We should emphasise that these bodies implement the above procedure periodically, approximately each month, and to the extent of our supervisory activities no elements were found requiring comment in this report;
- we confirmed the substantial adequacy of the training activities carried out in relation to anti-money laundering, financial control and procedures implemented in order to comply with the requirements of Italian Legislative Decree 231/2007, as amended;
- with effect from 30 June 2014, the date on which the Shareholders' Meeting assigned Supervisory Body responsibilities to the Board of Statutory Auditors, pursuant to Italian Legislative Decree 231/01, we duly performed the tasks associated with this function, with particular reference to the adequacy of the organisational, management and control models implemented to prevent the offences referred to in the decree, as well as other risks/offences envisaged in subsequent laws and regulations, without substantial findings worthy of comment;
- we successfully performed the self-assessment of the Board of Statutory Auditors and its members, also verifying that independence requirements were satisfied, in compliance with Bank of Italy and Banca Sella Group instructions;
- we met with members of the Boards of Statutory Auditors of the Banca Sella Group in order to exchange information and considerations, in application of Supervisory Authority instructions and the provisions of art. 2403-bis of the

Italian Civil Code, taking into consideration the management and coordination activities carried out by the parent company;

- we examined and found to be adequate, on the whole, the self-assessment procedures adopted by the Board of Directors and their related outcomes;
- we verified the results of action taken by the Independent Auditors and, pursuant to Italian Legislative Decree 39/2010, monitored its independence. To the extent we are aware, the Independent Auditors and their related network partners did not receive additional assignments of significant importance, other than that of regulatory audit, concerning:
  - audit of the financial statements of Banca Patrimoni Sella & C. S.p.A.;
  - verification of proper maintenance of the accounting records and the correct recording of operating events in the accounts;
  - limited review of the half-yearly economic and financial position of Banca Patrimoni Sella & C. S.p.A.;
  - limited review of the quarterly financial position at 31 March 2016 and 30 September 2016;

  Note also that the non-audit services provided to the Bank by the Independent Auditors and other partners in its network were as follows:
  - support to the Bank's operating structures in the analysis for tax and legal purposes of the contractual clauses of a management outsourcing agreement currently under review with an operator resident in Luxembourg, for a fee of EUR 5,000.
  - the issue, based on Assirevi research document no. 195, of a comfort letter for the purpose of the Bank's inclusion of the profit for the year in Common Equity Tier 1 at 31 December 2016, the subject of the periodic report for supervisory purposes of 13 February 2017;
- Pursuant to art. 17, paragraph 9 of Italian Legislative Decree 39/2010, the Independent Auditors submitted the annual confirmation of its independence and the measures adopted to limit related risks.
- As necessary, we expressed our consent, as required by art. 136 of Italian Legislative Decree 385/1993 (Consolidated Banking Act) with regard to transactions arranged directly or indirectly by bank representatives on behalf of the Bank;
- we expressed our opinion in favour, pursuant to art. 2389, paragraph 3, of the remuneration for Directors assigned to special offices established by the Board of Directors;
- no reports or claims were received pursuant to art. 2408 of the Italian Civil

Code, nor did we discover events referred to in art. 2406, paragraph 2 of the Italian Civil Code.

- vice versa, we report that in 2015 we issued two notices pursuant to art. 52 of Italian Legislative Decree 231/2007, with letters sent to the Bank of Italy on 9 June 2015 (prot. no. BSH 267/15) and 6 October 2015 (prot. no. BH 398/15). In 2016 we issued one notice by letter sent to the Bank of Italy on 25 February 2016 (prot. no. BSH 94/16).

To conclude, we confirm that - except for those mentioned above - no significant events emerged during our supervisory activities worthy of mention in this Report.

2016 Financial Statements

With regard to the 2016 financial statements, given the results of activities mentioned above, pursuant to art. 2429 of the Italian Civil Code the Board of Statutory Auditors is required to report on the results for the year, with comments and proposals as appropriate in relation to the financial statements and their approval.

From an examination of the financial statements at 31 December 2016, we report as follows:

- as this Board is not responsible for control of the contents of the financial statements, we supervised their general format, overall compliance with the law as regards the preparation and structure, and in this respect have no particular comments to make;
- the financial statements under review were prepared in accordance with IAS/IFRS accounting standards approved by the International Accounting Standards Board (IASB), as envisaged in Italian Legislative Decree no. 38 of 26 February 2005, following the instructions provided in Bank of Italy Circular no. 262 of 22 December 2005;
- no events occurred requiring recourse to the application of exceptions granted by art. 2 paragraph 5 and by art. 7 paragraph 3 of Italian Legislative Decree 87/92, or by art. 5 paragraph 1 of Italian Legislative Decree 38/05;
- pursuant to art. 10, paragraph 3 of Italian Law Decree 87/92, the recognition among balance sheet assets of intangible assets net of related amortisation is performed with our consent;
- the Management Report contains explanations of the main events characterising operations and the 2016 result, analyses of investments, fixed assets and the financial position, as well as the business outlook.

The Management Report discusses related party transactions, complete with those relating to intercompany transactions and with legal indications of the "Management and Coordination" arrangements to which the Company is subjected by the parent company;

- the measurement criteria and methods, as expressed in the accompanying documents and in particular in the explanatory notes to the financial statements, appear to be correct and suitable, as well as consistent with those adopted in previous years;
- as regards the correspondence between the financial statements and the events and information of which we were made aware during the course of our duties and, based on the related certification from the Independent Auditors, there are no comments requiring mention in this report.

Given all of the above and with due regard to the results of activities carried out by the Independent Auditors, assigned to audit the accounts and which issued its report with an unqualified opinion, the Board of Statutory Auditors found no obstacles and has no comments or proposals to make with regard to approval of the financial statements under review.

The same applies to the Board of Directors' proposal regarding allocation of the profit for the year.

* * *

Other items on the agenda for the ordinary Shareholders' Meeting appear to comply with legal provisions and, consequently, we have no comments to make in this respect.

Turin, 27 March 2017

THE BOARD OF STATUTORY AUDITORS

Mario Pia - Chairman

Pier Vincenzo Pellegrino - Standing Auditor

Emanuele Menotti Chieli - Standing Auditor

Deloitte.

Deloitte & Touche S.p.A.
Galleria San Federico, 54
10121 Torino
Italia

Tel: +39 011 55971
www.deloitte.it

INDEPENDENT AUDITORS' REPORT PURSUANT TO ART. 14 AND 16 OF LEGISLATIVE DECREE N. 39 OF JANUARY 27, 2010

To the Shareholders of
Banca Patrimoni Sella & C. S.p.A.

Report on the Financial Statements

We have audited the accompanying financial statements of Banca Patrimoni Sella & C. S.p.A., which comprise the balance sheet as at December 31, 2016, the income statement, the statement of comprehensive income, the statement of changes in equity, the cash flow 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. 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 the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by 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 Banca Patrimoni Sella & C. 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. 43 of Italian Legislative Decree n. 136/15.

Report on Other Legal and Regulatory Requirements

Opinion on the consistency of the report on operations 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, which is the responsibility of the Directors of Banca Patrimoni Sella & C. S.p.A., with the financial statements of Banca Patrimoni Sella & C. S.p.A as at December 31, 2016. In our opinion the report on operations is consistent with the financial statements of Banca Patrimoni Sella & C. S.p.A. as at December 31, 2016.

DELOITTE & TOUCHE S.p.A.

Signed by
Claudio Crosio
Partner

Turin, Italy
March 27, 2017