BANCA SELLA

BIELLA
Since 1886

REPORT AND FINANCIAL STATEMENTS

AT

31 DECEMBER 2016

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GRUPPO BANCA SELLA

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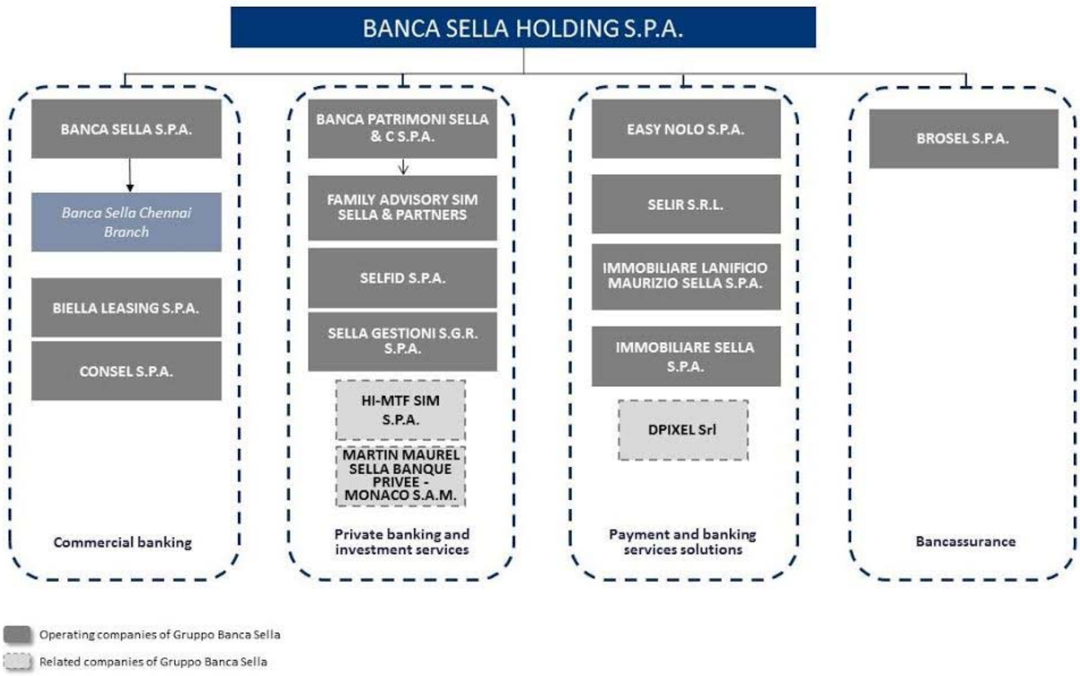
Map of the Banking Group at 31 December 2016



Corporate Officers

BOARD OF DIRECTORS

in office up to the approval of the 2016 financial statements

Chairman	Maurizio Sella
Deputy Chairman	Franco Sella
Managing Director	Claudio Musiari
Director	Elisabetta Galati
"	Luigi Gargiulo
"	Andrea Lanciani
"	Ferdinando Parente
"	Carlo Santini
"	Pietro Sella
"	Sebastiano Sella
"	Silvana Terragnolo
"	Paolo Tosolini
"	Attilio Viola

BOARD OF STATUTORY AUDITORS

in office up to the approval of the 2016 financial statements

Regular Auditor - Chairman	Paolo Piccatti
"	Vincenzo Rizzo
"	Riccardo Foglia Taverna
Alternate Auditor	Daniele Frè
" "	Michela Rayneri

GENERAL MANAGEMENT

Director General and CEO	Claudio Musiari
Co-Director General and Deputy CEO	Gianluca Bisognani
Co-Director General	Giorgio De Donno

Commemoration of Lodovico Sella Honorary Vice President of the Banca Sella Group

Dear Shareholders,

please join us in fondly remembering Lodovico Sella, born on 15 June 1929 and who passed away last 26 September.

Hired by Banca Sella on 4 January 1954, he continued to be unceasingly dedicated to his work, making a valuable contribution for sixty-two years.

He was also the Chairman, Deputy Chairman and Director of many Group companies.

A man with a great sense of culture and infinite knowledge, with the exceptional qualities of attention to detail, never detached from people, openness to constructive dialogue, curiosity, enthusiasm and a genuine penchant for new things, he personified, spread and conveyed the principles and moral values of the Sella family with a natural ease on a daily basis.

His work and his contributions to decisions were solid, profound and often crucial.

He leaves a personal and professional gap that cannot be filled, leaving a mark on the history of the Group and on the people that have known him, and who have had the privilege of working with him and building our future with him.

Report on Operations

I. Main figures and indicators

Summary data (amounts in Euro thousands)

BALANCE SHEET DATA	31/12/2016	31/12/2015	Changes	
			absolute	%
Total assets	11,259,197.9	10,765,853.3	493,344.6	4.6%
Financial assets (1)	1,541,713.7	1,749,371.7	(207,658.0)	-11.9%
Cash loans, exclusive of repurchase agreements receivable	6,984,390.4	6,734,045.2	250,345.2	3.7%
repurchase agreements receivable	1,203.1	412.3	790.8	191.8%
Total cash loans (2)	6,985,593.5	6,734,457.5	251,136.0	3.7%
Guarantees issued	214,923.2	207,164.0	7,759.2	3.8%
Tangible and intangible fixed assets	97,259.8	90,656.8	6,603.0	7.3%
Direct deposits, excluding repurchase agreements payable	9,695,379.1	9,275,161.1	420,218.1	4.5%
repurchase agreements payable	12,272.4	46,251.0	(33,978.5)	-73.5%
Total direct deposits (3)	9,707,651.5	9,321,412.0	386,239.5	4.1%
Nominal indirect deposits (4)	12,004,018.3	11,979,338.4	24,679.9	0.2%
Nominal total deposits	21,711,669.8	21,300,750.4	410,919.4	1.9%
Total deposits valued at market prices (5)	24,867,485.4	24,543,103.9	324,381.5	1.2%
Shareholders' Equity	789,554.3	771,168.6	18,385.7	2.4%
Common Equity Tier 1 (CET 1)	727,304.7	689,345.1	37,959.6	5.5%
Tier 2 Capital (T2)	168,722.7	239,737.8	(71,015.1)	-29.6%
Total own funds	896,027.4	929,083.0	(33,055.5)	-3.6%

RECLASSIFIED ECONOMIC DATA (6)	31/12/2016	31/12/2015	Changes	
			absolute	%
Net interest income	152,129.1	168,390.7	(16,261.6)	-9.7%
Gross income from services (7)	269,162.7	282,472.7	(13,310.1)	-4.7%
Fee and commission expenses	(68,815.6)	(84,337.8)	15,522.3	-18.4%
Net income from services (net of fee and commission expenses)	200,347.1	198,134.9	2,212.2	1.1%
Net banking income	352,476.2	366,525.6	(14,049.4)	-3.8%
Operating costs net of recovery of stamp duties and other taxes (8)	(268,148.2)	(258,231.6)	(9,916.5)	3.8%
Operating profit (loss)	84,328.1	108,294.0	(23,965.9)	-22.1%
Net writedowns for impairment losses	(56,023.2)	(98,744.1)	42,721.0	-43.3%
Other economic items	34,591.8	(2,174.2)	36,766.0	-1691.0%
Income taxes	(4,359.8)	(1,363.4)	(2,996.4)	219.8%
Profit (Loss) for the period	58,536.9	6,012.2	52,524.7	873.6%

(1) Given by the sum of the following items in the Balance Sheet Assets: item 20 "financial assets held for trading" and item 40 "financial assets available for sale".
(2) Item 70, "Due from customers", in the Balance Sheet Assets.
(3) Given by the sum of the following balance sheet liability items: 20 "Due to customers" and 30 "Securities issued".
(4) The aggregate does not include the item "cash and cash equivalents", relating to asset management, which is included in the item "direct deposits".
(5) The aggregate, valued at market prices, includes administered funds and securities and is net of the deposits of Group banks.
(6) As per items reported in the reclassified Income Statement.
(7) Given by the sum of the following Reclassified Income Statement items: 40. "Fee and commission income", 80 and 90 "Net income/losses from trading and hedging activities" and item 100. "Profit (loss) from transfer or repurchase".
(8) Given by the sum of the following items: "Administrative expenses" item 150, "writedowns on tangible assets" item 170, "writedowns on intangible fixed assets", item 180 "Other operating income and expenses" item 190.

Alternative performance indicators

PROFITABILITY RATIOS (%)	31/12/2016	31/12/2015
R.O.E. (return on equity) (1)	8.0%	1.0%
R.O.A. (return on assets) (2)	0.5%	0.1%
Net interest income (3) / Net banking income (3)	43.2%	45.9%
Net income from services (3) / Net banking income (3)	56.8%	54.1%
Cost to income (4)	75.3%	69.7%
Cost to income net of National Resolution Fund contribution (5)	71.4%	67.7%
PRODUCTIVITY RATIOS (in Euro thousands)	**31/12/2016**	**31/12/2015**
Net banking income (3) / Average no. of employees (10)	118.6	123.2
Operating profit (loss) (3) / Average no. of employees (10)	28.4	36.4
Cash loans (net of repurchase agreements) / Employees at year end	2,362.0	2,252.9
Direct deposits (net of repurchase agreements payable) / No. of employees at the end of the year	3,278.8	3,103.1
Total deposits at market prices / No. of employees at year-end	8,409.7	8,211.1
EQUITY AND LIQUIDITY RATIOS (%)	**31/12/2016**	**31/12/2015**
Cash Loans (net of repurchase agreements) / Direct deposits (net of repurchase agreements)	72.0%	72.6%
Cash loans (net of repurchase agreements) / Total assets	62.0%	62.6%
Direct deposits (net of repurchase agreements payable) / Total assets	86.1%	86.2%
Liquidity coverage ratio (LCR) (6)	225.7%	191.7%
Net stable funding ratio (NSFR) (7)	138.4%	152.0%
CREDIT RISK RATIOS (%)	**31/12/2016**	**31/12/2015**
Net impaired loans / Cash Loans (net of repurchase agreements)	7.4%	8.3%
Net bad loans / Cash Loans (net of repurchase agreements)	4.3%	4.5%
Net adjustments to loans (8) / Cash Loans (net of repurchase agreements)	0.8%	1.5%
Coverage rate for impaired loans	50.1%	47.8%
Coverage rate for non-performing loans	60.4%	60.0%
Texas ratio (9)	82.1%	87.2%
SOLVENCY RATIOS (%)	**31/12/2016**	**31/12/2015**
CET 1 ratio	15.41%	14.67%
Tier 1 ratio	15.41%	14.67%
Total capital ratio	18.98%	19.77%

(1) Ratio between “Profit for the year” and the sum of items 160 “Reserves”, 170 “Share premiums”, and 180 “Share Capital” in the Balance Sheet Liabilities.
(2) Ratio between “Net profit” and “Total assets”.
(3) As in the reclassified Income Statement.
(4) Ratio between operating costs, after deducting IRAP on personnel costs and net of losses connected to operating risks and net banking income.
(5) Cost to income ratio calculated by subtracting the component relating to the National Resolution Fund and the Deposit Guarantee Scheme from operating costs.
(6) LCR: minimum limit of 70% at 31.12.2016 (80% from 1 January 2017, 100% from 1 January 2018).
(7) NSFR: it will officially come into force on 1 January 2018, with a minimum limit of 100%.
(8) Obtained from the sum of items 130 a) and 100 a) in the reclassified income statement.
(9) Ratio between gross impaired assets and tangible shareholders’ equity, understood as the sum of shareholders’ equity and writedowns of impaired assets, and net of intangible assets (item 120 of balance sheet assets).
(10) Average employees understood as the arithmetic mean of employees at year-end and those at the end of the previous year.

Banca Sella's 2016 financial statements closed with a net profit, further strengthening of the capital position, already well above the minimum required thresholds and continuation of the process of improvement of credit quality. In a general economic context which is still unfavourable, Banca Sella still recorded growth in deposits, proof of customer confidence, and in loans, continuing to provide the economy with credit. Completing the picture are, among other things, the traditional high levels of liquidity, a Texas Ratio among the best in the Italian banking sector and the long-established propensity to innovation, also thanks to the SellaLab accelerator, (transferred to Banca Sella Holding during the year) which is spawning a fintech open district targeted at creating a reference ecosystem in Italy for fintech evolution. Within the framework of rationalisation of the network, targeted at reducing costs and meeting customers' needs in an increasingly more adequate and effective manner, advisory service centres were opened in Florence and Rome during the year.

In particular, at 31 December 2016, they recorded net profit of € 58.5 million. Without considering the non-recurring component deriving from the acquisition of Visa Europe by Visa Inc, the bank's net profit would have recorded growth nonetheless, amounting to € 15.1 million compared to € 6 million in the previous year. As regards the strength of capital, already well above the required minimum thresholds, the Cet1 rose to 15.41% (14.67% at the end of 2015) and the Total Capital Ratio stood at 18.98% (19.77% at the end of 2015).

Also regarding liquidity, Banca Sella confirmed the traditional parameters of excellence. The LCR ratio was 225.7%, well above the minimum limit required from January 2017, equal to 80%, and the requirement that will be set for 2018, equal to 100%. The NSFR, for which a minimum threshold of 100% will be required from 2018, stood at 138.4%.

The 2016 financial statements also highlighted growth in deposits. Global deposits rose by € 411 million, amounting to € 21.7 billion, marking an increase of 1.9%. These deposits at market value, by contrast, rose by € 324.4 million, amounting to € 24.9 billion, marking an increase of 1.2%. Direct deposits net of repurchase agreements payable increased by € 420.2 million, amounting to € 9.7 billion, marking an increase of 4.5%.

Loans to the economy also registered positive results, notwithstanding a still unfavourable general context, characterised by the fall in demand. Loans net of repurchase agreements grew by 3.7%, amounting to € 7 billion. The various initiatives the bank implemented to boost lending, especially to innovative companies, also contributed to this result, by stipulating agreements and conventions with local entities, trade associations, loan consortia and other entities such as the EIB, Deposits and Loans Fund and the European Investment Fund for the issuing of guarantees for innovative investments.

Credit quality also improved further: net value adjustments fell by 43.3%, down from € 98.7 million at the end of 2015 to € 56 million at the end of 2016. The positive trend of decreasing new entries of impaired loans and subsequent lower adjustments continued in 2016, with the ratio of adjustments to total loans net of repurchase agreements improving considerably, down by 0.8% (1.5% at 31 December 2015). The coverage rate of impaired loans rose to 50.1% (47.8% at 31 December 2015) and the rate of coverage of solely non-performing loans rose to 60.4% (60% at 31 December 2015). The incidence of impaired loans on net loans stood at 7.4%, improving further with respect to 8.3% at the end of 2015. Banca Sella's Texas Ratio is among the best in the Italian banking sector, equal to 82.1%, with further significant improvement compared to 87.2% in the previous year.

At 31 December 2016, net interest income amounted to € 152.1 million, down by 9.7% compared with the previous year, mainly due to the trend in market interest rates. Net banking income fell by 3.8%, amounting to € 352.5 million. Net revenues from services rose by 1.1%. Operating costs rose by 3.8%, in particular owing to the increase in administrative expenses due to the contributions to guarantee funds.

Rating

The agency DBRS assigns the bank the following ratings:

Rating - DBRS	
Long-term rating	**BBB (low)**
Short-term rating	**R - 2 (middle)**
Trend	**Negative**

The negative trend assigned by the rating agency DBRS reflects the challenges which, according to the agency itself, the Bank must tackle in terms of profitability and asset quality due to the difficult economic environment in Italy.

Staff and branches

Staff and branches

Item	31/12/2016	31/12/2015	Changes	
			absolute	%
Employees	2,957	2,989	-32	-1.1%
Branches	287	293	-6	-2.0%

The decrease in employees is due primarily to the transfer of the business units Hype and SellaLab, respectively, to the Group companies Easy Nolo and Banca Sella Holding. For more details, see chapter VII on Human Resources.

The decrease in the number of branches is due to the regional restructuring in view of a new sales and integrated relationship model. The subject is addressed in chapter VI of this report.

II. Reference macroeconomic scenario

Global context

In 2016, the global economy continued to grow at modest rates, essentially in line with those recorded in 2015, although signs emerged during the year of a measured acceleration in both the aggregates of advanced economies and emerging areas. The final projection for global growth in 2016 made by the International Monetary Fund was 3.1%, as stated in the January 2017 update, a synthesis of the increase of 1.6% recorded by advanced economies and 4.1% for emerging countries.

The **US economy**, following a modest 1.4% recorded in the first half, regained momentum in the second half of the year and, based on IMF estimates, should have posted growth of 1.6% in 2016, nonetheless below the 2.6% registered in 2015. Private consumption provided the biggest contribution to the trend in GDP in the year, supported by the gradual improvement of employment conditions, which returned to those observed before the start of the major international crisis, with some notable exceptions, and by accumulated wealth, both in terms of the real estate component and from a financial point of view. By contrast, the weakness of private investments intensified, with the slowdown, from sustained rates in the previous year, highlighted by the residential segment and further deterioration in the trend of company investments, due to profitability under pressure and huge uncertainty in the year linked to the presidential elections, and in spite of the stabilisation of the component more closely related to the evolution in the price of crude oil. Public spending continued, in 2016, to support growth, albeit to a lesser extent that in 2015, while net foreign demand, despite not being a penalising factor like 2015, did not generally generate value for the US economy, owing to the weakness of exports, on the one hand, and a modest import performance on the other.

Encouraged by further progress in the labour market and the recovery registered by inflation (up from 0.1% in 2015 to 1.3% in 2016, thanks to the strong performance of the more stable components and less negative contribution from the energy item), the US Central Bank, at the meeting in December, one year on from the first increase in the policy rate from the years of the big recession, increased the federal funds target range by 25 basis points, bringing it to a range of 0.5-0.75%. The Federal Reserve reiterated that monetary conditions nonetheless remain accommodating and that the policy of reinvestment in securities about to expire will be continued until normalisation of the cost of borrowing is not at an advanced state. The guidelines on the official rate continue to indicate the Committee's desire for the monetary policy to gradually move towards raising rates, guided by expected progress achieved in regards to the dual mandate of supporting employment and price stability: owing to the average judgment of members of the Committee, the official rate at the end of 2017 will be between 1.25% and 1.50%, or 75 basis points higher than the current level.

The **Eurozone** economy continued to expand in 2016, at a relatively sustained rate in the first quarter and modestly in the two subsequent quarters; the macroeconomic data published in the last few months of the year were especially positive, consistent with the strengthening of growth. The outcome of the referendum on 23 June on the UK's membership of the European Union did not have immediate negative repercussions on the economic recovery in the monetary union. According to the estimates of the International Monetary Fund of January 2017, the year 2016 should have closed with an increase of 1.7% in GDP in the Euro Area, from 2% in 2015. Growth in the region continued to be driven by internal demand, particularly the private consumption component, which benefitted from the support of purchase power deriving from the low level of inflation, persistence of highly accommodating monetary conditions and the gradual improvement in the labour market, despite the presence of major discrepancies, in terms of employment conditions between the individual member States; investments confirmed the recovery trend, however remaining at levels still almost 10% lower than the start of 2008; exports continued to be lackluster, in line with the weak scenario that characterised global trade. In terms of the geographic composition, the recovery continued in all major economies in the area, albeit at different intensities: the brilliant performance of Spain (GDP up 3.2% in 2016, in line with the figure in 2015) and the acceleration registered by Germany (up 1.7% from 1.5% in 2015) was in contrast to the more measured performance by the French economy (up 1.3%, in line with the previous year) and the Italian economy (up 0.9%, from 0.7% in 2015). With reference to **Italy**, the growth in 2016 was boosted primarily by components of domestic demand, in particular private consumption which, however, recorded a modest performance in the year, consistent with the deterioration of the climate of consumer confidence; investments in machinery and transport equipment provided confirmations of a recovery; the recovery of investments in construction was more uncertain which, after the stagnation registered in the first three months of the year, reported negative economic changes in the second and third quarters; net exports, on average in the first nine months, made almost a zero contribution to quarterly GDP growth. The last few months of the year saw the dissemination of positive figures in terms of production activity (growth of 1.3% and 3.2% in industrial production respectively in October and November), accompanied by an improvement in the climate of operator confidence. As regards **consumer prices**, the progressive reduction of the negative contribution from the energy component was at the root of the gradual rise in the inflation rate, which went from an annual low of -0.2% in the Euro Area in April, to 1.1% in December; core inflation, i.e. calculated net of volatile components, by contrast did not show any signs of recovery. The annual average inflation rate was 0.2% (from 0% in 2015) and 0% (from 0.1% in 2015) respectively in the Euro Area and in Italy. In a context characterised by low inflation and a modest recovery, the European Central Bank retained a highly accommodating monetary policy in 2016: at the meeting on 10 March, the Bank reduced the interest rate on deposits by 10 basis points from -0.20% to -0.30%, and the interest rate on the main refinancing operations and on the marginal lending facility by 5 basis points, respectively from 0.05% to 0% and from 0.30% to 0.25%; it also raised the amount of securities purchased monthly as part of quantitative easing from Euro 60 billion to Euro 80 billion, including in the purchasable financial assets non-financial corporate bonds, and extending the time horizon of purchases to March 2017, and announced four new long-term refinancing operations (targeted longer-term refinancing operations) aimed at boosting the provision of credit. In the subsequent months, monetary policy management focused on implementation of the stimulation measures announced in March; the ECB reiterated, on many occasions, its willingness to intervene again, if necessary, using the instruments available as part of its mandate and confirmed its intention to keep policy rates at the current level or lower for a prolonged period and well beyond the time horizon of the bond-buying programme. At the meeting on 8 December, the Central Bank announced some important developments regarding management of the quantitative easing programme after March 2017: from April, purchases will continue at a rate of Euro 60 billion per month until December 2017, or beyond this if necessary; if, in the meantime, the reference macroeconomic scenario should deteriorate, the ECB will intervene by increasing the scope and/or duration of the programme, in line with its goal of keeping an expansionary monetary policy in place. In addition, in order to allow easy implementation of purchases, the ECB modified the following plan parameters: the interval of the residual maturity established for the purchase of public debt securities was expanded by lowering the minimum threshold from two years to one year: purchases of securities with a yield of less than the interest rate on deposits were admitted to the extent necessary.

In Asia, **Japan**, which has grown by a modest 0.9% in 2016 based on the estimates of the International Monetary Fund (after 1.2% in 2015), also thanks to the support, in the last part of the year, of the new economic stimulus package of Yen 7.5 trillion in public spending, continues to have difficulties in finding a stable path towards expansion; the solid conditions seen in the domestic labour market are having difficulties in translating to upward salary trends and consequently more vivacious consumption trends. Similarly, corporate profits are struggling to generate a sustainable recovery with regards to the corporate investment cycle. In terms of consumer prices, the change in the index net of fresh foodstuffs (reference of the Central Bank, BOJ) stayed below zero on average in 2016, shaped, for a large part of the year, by the unfavourable comparison of energy prices expressed in Yen with the previous year, and a gradually falling trend in the components more closely linked to the performance of the economy. In 2016, BOJ confirmed the exceptionally accommodating stance adopted in April 2013: at the meeting in January, the Bank opted, as part of its bond-buying programme and of increase in the monetary base at an annual rate of Yen 80 trillion, to adopt negative interest rates on part of the deposits of financial institutions held at the Central Bank, and at the September meeting introduced a yield curve control objective, to allow the 2% inflation target to be exceeded in a stable way.

In the **emerging economies**, despite widely varying macroeconomic conditions, 2016 saw a generalised improvement in the growth scenario, in some cases conveyed by signs of recovery from deep recessions. In **China**, Gross Domestic Product rose by 6.7% in 2016 (from 6.9% in 2015), with crucial support provided by economic policy measures, which cushioned the ongoing deceleration, incorporated in the phase of transition to a more sustainable growth model. Inflation started to rise, albeit remaining below the Government target of 3% (average change in the consumer price index +2.0% in 2016, from +1.4% in 2015). For **India**, the IMF estimates a slowdown in growth to 6.6% in 2016 (from 7.6% in 2015), primarily due to the temporary effect of the Government measure to withdraw and replace larger denomination banknotes. Inflation stabilised at the values of the previous year (5.0% in 2016 from +4.9%) and the Central Bank lowered the cost of borrowing by 50 basis points, announcing, at the meeting in December, that future monetary policy decisions will depend on the real impact of the demonetisation programme. **Russia** saw a gradual tapering off of the rate of decrease in GDP, after the drop of 3.7% recorded in 2015. With inflation down to 5.4% in December 2016 (from 12.9% in December 2015), the Central Bank adopted a prudent accommodating policy, cutting the reference rate by 100 basis points during the year. In **Brazil**, for which the IMF estimates that 2016 closed with a 3.5% decrease in GDP, after -3.8% in the previous year, the administration guided by new President Temer presented some important structural reforms to Parliament for approval. The marked downward trend in inflation, sitting at 6.3% in December, allowed the Central Bank to initiate an accommodating monetary policy cycle, which led to the aggregate reduction of 125 basis points in the cost of borrowing between October 2016 and January 2017.

The financial markets

Long-term yield rates in the US at the end of 2016, only just above those at the end of 2015, were characterised by significant movements during the year: raised risk aversion on the part of investors, firstly in the wake of renewed fears over a sharp deceleration in the Chinese economy and, secondly, on the back of the potential ramifications of the referendum on 23 June on the UK's membership of the European Union, combined with the expectation of a cautious normalisation of the cost of borrowing by the US Federal Reserve, initially pushed interest rates down towards historic lows of under 1.4%, recorded in July. A clear upward trend then took hold with the US presidential elections just round the corner, which ended with an unexpected victory for the Republican candidate and the resulting expectations generated on the markets over a new direction of US economic policy, more expansionary on the fiscal front and less gradual from a monetary standpoint. Similar developments, in the common international context, characterised the Government yields in the Euro Area, albeit with significant differences within the Area, where expectations over further monetary stimulus measures by the European Central Bank helped bring the 10-year German rate into negative territory, which then started to rise in the second half of the year, however failing to get back to the values recorded at the start of 2016, giving an annual average of 0.14%, in contrast to 0.54% in 2015; uncertainties linked to the constitutional referendum intensified the increase in 10-year Btp (Multiyear Treasury Bonds) yields but did not neutralise the previous decline, for an average value of 1.46% in 2016, below the 1.7% in the previous year.

In 2016, the stock markets recorded growth of 5.3% (MSCI World). At the start of the year, a brusque correction of list prices stemmed from fears over the reduced intensity of economic growth in the United States and the instability of the sectors linked to raw materials owing to the persistent weakness of commodity prices. After the fall in prices in the first few weeks of the year, a positive trend took hold, supported by signs of consolidation of the global economy and a more expansionary stance from central banks than what was announced previously. The growth in list prices was accompanied by the recovery in the prices of raw materials. In the final part of the year, the unexpected result of the US elections gave stock markets a big boost, thanks to investor expectations generated by the new administration over a more expansionary fiscal policy for the benefit of companies. The Euro appreciated by around 1% in effective nominal terms in 2016, with most movement concentrated in the first nine months of the year, followed by a weakening, especially marked against the US dollar (roughly 5.5% between the end of October and December), triggered by expectations over growing divergence in the monetary policy approaches of the Federal Reserve and the ECB, the day after the US elections.

Italian banking system

In the first 11 months of 2016, credit activity in the Italian banking system showed signs of a recovery, benefitting from the modest improvement in economic activity and loosening of credit supply conditions applied by banks. Credit spreads thinned out; over the course of the first 11 months of 2016, the decrease in market rates and competitive pressure on the pricing of customer loans were only partially offset by the reduction in the cost of funding, particularly institutional funding. Growth in the level of impaired items slowed at the end of the third quarter, and the flows of new entries classified as non-performing fell, laying the foundations for a reduction in credit risk. Italian banks recorded modest profitability in the first three quarters of 2016: the increase in the coverage of impaired loans, contributions to funds for crisis resolution and the legislative amendments targeted at making the financial system more stable and crisis resistant in the future, helped, in a context characterised by the continuation of exceptionally low interest rates and financial market uncertainties, to keep Italian banks' profitability at very low levels. Italian bank loans to the private customers residing in Italy came to € 1,410 billion in November 2016, marking an annual drop of 0.4% on a trend basis. Loans to non-financial companies continued to fall in 2016, reaching € 786 billion at the end of November (-2.3%), with varying trends by sector of activity, size class and creditworthiness of the borrower. Loans to households instead continued their path of growth commenced in 2015, amounting to € 624 billion at the end of November, marking trend-basis growth of 0.7%. If corrected for securitisations and transfers, however, the statistics for the Italian banking system show trend-based growth of 0.5% in loans in November, with positive trends in both loans to companies (up 0.3%) and to households (+0.8%).

The process of deterioration in credit quality slowed in 2016. For the first time after 7 years of increases, in September the annual rate of growth of gross non-performing positions moved to negative territory (-0.7%); the volume of gross non-performing positions in November stood at € 199 billion, marking a trend-based drop of 1%, accounting for 10.5% of total gross loans (stable with respect to the figure in November 2015) and a net non-performing loans/ loans ratio of 4.8% (from 4.9% at end 2015). At the end of November 2016, deposits in Euro with Italian banks represented by residents' and non-residents' deposits and bonds reached € 2,212 billion, down by 0.4% on an annual basis. The decrease is attributable entirely to the reduction in the bond component, which closed the year at € 541 billion, a drop of 10%, compared to an increase in total deposits, up 3.3% to € 1,608 billion; therefore, the recomposition of banks' funding mix continued, with the replacement of bonds due to expire with deposits and more liquid forms of funding like repurchase agreements.

As regards income statement balances, listed banking groups closed the first nine months of the year with low profitability, less than the corresponding period of the previous year, due to a generalised slump in ordinary revenues (net interest income -5.6%, net commissions -4.9%), an increase in operating costs due, in particular, to the contributions to funds for banking crisis management (+6.1%) and the rise in net adjustments to loans (+24% year on year), targeted at improving the rates of coverage in preparation for future extraordinary transactions involving the transfer of non-performing loans. Strengthening of capital for Italian banks also continued in 2016, and at the end of the third quarter the average CET1 ratio for the main listed Italian banking groups was 12.3%, compared to 12% at the end of 2015.

Liquidity

The year 2016 was characterised by further strengthening of the good, and in some cases excellent, liquidity situation of the Italian banking system, albeit with some exceptions, which will be discussed later. This condition was favoured by the continuation of the extended bond-buying programme known as Quantitative Easing, hereafter QE, launched by the ECB in March 2015, which involved both government securities and asset backed securities and covered bonds, and corporate bonds. The implementation of the QE programme helped generate the highly favourable conditions for accessing institutional funding through Covered or Asset Backed Securities, augmented by the opportunity to take out 4-year loans under particularly favourable economic conditions, which many Italian banks made use of, for significant amounts, offered by the ECB through the Targeted Long Term Refinancing Operations (T-LTRO). A glimpse at the Italian banking system, notwithstanding the general condition of abundant liquidity, shows that, however, some credit tensions persist with respect to certain entities in particular, the most significant of which include Monte dei Paschi di Siena, Veneto Banca, Banca Popolare di Vicenza, Carige. These banks have experienced, and continue to suffer from shortages of liquidity, with regulatory indicators (LCR) of less than one in certain cases. The air of uncertainty that accompanied the evolution of the complex turnaround process of Banca Monte dei Paschi helped maintain the spread on the subordinated debt of Italian banks high, especially medium and small banks.

Despite these systemic tensions, the cost of customer funding still fell during the year, albeit in a contained fashion, in view of the absolute level of interest rates. The unsecured interbank market continued, as in previous years, to record exchanges concentrated on shorter maturity dates (mostly overnight) and for smaller amounts. As indicated above, the ECB continued with its stimulus initiatives; in 2016 the ECB

Governing Council extended the duration of the purchase programme further (until December 2017), although reducing the monthly amounts to € 60 billion.

III. Significant events during the year

The most important events that occurred during financial year 2016 for Banca Sella are outlined below.

Corporate transactions

September 2016 saw the completion of the agreement for the strategic acquisition of Visa Europe by Visa Inc., aimed at creating a single company that operates both on the US and European markets. The transfer against consideration, in favour of Visa Inc., of the investment held in Visa Europe, involved a cash payment and the assignment of Visa Inc. shares for a total value, in favour of all Visa Europe shareholders, of around € 5 billion at the time of the completion of the transaction; an additional earn-out for a maximum of € 4.7 billion was converted to a cash amount with deferred payment over three years. Based on this information, as a principal member, Banca Sella received a cash amount of € 34.1 million for the sale of its share in Visa Europe, Visa Inc. "class C" shares for a value net of the lock clause of € 10.2 million and a receivable at maturity discounted for € 2.6 million.

A partnership insurance agreement was signed on 30 June between the Banca Sella Group and HDI Assicurazioni, a company in the German Talanx Group, the third ranked insurance company in Germany that operates in more than 150 countries, whose parent company Talanx AG is listed on the Frankfurt Stock Exchange. Based on the agreement, the entire shareholding held by the Banca Sella Group in C.B.A. Vita, and therefore its subsidiary Sella Life and entire share (49%) held in InChiaro Assicurazioni was transferred to HDI Assicurazioni. The agreement signed also makes provision for a multi-year commercial partnership between the Banca Sella Group and HDI Assicurazioni, which concerns both the non-life and life branches, with the objective of providing customers with an increasingly better quality insurance offer. At Banca Sella, the transfer of the minority interest in C.B.A. Vita involved the recognition of a capital gain of € 0.5 million.

Banca Sella's transfer of the business unit SellaLab to Banca Sella Holding and the transfer of the business unit Hype to Easy Nolo, both Group companies, took effect for legal purposes on 1 November, in line with the strategic plan and in order to optimise the structure.

On 21 October 2016, Banca Sella Holding (on its own behalf and representing Banca Sella, Banca Patrimoni Sella & C., Consel and Biella Leasing) and the Group's Trade Union Delegation signed the agreement for accessing the extraordinary services of the "Solidarity Fund for professional retraining and requalification, to support employment and the income of credit personnel" which 65 employees subscribed to: following the acceptance of all applications for participation, an allocation of € 9.4 million was made; the terminations of service of the personnel involved will take place in 2017.

Supervisory Bodies' checks

On Monday, 6 June, as part of the ordinary Supervisory activities, the Bank of Italy commenced a theme-based inspection at Banca Sella, targeted at examining, in view of an assessment of the facts, the organisational-procedural structure adopted by the Bank, in order to comply with the provisions on Remuneration of credit facilities and overdrafts, pursuant to art. 117-bis of Italian Legislative Decree 385/1993 (TUB - Consolidated Banking Law) and Ministerial Decree 644/2012". This was concluded on 1 July 2016, highlighting some areas of improvement, in respect of which the bank responded to the Inspection Report and subsequently took action. Some application profiles that emerged could be further clarified by the Supervisory Body through a future specific communication to intermediaries, which the bank will duly take account of.

The Bank of Italy commenced an inspection on 28 October 2016 on the transparency of transactions and of banking and financial services at some of the bank's branches; more specifically, the following branches were audited: Turin Corso Matteotti, Rome Piazza San Giovanni di Dio (D6), Foggia (6E), Pont Saint Martin (51), Cava De Tirreni (2C), Asti (Z3), Ascoli Piceno (R9), Genoa Via Fieschi (Q7), Florence

(H5); the activity also continued in 2017 at the Collegno (L8) branch. The associated reports had still not been received at the time of drafting of this report.

Commercial agreements

The “Biella in transizione” agreement was signed in July 2016 by Banca Sella, Unione Industriale Biellese and Confidi Systema, with the objective of promoting the access to credit for companies that wish to invest in developing their business, by improving its competitiveness. By means of this agreement, the Group intends to confirm its support for companies in the area, that are striving to enhance their competitive capacity, especially in a context such as the current one, characterised by increasingly greater globalisation of markets and a big push towards technological innovation. The financing set out in the agreement, in fact, places a special focus on investments in internationalisation, for business development and optimisation of company processes if supported by new digital technologies, research and development and new skills training.

In September, Banca Sella assisted Soleto S.p.A. with the issuing and placement of a minibond of € 5 million, issued by the company to support its growth projects. Soleto S.p.A. is a company specialising in the production of cutting edge technological solutions for the different segments such as telecommunications, transport, energy distribution and other technological “multi-utility” infrastructures. The company’s minibonds were listed on Borsa Italiana’s ExtraMot Pro on 27 September. Banca Sella held the role of arranger in this operation, placing the bond and supporting the issuer through the various phases of the issue process, while Sella Corporate Finance provided the advisory service for the structuring of the issue and definition of the relevant aspects. Chiomenti Studio Legale acted as legal consultant for Banca Sella.

September also saw the start of the new Innovfin campaign, with the goal of offering target companies unconditional loans secured with first demand guarantee from the European Investment Fund, which is the guarantor for funding provided by the European Union. This new opportunity makes it possible to retain customers and improve their profitability based on new loans that can be disbursed thanks to consultancy on an innovative product.

In October, Banca Sella and SACE (Cassa Depositi e Prestiti [Deposits and Loans Fund] Group) signed an agreement to provide the bank’s business customers with € 50 million to support innovation and growth projects abroad. This collaboration was developed as part of the “Programma 2i per l’impresa - innovazione e internazionalizzazione” [Programme 2i for business - innovation and internationalisation] developed by Cassa Depositi e Prestiti.

Regional restructuring

Consistent with the provisions of the Strategic Plan, at the start of September, a new private customer centre was opened in Rome Eur, supporting the Advisory service centre in Florence, unveiled at the start of the year. Over the coming months, works will also be completed on the new office of the second branch in Bologna. In the meantime, the regional presence in some markets was rationalised through the closure of the following branches: Legnago, Montevarchi, Civitanova Marche, Pagliare del Tronto, Modena 2 Strada Morane, Serramazzoni, Rome 6 via Gallia, Roccamena, Camastra, Catania 2 via Cavalieri di Vittorio Veneto. The rationalisation initiatives are targeted at freeing up professionals to enhance other local branches, increasing overall efficiency and providing a better and more professional service to the Bank’s customers. The evolution of the service model, increasingly geared towards proactive advisory services, actually requires an increase in and better focus of the time dedicated and of customer contact and research initiatives.

Other aspects

The bank subscribed medium/long-term funds made available by the European Central Bank under two TLTRO Programmes. In particular, the bank extinguished the loans obtained as part of the first Programme (€ 268 million) early and, at the same time, obtained new loans of € 335 million as part of the first transactions of the second TLTRO Programme (in June 2016) under more favourable interest rate conditions.

It should also be noted that July 2016 saw the completion of the update to the EMTN (Euro Medium Term Note) programme due to expire.

IV. Income Data

Reclassified income statement (in Euro thousands)

Item	31/12/2016	31/12/2015	% change over 31/12/2015
10. Interest receivables and similar income	210,577.9	247,977.9	-15.1%
20. Interest payable and similar charges	(58,701.0)	(79,660.5)	-26.3%
70. Dividends and similar income	252.2	73.3	243.9%
NET INTEREST INCOME AND DIVIDENDS	**152,129.1**	**168,390.7**	**-9.7%**
40. Fee and commission income	259,103.9	257,548.8	0.6%
50. Fee and commission expenses	(68,815.6)	(84,337.8)	-18.4%
Net fees	**190,288.3**	**173,210.9**	**9.9%**
80. Net gains (losses) on trading activities	9,252.9	7,424.8	24.6%
90. Net gains (losses) on hedging activities	68.5	191.5	-64.2%
100. Profit (loss) from sale or repurchase of:			
a) receivables	(1,239.2)	92.8	-
b) financial assets available for sale	2,024.6	17,840.7	-88.7%
d) financial liabilities	(48.1)	(625.9)	-92.3%
NET REVENUES FROM SERVICES	**200,347.1**	**198,134.9**	**1.1%**
NET BANKING INCOME	**352,476.2**	**366,525.6**	**-3.8%**
150. Administrative expenses			
a) personnel expenses	(161,175.5)	(157,630.0)	2.3%
IRAP on net personnel and seconded personnel expenses (1)	(429.0)	(498.9)	-14.0%
Total personnel and IRAP expenses	**(161,604.6)**	**(158,128.9)**	**2.2%**
b) other administrative expenses	(149,910.1)	(144,663.7)	3.6%
Recovery of stamp duty and other taxes (1)	39,573.1	37,474.3	5.6%
Total administrative expenses and recovery of taxes	**(110,337.0)**	**(107,189.5)**	**2.9%**
170. Writedowns on tangible fixed assets	(7,202.0)	(7,395.4)	-2.6%
180. Writedowns on intangible fixed assets	(13,620.5)	(12,332.8)	10.4%
190. Other operating expenses/income (after deducting “Recovery of stamp duty and other taxes”)	24,615.9	26,814.9	-8.2%
Operating costs	**(268,148.2)**	**(258,231.6)**	**3.8%**
OPERATING PROFIT (LOSS)	**84,328.1**	**108,294.0**	**-22.1%**
160. Net provisions for risks and charges	(9,755.6)	(1,677.1)	481.7%
130. Net writedowns for impairment of:			
a) receivables	(56,023.2)	(98,744.1)	-43.3%
b) financial assets available for sale	(2,613.6)	(6.0)	-
d) other financial transactions	(208.2)	(61.9)	236.6%
210. Profit (loss) on equity investments	-	-	-
230. Writedowns of goodwill	(224.0)	(441.6)	-49.3%
240. Profit (loss) on disposal of investments	4.5	12.3	-63.3%
Reclassifications from non-recurring effects (1)			
100. Profit (loss) from sale or repurchase of:			
b) financial assets available for sale	47,388.6	-	-
PROFIT FROM CONTINUING OPERATIONS BEFORE TAXES	**62,896.7**	**7,375.6**	**752.8%**
290. Income taxes for the period on current operations (after deducting “IRAP on net personnel and seconded personnel expenses”)	(4,359.8)	(1,363.4)	219.8%
PROFIT FROM CONTINUING OPERATIONS NET OF TAXES	**58,536.9**	**6,012.2**	**873.6%**
PROFIT (LOSS) FOR THE YEAR	**58,536.9**	**6,012.2**	**873.6%**

(1) The items concerned were reclassified using presentation criteria more suited to represent the content of the items in accordance with principles of management homogeneity. The reclassifications are explained in the next section “Income Statement reclassification criteria”.

Income Statement reclassification criteria

In order to provide a more easily understandable representation of the income results, an Income Statement has been prepared using presentation criteria more suited to represent the content of the items in accordance with principles of management homogeneity.

The reclassifications involved:

- item 70. "dividends and other income", which was included within net interest income;
- IRAP on the costs for personnel, which was separated from the item "Income taxes for the period on continuing operations", and included in personnel expenses;
- the item "Recovery of stamp duties and other taxes" was separated from item 190. "other operating expense/income" and included in item 150 b) "other administrative expenses";
- item 100. "gains from sale or repurchase of financial assets available for sale", from which the component relating to minority interests was separated and placed under operating profit (loss).

Profitability

The comments below refer to the Income Statement items reclassified as shown in the table in the preceding page.

The total result for the year was € 58.5 million, a considerable increase over the previous year (€ 6 million), also without considering the non-recurring component deriving from the acquisition of Visa Europe by Visa Inc. This result allowed growth in the R.O.E. from 1% in 2015 to 8% and, also net of the aforementioned non-recurring events, 2016 profits nonetheless stood at 2.1%.

An analysis of the reclassified income statement shows the following trends:

- a decrease in net interest income of 9.7%, impacted by the sharp drop in market rates;
- a positive performance by net fees, up by 9.9%;
- growth in net revenues from service, +1.1%;
- the subsequent decrease in net banking income, -3.8%;
- an increase in operating costs, +3.8%;
- a positive result in terms of credit quality, -43.3%;
- non-recurring events of € 47.4 million.

A detailed analysis of the aforementioned items is provided below.

Net interest income

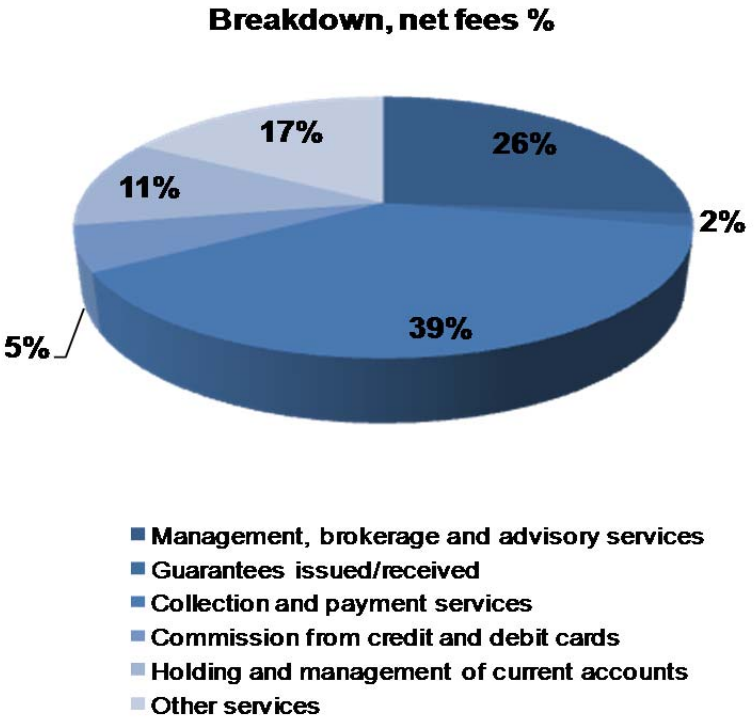
In 2016, net interest income amounted to € 152.1 million, down by -9.7% compared with 2015. The decrease was heavily influenced by the trend in interest rates.

On the asset front, lower interest was registered (down € 37.4 million), mainly due to customer loans (in the presence of total average volumes essentially stable compared to 2015) and, to a lesser extent, to lower interest on securities in the proprietary portfolio (despite increased average volumes with respect to 2015).

The fall in interest income was only partially offset by lower interest expense (€ 20.6 million), down despite the growth in the volumes of direct deposits, owing to the drop in average interest rates.

Net fees

It should be noted that the net fees on loans granted to customers, those for the financial insurance service and those for the acquiring service (thanks to both lower costs for interchange fees, as a result of the entry into force of MIF regulations in December 2015, and the growth in transaction volumes) contributed to the strong performance of net fees (+9.9%). This growth more than offset the negative performance of the investment services segment, which decreased when compared to the previous year, primarily as a result of the volatility in the financial markets in the first half of the year. Not only the decrease in interchange fees, but also lower fees to brokers and group brokerage companies contributed to the reduction in Fee and commission expenses (-18.4%).



Net revenues from services

At 31 December 2016, net revenues from services totalled € 200.3 million, +1.1% compared with the same period in the previous year. The strong performance of the commission segment, together with the trading performance, offset the lower contribution of profits from sales: in 2015, the result was impacted primarily by the capital gains realised on the transfer of available for sale securities, amounting to over € 17 million, not replicated in 2016 (final figure of around € 2 million). The year 2016 was also impacted by the negative effect (-€ 1.2 million), deriving from the transfer of € 81 million worth of receivables (mortgages, end-of-life, bankruptcies): -€ 1 million connected with the revision of valuations due to the updating of appraisals of properties pledged as guarantee, and roughly -€ 0.2 million due to the differential between the latest valuation and the sale price.

It should also be specified, as already reported under classification criteria, that the profits generated by the extraordinary Visa Inc. and CBA Vita transactions were reclassified under operating profit (loss), in order to make the comparison between the two periods more homogeneous.

Net income from services: main components (in Euro thousands)

Item	31/12/2016	31/12/2015	Change	
			absolute	%
Payment services	84,377.1	69,895.5	14,481.6	20.7%
Trading for third parties, order collection and placement	21,544.0	22,536.5	(992.5)	-4.4%
Asset management	13,857.5	14,635.2	(777.7)	-5.3%
Insurance products placing	11,090.2	9,963.0	1,127.2	11.3%
Trading and hedging activities	9,321.5	7,616.3	1,705.1	22.4%
Holding and management of current accounts	20,797.2	22,802.8	(2,005.6)	-8.8%
Management of loans granted	28,314.1	23,925.1	4,389.0	18.3%
Profit (loss) from sales or repurchases of loans, financial assets/liabilities	737.4	17,307.7	(16,570.3)	-95.7%
Other	10,308.3	9,452.8	855.5	9.1%
Total	**200,347.1**	**198,134.9**	**2,212.2**	**1.1%**

More specifically, as already outlined previously, the item which recorded the biggest negative change was profits from sale.

On the contrary, the biggest positive change was registered by payment services, which recorded growth in the acquiring segment (pos) and a growing propensity to use electronic payment systems on the part of customers. Unlike 2015, the e-commerce sector and activity relating to the credit and debit cards issued by the bank also recorded growth. They accounted for 42% of revenues from services.

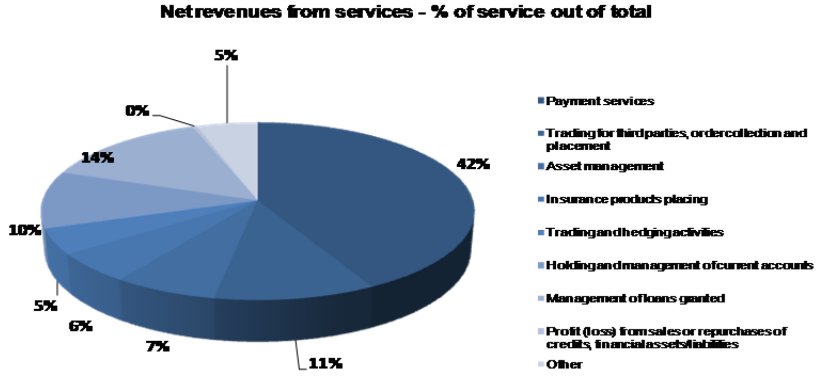
The factors that definitely influenced the drop in revenues from trading include the result of the UK referendum at the end of June, which triggered the so-called Brexit, i.e. the UK's exit from the European Union, Donald Trump's victory in the US elections in November and the Italian Government's defeat in the constitutional referendum at the start of December, with the subsequent formation of a new Government. These unforeseen factors, combined with mounting global geopolitical tensions and the conditions of the international financial system, and the Italian one in particular (exemplified by the failed share capital increase of Banca Monte dei Paschi in the final part of the year) led, in the second part of the year, to heightened uncertainty on the financial markets, which continued to favour the already high liquid component of portfolios, hence raising available funds in customer current accounts, pending more favourable conditions for investments. This market uncertainty also caused an increase in risk aversion and a slump in the stock markets (especially the Italian markets).

Income from assets managed stood at € 13.9 million, down compared to 2015, as a result of the decrease in institutional customer volumes.

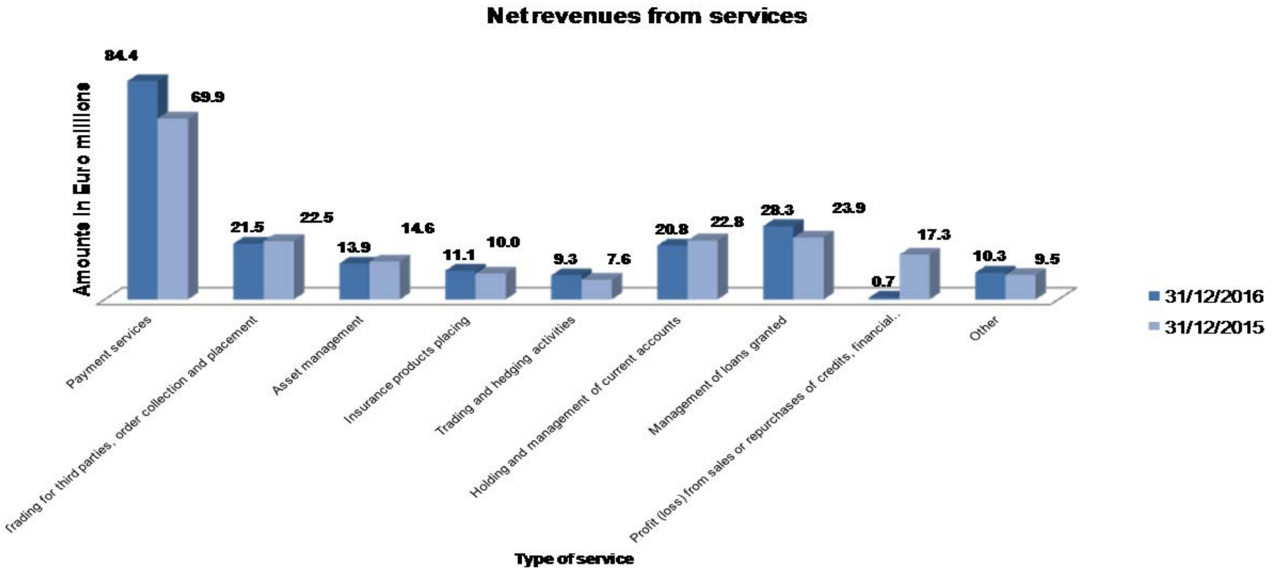
In 2016, trading activity on the bank's own behalf provided a positive contribution: all trading desks handling bonds recorded positive profit results, albeit down slightly on the whole when compared to those of the previous year. On the whole, the item trading and hedging activity stood at € 9.3 million, accounting for 5% of the total.

The placement of insurance products reported excellent results (+11.3%), thanks to Network activities and the "Contest Assicurativo 2016" initiative.

The recovery in cash loans (up 3.7%) involved growth in the component relating to the management of loans granted to customers.



The trend for the various services that make up net revenues at 31 December 2016, compared to the previous year, is shown below.



Net banking income

The trends described above led to total income of € 352.5 million, down -3.8% with respect to 31 December 2015.

The strong result of net fees, which recorded an increase of 9.9%, was not enough to offset the decrease in net interest income, the lower contribution from profit from the sale of financial assets and the losses on the transfer of receivables.

Operating costs

Operating costs, amounting to € 268.1 million, recorded an increase of 3.8%, due primarily to administrative expenses, within which contributions to guarantee and resolution funds, which rose from € 7.4 million in 2015 to around € 13.8 million, made up a significant portion.

Italian Legislative Decrees no. 180 and 181 entered into force on 16 November 2015, under which directive 2014/59/EU (so-called Banking Resolution and Recovery Directive, “BRRD”) was implemented into national legislation, creating a framework for the redevelopment and resolution of credit institutions and investment firms, and establishing the National Resolution Fund managed by the Bank of Italy, and the Deposit Guarantee Scheme managed by the Interbank Deposit Protection Fund. This directive envisages the ex ante payment of contributions in order to establish a readily available fund in the event of bank terminations. The contributions paid annually are incorporated in administrative expenses in the income statement and are split between the SRF (Single resolution fund) and the DGS (Deposit guarantee scheme) funds.

The amount of € 13.8 million is therefore divided between € 6.7 million for the contribution to the SRF fund (€ 2.2 million for the ordinary portion and € 4.5 million for the extraordinary portion), € 4.4 million for the contribution to the DGS fund and € 2.7 million relating to a contribution to the Interbank Deposit Protection

Fund. The latter contribution refers to an event recorded in the 2014 income statement, when a request was received by the fund to support banca Tercas and which, in April 2016, was rectified following a decision by the MEF (Ministry of Economy and Finance). This involved the repayment of the amount paid in 2014 (€ 2.7 million to the item “Recovery of stamp duty and other taxes”) and the simultaneous disbursement of the same amount present under “Other administrative expenses”.

Net of these contributions, administrative expenses fell by roughly 0.9%, in particular owing to less expenses relating to stamp duties on securities accounts, advisory services, advertising costs and searches.

Other operating income fell with respect to 2015, primarily due to the reduction in fast credit processing fees.

The increase of 2.2% in the component of personnel expenses (including IRAP [regional business tax] relating to said personnel) is essentially due to variable pay, based on the better results achieved in the year and a slight increase in the average number of bank employees, despite the workforce in December 2016 being smaller than that in December 2015, i.e. 43 full time equivalent (fte) staff less, due to the transfers of two business units in November 2016.

Lastly, an increase of € 1.1 million was recorded in amortisation/depreciation of fixed assets compared to 2015, as a result of greater investments in support of growth.

The efficiency indicator known as the cost-to-income ratio, i.e. the ratio of operating costs (after deducting IRAP on personnel costs and net of losses linked to operating risks) and net banking income, is 75.3%, a decline with respect to the 69.7% recorded at 31 December 2015. When calculated net of the contribution to the SRF and DGS fund, the cost to income ratio is 71.4%.

Breakdown of operating costs *(in Euro thousands)*

Item	31/12/2016	31/12/2015	Change	
			absolute	%
Administrative expenses:				
a) Personnel expenses	(161,175.5)	(157,630.0)	(3,545.5)	2.3%
IRAP on net personnel and seconded personnel expenses	(429.0)	(498.9)	69.9	-14.0%
Total personnel and IRAP expenses	**(161,604.6)**	**(158,128.9)**	**(3,475.7)**	**2.2%**
b) Other administrative expenses	(149,910.1)	(144,663.7)	(5,246.4)	3.6%
Recovery of stamp duty and other taxes	39,573.1	37,474.3	2,098.8	5.6%
Total administrative and stamp duty expenses	**(110,337.0)**	**(107,189.5)**	**(3,147.5)**	**2.9%**
Writedowns on tangible fixed assets	(7,202.0)	(7,395.4)	193.4	-2.6%
Writedowns on intangible fixed assets	(13,620.5)	(12,332.8)	(1,287.7)	10.4%
Other operating expenses/income (after deducting “Recovery of stamp duty and other taxes”)	24,615.9	26,814.9	(2,199.0)	-8.2%
Operating costs	**(268,148.2)**	**(258,231.6)**	**(9,916.6)**	**3.8%**

Operating profit (loss)

Operating profit consequently amounted to € 84.3 million, down by 22.1% over 31 December 2015.

Operating profit (loss) *(in thousands of Euro)*

Item	31/12/2016	31/12/2015	Change	
			absolute	%
Net banking income	352,476.2	366,525.6	-14,049.4	-3.8%
Operating costs	(268,148.2)	(258,231.6)	-9,916.6	3.8%
Operating profit (loss)	**84,328.0**	**108,294.0**	-23,966.0	**-22.1%**

Value adjustments

Net value adjustments on loans and advances amounted to € 56 million, down by 43.3% compared to € 98.7 million at 31 December 2015. Despite continuing to keep the loan measurement parameters constantly updated, 2016 saw a continuation of the positive trend which started in the last few months of 2015, which saw a reduction in new entries to positions classified as impaired and subsequently lower adjustments; the drop in incoming flows concerned all impairment statuses.

Value adjustments to financial assets available for sale, totalling € 2.6 million, refer mainly to the writedown of the equity interest in Comital Saiag S.P.A., now Cuki Group S.p.a., (€ 1.8 million) and the writedown of the voluntary contribution scheme (€ 0.7 million), as a result of the intervention of FITD (Interbank Deposit Protection Fund) in favour of Cassa di Risparmio di Cesena.

At 31 December 2016, the indicator “Net value adjustments to loans/cash loans (net of repurchase agreements receivable)”, stood at 0.8%, a strong improvement compared to 1.5% at 31 December 2015.

The coverage rate of impaired loans improved from 47.8% at 31 December 2015 to 50.1% at 31 December 2016, and the rate of coverage of solely non-performing loans rose from 60% to 60.4%, despite the transfer of € 81 million of nominal loans.

Profit (loss) from sale or repurchase of financial assets available for sale

Profit (loss) for the year was impacted, for an amount of € 47.4 million, by two extraordinary events: Visa Inc.’s acquisition of Visa Europe’s shares, which, for Banca Sella, as “principal member”, involved a capital gain of € 46.9 million and the transfer of C.B.A. Vita, a Group insurance company, carried out on 30 June 2016, which contributed a profit of € 0.5 million.

Income taxes

The trend in income taxes, which rose considerably with respect to the previous financial year, can essentially be explained by the evolution of the pre-tax result and the different incidence on this result of dividends and capital gains from the sale of investments, partially excluded from taxation.

Income taxes for the year from continuing operations are net of IRAP related to expenses for personnel which was reclassified, increasing said component (calculated by taking into account the changes introduced by Law 190 of 23/12/2014 regarding the deductibility, for IRAP purposes, of the expenses incurred in relation to personnel employed on permanent employment contracts). The percentage impact of income taxes on profit from continuing operations before taxes was 7%.

The tax rate percentage was positively impacted by the fact that a significant portion of revenues was composed of capital gains and dividends on investments with the characteristics envisaged in article 89, paragraph 2 and article 87 of Presidential Decree 917/86, which are almost fully excluded from taxation. This component (which was notably higher than 2015) generated € 12.4 million lower taxes in 2016, equal to 19.70 percentage points on the tax rate.

The so-called “Robin Hood tax” introduced by Legislative Decree 112/2008 (turned into Law no. 133/2008) which foresees that 4% of interest expenses is non-deductible, caused an increase in taxes of approximately € 0.4 million, corresponding to about 0.7 percentage points in the tax rate. Income taxes were impacted by the positive response obtained to the request for an opinion presented in accordance with art. 11, paragraph 1, letter b) of Law no. 212 of 27/07/2000 regarding the ACE (aid for economic growth) subsidy relating to 2015. This component generated around € 1 million lower taxes, corresponding to 1.7 percentage points on the tax rate.

The IRES and IRAP deductibility rules were applied to adjustments made to loans to customers, as set forth in Decree Law 85/2015, converted by Italian Law 132/2015, which makes provision, from 2016, for the immediate deductibility of adjustments to loans and, subsequently, does not cause increases in deferred taxes, without, however, having a direct impact on the tax rate with respect to the situation that applied previously. In the absence of the effect of the above-mentioned components, the tax rate would have been around 33.6%.

Banca Sella, as a subsidiary, adheres to the tax consolidation system adopted by the parent company Banca Sella Holding as its controlling and consolidating company.

Comprehensive income

COMPREHENSIVE INCOME

		31/12/2016	31/12/2015
10.	**Profit (Loss) for the period**	**58,537**	**6,012**
	Other comprehensive income net of taxes without transfer to income statement		
40.	Defined benefit plans	(1,616)	1,238
	Other comprehensive income net of taxes with transfer to income statement		
100.	Financial assets available for sale	(38,528)	34,467
130.	**Other comprehensive income, net of tax**	**(40,144)**	**35,705**
140.	**Comprehensive income (Items 10 +130)**	**18,393**	**41,717**

The change in comprehensive income relating to financial assets available for sale is attributable almost entirely to the acquisition of Visa Europe by Visa Inc. Lastly, at the end of 2015 a reserve of around € 38.6 million was recognised for the fair value measurement of the investment held. The transfer of the investment was completed in 2016, with the generation of a capital gain of approximately € 46.9 million and the subsequent reversal of the valuation reserve to the income statement.

V. Balance Sheet Data

Reclassified balance sheet (in Euro millions)

Assets	31/12/2016	31/12/2015	% change over 31/12/2015
Financial assets (1)	1,541,713.7	1,749,371.7	-11.9%
Due from banks	2,062,213.5	1,584,034.6	30.2%
Cash loans, exclusive of repurchase agreements receivable (2)	6,984,390.4	6,734,045.2	3.7%
Repurchase agreements receivable	1,203.1	412.3	191.8%
Tangible and intangible fixed assets (3)	97,259.8	90,656.8	7.3%
Tax assets	176,067.7	188,847.6	-6.8%
Other assets (4)	396,349.9	418,485.2	-5.3%
TOTAL ASSETS	**11,259,197.9**	**10,765,853.3**	**4.6%**
Liabilities and Shareholders' equity	**31/12/2016**	**31/12/2015**	**% change over 31/12/2015**
Due to banks	406,482.8	335,182.9	21.3%
Direct deposits, excluding repurchase agreements payable (5)	9,695,379.1	9,275,161.1	4.5%
repurchase agreements payable	12,272.4	46,251.0	-73.5%
Total direct deposits	9,707,651.5	9,321,412.0	4.1%
Financial liabilities	20,518.2	19,007.3	8.0%
Tax liabilities	15,794.6	23,664.4	-33.3%
Other liabilities (6)	266,980.3	252,193.4	5.9%
Provisions for specific purposes (7)	52,216.1	43,224.7	20.8%
Shareholders' equity (8)	789,554.3	771,168.6	2.4%
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**11,259,197.9**	**10,765,853.3**	**4.6%**

(1) Given by the sum of the following balance sheet asset items: 20 "Financial assets held for trading," and 40 "Financial assets available for sale".
(2) Item 70 "Due from customers" in the balance sheet assets, exclusive of repurchase agreements.
(3) Given by the sum of the following balance sheet asset items: 110 "Tangible assets" and 120 "Intangible assets".
(4) Given by the sum of the following balance sheet asset items: 10 "Cash and cash equivalents", 80 "Hedging derivatives", 90 "Value adjustment of financial assets subject to macro-hedging" and 150 "Other assets".
(5) Given by the sum of the following balance sheet liability items: 20 "Due to customers" and 30 "Securities issued".
(6) Given by the sum of the following balance sheet liability items: 60 "Hedging derivatives" and 100 "Other liabilities".
(7) Given by the sum of the following balance sheet liability items: 110 "Employee severance indemnities" and 120 "Provisions for risks and charges".
(8) Given by the sum of the following balance sheet liability items: 130 "Valuation reserves", 160 "Reserves", 170 "Share premiums", 180 "Share Capital" and 200 "Profit for the year".

Brokering with customers saw loans reach € 6,984.4 million, up by 3.7% compared to € 6,734.0 million recorded at the end of the previous year.

Analysis of the balance sheet shows how the change in the management of the liquidity portfolio resulted in the following on the asset-side:

- a decrease of 11.9% in financial assets: this context incorporated the decision to reduce the exposure to Government bonds and carry out short-term investments placed in the portfolio of financial assets available for sale;
- increase in loans to banks (+30.2%), mainly due to the increase in deposits with Banca Sella Holding;
- the growth in cash loans (+3.7%), due to the recovery in demand from private customers and businesses.

The amounts due to banks under liabilities rose by around € 71.3 million, mainly due to the Targeted Long Term Refinancing operation (TLTRO) carried out through Banca Sella Holding.

Global deposits at market prices stood at € 24,867 million, up by 1.2%, thanks to the strong performance of direct deposits (+4.5%). Indirect deposits at market prices are essentially in line with 2015 (-0.4%).

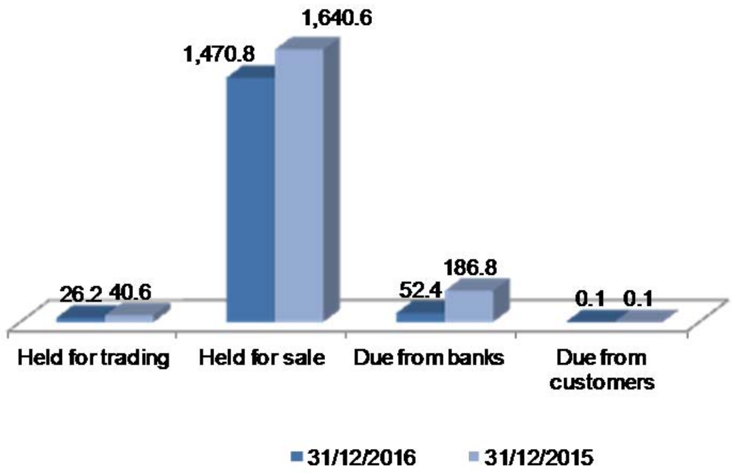
Funding Policies and ALM

In regards to funding policies, during 2016 the bank continued to operate under its normal policy of healthy and prudent management. In particular, it acted to ensure a solid liquidity position was maintained, which originates from and is based on the ratio, considerably lower than one, between cash loans and direct deposits. The surplus of direct deposits not used in sales assets is allocated to senior bonds (mainly Government) and in on sight deposits with the banking parent company, which constitute a significant buffer of high quality and easily liquidated assets. The bonds placed with customers that reached maturity were largely replaced by the medium/long-term funds made available by the European Central Bank under two TLTRO Programmes. In particular, the bank extinguished the loans obtained as part of the first Programme (€ 268 million) early and, at the same time, obtained new loans of € 335 million as part of the first transaction of the second TLTRO Programme and obtained under more favourable interest rate conditions.

Financial assets (Debt securities)

Financial assets (in Euro thousands)

	31/12/2016	31/12/2015	% change over 31/12/2015
Held for trading	26,188.2	40,620.3	-35.5%
Held for sale	1,470,784.6	1,640,612.1	-10.4%
Due from banks	52,449.8	186,847.5	-71.9%
Due from customers	80.1	120.1	-33.3%
TOTAL	**1,549,502.7**	**1,868,200.0**	**-17.1%**



At 31 December 2016, the Bank held a debt securities portfolio of € 1,549.5 million which, in accordance with the accounting principles, was divided into the following categories.

Financial assets held for trading

Financial assets held for trading mainly consist of debt securities, in particular Italian government securities, senior bank bonds and bonds issued by banks within the Banca Sella Group. At 31 December 2016, the following types of securities are held:

- Italian government securities 15%;
- Senior bank bonds 6%;

- Banca Sella Group bonds 79%.

The amount of this component decreased by around € 14.4 million, going from € 40.6 million at 31 December 2015 to € 26.2 million at 31 December 2016.

With regard to asset allocation, the variable component was almost entirely eliminated, and almost all of the category is invested in short-term fixed rate securities. Exposure to interest-rate risk was contained for the entire period in question.

Financial assets available for sale

The debt securities component, following the significant increase in 2015, recorded a decrease of roughly 10.4% in 2016; this decrease was due primarily to the non-renewal of Italian Government securities which reached maturity in the fourth quarter. The objective for 2017 is to renew the investments in order to increase portfolio profitability and pursue a strategy of greater diversification of financial assets, with particular attention paid to the quality of the bonds from banks and financial and corporate issuers in the portfolio.

The category is composed primarily of Italian Government securities and bank and corporate bonds with a high credit rating; 3 closed-end funds were introduced during the year intended for investment primarily in debt instruments issued by small-medium Italian companies. At 31 December 2016, the following types of securities are held:

- CCT (Treasury Credit Certificates) 34.0%;
- BTP (Multi-year Treasury Bonds) 13.2%;
- Inflation-linked BTPs 42.5%;
- Senior bank bonds 6.7%;
- Senior corporate bonds 3.6%.

In 2016, the amount of this segment fell by around € 168.7 million, reaching a value of € 1,470.8 million at 31 December 2016. The asset class that saw the biggest change was BTPs, which registered an annual drop of roughly € 195 million, while the exposure to other classes of securities rose by a total of approximately € 28.1 million and € 18.7 million respectively for CCTs, € 2 million for bank bonds and € 7.4 million for corporate bonds.

With regard to asset allocation, the variable component, which rose slightly with respect to 31 December 2015, represented about 34% of the category, while the remaining 66% was invested in fixed rate securities with short or medium-term maturity partly linked to inflation. Exposure to interest-rate risk remained at very low levels for the entire period in question. With an eye on greater diversification, exposure to private issuers increased during the year, both banking and corporate, with an average maturity of 3 years.

Due from banks and customers

Under the item ‘due from banks’, debt securities consist exclusively of bonds issued by Banca Sella Holding. During the year, the segment decreased by about € 134.4 million, due entirely to the maturity of bonds only partially renewed. While under the item ‘due from customers’, debt securities refer exclusively to a subordinated Confidi 6% bond maturing in 2018.

Investment and administered savings advisory services

The aggregate of third-party securities in deposit, excluding asset management, mutual funds, SICAVs (investment company with variable capital) and financial insurance savings, reached € 8,954 million at 31 December 2016, a drop of 3% compared to € 9,230 million in 2015. The main underlying trends showed a significant decrease in the bond component (-€ 298 million compared to 2015) and essential stability in the equity component. As regards the factors that definitely had an impact on this negative result, given out of line with the ex-ante expectations, we should indicate:

- the result of the UK referendum at the end of June, which triggered the so-called Brexit, i.e. the UK's exit from the European Union;
- Donald Trump's victory in the US elections in November;
- the Italian Government's defeat in the constitutional referendum at the start of December, with the subsequent formation of a new Government.

These unforeseen factors, combined with mounting global geopolitical tensions and the conditions of the international financial system, and the Italian one in particular (exemplified by the failed share capital increase of Banca Monte dei Paschi in the final part of the year) led, in the second part of the year, to heightened uncertainty on the financial markets, which continued to favour the already high liquid component of portfolios, hence raising available funds in customer current accounts, pending more favourable conditions for investments. This market uncertainty also caused an increase in risk aversion and a slump in the stock markets (especially the Italian markets).

By contrast, the fall in revenues in the bond segments continued throughout the year, due to interest rates, especially in the short and medium-term part of the curve which remained constantly at negative levels or close to zero, also fuelled by the continuation of QE measures by the ECB.

Indirect deposits (in Euro thousands)

Item	31/12/2016	Proportion (%) of total	31/12/2015	Proportion (%) of total	Changes	
					absolute	%
Managed portfolios	1,440,839.0	9.5%	1,729,498.8	11.4%	(288,659.7)	-16.7%
Administered deposits	8,954,050.1	59.1%	9,230,681.6	60.8%	(276,631.5)	-3.0%
Insurance funding	1,368,615.2	9.0%	1,024,451.6	6.7%	344,163.6	33.6%
Administered funds	3,375,494.5	22.3%	3,208,531.6	21.1%	166,962.8	5.2%
Total indirect deposits	**15,138,998.8**	**100.0%**	**15,193,163.6**	**100.0%**	**(54,164.8)**	**-0.4%**

Global deposits at market prices stood at € 24,867.5 million, up by 1.2%, thanks mainly to the strong performance of direct deposits (+4.5%) and excellent performance of insurance funding (+33.6%).

Total deposits (in Euro thousands)

Item	31/12/2016	Proportion (%) of total	31/12/2015	Proportion (%) of total	Changes	
					absolute	%
Direct deposits from banks	20,835.1	0.1%	28,528.3	0.1%	(7,693.2)	-27.0%
Direct deposits (excluding repurchase agreements payable)	9,695,379.1	45.1%	9,275,161.1	44.0%	420,218.1	4.5%
Repurchase agreements payable	12,272.4	0.1%	46,250.9	0.2%	(33,978.5)	-73.5%
Indirect deposits	15,138,998.8	70.3%	15,193,163.6	72.0%	(54,164.8)	-0.4%
Total deposits	**24,867,485.4**	**115.5%**	**24,543,103.9**	**116.2%**	**324,381.5**	**1.2%**

Direct deposits including repurchase agreements rose by 4.1%. Repurchase agreements and securities issued fell with respect to 31 December 2015, given that securities which matured during the year were not fully replaced with new issues. This trend was counteracted by the increase in current accounts and demand deposits held by customers. Direct deposits, including repurchase agreements, accounted for 44.9% of total deposits.

Direct deposits (in Euro thousands)

Item	31/12/2016	Proportion (%) of total	31/12/2015	Proportion (%) of total	Changes	
					absolute	%
Due to customers (excluding repurchase agreements)	9,241,860.8	95.2%	8,596,336.1	92.2%	645,524.7	7.5%
- Current accounts and demand deposits	8,167,957.5	84.1%	7,356,415.7	78.9%	811,541.8	11.0%
- Term deposits	742,212.6	7.7%	904,063.8	9.7%	(161,851.2)	-17.9%
- Other loans and advances	102,296.9	1.1%	70,900.9	0.8%	31,396.1	44.3%
- Other items	229,393.8	2.4%	264,955.7	2.8%	(35,561.8)	-13.4%
Securities issued	453,518.3	4.7%	678,825.0	7.3%	(225,306.7)	-33.2%
TOTAL DIRECT DEPOSITS	**9,695,379.1**	**99.9%**	**9,275,161.1**	**99.5%**	**420,218.1**	**4.5%**
Repurchase agreements payable	12,272.4	0.1%	46,251.0	0.5%	(33,978.5)	-73.5%
TOTAL DIRECT DEPOSITS (INCLUDING REPURCHASE AGREEMENTS)	**9,707,651.5**	**100.0%**	**9,321,412.0**	**100.0%**	**386,239.5**	**4.1%**

Online Trading

In 2016, the trend for revenues deriving from the online trading service for financial instruments (Online Trading) was influenced by the results of the financial markets, characterised by instability and national and international socio-political events.

In this context, the transactions of Banca Sella customers, with around 2.3 million orders executed on the market, fell slightly with respect to the previous year, generating trading revenues that were down by 11%. Business performance was also influenced by a minimal drop in average commission, which was required to keep up with the aggressive pricing policies of the competition. On the whole, net banking income from this service fell by 5.3% with respect to the previous year.

The online trading service activities developed mainly in the following directions:

- development of offer;
- execution of commercial initiatives to acquire new customers.

With reference to development of the offer, numerous changes were introduced in 2016 such as: IPOMarginazione Intraday Derivati (makes intraday operations with reduced margins possible), the trading of options on the CME market (Chicago Mercantile Exchange), the Trading Marker (an innovative function which makes it possible to receive immediate evidence of the presence of a Trading opportunity upon verification of pre-established conditions), the Advanced Trading Book (new book configuration which permits fast and professional trading for those carrying out short-term Heavy Trading), CFDs (contracts for difference) on DAX, Oil and Bunds expressed in “micro” batches (for those who wish to trade by committing extremely small amounts). In relation to mobile phone-based trading, the SellaXTrading App was developed for smartphones, available for Android and iOS.

In 2016, a large online campaign was carried out to promote the Trader Account and local and web-based training events were organised on various issues related to online trading.

Asset Management

Asset Management did not have a particularly good year. Net deposits were a negative € 265.5 million due, however, almost entirely to a disinvestment of € 243.6 million relating to a single managed account relating to an institutional entity. Private banking figures were not particularly satisfying, € -266.4 million (€ -22.8 million net of the disinvestment of the institutional customer).

At the end of December 2016, asset management volumes came to € 1.566 billion, of which € 963 million (61.5%) placed by the Private Banking service, € 261 million (21.8%) by the branch network and €

341 million (16.7%) by the network of financial advisors authorised for off-site sales by Banca Patrimoni Sella & C.. The aggregate volumes recorded a decrease of roughly 13.8% compared to 31 December 2015.

In 2016, 46.1% of customers (24.4% of assets) saw returns gross of tax effects and commissions exceed the benchmark.

The management of the Banca Sella portfolios is entrusted to Banca Patrimoni Sella & C.

Funds and sicavs (variable capital investment companies)

Investment funds closed the year with positive net funding of around € 105 million.

The flows are concentrated primarily on the bond and flexible segments, to the detriment of monetary and equity funds. Foreign funds were purchased to a greater extent than Italian funds.

At the end of December 2016, fund volumes exceeded € 3.3 billion, up 5% over the previous year.

Credit policies and products

In 2016, the Credit Products Service made new products available and updated existing ones to better satisfy the requirements of private customers and businesses.

More specifically, we note the following:

- the subscription to Nuova Sabatini TER - Plafond Beni Strumentali (New Sabatini TER - Instrumental Goods Credit Line), which allows the disbursement of loans to companies for investments, subsidised with the concession of a Government grant related to assets;
- the offering of loan products with funds provided by the European Central Bank as part of the TLTRO 2 operation;
- the signing of an agreement with the European Investment Fund for the issuing of the Innovfin guarantee, as part of the Horizon 2020 programme, on the loans supporting company research and innovation activities;
- renewal of the agreement with SACE for the issuing of guarantees on loans in support of companies active in internationalisation projects;
- the signing of regional agreements relating to rural development plans which make provision for the concession of grants for investments in the agricultural sector;
- participation in financial support initiatives for populations affected by natural disasters.

The bank plans to enhance the offering of credit products via digital channels in 2017.

In 2016, the Bank handled indirect loans. Indirect Loans mean any form of financing to natural persons or legal entities channelled through an entity that does not assume the credit risk and is disbursed by a third party institution which, by contrast, assumes said risk. The bank, in brokering the loans of its customers, does not receive any interest but does receive commissions paid by those using the funds and assuming the risk or fees paid by the fund applicant, for the advisory services provided.

The types of indirect loans offered to customers in 2016 included:

- As regards factoring (as of today in any form of reporting), a reporting partnership was launched in 2016 with Factorit whose activities generated total agreed credit facilities of € 24.3 million, turnover of loans presented of € 14.6 million and final retrocessions of roughly € 10 thousand;
- Personal loans disbursed by Consel: the placement of personal loans disbursed by Consel continued, with roughly a nominal € 78.9 million paid;
- Leases provided by Biella Leasing: the placement of lease agreements provided by Biella Leasing continued, with roughly a nominal € 31.5 million paid.

Cash loans

At the end of FY 2016, cash loans to ordinary customers came to € 6,985.6 million (€ 6,734.5 million at 31 December 2015) with a positive change of € 251.1 million with respect to the previous year. As concerns unsecured loans, the total amount is € 214.9 million (€ 207.2 million at 31 December 2015).

In a still difficult economic situation, the Bank, as noted above, maintained its support for households, offering mortgages to purchase or remodel homes, and to companies that have demonstrated appropriate economic prospects and business continuity, disbursing short-term loans to support the carrying out of current activities, and medium/long-term loans for new investments and/or to restructure short-term debt.

Loans to businesses continued in collaboration with Biella Leasing, the Group’s leasing company, and with Consel, the Group’s consumer credit company, for the disbursement of consumer credit loans.

Also during the course of 2016, the bank made use of the funds provided by the European Investment Bank, the Deposits and Loans Fund and the European Investment Fund, and continued to actively collaborate with Sace to support the international growth of business customers.

In consideration of the complexity of the economic context, training and refresher courses for personnel who work in the credit sector was of huge importance in 2016 too.

Loans portfolio Quality

In 2016, we were able to note the following:

- the consolidation of the signs of exit from the economic crisis that were registered in the last few months of 2015;
- the positive effects of the initiatives implemented to improve the quality of credit, with a marked reduction in new entries to positions classified as impaired;
- similarly positive effects of increasingly more proactive management of disputes, targeted at disposing of impaired loans more quickly.

A combination of three factors made it possible to reduce credit risk by 43.3% compared to the previous year and, at the same time, determined an improvement in the relevant ratios across the board, including the coverage ratio of impaired loans, which rose from 47.8% in 2015 to 50.1% at the end of 2016, the Texas ratio, which improved from 87.2% to 82.1% and the ratio between adjustments to loans and cash loans, which improved from 1.5% to 0.8%.

A review of the most important aspects of the year confirms that the application of tight deadlines in managing ‘unlikely to pay’ positions subject to cancellation sometimes favours out-of-court resolutions, and is reflected on the volumes in the relevant classification, which are constantly falling.

As regards activities concerning the enforcement of guarantees, a good performance was recorded in the year for property sales at auction, due to both the incentives of the reforms of the enforcement process introduced in the second half of 2015, and the actions implemented by the Dispute Department in synergy with Immobiliare Lanificio Maurizio Sella and some external partners, for participation, assistance and, where an interest exists, the purchase of properties.

The collection of the guarantees enforced against Confidi, on the other hand, recorded a less favourable performance than the previous year, due to the entry into a state of crisis of some guarantee consortia, in respect of which the placement into liquidation of Eurofidi was significant. At 31 December 2016, the relationships revoked (loans classified as unlikely to pay revoked and bad loans) secured by Eurofidi guarantees were valued as follows:

- for the purposes of the determination of the forecast recovery, the Eurofidi guarantees on the Provision for Risks were not considered, even if secured by a subsidiary back-to-back guarantee of the Central Guarantee Fund managed by Mediocredito Centrale;

- the recovery amount based on Eurofidi guarantees on assets, on average secured by a first demand back-to-back guarantee of the Central Guarantee Fund managed by Mediocredito Centrale of 80%, was discounted to 24 months.

In line with the strategic guidelines and the information referenced by the national and European supervisory bodies, activities during the year were also focused on reducing the amount of bad loans, in respect of which the trend is falling for both gross bad loans and net bad loans.

Adjustment to the impaired loan assessment policy

As occurred in previous years, and in compliance with Group regulations, during 2016 certain revisions were made to the parameters used to measure impaired loans.

The underlying principles of the impaired loan valuation process continue to be the valuation and determination of analytical estimates of recovery for individual customers and loan types, taking account of all the valuation elements present, namely sureties acquired and/or acquirable, the customer's income and assets, legal actions available, possibility of out-of-court agreements, presence of settlement procedures.

Only the segment of loans not subject to revocation of credit lines and of less significant amounts continues to use the lump sum measurement model with application of percentage ratios.

Periodic review of the parameters used to measure specific adjustments aims to allow appropriate methods to be used to measure impaired loans each time, adapted to the conditions of the external situation and the evolution of the macroeconomic, organisational and process situations.

In December 2016, the following elements were reviewed, used to measure non-performing loans classified as unlikely to pay revoked and bad loans:

- recovery estimates to be applied to unsecured loans not supported by guarantees or capital that can be enforced at the time the credit lines are revoked;
- estimated recovery to be assigned to cases for which, at the end of in-court and out-of court collection actions, are classified as possible sale without recourse;
- time estimates for the discounting of enforcements of guarantees deriving from first demand guarantee consortia;
- estimates of costs connected to discounting for negative cash flows envisaged for real estate enforcement procedures.

Updates to measurement parameters, supported by historic series and statistics, carried out on the bank's portfolio of loans classified within the indicated impaired categories were applied to the measurements of loans classified as bad loans and unlikely to pay revoked at 31 December 2016, and determined an increase of € 1.1 million in the amount of adjustment provisions.

In the context of the conventional review process, all of the other parameters and measurement moments related to the life of impaired loans were confirmed.

In the light of the updates presented here, 2016 ended with stronger provisioning policies for impaired loans, which led to a coverage rate, meaning total writedowns effected on all impaired cash loans and gross loans disbursed, equal to 50.1%, increased by 2.3% over the previous year. The figure was 47.8% at 31 December 2015 and 44.4% at 31 December 2014.

Credit quality (amounts in Euro millions)

Item	31/12/2016	Proportion (%) of total	31/12/2015	Proportion (%) of total	Changes absolute	Changes %
Due from customers	**6,985.5**	**100.0%**	**6,734.3**	**100.0%**	**251.2**	**3.7%**
Non-impaired loans	6,472.5	92.7%	6,174.8	91.7%	297.7	4.8%
Impaired loans	513.1	7.4%	559.7	8.3%	(46.6)	-8.3%
of which net bad loans	*299.8*	*4.3%*	*305.5*	4.5%	*(5.6)*	*-1.9%*
of which unlikely to pay	*204.4*	*2.9%*	*243.0*	3.6%	*(38.6)*	*-15.9%*
of which impaired past due	*8.8*	*0.1%*	*11.2*	*0.2%*	*(2.4)*	*-21.4%*

Bad loans

Net bad loans at year-end totalled € 299.8 million (including securitisation volumes), down 1.9% on a yearly basis (2015 saw a 20.3% increase over 2014) with an incidence on cash loans of 4.3% (4.5% in 2015).

During the period in question, the amount of gross new bad loans totalled € 90.9 million, a 54.6% decrease with respect to the previous year. The decrease is due to the significant improvement in credit quality.

Collections recorded on bad loans, including collections of "end-of-life" positions transferred, amounted to € 40.4 million, an 8.9% increase with respect to 2015, when the figure was € 37.1 million. Three without recourse transfers were completed during the year, with different characteristics from one another and, more precisely:

- the transfer of a portfolio of mortgage loans for a gross balance of € 12.2 million, composed of a small batch of selected positions, with underlying real estate guarantees with significant judicial uncertainty and a high risk of a decrease in value at the enforcement phase;
- the transfer of a portfolio of loans defined as "end-of-life" for a gross balance of € 41.9 million;
- the transfer of an insolvency portfolio for around € 128 million of collectable loans, booked for approximately € 27.3 million.

The completion of the three aforementioned transactions also made it possible to reduce manager portfolios by more than 4,500 dossiers, with benefits in terms of the efficiency and effectiveness of collection activities.

At 31 December 2016, the number of non-performing positions stood at 8,227, of which around 62.7% were below the amount of € 50,000 and 21.2% lower than € 5,000.

In December 2016, the coverage ratio referred to non-performing positions was 60.4%, whilst at the end of last year it was 60.0%, a 0.4% increase. This increase materialised despite the transfer of a substantial portfolio of "end-of-life" and insolvency positions, characterised by high coverage ratios.

Therefore, coverage of bad loans was strengthened, with adequate protection against credit risk in this category.

Unlikely to pay positions

Unlikely to pay positions totalled € 204 million at the end of the year (net cash exposures including securitisations), down 15.9% compared to 2015 (€ 243 million). The number of loans classified as 'unlikely to pay' involved 5,895 customers (of which 3,452 with an exposure of less than € 5,000).

In December 2016, loans secured by a mortgage guarantee amounted to a net total of € 143.7 million. Positions with revocation of credit facilities totalled 1,472, i.e. € 35.5 million in net exposures.

In December 2016, the coverage ratio referred to unlikely to pay positions was 21.7%, whilst at the end of last year it was 18.4%, a 2.7% increase.

This coverage ratio, albeit more contained when compared with that of a sample of peers (27.3%), is justified by the reduced period of time loans stay in this category (evidenced by both the incidence of total loans of 3.5% compared to a average incidence for peers which is double this figure, and the fact that gross positions that remain in the impaired status for less than three months make up 62% of the total), and a higher ratio of reclassification as performing, and by the presence (65%) of the gross amount of unlikely to pay positions of mortgage guarantees.

Measurements done by the Non-Performing Exposures service applied to unlikely to pay positions are aimed at determining whether there is a real possibility of returning to performing and, if there are doubts about realisation, quantifying possible losses after collection actions, in general taking into account capitalisation, income-generating capacity, financial balance, prospects in the relative sector, managerial and entrepreneurial skills, regularity of managing bank counterparty relations and any guarantees present.

Past-due loans

Positions classified as loans past due and in excess of thresholds totalled € 8.8 million at the end of the year (net cash exposures including securitisations).

Loans past-due and in excess of thresholds include 56 positions with total exposure of € 2.5 million, which benefit from mortgage guarantee.

At 31 December 2016, the number of past due loans and loans in excess of thresholds corresponded to 5,206 customers. The portfolio of past due exposures is highly fragmented, in consideration of the fact that 4,870 positions involve an amount of less than € 5,000.

Measurement of loans past due and in excess of thresholds loans used to determine writedowns is carried out analytically, for positions with exposures exceeding € 25,000, at the time of the initial classification and every time new and significant factors materialise.

Measurements performed by the Non-Performing Exposures service are aimed at determining whether there is a real possibility of positions being reclassified as performing and, if there are doubts over the realisation, quantifying possible losses, in general taking into account capitalisation, income-generating capacity, financial balance, prospects in the relative sector, managerial and entrepreneurial skills, regularity of managing counterparty bank relations and any guarantees present.

On the whole, analytical adjustments applied to the total of past due loans and loans in excess of thresholds amounted to € 1.2 million at 31 December 2016.

In December 2016, the coverage ratio for past due exposures was 12.3%, up compared with respect to the previous year, when it was at 11.8%.

Forbearance measures

In compliance with the provisions of the International Technical Standard (ITS) issued by the European Banking Authority (EBA), pursuant to regulation CRR 575/2013 issued by the European Parliament and Council, Circular 272 also added the EBA's definition in regards to forbearance measures, in reference to all those concessions granted by the entity in favour of customers suffering financial difficulties or likely to suffer financial difficulties.

This classification, in effect as of 2014, affects both positions classified under performing loans and positions classified as non-performing or impaired.

When forbearance is granted to a customer classified as non-performing, it remains in this category until the following conditions are all met simultaneously:

- a year has passed since the forbearance was granted (cure period);
- there are no past-due amounts present at the end of the period referred to above;
- there are no doubts in regards to debtor repayment; this profile can also be alternatively be met when:
  - ✓ payments have been made equal to the amount of previous past-due amounts;
  - ✓ the payment recognised in the forbearance has been made;
  - ✓ the debtor has in any case demonstrated the capacity to meet the conditions after forbearance.

Once the period of "forbearance NPE" has passed, the position will move to "forbearance performing", where it remains for an additional two years before being transferred to performing with no reserves, if the following conditions are met:

- a probation period of 2 years has passed;
- regular payments for the appropriate amount of capital and interest have been made for at least one half of the probation period;
- none of the exposures associated with the debtor are past-due by over 30 days at the end of the probation period.

Banca Sella carries out a monthly check, rather than a quarterly one as set forth in the Regulations. The automatic procedure indicates the positions that fall within the parameters of articles 156 and 176 of the ITS to the evaluator. The evaluator analytically checks whether there are any doubts regarding repayment by the debtor. Transfer of status may occur when all of the qualitative controls done by the evaluator and the automatic checks on the lack of past-due amounts are passed.

If a position is classified as "forbearance performing", but when the forbearance was granted it was classified as a NPE, if a past-due amount exceeding 30 days arises during the probation period, or new forbearance measures are granted, it must immediately be reclassified in "forborne NPE", and the clock is reset for the cure and probation periods.

Forbearance measures are outlined in line with EU regulations, based on the following categories:

- renegotiation with extension of amortisation;
- bank moratorium;
- ABI/MEF agreement moratorium;
- ABI/consumer agreement moratorium;
- consolidation with unsecured or secured loan;
- Repayment plan;
- Solidarity fund moratorium;
- Short-term lines with cuts;
- Extensions of expiring consortia guarantees.

Total customers with forbearance status at 31 December 2016 amounted to € 351.8 million (gross exposures, € 350.4 million at 31 December 2015), broken down as follows:

- € 209.7 million in non-performing loans (€ 213.1 million the previous year);
- € 142.1 million in performing loans (€ 137.2 million the previous year);

In 2016, forbearance non-performing positions saw a total of € 30.3 million in new entries, of which € 13.9 million from forbearance performing exposures.

Outgoing flows moving to forborne performing, meaning that regular payments had been made for 12 months after forbearance was granted, amounted to € 22.8 million.

Preventive initiatives to monitor forbearance loans has been begun, with the aim of more effectively mitigating credit risk and preventing positions from being transferred to non-performing. One of these is prevention action performed by the Monitoring Service on forborne performing positions coming from forborne non-performing, in order to send branches information about counterparties with past-due amounts falling between 1 and 30 days, so as to promptly request payment and collection, in order to avoid a return to forborne non-performing, as set out under article 179, ITS.

Payment Systems

With regard to the Point of Sale (POS) service, payment card acquiring activities recorded a generally positive trend, characterised by an increase in transactions carried out with debit cards on the domestic circuit (+6.5% with respect to the previous year), and with credit cards (+10.7% with respect to the previous year). Growth figures show the growing propensity of the population to use electronic payment tools.

Overall volumes grew with respect to the previous year, also thanks to strong sales activities in terms of signing agreements with new merchants, carried out by both the branch network and the network of agents authorised by the Bank. Overall profitability, also thanks to the increases in volumes, the solid staying power of average commissions and the change of scenario brought about by European Regulation 2015/751 regarding Multilateral Interchange Fees, recorded a substantial increase (+59.2% compared to the previous year).

The e-commerce sector recorded 9.3% growth over the previous year. Profitability, similar to what was stated for the pos acquiring service, also recorded growth of 90.1% compared to the previous year.

Activities relating to debit and credit cards issued by the Bank, registered an increase in both domestic circuit debit card spending (+5.7% with respect to the previous year), and in international circuit debit card spending (+15.8% with respect to the previous year). Credit card spending increased by 5.2% for the consumer segment compared to the previous year, and 6.8% for the business segment. For similar reasons with respect to the introduction of European Regulation 2015/751, profitability fell by 12% compared to the previous year.

Shareholders' equity and regulatory capital

At 31 December 2016, it amounted to € 789.6 million, up by 2.4%. As indicated under significant events in the year, as a result of the transfer of the SellaLab business unit to Banca Sella Holding, and the transfer of the Hype business unit to the company Easy Nolo, two positive reserves of € 0.4 million and € 3.3 million were recognised respectively for the consideration received. These amounts did not flow to the income statement in the year, in accordance with IFRS 3, given that the transaction was carried out under common control.

Shareholders' equity (Euro thousands)

Item	31/12/2016	31/12/2015	Change in %
Share Capital	334,228.1	334,228.1	0.0%
Share premiums	366,090.5	366,090.5	0.0%
Profit reserves	162,782.5	159,298.3	2.2%
Other reserves	-132,461.9	-134,982.4	-1.9%
Valuation reserves of Financial Assets available for sale	5,890.7	44,418.2	-86.7%
Actuarial profit/losses in relation to defined benefit pension plans	-5,512.5	-3,896.3	41.5%
Profit (loss) for the year (+/-)	58,536.9	6,012.2	873.6%
Shareholders' Equity	**789,554.3**	**771,168.6**	**2.4%**

As of 1 January 2014, as envisaged in the new harmonised regulations for banks and investment companies contained in Directive 2013/36/EU (CRD IV) and in EU Regulation 575/2013 (CRR) of 26 June 2013, which transfer the standards defined by the Basel 3 Committee to the European Union, and on the basis of Bank of Italy Circulars no. 285 and 286 and the update to Circular 154, a new definition of own funds has taken effect, consisting of:

- Common equity tier 1, i.e. the main capital component generally represented, for the Bank, by ordinary capital paid in, the relative share premium reserve, profit for the period, reserves and other regulatory adjustments;
- Additional Tier 1 capital, i.e. the lower quality capital component, is not present for the Bank;
- Tier 2 capital, represented, for the Bank, by subordinated loans.

The regulatory provisions relating to own funds envisage a transition period, generally extending to 2017, during which certain elements which, when fully operational, will be fully calculable or deductible in Common Equity, affect common equity Tier 1 capital only for a certain percentage. As a rule, this residual percentage with respect to that applicable is calculated/deducted from the additional Tier 1 capital (AT1) and from the Tier 2 capital (T2) or is considered among the risk-weighted assets.

Also for subordinated instruments that do not respect the requirements envisaged in the new regulatory provisions, specific transitional provisions are envisaged, aimed at the gradual exclusion of no-longer calculable instruments from own funds (over a period of 8 years).

Regulatory capital (in thousands of Euro)

Item	31/12/2016	31/12/2015	Change in %
Common Equity Tier 1 CET1 (formerly Tier 1 capital)	727,305	689,345	5.5%
Common Equity Tier 2 T2 (formerly Tier 2 capital)	168,723	239,738	-29.6%
Total own funds (formerly regulatory capital)	**896,028**	**929,083**	-3.6%
Credit and counterparty risk	317,507	314,503	1.0%
Market risks	1,870	2,462	-24.1%
Operating risk	58,261	58,905	-1.1%
Total capital requirements	377,637	375,870	0.5%
Risk-weighted assets	4,720,469	4,698,373	0.5%
Common equity Tier 1/Risk-weighted assets (CET1 capital ratio)	15.41%	14.67%	
Tier 1 capital/Risk-weighted assets (Tier 1 capital ratio)	15.41%	14.67%	
Total own funds/Risk-weighted assets (Total capital ratio)	18.98%	19.77%	

At 31 December 2016, the capital ratios exceeded the minimum requirements set forth in the regulations in effect as of the reporting date:

- Common Equity Tier 1 ratio: 15.41%, against a minimum level of 5.125%;
- Tier 1 ratio: 15.41%, against a minimum level of 6.625%;
- Total Capital ratio: 18.98%, against a minimum level of 8.625%.

VI. Commercial model

Evolution of the commercial model

Sales activities are more heavily influenced by the development of technologies and subsequent change in customer attitudes. The sales network has evolved in line with customers' requirements and with the observations made following the adoption of portfolio creation. The commercial model employed by the Bank is therefore the Integrated Relationship model, based on the simultaneous and integrated offering of a digital service par excellence in support of a network of dedicated and highly skilled Sales Consultants.

In order to support the New Commercial Model, targeted at enhancing the level of service and customer satisfaction, and increasing the commercial effectiveness and operating efficiency of the network, in 2016, Banca Sella implemented strategic initiatives in various areas:

- modification of the geographic perimeters of the areas in which the branches are organised, which took place via the restructuring of the underlying districts;
- opening of two Consultancy Centres in Florence and Rome Eur, hubs dedicated to high quality consultancy where primarily private and business customers are able to find the necessary answers to their personal and business requirements;
- 4 new private customer offices in Biella, Palermo, Aosta and Chiavari dedicated to providing customers with investment consultancy.

Subdivision of branches by region and geographic area

Region	31/12/2016		31/12/2015	
	Number of branches	Weight % Region Out of total	Number of branches	Weight % Region Out of total
Piedmont	133	46.3%	134	45.7%
Sardinia	3	1.0%	3	1.0%
Tuscany	10	3.5%	10	3.4%
Aosta Valley	7	2.4%	6	2.0%
Emilia Romagna	13	4.5%	15	5.1%
Lazio	17	5.9%	17	5.8%
Liguria	9	3.1%	8	2.7%
Lombardy	18	6.3%	18	6.1%
Veneto	11	3.8%	12	4.1%
Friuli Venezia Giulia	1	0.3%	1	0.3%
Abruzzo	1	0.3%	1	0.3%
Marches	3	1.0%	5	1.7%
Molise	1	0.3%	1	0.3%
Campania	14	4.9%	14	4.8%
Puglia	27	9.4%	27	9.2%
Sicily	19	6.6%	21	7.2%
Total	**287**	**100.0%**	**293**	**100.0%**
ITALY				
North	192	66.9%	194	66.2%
Centre	31	10.8%	33	11.3%
South and Islands	64	22.3%	66	22.5%
Total	**287**	**100.0%**	**293**	**100.0%**

In order to implement the above investment plan and support the New Commercial Model, targeted at creating structured branches in the national territory with the presence of highly specialised professionals, the bank initiated the simultaneous strategic rationalisation of branches and operating points throughout the country.

These initiatives were formalised through the closure of 2 branches in Piedmont (VillarFocchiardo and Busano), 1 in Veneto (Legnago), 2 in Emilia Romagna (Modena strada Morane and Serramazzoni), 1 in Tuscany (Montevarchi), 2 in the Marches (Civitanova Marche and Pagliare del Tronto), 1 in Lazio (Roma Via Gallia) and 3 in Sicily (Camastra, Catania via Vittorio Veneto and Roccamena).

The adoption of territorial organisation based on "unified" branches also continued in 2016 - unifying several nearby branches, with the objective of achieving better structured and organised branches, to increase the levels of consulting and skills available to customers.

In the projects of the 2015-2017 strategic plan, provision was made not only for the adoption of a new commercial and service model but different customer segmentation. Therefore, in 2016, private customers were subdivided between:

- Households and private market: customers with total assets held at the Bank of up to € 100 thousand;
- Affluent Market: customers with total assets held with the Bank of at least € 100 thousand and mainly up to € 300 thousand;
- Private market: customers with total assets held at the Bank exceeding € 300 thousand.

Households and Private Market

The Households and Private Market is a target market composed specifically of minors, young people, families and pensioners. The segment is supervised at commercial level by Household and Private Sales Professionals, in turn incorporating, almost entirely, "non-dedicated" and "support" roles. In the final quarter of the year, the test phase of centralised management of retail customers was launched (5 unified branches equal to 13 operating points), through the Retail Desk project, whose objective is to offer high quality advisory services combined with excellent digital services.

During the year, the Households and Private Market recorded an increase in the amount of both direct (+8.7%) and indirect (+4.2%) deposits, in new loans (provision of mortgages: +30.4% compared to the previous year; disbursement of direct and indirect personal loans: +35.4% compared to the previous year) and also in customer development (number of customers up 2.1%, growth of 2.2% in number of performing customers).

Net banking income, less risks, improved by 1.1% compared to the previous year, also thanks to less expenses for losses on loans (-48.5%). Net interest income fell by 13% due to the marked reduction in the deposit margin, also as a result of the elimination of the deposit premium component (-75.3%); net interest income tension was therefore only partially offset by the higher margin on loans (+7.8%). Therefore, revenue from services fell by 2.8%, also due to the smaller contribution from electronic payment systems (-15%) and the banking component (-1.8%). By contrast, revenue from trading relating to the TOL component recorded growth of 14.8% and bancassurance revenue was up 9.9%, also due to the focus on the insurance offer stemming from the "Contest Assicurativo 2016" initiative on the network.

Private customers continued to exhibit a growing propensity to use electronic channels (increase of 3.96% in independent transactions on an annual basis) which the Households and Private Market took advantage of with initiatives and sales campaigns based on an integrated relationship approach by engaging the different customer approach channels: Branches, website, S.A.S and Social Media.

The lines of action in the Market in 2016 were targeted at:

- acquiring new customers and overseeing closures;
- developing direct and indirect loans;
- broadening insurance advisory services for the non-life branch;

- multichannel management, coordinated with the customer;
- personalised promotions aimed at reinforcing unique geographic characteristics in acquiring given targets, also via the online channel;
- preparation of retention initiatives through prize competitions with the involvement of commercial partners like Telepass, HDI and Dalani.

In support of network colleagues, the role of the Households and Private Community was consolidated through constant updates in terms of the offer and reporting of the main market trends, as well as through periodic meetings, checks and live updates.

Lastly, professional development was covered through the provision of training modules that did not focus strictly on insurance as required by the Regulator but, with the involvement of external tutors, also on different commercial contents.

Private and Affluent Market

The new service model requires all customers in the private and affluent market to be served by a dedicated advisor. The objective is to improve the level of service and customer satisfaction by increasing commercial effectiveness.

This process was partly launched in the last quarter of 2015 through the project “Affluent verso Private” (transfer of customers with total assets held at the Bank exceeding € 300 thousand to the private service) and in the second half of 2016 with the creation of the “Retail Desk” (service that, when up to full speed, will centrally manage all customers in the households and private segment).

The Private and Affluent Market was established in July 2016 from a merger of the Affluent Market and the Private Market, with the goal of reinvigorating and reinforcing the focus on a strategic customer target for the Bank, largely characterised by common requirements and objectives and a similar service model.

The activities of the Market (as a whole) in 2016 included promoting the integrated relationship with customers in the segments using all channels (traditional and online), in order to allow the customer to freely decide on the time, place and methods of contact.

Constant updating and development of the range of products and services designed for the target customer and created in collaboration with the Group companies (Sella Gestioni, Banca Patrimoni, Selfid); and, with the new partnership with HDI (Talanx Group), completing the range of insurance products of CBA, InChiaro and InChiaro Life.

The bank continued to perform careful due diligence on third-party management companies, to ensure a wide-ranging offer of funds and Sicavs, selected from the most important international operators in order to build efficient portfolios, to better deal with the complexity of the financial markets.

Professional development of dedicated sales personnel was supported through the provision of training, on the main aspects of updating of the offering, and specialist training on areas concerning the world of investments, the legislation and tax laws. In addition, the external training project continued, thanks not only to a cooperative agreement with TESEO, through the provision of training by high-level instructors on specific issues and areas of interest for target customers, but the launch of a process, for some employees, to facilitate the preparation for the exam for enrolment in the register of financial advisors (off-site authorisation). Finally, monthly market alignment meetings continued (affluent segment), with the objective of constantly sharing guidelines and strategies to be adhered to during the year.

The subject of digitalisation remained a central one, with customers provided with new functionalities and new targeted areas of multi-channel and educational-training engagement.

Special focus was placed on starting an information/training process, aspects of innovation, alternative investments, and everything fintech. A team called private & fintech was established, responsible not only for fulfilling the traditional mission, but for creating a network of contacts between entrepreneurs keen on developing and investing in innovative projects through the various technical forms made available by the market. For this purpose, events were organised during the year which involved staff and customers.

Constant attention was focused on the updating of the communities dedicated to the two segments, ensuring a well-organised and intuitive overview of the offer available to sales professionals, in addition to communications, information and commercial and technical-educational insights. The community development process (currently delegated to the repository function) will see greater interaction between members (to further bolster the sense of belonging), but in particular to share information and topics of common interest, stimulating discussions that also lead to suggestions and solutions from other members.

During the year it became clear, in several environments, that the private banking service (which can also be adopted for upper affluent customers) is increasingly more identified with the capacity to identify and provide a tailored response to customers' needs, even more than the search for even better performances, and how the demand for an all-round advisory service provided predominantly by a dedicated advisor increased over time.

There were 180 advisors (dedicated affluent and private bankers) at the end of 2016, for coverage of the target customer of roughly 60%. The objective is to have all customers served by dedicated consultants at the end of the plan and 30 more bankers. The bank confirms the objective of reinforcing and increasing the concentration of bankers in the area, also through external recruiting. In 2016, 4 private bankers were hired in Florence, Rome and Genoa.

The Affluent segment

The target customers served are mainly freelance professionals, entrepreneurs, families and pensioners. Affluent sales professionals and dedicated affluent sales professionals are the reference professionals (increasing presence of these individuals who are the reference point for the target customers with respect to the new scope described previously).

The Private segment

The segment's target at Banca Sella was identified as households with financial assets exceeding € 300,000. A total of 95% of "Private" Italian families have financial wealth of between € 500,000 and € 5 million are account for just over 2.5%: around 628,000 units (Source: AIPB); on average, relations are maintained with 2.1 banks/institutions, concentrating more than two thirds of their assets on the reference bank for investments.

Total deposits at the end of 2016 amounted to € 7.257 billion, also as a result of the process to assign target customers consistently with the segment, which continued throughout the year.

The year 2016 ended with net deposits from private customers totalling € 61.8 million, up 1% over the figure at 31 December 2015; while total net deposits suffered as a result of the significant exit of an institutional investor, meaning the year closed with a negative € 125 million.

The final result achieved by managed savings was adversely impacted by the extraordinary operation involving institutional investors, with negative flows of deposits of around € 31 million; deposits managed for private customers continue to be clearly positive, amounting to € 197 million, still mainly due to the subscription of UCITS and insurance products (mostly Branch I). The asset management component stood at 39.5% of total deposits. The year 2016 saw excellent results in terms of customer acquisition, with a net positive change of 738 customers. Net banking income closed in line with the previous year at € 29 million. The trend for revenues from services should be highlighted, which grew by 11% compared to the previous year, amounting to € 26.8 million.

Small Business Market

The Small Business Market serves and develops customers in the segment of artisans, shop owners, freelance professionals and companies, primarily small-medium. The Small Business Sales

Professionals (dedicated and non-dedicated) work with the customers on the basis of the principles of the service model, defined within the context of the New Commercial Model.

The structure also provides indications regarding the organisation, direction and strategy for food and agricultural and renewable energy sectors, to which the agricultural specialists report, who work in synergy with the small business market sales professionals, the branches, and all the other commercial roles.

July 2016 saw a turnover of Market Management, which now has a new Market Manager and a revamped team.

In 2016, the number of dedicated small business sales professionals (with a customer portfolio and activities mainly focused on their own portfolio and acquisition of new customers) increased, reaching almost 115 individuals and with prospects for further significant growth in the 2017-2019 three-year period.

The areas of interest for the small business market in 2016, which will continue to serve as reference points in 2017, were:

- internationalisation;
- business networks and networking;
- subsidised and guaranteed loans;
- digital economy and payment systems.

The sectors that most appreciated these development activities were food and agricultural, “green” in the sense of energy savings and new alternative sources, and the entire segment of small artisans and freelance professionals. The agriculture sector, which is supported by specialists in certain regions, also achieved satisfying results, both in terms of new acquisitions and in monitoring and developing loans.

In addition, the acquisition of new POS merchants improved, with the support of a structured offer and the retention of existing customers by monitoring signs of weakness.

Various sales initiatives were implemented, targeted, on the one hand, at improving the retention of existing customers and, on the other, broadening the customer base. In addition, Small Business sales professionals also made proposals:

- to trade associations, through the stipulation of new offers and renewal of existing agreements;
- in relation to building energy savings.

In the second half of 2016, the new internal sales community was initiated, especially innovative in terms of the layout and content, with a view to social collaboration and communication with weekly updates on news and new sales information aimed at both dedicated and non-dedicated sales professionals.

Various events were held in collaboration with:

- SellaLab, targeted at providing training and growth to actual and potential customers;
- Easy Nolo targeted at both sales professionals and customers, with special focus on Hype 4 Business.

The training of sales professionals continued on various fronts and, in particular, by overseeing the professional growth in different fields, such as regulatory, insurance, digital economy, updating of products and the offer and in the credit sector.

In September, commercial market alignments were initiated, targeted at dedicated and non-dedicated sales professionals and hierarchical branches.

Lastly, it should be noted that, in the final part of the year, an in-depth redefinition of commercial portfolios was launched (in line with the forecasts of the new 2017-2019 strategic plan), targeted at better commercial coverage of customers and of the areas in which the sales professionals operate.

Business Market

Up until 31 December 2016, the Business Market dealt primarily with companies with turnover exceeding € 2.5 million and/or credit lines of greater than € 250 thousand. From the second half of 2017, the turnover threshold will be raised to € 10 million. In order to be able to improve even more with respect to liability consultancy for SMEs and allowing the Small Business sector to specialise in advisory services to micro firms.

The individuals who make up the business market service are those assigned an important mission in the spirit of our company's values: helping our customers be successful. The journey actually involves the transfer of the bank customer's liabilities from sales professional to advisor.

The role's driver must therefore be knowledge of the company being assisted and consistent provision of ad hoc financial advice, not only in terms of the figures reported in the corporate balance sheet, but also and above all in terms of future prospects and the dynamic evolution of the business, with a particular focus on size and capital on one hand, and on the opportunities offered by digitalisation and internationalisation, on the other.

Within this framework which completes the offer, and to meet customers' increasingly more pressing digital technology demands, relations have been strengthened with the FINTECH sector of the Banca Sella Group, so that existing business customers, and those to be contacted at the development phase, can be presented with new digital solutions which facilitate the business of both.

Internationalisation remains one of the main areas of action used to support small and medium enterprises (hereafter, SME). In fact, the foreign offerings available to business customers include foreign goods, forex risk management services, and possible insurance coverage through Brosel, the Group's brokerage company.

In regards to financial solutions for companies that operate abroad and intend to finance projects to improve competitiveness in foreign markets, the use of the "Sella Export" products was confirmed, supported by SACE guarantees.

The agreement with Sace was renewed in 2016 and loans secured by the guarantee from the Central Guarantee Fund continued to be provided. The offer was completed in this area with the signing of an agreement with the European Investment Fund to help SMEs that invest in innovation through ad hoc medium/long-term loans, known as INNOVFIN.

As regards start-ups, an important sector for the economic regeneration of our country, an ad hoc product known as "UP2START'' was created, which was not only well-received by customers, given the first modular all-round product which meets all the banking service needs of the target at which it is directed, but was awarded by the national community as the best innovative product idea for 2016. Confirming the spirit of innovation and receptiveness to change, one of the distinguishing features of our company.

In terms of consulting, offerings of alternatives to traditional bank loans are taking on an increasingly important role. Even if Italian companies depend on loans provided by the banking system much more than in other countries in Western Europe or in the United States, there is growing interest in finance products. For this purpose, Banca Sella, together with the Corporate Finance division within the banking parent company, is able to provide the necessary assistance and consulting to issue "Minibonds", a financing tool that supports business growth. Business sales professionals are supported in their consulting activities by colleagues from the Corporate Finance division and also by the Business Finance structure within Banca Sella.

Specialists in this area can also assist companies in all extraordinary operations, from searching for financial or industrial partners to solutions for generational transfers.

To meet the various needs of companies, with particular reference to new investments for growth, development and internationalisation, short-term loans were made available, with durations of up to 18 months and instalment-based loans of up to 60 months.

This initiative was supported by the Instrumental Goods Credit Line, also known as "New Sabatini", thanks to an agreement that allows disbursement of loans with special conditions specified in Ministerial provisions. In addition, the possibility for business customers to access EIB funds was also confirmed.

In 2016, to complete the short-term offer, a collaboration agreement was signed with a third party factoring company, in order to offer customers, with particular regard to the Bank's SME customers, with and without-recourse factoring transactions.

Business sales professionals, the term used historically up to now, are continuing with the process of transformation from "sales professionals" to actual advisors in respect of customers' liabilities. Thanks to these financial solutions, business sales professionals were able to provide adequate responses to the credit requirements of creditworthy businesses deriving, in particular, from investments for growth and development. In relation to the SME segment, the long-established products such as the Inventories Loan, supporting warehouse supply needs and the Salaries Loan, for the 13th pay cheque in December and to support greater financial requirements connected with reduced turnover during the summer holidays, were combined with loans backed by the CGF guarantee, loans backed by SACE (the latter targeted at exporting companies, in support of the made in Italy brand), the new EIF guarantee and INNOVFIN which assists SMEs that invest in innovation.

By continuing to support traditional advisory services with consulting on new matters brought about by the major digital transformation, the so-called "digital disruption", Banca Sella further integrated the advisory services offered by SellaLab in the business offering (internal research and development centre in the Banca Sella Group), and in 2016 unveiled a third SellaLab hub in Lecce, augmenting the historical offices of Biella and those in Turin, opened last year, with the goal of confirming even more closer knit relations with the areas in which it is present.

Each SME has a dedicated advisor who takes on board the specific customer needs and recommends the most appropriate solutions. The advisor is supported, where necessary, by a foreign specialist, also present in the area, and by a digital economy specialist, also present in the network in the area. Digital solutions and advisory services especially well-appreciated by customers, which allowed results worthy of note to be achieved.

For extraordinary company finance (Minibonds - generational handovers - search for equity partners), consultancy is provided by the central headquarters service.

The "Business sales professionals" are supported, as regards the satisfaction of company requirements, with a special focus on SMEs, by specialists operating in the area, both in the foreign sector and in the digital economy sector. With a view to "Consultancy - advice".

Also in 2016, the sponsorship of the important event "Milano Unica" was confirmed, the international Textiles fair held in Milan in February and September. The changes in 2016 concerned the involvement of the SellaLab business unit, which supported foreign specialists and business advisors, and presented the "CORPORATE PROGRAM" which envisages, on topics chosen by the business customer, the ad hoc insertion of young university students guided through an appropriate module to search for innovative solutions outside the box to the problems presented by companies. This commitment is proof of the Bank's desire to support the development of the textile sector and Made in Italy excellence, and at social level, to reconcile the requirements of companies and young graduates' search for work.

All business sales professionals participated in specialised events on loans, foreign issues and finance. A process of internal training/self-training was established at the institution on specific matters requested from the customer base, as part of a bottom-up approach known as "i mercoledì della formazione" (training Wednesdays), involving the central offices from time to time and creating synergies between the network and the central office. This supports and does not replace the already well-established training plan provided in all previous years. A total of 6,316 man-hours of training was provided to business sales employees in the ongoing transformation process, which aims to change the role from sales professional to liability consultant. Owing to the need for continuity of the training process, the company receives a fortnightly Group newsletter, and has a social group on an internal platform called YAMMER, which is available to the entire company, so that best practice information is disseminated in the most effective way with an active contribution from everyone.

Marketing

In 2016, the Marketing office supported the Bank's commercial development, the increase in customer satisfaction and loyalty, by defining and implementing communication initiatives, loyalty programmes, sales events and the promotion of products and services.

In particular, with reference to the acquisition of new private customers, the main campaigns involved the Websella account. Thanks to this campaign, roughly 13,000 new customers were acquired during the year.

As regards Online Trading, participation in the main industry events was significant, including: INVESTING Naples and Rome, Tol Expo, ITForum Rimini and Milan and the supporting media plan. Thanks to the presence at fairs and special incentives for those opening an account, new trader customers totalled 1,125.

Customers were also provided with training courses and dedicated events in 2016, with the goal of developing skills in terms of digitalisation, company finance and investments.

Digital channels

In 2016, the Digital Channels service was responsible for numerous projects, with the objective of promoting and supporting the multichannel approach and developing relationships with customers, strengthening and improving the services offered to them. Mobile banking saw a 35% increase in customers using devices with respect to the previous year; at the same time the number of device transactions rose by 57% with respect to 2015.

Within the Sella.it application, improvements were made to the user experience and new functions were developed, in particular:

- access via digital fingerprint recognition also for Android devices;
- the revision of the homepage with the possibility of websella onboarding;
- a new functionality for activating and managing memoshop push notifications.

Numerous initiatives were completed for the Home Banking platform, with the goal of increasing the functions available to customers. The main ones include:

- the insertion of the PagoPA function for payments to the public administration;
- the possibility of preparing a quote for the Inchiaro RC Auto, Casa and Persona policies;
- the possibility of suspending the use of a prepaid credit/debit card for online purchases, store purchases and ATM withdrawals when it is not being used, preventing fraud;
- the possibility of displaying and managing memoshop push notifications also from this channel.

As regards the development of website activities, the new site Sella.it was released, whose graphics were spruced up, and was adapted for all desktop devices, tablets and mobiles, and with the simultaneous rationalisation and optimisation of the commercial proposal.

As part of the Web & Mobile Analytics project, the phase of implementation of the tracking system continued.

Communication and Social Media

In July 2016, the “Communication and Social Media” department was created from a merger of the “Customer Communication” and “Social Media Banking” departments. This new synergy aims to reinforce and further support the company's positioning, promoting the development of the “brand identity”, of commercial communication and the company's company image.

Customer communications were also sent in 2016, taking account of the bank's principles, of its positioning and the ongoing advertising campaigns. In the case of paper communications, the aspect of cost reduction was also considered: aggregation of documents, dematerialisation (Sella Box accounts for around 49% of the documents produced by the Printing Centre) and the use of the courier Nexive (now manages around 74% of the centralised post at the Group's Printing Centre).

The Bank now has a well-established presence on the main social media networks (Facebook, Twitter and LinkedIn) with structured publishing plans, in line with its offer and its values; the bank also continued to expand its audience and improve customer loyalty. Thanks to the use of dedicated platforms, during the year, the bank continued to monitor and listen to online conversations, and fine-tuned this element.

In addition, with objective of sustaining its position among the leaders in the online trading sector, the new Twitter@SellaTrading channel was launched in October 2016, with content dedicated to the markets, training and, more generally speaking, the world of online trading.

VII. Human resources

Management and development

At 31 December 2016, the bank staff totalled 2,957 employees (including 239 employees of BSE Chennai Branch), of which 59 not working due to maternity or parental leave.

The net decrease compared to 31 December 2015 amounted to 32 persons. Two extraordinary transactions took place in 2016 which impacted in the change in the workforce and, in particular:

- Transfer of the business unit “SellaLab” to Banca Sella Holding (Banca Sella Group company);
- Transfer of the business unit “Hype e Coordinamento commerciale Rete Agenti Banca Sella” to Easy Nolo (Banca Sella Group company).

The bank continued to hire personnel with organisational and specialist expertise, in order to handle activities in the areas of regulatory adjustment, specialist activities and innovative development, parallel with the taking on of professionals in the sales domain to develop certain strategic areas. During 2016, internal personnel were mainly used also to cover the positions of outgoing employees due to natural turnover.

New employees hired during the year numbered 110, of whom:

- 29 hired in Italy, 13 were formalised on an open-ended contract, 1 on a fixed-term contract and 15 on a professional apprenticeship contract;
- 51 in BSE Chennai Branch;
- 30 for transfers from other Group companies.

There were 142 terminations during the year, of which:

- 41 in Italy, of which 30 due to resignations, 5 retirements and 6 for other reasons;
- 51 in BSE Chennai Branch;
- 50 for transfers to other Group companies.

At the end of the year:

- 13.6% of personnel are on part-time hours;
- the average age of employees in Italy is 44 years and 2 months and the average length of service (considering the date hired in a Banca Sella Group company) is 16 years and 7 months;
- the average age in BSE Chennai Branch is 31 years, while average length of service is 4 years and 5 months.

On 21 October 2016, Banca Sella Holding (on its own behalf and representing Banca Sella, Banca Patrimoni Sella & C., Consel and Biella Leasing) and the Group’s Trade Union Delegation signed the agreement for accessing the extraordinary services of the “Solidarity Fund for professional retraining and requalification, to support employment and the income of credit personnel” which 65 Banca Sella employees subscribed to: following the acceptance of all applications for participation, an allocation of € 9.4 million was made; the terminations of service of the personnel involved will take place in 2017.

Training

In 2016, Corporate University activities continued, with increased volumes compared with those of the previous year. A total of 124,683 man-hours were provided (+13% with respect to 2015). In particular, classroom-based training activities increased slightly (+11% compared to 2015 for virtual classrooms, which accounted for 16% of total training provided, with 19,477 man-hours, while training provided via physical classroom dropped slightly, with 52,991 man-hours provided, despite accounting for 43% of total training provided). The volumes of training provided via the e-learning platform confirmed growth (+27% with 50,066 man-hours, accounting for 40% of total training provided) as did on-the-job training (2,148 man-hours). Employees involved in training courses during the year totalled 2,718 (including employees of BSE Chennai Branch), of which 2,658 on the workforce at 31 December 2016 (90% of total staff).

The average number of training hours per employee was around 42, up compared to the previous year. The training areas subject to the greatest focus were:

- insurance, loans and financial consulting;
- legislative updates, with particular reference to transparency, privacy, money-laundering and security;
- managerial;
- sales;
- development of individual skills, in particular self-efficacy;
- digital economy and payment systems;
- digital channels, in particular with reference to the impact of new digital paradigms on business, organisation and people;
- information technology.

Of particular note during the year were the following development and training activities:

- for the sales network, a process targeted at improving not only technical expertise but also the ability to listen to customers' needs, communication and development of consulting and sales skills;
- launch of the process of development of long-term managerial proficiencies targeted at all managers, aimed at enhancing these proficiencies in line with the managerial model;
- further development of English language skills for managers and professionals given the growing need to understand documentation in English, both for professional updating purposes and to ensure regulatory and procedural compliance with EU and banking union provisions;
- "Days" are targeted at employees who hold the roles of dedicated Small Business Sales Professional, Business Sales Professional and Affluent Sales Professional, or events aimed at strengthening the role identity, alignment with the specific strategies and sales objectives of the role, updating of the particular technical, specialist and sales skills of the role;
- a training course is provided to all sales network employees aimed at updating and improving their knowledge of banking transparency through:
    - ✓ an e-learning course which incorporates the general concepts of the rules and legislation, targeted at the correct supervision of the relationship between the intermediary and the customer, in light of the changes introduced to the transparency provisions by Bank of Italy Measure of 15 July 2015, with particular reference to the specific obligations envisaged for payment services and monitoring of the relationship

between the lender and the consumer at the pre and post contractual phase of the financing;
    - ✓ supplementary virtual classrooms with an expert.
- the launch of a training course for all employees, which will continue in 2017, dedicated to privacy and aimed at updating them on the correct application of said legislation, with a focus on the most relevant recent provisions, in specific fields of application such as the proper management of data security at the company and privacy protection measures, management of promotional activities and the sale of typical banking products and services, through:
    - ✓ an e-learning course targeted at all employees;
    - ✓ short training presentations on certain matters.
- for newly hired employees, the classroom-based training courses required by the insertion process continued.

VIII. Information technology and Research and Development activities

In 2016, the Information Technology department provided IT services to all Group companies.

In relation to Facility Management, the service is provided by the Group's Operational Mechanism, located at Banca Sella, through infrastructures established in the two DataCentres owned by the Group; the infrastructures managed are predominantly in Open format, without the presence of a Mainframe. Some of their distinguishing factors are listed below:

- ✓ the percentage of use of virtual solutions within the Private Cloud reached a penetration of 79% in the current year and total servers managed came to just over 1,500 units;
- ✓ disk space managed came to 1.9 Petabytes;
- ✓ total workstations managed exceeded 8,000 units, with a substantial increase in the use of mobile devices (Laptops and Tablets), which now account for roughly 24% of the total;
- ✓ the infrastructures function primarily in "active-active" mode between the two Datacentres, which are therefore both active and operational;
- ✓ at data level, the bank operates on the basis of synchronous replication and therefore with a zero RPO (Recovery Point Objective).

The Disaster Recovery tests conducted in November involved all the systems of the Group companies, meaning they functioned from a single site at data processing level for a period of one week in relation to companies' infrastructures based on AS400 and, for a weekend, for the Multibank Information System. These were performed as set out in the plan, with no functioning anomalies detected.

In relation to the Multibank Information System provided by the Group's Operational Mechanism, some distinctive factors are cited below:

- ✓ Native Multibank (logical and/or physical);
- ✓ Online 24/7;
- ✓ Based on Open technologies;
- ✓ Service-oriented (exposure of SOA services inside the bank and API services outside the bank).

The MultiBank system is currently used by three Group banks, by managing the associated unique features, and by a Group IMEL investee. The service provided manages more than 2 million accounting transactions on a daily basis, with high service levels guaranteed, with the quantification of roughly 1.4 million Function Points.

The applications that make up the MultiBank system are predominantly proprietary, with around 20% of total applications acquired externally and integrated in the system; application development is also managed primarily by internal personnel in Italy, at the company Selir and at Banca Sella's Indian branch.

Around 530 staff work in the IT department, dedicated to Facility Management and to the management and development of the Multibank Information System, augmented by external consultants, which account for around 11% of the in-house staff total, a figure well below the normal market averages; of these resources, in 2016, some 389 were dedicated to implementing the annual projects plan.

The constant focus on innovation of the Multibank Information System is also evident in the significant investments at both infrastructural and application development level. In the last three-year period, IT investments amounted to an average of € 24 million. By contrast, in 2016, they totalled € 30 million, with the spike in investments relating to the complete technological upgrading of the geographic network infrastructures.

The approach adopted by the bank, which involves the extensive use of in-house personnel and proprietary software, stems from the firm belief that governance of the technological infrastructure and of the information system is a crucial factor in today's challenging environment of digital evolution, and in pursuing the objective of providing customers with a first-class and innovative service.

In terms of the activities carried out as part of the projects plan, and without picking up on issues already addressed in the vertical business initiatives, the main ones are highlighted below:

- in the context of the evolution of Data Centre infrastructure and technological infrastructures related to individual productivity, the following was carried out:
  - ✓ upgrading of the technological infrastructure which hosts the multibank information system and of the central storage site which houses the transactional databases, in order to retain high service levels and guarantee the reliability of the information system;
  - ✓ updating of the software version of the Group's DataWareHouse, with the same purpose described previously;
  - ✓ upgrading of the IT tools used in workstations, with the replacement of more than 900 PCs and laptops, with the enhancement of technical features and a subsequent positive impact on employees' individual productivity;
  - ✓ the design of the new geographic interconnection network, which will improve the quality of the connection of all central offices, branches and geographic locations;
  - ✓ upgrading of the video-communication suite, with an improvement in performance and extension to all employees, in order to make communications more efficient and prompt;
  - ✓ upgrading of the central infrastructure of the AS/400 servers, unique for some vertical business applications.
- In the context of the Application and Architecture Development:
  - ✓ the first web-based banking services were developed and released to be integrated directly into customers' IT systems (API);
  - ✓ some innovative projects were developed during the year targeted at positively handling the digital disruption brought about by the external scenario, including:
    - o a tool to aid the prompt identification of infrastructural problems based on Big Data technologies;
    - o a solution was developed in-house for controlling cash-in devices, for cash management, which employs modern technologies, ensuring greater reliability and the possibility of evolution over time;
    - o technological instruments were implemented, targeted at boosting the productivity of the development teams, rendering them, in observance of security constraints, more autonomous as regards the management of the system configurations needed to carry out their activities;
  - ✓ the platform which manages the security of authentication and authorisation of users for the use of IT applications was reviewed and updated;
  - ✓ in order to further enhance the quality of IT applications and services, the group of Solution Architects was expanded, individuals selected in the development areas dedicated to support for the

design of IT solutions that use the most modern technologies;

- ✓ all activities necessary for ensuring regulatory compliance were completed during the year;
- ✓ a new procedure called “OnBoarding” was released for the subscription of products/services online;
- ✓ applications were created targeted at handling the transition from sms to “push notifications” for notifications to customers, e.g. those of the “SMSMemoShop” service;
- ✓ as regards “Hype”, the “Person To Business” component was released;
- ✓ in regards to support for sales development, extension of the sales “workstation” solution continued, aimed at the sales network and certain operating processes were reviewed and simplified;
- ✓ “Apps” were created, dedicated to Online Trading for smartphones, and those already designed for Tablets were developed. These applications also boast an innovative software program for the technical analysis of financial instruments;
- ✓ as regards biometric signatures/e-signatures, a number of improvements have been implemented, targeted at facilitating their adoption and use, as well as supporting the continuous simplification of the underlying processes.

- In terms of the IT organisational structure and ICT governance:

  - ✓ the IT processes and associated internal regulations were reviewed and brought into line with the international industry standards, first and foremost ITIL (Information Technology Infrastructure Library), in order to make them more efficient and consistent with the best practices;
  - ✓ “Agili” development techniques were introduced to further boost the efficiency of the development process, focused on ensuring the IT services created meet business requirements;
  - ✓ the domain of coverage of electronic procedures was extended, aimed at measuring data quality;
  - ✓ the annual IT training plan was mainly focused on enhancing skills in relation to the objectives of architectural development, technological innovation and increase in the efficiency of the internal processes of the information systems;
  - ✓ the corporate Change Management Data Base (CMDB) was constantly updated and extended, including additional useful information to complete the Knowledge Base.

At innovation level, the areas where internal scouting and pilot activities were carried out during the year targeted at extending their use intensively on the different applications and operating areas are as follows:

- ✓ RPA (Robotic Process Automation); scouting was conducted on the available solutions in that area and the potential use of these solutions for improving internal efficiency, reducing manual processing errors and managing processing spikes was analysed; provision has been made for its operational adoption in the first half of the new year;
- ✓ Machine Learning and Artificial Intelligence; scouting activities were conducted on Open solutions present in that domain, and some algorithms were tested on the Cloud rather than commercial tools; the first scenarios were defined for operational use as part of the verification of images, of TextToSpeech and implementation of ChatBot;
- ✓ BigData; the study for the selection of the platform to be used at Group level was completed and the first operational use cases were released; the Reference Architecture was defined for use in Information System applications.

The areas selected for new scouting activities commenced in the final part of the year relate to Devops, OpenStack and the experimentation with Automatic Coding Generation techniques.

IX. Internal audit system

Attention to risk management and mitigation continued in 2016 thanks to constant monitoring on the part of the internal audit departments established at the Parent Company.

Operating risk

With the aim of constantly improving the culture and management of operating risks and to ensure adequate information flows, Banca Sella, like the other Group companies, for several years has used the organisational process known as the “Control Cycle” for the regulation of anomalies/observations, the removal of the effects and causes generating them.

Once again in 2016 Banca Sella paid careful attention to managing operating risk, through the constant strengthening of organisational measures and tools for mitigation and control, including, among other things:

- the revaluation of processes through the performance of Risk Self Assessments (RSA) with the involvement of the process owner;
- the assessment of operating risk relating to the company’s new initiatives;
- the assessment of IT risk relating to the applications under the responsibility of the company;
- certification and summary of service levels and line controls;
- the controls carried out through the so-called “alarm bells” (automatic processing with the aim of identifying and/or preventing any internal and/or external anomalies).

Monitoring of the risk translates also into specific reporting functions at all levels of the corporate organisation, in accordance with the legislation which states that timely information must be provided on the subject of operating risks. The Control Cycle provides the information basis which, at the occurrence of the anomaly/observation reported and according to a precise escalation, generates and sends communication flows to the parties concerned.

In addition, in order to ensure an assessment of the performance of the management of operating risk, the Parent Company Risk Management function produces regular summary and detailed statements which summarise, for the Bank, the degree of risk assumed in relation to:

- anomalous events/observations and operating losses reported in the Audit Cycle database (highlighting the more serious anomalies);
- the outcome of line audits;
- the trend in service levels;
- monitoring of compliance with the RAF (Risk Appetite Framework) thresholds for the operating risk indicators.

Credit risks

The lending policies and processes for the disbursement and monitoring of loans are defined in order to combine positive responses to customers’ needs and business needs with the need to ensure the maintenance of high quality for the lending business in a difficult economic situation.

Credit risk monitoring and control is outsourced to the Risk Management functions of the Parent Company and of Banca Sella and to the Credit Quality and Control service of Banca Sella.

The Parent Company’s Risk Management Service has the task of monitoring and quantifying the credit risk assumed by the Group companies, assessing its sustainability and, through the use of shared instruments, facilitating effective and proactive management. The Credit Control service of Banca Sella is focused on more traditional monitoring activities, mainly aimed at credit quality analysis.

In reference to the activities performed by the Parent Company's Risk Management function, the evolutionary maintenance of the IT processes and procedures which support credit risk evaluation continued throughout 2016, including:

- execution of second level controls on credit risk, pursuant to Circular 285 (formerly the 15th update to Bank of Italy Circular 263/2006);
- annual updating of risk parameters, including Loss Given Default (LGD), Probability of Default (PD), default rates (TD), and Loss Identification Period (LIP);
- development of trend reporting and monitoring of the main variables that impact credit risk, concentration risk and residual risk;
- analysis and investigations of specific risk profiling issues;
- providing support for the definition of the Capital Management plan and measuring current and prospective adequacy, as well as efficient allocation on a risk adjusted return basis;
- definition of forecast analysis methodologies, preparation of forecasts and analysis of changes when compared with final figures;
- development of specific reports on the cost of credit for all Group companies, aimed at analysing the variables that affected final figures on a monthly basis;
- assessment of the consistency between the RAF for significant operations and loan disbursement/renewal applications under the responsibility of the Board of Directors;
- procedures to check the admissibility requirements of credit risk mitigation techniques.

Monitoring and management of credit risk, concentration risk and residual risk is formalised in the respective Policies, which contain both details on risk indicators and on the actions to be taken in the event the thresholds identified in the Risk Appetite Framework (RAF) are exceeded.

Interest rate, market, and liquidity risk

The interest rate risk, understood as the risk of a change in the interest rate reflecting negatively on the Bank's financial and economic situation, is monitored internally, both in terms of the banking book and the trading book.

The market risk, meaning potential losses connected to adverse changes in the price of shares, interest rates, and exchange rates, as well as volatility of the same, is measured using the standard Bank of Italy methodology.

Market risk management and control is governed by Group Regulations and a specific Policy, documents that define the rules by which each individual company in the Group may expose themselves to various types of risk.

The Parent Company's Risk Management function carries out controls regarding whether the limits envisaged in the above-mentioned internal documents are respected as well as, for management purposes, identifying the VaR (Value at Risk) for the Bank's own portfolios (ten-day and three-month horizons and 99% confidence margin) and analysis of sensitive factors such as: portfolio duration and effects of sudden interest rate shocks.

Liquidity monitoring and management operations for Banca Sella are formalised in the Group's Liquidity Policy, which contains both liquidity risk management guidelines and the strategies to be followed in critical situations.

The process for the management and control of the interest-rate risk on the banking book is formalised by a policy, with the purpose of disciplining the rules and the management, measurement and control methods linked to the interest-rate risk, in order to guarantee effective management of the conditions for the economic and financial balance of the Banca Sella Group.

The policies were acknowledged by the Bank's Board of Directors.

Legal risk

The internal regulations of the Banca Sella Group, adopted by the Bank's Board of Directors, establish the obligation of using contractual forms with contents which correspond, as far as possible, to standardisation features previously assessed by the appointed structures at Group level. The Legal Services office of Banca Sella is the point of reference for the preparation and examination of draft contracts, for the drafting of legal opinions, and for the examination of legal problems and relative consultancy, for the companies of the Banca Sella Group.

With regard to pending legal disputes, we note that the Bank is the defendant in some legal disputes originating from its ordinary business. In fact, the most frequent legal disputes relate to the application of compound interest and, more recently, the application of usurious interest rates or, although to a much lower extent than in the past, investment operations in financial instruments. In as much as it is not possible to predict the final results with certainty, it is held that any unfavourable results of said proceedings would not have, either singularly or as a whole, significant negative effects on the financial and economic situation of the Bank.

Risks connected with possible unfavourable sentences are carefully analysed and, when it was possible to make a reliable assessment of their amounts, an allocation was recognised to the appropriate provision.

In addition, we note that, in the case brought by some minority shareholders of Banca Sella Sud Arditi Galati to the Court of Lecce, a company that has now merged by incorporation into Banca Sella, aimed at ascertaining the legitimate right to withdraw on the part of said shareholders, the Bank has filed its appeal against the first instance sentence, not agreeing with the decision of the Court assigned to the case.

The Lecce Appeals Court did not find any presuppositions to declare the appeal inadmissible and referred the case for the specification of findings to November 2015, which was subsequently postponed to September 2016. At the hearing on 28/9/16, the Court of Appeal adjourned the proceedings for a decision, assigning the legal terms for filing closing statements and rejoinders, which was duly done.

Pending an appeal ruling, the Board of Directors, given a settlement agreement has still not been reached by the parties at the current state of play, ruled it to be impossible, for a number of reasons, to be able to enforce the ruling, believing, at the same time, the only viable option to be filing an appeal to the competent Turin Companies Court, to ask the Judge to take the necessary measures to eliminate the difficulties in enforcing the ruling handed down by the Court of Lecce. The appeal Judge did not agree with the application presented to him.

Furthermore, we note that in regards to the summons notified in April 2016 by Cassa Depositi e Prestiti spa (hereinafter CDP) for around € 18.4 million, in relation to a loan granted by CDP to a municipally-owned company with an account held with Banca Sella and the asserted obligation for the Bank to pay the residual debt of the municipally-owned company due to the delegation of payment by the Bank, subscribed as the CDP treasurer, a ruling was received which was favourable for the Bank, upholding the preliminary objection presented by the Bank in the proceedings. Subsequently, in March 2017, CDP served notice of a new summons, with identical merits and amount as the previous one.

The Bank, also based on research performed by external legal experts, believes that are significant grounds for an effective defence.

Lastly, it should be noted that, in April 2016, the Antitrust Authority extended the proceedings to eleven banks, including Banca Sella S.p.A., originally initiated against the Italian Banking Association, aimed at assessing any violations of competition committed through the creation of a service remuneration model known as Sepa Compliant Electronic Database Alignment (hereinafter Seda).

In January 2017, the Antitrust Authority served notice of the Communication of Preliminary Motions which ascertained, according to the Authority's offices, a restrictive agreement. The Bank presented the Authority with a request for a hearing, which the Authority accepted, setting a meeting for this coming 13 April.

Compliance risk

The Compliance Department is responsible for managing the risk of non-compliance with regulations (compliance risk), both external regulations (laws, regulations, provisions of the supervisory authorities) and self-regulation (internal rules, codes of conduct, codes of ethics, etc.).

The Department is responsible, in particular, for:

- implementing the methods of assessment of risks of non-compliance with the regulations, defined by the Parent Company's Compliance Department in collaboration with the other company control functions and the other company departments, consistent with the company's strategies and operations;
- identifying the appropriate procedures for preventing the risk detected, with the possibility of requesting their adoption, as well as verifying their adequacy and correct application;
- continuously identifying the applicable regulations and measuring and assessing their impact on company processes and procedures;
- verifying that the processes, procedures, products and services offered comply with the external and self-regulatory provisions;
- proposing organisational and procedural amendments targeted at ensuring adequate monitoring of the risks of non-compliance identified;
- verifying the effectiveness of the organisational adjustments (structures, processes, procedures, including operating and commercial) recommended for preventing the risk of non-compliance with the regulations;
- assessing the adequacy of the bonus system;
- evaluating the policies governing risk activities and conflicts of interests with related parties;
- providing an ex-ante assessment of compliance with the regulations applicable to the prevention and management of conflicts of interest, both in relation to the various activities carried out and employees and company representatives;
- providing advisory services and assistance to company bodies on all matters in relation to which the risk of non-compliance assumes significance;
- preparing the flows of information on the activities performed, aimed at the company bodies and structures concerned;
- annually presenting the company bodies with the plan of activities, which sets out the relevant initiatives involving the assessment and verification of compliance, taking into account both any deficiencies in the controls, and any new risks identified;
- presenting the company bodies with a report on the activities carried out, which outlines the assessments and checks performed, the results, areas of weakness identified and proposes measures to be adopted to remedy these;
- reporting to company bodies, for aspects within their competence, on the completeness, adequacy, functionality and reliability of the internal audit system.

Anti-money laundering

Banca Sella carries out its activities in accordance with the regulatory provisions related to anti-money laundering and anti-terrorism, in conformance with ethical standards in order to prevent events that could damage the reputation and stability of the Bank and the Group as a whole.

The measures to prevent money laundering and the financing of terrorism are based on the active collaboration of the financial system, in implementing the following directives:

- the provisions of the Legislator at national level;
- Bank of Italy circulars and provisions;
- the recommendations of the GAFI (Financial Action Group against money laundering);
- the provisions of EU law;
- decrees and clarifications of the Ministry of Economy and Finance;
- communications of the Financial Reporting Unit;
- the indications of the Financial Security Committee of the Treasury Department - the Ministry of Economy and Finance.

In the present context, in which financial brokers are required to have professional training and to create adequate procedures to identify increasingly complex phenomena, Banca Sella continued to provide training sessions, via both e-learning and classroom-based, to train personnel to test their level of acquisition of the contents.

The course available in e-learning mode was designed by ABI and allows students to learn the necessary legal requirements and to understand the role of the Bank in the financial system. In addition, courses on specific issues associated with aspects of particular risk were also provided via e-learning. Classroom courses have different programmes and objectives depending on the students, and make it possible to gain knowledge and understand the internal organisational measures adopted by the Group banks in order to observe all the legal requisites to which they are subject. Based on the updating of the legal provisions, the internal reference regulations on money laundering have been reviewed.

A self-evaluation was conducted in 2016, whose results were communicated to the Bank of Italy. Based on the plan of initiatives resulting from said activities and the Department's plan of activities, projects were implemented to optimise the procedures and tools available to employees for carrying out due diligence and managing customers, in compliance with the risk-based approach. In addition, the procedure for automatic checks on orders received by customers was improved.

X. Outlook

The external scenario

Growth of the global economy should accelerate slightly in 2017.

With reference to the United States, the fiscal policy initiatives, which the country's new republican President stated he wants to implement, appear destined to result, albeit with a broad-ranging and significant degree of uncertainty, in a stimulus for growth, in such a way as to provide the economy with only a limited boost in 2017, taking due account of the timescales that characterise the US budget law process, and the potential opposite effects associated with higher long-term interest rates and a stronger dollar exchange rate. Another factor of particular uncertainty lies in the direction Donald Trump's United States wants to take in terms of international commercial relations.

The Euro Area is expected to continue on a path of modest growth, supported by the persistence of highly accommodating monetary conditions, a mildly expansionary fiscal policy and the expected recovery of foreign demand. However, risk factors persist which affect the region's growth prospects, such as the necessary budget adjustments in the different sectors of the economy, the presence of elements of fragility in the emerging economies panorama, geo-political uncertainty and the consequences of the outcome of the UK's referendum on membership of the European Union on 23 June. The phase of economic recovery initiated in 2013 will continue in Italy, sustained by the same factors mentioned for the Euro Area.

Emerging countries should see GDP growth rates accelerate slightly, albeit with significant differences in the prospects of the individual economies, to levels still higher than those of the advanced economies.

On the consumer prices front, the major advanced economies can expect to see inflation accelerate from the low levels registered in 2016, sustained primarily by the recovery in the price of oil and the subsequent elimination of the negative contribution from the energy component. The ECB will confirm its expansionary monetary policy approach, maintaining policy rates at the current levels and carrying out the planned bond purchases as part of the quantitative easing programme, at a rate of € 80 billion per month until March, and € 60 billion per month thereafter. The Federal Reserve should continue, in a gradual manner, with the cycle of official rate increases, according to the timescales determined on the basis of the macroeconomic context, which will be defined under the new republican administration. Any undesired reductions in the unemployment rate below the equilibrium level could call for a quicker adjustment of monetary conditions, in order to ensure compliance with the Central Bank's dual mandate.

In line with the expected developments for the Italian macroeconomic situation in 2017, credit provided to the non-financial private sector by banks should continue on the path of growth and credit quality should further improve, benefiting profitability for the banking system. The attention of the Regulator was focused increasingly more, in Italy, on ensuring that banks manage the amounts of impaired loans in an effective and credible manner, given the significant amount of problem loans that accumulated in the financial statements of Italian banks during the years of the recession; the disposals of bad loans will continue to involve an extraordinary increase in adjustments, however bringing likely benefits in terms of the cost of credit in the next few years.

The persistence of particularly low interest rates will presumably also keep net interest income down, encouraging banks to favour growth in revenues from services, by diversifying activities other than lending. Given the significant pressure on revenues again in 2017, attention will continue to be closely focused on the innovation of business models, improving the efficiency of operating structures and reducing costs.

The internal scenario

The 2015-2017 Strategic Plan is the first plan to be developed in the European domain following the launch of the Banking Union in November 2014, and is characterised by a significantly different external and industry scenario than the past.

In this context, the entire Banca Sella plan's main guiding principle is the improvement in profitability through the growth in profits, to be pursued through both the reduction costs and growth in margins.

The growth in margins will normally be achieved through risk diversification, as described by the RAF - Risk Appetite Framework models, and will be financed by investments in support of innovation and change. The adoption of a new business model which aims at developing the integrated relationship and high quality consultancy, and enhancing the Customer and User Experience and receptiveness to new technologies (including the offer of Hype and Hype for Business, transferred to the company Easy Nolo during the year), will be the drivers for increasing the customer base.

The implementation of the plan in terms of pursuing the objectives and targets will be achieved through initiatives and projects, classified according to the following guidelines:

- Improvement in profitability;
- Business and innovation model;
- Capital strengthening;
- Legislative and infrastructural adjustments.

As regards the **improvement in profitability** through the growth in profits, the main initiative relates to the Efficiency Project which, at Group level, envisages the revision of the organisational structure and of processes, by digitalising and radically modifying them, which is expected to lead to the rationalisation of the distribution model, recoveries of resources and improvement in the quality of the services offered to customers.

In terms of the development of the **business and innovation model**, the main initiatives developed relate to the new commercial model: the initiative is targeted at solidifying the integrated relationship model, with a review of Banca Sella's regional presence, placing the central focus on high quality consultancy through dedicated sales professionals, supported by a digital service and a first-class Online Bank. This initiative is targeted at both enhancing efficiency, through lower operating costs of services distribution, and improving commercial effectiveness and margins, with a better service for customers. In relation to this new model, the last quarter of 2016 saw the launch of a pilot initiative to centralise the operating activities of some branches in the network (for more details see chapter VI. Commercial model); this made it possible to identify important initiatives for the optimisation and streamlining of processes/procedures, with a positive impact on all network branches. Remote sales contact activities were also launched, through network structure (retail desk), which centralises the operating and commercial activities of some branches, though the use of hardware tools (telephone, computer..).

Banca Sella's **innovation** plan is based on three areas and aims to seize the opportunities offered by each of them:

- New customers (and new ways of serving them): the relationship with the customer has been revolutionised by new technologies, which gives rise to various customer needs and conduct, as well as new business models for business customers. As regards these models, the Sharing Economy and the creation of new "counterparties" capable of performing effective transactions thanks to IOT are particularly important. In addition, due to the data aggregation and data portability provided by PSD2 and GDPR, the customer relationship will be put at risk and radically altered.
  <u>The Bank aims to be a reference bank for innovation</u> and, therefore, a first-class Hi Tech Bank, by using technology to improve customer service, in support of its role as trusted consultant for its customers. The integrated relationship model chosen is one in which digital connection is a source of increased value with respect to the central importance of the personal relationship of trust.
- New businesses (and new business models): new technologies, interconnections, the IOT, makes it possible to create new markets, new businesses and new models for existing business. This area is handled primarily by Fintech Start-ups that are born as direct brokerage platforms, representing new forms of access to credit for operators and new investment asset classes.
- New processes (and new organisation): in all brokerage activities, no matter what channel, technological innovation makes the following sources of competitive advantage: the ability to manage technology and processes, the effective use of information and risk management, as well as the application of "sound and prudent" management, summarised by our values and regulatory compliance. The challenge for a banking group is the prompt adoption of technologies that bring about improvements from a development standpoint. Another major challenge is attracting talent and implementing new employment regulations.

<u>At positioning level</u>, the Bank believes that excellence in the governance of its IT platform and continuous innovation process, data management, the use of artificial intelligence and the development of advanced models for risk management are the prerequisites for continuing to do business in respect of its values and continuing to attract the best talent.

As regards **capital strengthening** in the three-year period of the plan, the optimisation of the allocation of capital focused on disbursements which allow adequate profit margins corrected for risk (rorac), in the presence of essential stability of loans to customers, and the issuing of subordinated bonds. In 2016, the improvement in the CET1 ratio was achieved thanks to the extraordinary transactions involving the transfer of CBA Vita, the investment in VISA and self-financing.

As regards the **regulatory** and **infrastructural** area, the main initiatives (some still in progress and others instead successfully completed in 2016) are as follows:

- *Anti-money laundering 2015:* includes the projects needed to ensure compliance with anti-money laundering legislation from both an organisational point of view and as regards the adjustment of supporting IT tools. The three-year programme of improvements in anti-money laundering controls started in 2015 continued in 2016, targeted at increasing their effectiveness and efficiency;
- *Mifid 2*: includes the projects required for compliance with Directive MiFID II; project activities were commenced for concluding works in observance of these deadlines;
- *H2O Convergence:* envisages the re-writing of the remaining Cobol/Host procedures in the H2O environment, with the simultaneous review of the processes, in order to eliminate increased management and operational workloads as well as the need to maintain compatibilities on these procedures. In 2016, some of the activities set out in the plan were carried out, which will be concluded, based on the current forecasts, in the first half of 2018;
- *Dematerialisation of cheques*: the objective is the adjustment of processes, procedures and cheques issued by the Banca Sella Group in acknowledgement of the “Cheque Dematerialisation” regulations (Decree of the Ministry of Economy and Finance no. 205 of 3 October 2014), which provides for the negotiation of cheques between banks, in the form of images and digitalised data rather than paper form. Logistics activities were carried out in 2016 relating to the withdrawal and destruction of the materiality of old bank cheque books and circular cheques, and analysis activities were launched for the review of the current procedures for compliance with the 2017 regulatory deadlines;
- *Group Datawarehouse:* initiative targeted at reviewing and expanding the data structures now present in the Group Datawarehouse, so as to make them even more comprehensive and suited to the purposes of the prevailing uses for governance and control and commercial development. It also aims to define the quality rules set, defined and monitored continuously within the Group instrument, based on the indications of Bank of Italy Circular 285/13 and the Internal Regulations;
- *Technological Adaptations*: the initiative, set forth each year in the Projects Plan, includes the collection of project activities targeted at maintaining an appropriate service level and ensuring the adequacy of the infrastructures and middleware solutions with respect to company requirements, in full compliance with the evolutionary strategic guidelines and in observance of best practice in terms of proactive management which anticipates requirements;
- *Governance of products in GBS*: includes the necessary projects for compliance with Directive IID and Directive POG issued by the European Banking Authority (EBA) and the European Insurance and Occupational Pensions (EIOPA);
- *EU Regulation for personal data protection*: includes the projects necessary for compliance with EU Regulation 2016/679;
- *SREP and Banking Union*: initiative under consideration for the monitoring of the European regulations relating to the Banking Union in order to propose and implement, within the Banca Sella Group, the necessary adjustments to decision-making and operating processes, with a view to making the Group fully aware and in a position to fully observe the regulations/requirements of the new scenario.

Business continuity: the Bank’s strategy, volumes and profitability

With reference to the Bank of Italy, Consob and ISVAP documents no. 2 of 6 February 2009 and no. 4 of 3 March 2010, in relation to information to be provided in financial reports on business prospects, with a particular focus on the company’s ability to continue as a going concern, on the financial risks, on tests to reduce the value of assets (impairment tests) and on uncertainties in the use of estimates, the Board of Directors confirms that it has a reasonably expectation that the Bank can continue its operations in the foreseeable future and therefore attests that the annual financial statements have been prepared on the basis of this going concern assumption.

The Bank’s equity and financial structure and operating trend do not show any elements or signals that may give rise to any uncertainty on the business as a going concern.

For information on financial risk, the impairments tests on assets and the uncertainties in the use of estimates see the information provided in the present report, in the comments on operational performance, and/or in the specific sections of the Notes to the Financial Statements.

XI. Other information

Self-assessment of bank and banking group decision-making bodies

In 2015, the Banca Sella Group adopted the Regulation governing the Self-Assessment Process of Strategic Supervision and Management Bodies, in light of the regulatory context outlined by the Bank of Italy's Supervisory Provisions, which focused special attention on said process, which must be carried out meticulously and in depth.

Self-assessment activities for the Board of Directors were completed, as has been done every year since 2009, through the compilation, by the individual directors, of a questionnaire structured into the following sections:

- self-assessment of Directors;
- composition 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 observations obtained with the questionnaires, which were examined during a board meeting, confirmed the adequacy of the qualitative/quantitative structure and operations of the Board.

Treasury and parent company's shares

During the year, the Bank did not hold, nor does it currently hold, any treasury shares, nor any shares of the parent company Banca Sella Holding.

Significant events after the reporting date

On Tuesday, 7 February 2017, as part of ordinary supervisory activities, the Bank of Italy launched an inspection of the entire Group, pursuant to articles 54 and 68 of Legislative Decree 385/93, aimed at evaluating the governance and control systems and the management of operating and IT risk and the analysis of the efficiency and reliability of the information-accounting system. The inspection is still in progress.

We note that in regards to the summons notified in April 2016 by Cassa Depositi e Prestiti (hereinafter CDP) for around € 18.4 million, in relation to a loan granted by CDP to a municipally-owned company with an account held with Banca Sella and the asserted obligation for the Bank to pay the residual debt of the municipally-owned company due to the delegation of payment by the Bank, subscribed as the CDP treasurer, a ruling was received which was favourable for the Bank, upholding the preliminary objection presented by the Bank in the proceedings. Subsequently, in March 2017, CDP served notice of a new summons, with identical merits and amount as the previous one.

The Bank, also based on research performed by external legal experts, believes that are significant grounds for an effective defence.

Equity investments and transactions with the Group companies

The following tables show the relations between Banca Sella and the other Group companies, from an equity and economic point of view. Banca Sella supplies most of the outsourced services to the Group companies; it receives outsourced services from the parent company as concerns the services headed by it, in particular: Inspectorate, IT security and the issue of debenture loans.

Relations with Group companies: balance sheet figures (in thousands of Euro)

	Other assets	Other liabilities	Financial assets held for trading	Due from banks	Due from customers	Due to banks	Due to customers	Hedging derivatives	Financial liabilities held for trading	Debt securities purchased	Debt securities issued
Banca Sella Holding S.p.A.	6,471	4,015	10,330	1,979,525	-	339,268	-	105,279	11,100	73,106	62,808
Sella Gestioni S.g.r S.p.A.	2,425	-	-	-	3	-	6,154	-	-	-	-
Sella Capital Management S.g.R S.p.A. in liquidation	10	-	-	-	-	-	5,496	-	-	-	-
Biella Leasing S.p.A.	440	9	-	-	676,224	-	8,478	-	-	-	-
Immobiliare Lanificio Maurizio Sella S.p.A.	27	10	-	-	-	-	19,050	-	-	-	-
Immobiliare Sella S.p.A.	13	84	-	-	-	-	11,242	-	-	-	-
Selfid S.p.A.	46	-	-	-	-	-	1,337	-	-	-	-
Consel S.p.A.	368	129	-	-	715,355	-	97	-	-	-	-
Banca Patrimoni Sella & C. S.p.A.	3,109	2,597	-	23	-	9,902	-	-	-	-	-
Easy Nolo S.p.A.	461	676	-	-	2,963	-	-	-	-	-	-
Brosel S.p.A.	50	6	-	-	-	-	2,373	-	-	-	-
Selir S.r.l.	25	799	-	-	-	-	3,252	-	-	-	-
Family Advisory SIM S.p.A.	14	-	-	-	3	-	847	-	-	-	-
Miret S.A.	-	-	-	-	-	-	50	-	-	-	-
Finanziaria 2010 S.p.A.	9	-	-	-	-	-	22,088	-	-	-	-
Total	**13,468**	**8,326**	**10,330**	**1,979,548**	**1,394,547**	**349,170**	**80,464**	**105,279**	**11,100**	**73,106**	**62,808**

Relations with Group companies: income statement figures (in thousands of Euro)

	Other operating income	Other operating income (*)	Fee and commission income	Fee and commission expenses	Interest receivables and similar income - other	Interest payable and similar charges - other	Net gains (losses) on hedging activities	Net gains (losses) on trading activities	Administrative expenses: other administrative expenses	Administrative expenses: personnel expenses (**)	Administrative expenses: personnel expenses (***)
Banca Sella Holding S.p.A.	2,747	2,197	906	5,960	9,197	-25,350	-312	-2,230	2,455	-2,379	2,545
Sella Gestioni S.g.r S.p.A.	124	114	9,450	-	-	-	-	-	-	-	-
Sella Capital Management S.g.R S.p.A. in liquidation	9	7	-	-	-	-	-	-	-	-	-
Biella Leasing S.p.A.	290	160	378	-	8,787	-	-	-	-1	-181	44
Immobiliare Lanificio Maurizio Sella S.p.A.	25	-	14	-	-	-5	-	-	1,898	-16	-
Immobiliare Sella S.p.A.	21	-	-	-	-	-3	-	-	2,012	-	-
Selfid S.p.A.	30	22	1	-	-	-1	-	-	-	-44	-
Consel S.p.A.	182	153	3,050	-	10,034	-	-	-	-5	-114	723
Banca Patrimoni Sella & C. S.p.A.	1,666	1,163	1	15,834	10.	-	-	-	315	-49	30
Easy Nolo S.p.A.	127	252	28	-	38	-	-	-	7,900	-523	2
Brosel S.p.A.	54	21	5	-	-	-2	-	-	25	-13	-
C.B.A. Vita S.p.A.	110	-	1,996	-	-	-378	-	-	-	-26	-
Sella Life L.t.d.	9	-	865	-	-	-2	-	-	-	-	-
Selir S.r.l.	27	73	-	-	-	-1	-	-	4,464	-	23
Family Advisory sim S.p.A.	20	2	1	-	-	-	-	-	244	-	-
Miret S.A.	-	-	-	-	-	-	-	-	-	-	-
Finanziaria 2010 S.p.A.	15	-	-	-	-	-83	-	30	-	-	-
Total	**5,456**	**4,165**	**16,693**	**21,794**	**28,066**	**-25,824**	**-312**	**-2,201**	**19,308**	**-3,346**	**3,367**

(*) services provided to Group companies

(**) Recoveries of costs of employees on secondment to other companies

(***) Reimbursements of expenses of employees of third parties on secondment at other Group companies.

It should be specified that relations with the companies C.B.A. Vita and Sella Life related to the first half of 2016, given that, as described previously, the companies were transferred on 30 June 2016.

XII. Proposed allocation of profit

Dear Shareholders,

the Balance Sheet and Income Statement at 31 December 2016, presented in euro units in accordance with current legislation, after all the necessary depreciation, amortisation and provisions, show a net profit for the year of € 58,536,893.33 which we propose to allocate as follows:

Profit for the year	€ 58,536,893.33
- to the “Legal Reserve” pursuant to the Articles of Association	€ 7,024,427.20
- to the “Statutory Reserve” pursuant to the Articles of Association	€ 11,707,378.67
remaining	€ 39,805,087.46
to Shareholders:	
- dividend of € 0.01107 for each of the no. 668,456,168 shares	€ 7,399,809.78
to the “Fund for charity and sundry donations”	€ 70,000.00
and the remainder to the “Extraordinary reserve”	€ 32,335,277.68

Biella, 14 March 2017

In the name and on behalf of the Board
The Chairman of the Board of Directors
(Maurizio Sella)

Financial Statement Schedules

at 31 December 2016

Balance Sheet

BALANCE SHEET ASSETS

Assets	31/12/2016	31/12/2015	Difference %
10. Cash and cash equivalents	126,566,571	130,426,196	-2.96%
20. Financial assets held for trading	47,459,139	59,307,804	-19.98%
40. Financial assets available for sale	1,494,254,507	1,690,063,869	-11.59%
60. Due from banks	2,062,213,464	1,584,034,567	30.19%
70. Due from customers	6,985,593,449	6,734,457,470	3.73%
80. Hedging derivatives	5,927,316	10,282,377	-42.35%
90. Value adjustment of financial assets subject to macrohedging (+/-)	108,044,205	110,546,374	-2.26%
110. Tangible assets	44,642,616	38,998,704	14.47%
120. Intangible assets	52,617,136	51,658,079	1.86%
of which:			0.00%
- goodwill	13,531,423	13,755,423	-1.63%
130. Tax assets	176,067,726	188,847,585	-6.77%
a) current	53,332,664	65,466,047	-18.53%
b) deferred	122,735,062	123,381,538	-0.52%
of which Law 214/2011	108,911,976	114,562,394	-4.93%
150. Other assets	155,811,773	167,230,238	-6.83%
Total assets	**11,259,197,902**	**10,765,853,263**	**4.58%**

BALANCE SHEET LIABILITIES

Liabilities and shareholders' equity	31/12/2016	31/12/2015	Difference %
10. Due to banks	406,482,827	335,182,872	21.27%
20. Due to customers	9,254,133,239	8,642,587,036	7.08%
30. Securities issued	453,518,277	678,824,963	-33.19%
40. Financial liabilities held for trading	20,518,182	19,007,292	7.95%
60. Hedging derivatives	111,205,986	115,421,762	-3.65%
80. Tax liabilities	15,794,643	23,664,350	-33.26%
a) current	6,799,355	11,537,697	-41.07%
b) deferred	8,995,288	12,126,653	-25.82%
100. Other liabilities	155,774,270	136,771,626	13.89%
110. Provision for severance indemnities	33,097,412	32,010,558	3.40%
120. Provisions for risks and charges:	19,118,732	11,214,175	70.49%
a) pensions and similar obligations	-	-	0.00%
b) other provisions	19,118,732	11,214,175	70.49%
130. Valuation reserves	378,217	40,521,951	-99.07%
160. Reserves	30,320,657	24,315,891	24.69%
170. Share premiums	366,090,483	366,090,483	0.00%
180. Capital	334,228,084	334,228,084	0.00%
200. Profit (Loss) for the year (+/-)	58,536,893	6,012,220	873.63%
Total liabilities and shareholders' equity	**11,259,197,902**	**10,765,853,263**	**4.58%**

Income Statement

INCOME STATEMENT

Item	31/12/2016	31/12/2015	Difference %
10. Interest receivables and similar income	210,577,871	247,977,892	-15.08%
20. Interest payable and similar charges	(58,700,968)	(79,660,498)	-26.31%
30. Net interest income	**151,876,903**	**168,317,394**	**-9.77%**
40. Fee and commission income	259,103,851	257,548,765	0.60%
50. Fee and commission expenses	(68,815,546)	(84,337,840)	-18.40%
60. Net fees	**190,288,305**	**173,210,925**	**9.86%**
70. Dividends and similar income	252,210	73,336	243.91%
80. Net gains (losses) on trading activities	9,252,936	7,424,817	24.62%
90. Net gains (losses) on hedging activities	68,528	191,513	-64.22%
100. Profit (loss) from sale or repurchase of:	48,125,969	17,307,650	178.06%
a) receivables	(1,239,184)	92,801	-
b) financial assets available for sale	49,413,250	17,840,704	176.97%
d) financial liabilities	(48,097)	(625,855)	-92.31%
120. Net banking income	**399,864,851**	**366,525,635**	**9.10%**
130. Net writedowns for impairment of:	(58,844,951)	(98,812,011)	-40.45%
a) receivables	(56,023,154)	(98,744,140)	-43.26%
b) financial assets available for sale	(2,613,623)	(6,021)	-
d) other financial transactions	(208,174)	(61,850)	236.58%
140. Net financial operating gains (losses)	**341,019,900**	**267,713,624**	**27.38%**
150. Administrative expenses:	(311,085,638)	(302,293,776)	2.91%
a) personnel expenses	(161,175,537)	(157,630,033)	2.25%
b) other administrative expenses	(149,910,101)	(144,663,743)	3.63%
160. Net provisions for risks and charges	(9,755,563)	(1,677,077)	481.70%
170. Net writedowns on tangible assets	(7,202,007)	(7,395,363)	-2.61%
180. Net writedowns on intangible assets	(13,620,486)	(12,332,835)	10.44%
190. Other operating expenses/income	64,189,014	64,289,227	-0.16%
200. Operating costs	**(277,474,680)**	**(259,409,824)**	**6.96%**
230. Writedowns of goodwill	(224,000)	(441,571)	-49.27%
240. Profit (loss) from disposal of investments	4,507	12,274	-63.28%
250. Profit (loss) on continuing operations before tax	**63,325,727**	**7,874,503**	**704.19%**
260. Income taxes for the period on continuing operations	(4,788,834)	(1,862,283)	157.15%
270. Profit (loss) on continuing operations after tax	**58,536,893**	**6,012,220**	**873.63%**
290. Profit (Loss) for the period	**58,536,893**	**6,012,220**	**873.63%**

Comprehensive income

COMPREHENSIVE INCOME

	Item	31/12/2016	31/12/2015
10.	**Profit (Loss) for the period**	**58,536,893**	**6,012,220**
	Other comprehensive income net of taxes without transfer to income statement		
40.	Defined benefit plans	(1,616,225)	1,237,959
	Other comprehensive income net of taxes with transfer to income statement		
100.	Financial assets available for sale	(38,527,509)	34,467,372
130.	**Other comprehensive income, net of tax**	**(40,143,734)**	**35,705,331**
140.	**Comprehensive income (Items 10 +130)**	**18,393,159**	**41,717,551**

The change in comprehensive income relating to financial assets available for sale is attributable almost entirely to the acquisition of Visa Europe by Visa Inc. Lastly, at the end of 2015 a reserve of around € 38.6 million was recognised for the fair value measurement of the investment held. The transfer of the investment was completed in 2016, with the generation of a capital gain of approximately € 46.9 million and the subsequent reversal of the valuation reserve to the income statement.

Statement of changes in Shareholders' Equity at 31 December 2015

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY AT 31 DECEMBER 2015

	balances at 31/12/14	Change to opening balances	balances at 01/01/15	allocation of previous year's profit: reserves – Reserves	allocation of previous year's profit: dividends and other allocations – Dividends and other allocations	changes for the year: changes in reserves	changes for the year: operations on shareholders' equity – issue of new shares	changes for the year: operations on shareholders' equity – purchase of treasury shares	changes for the year: operations on shareholders' equity – distribution of extraordinary dividends	changes for the year: operations on shareholders' equity – change in equity instruments	changes for the year: operations on shareholders' equity – derivatives on treasury shares	changes for the year: operations on shareholders' equity – stock options	Comprehensive income 2015	shareholders' equity at 31/12/2015
Share capital:														
a) ordinary shares	281,596,505	-	**281,596,505**	-	-	-	52,631,579	-	-	-	-	-	-	**334,228,084**
b) other shares	-	-	**-**	-	-	-	-	-	-	-	-	-	-	**-**
Share premiums	298,722,062	-	**298,722,062**	-	-	-	67,368,421	-	-	-	-	-	-	**366,090,483**
Reserves														**-**
a) from profits	106,147,278	-	**106,147,278**	**56,461,241**	-	-	-	-	-	-	-	-	-	**162,608,520**
b) from previous year's profit	(4,542,710)		**(4,542,710)**	-	-	-	-	-	-	-	-	-	-	**(4,542,710)**
b) other	(133,749,918)		**(133,749,918)**	-	-	-	-	-	-	-	-	-	-	**(133,749,918)**
Valuation reserves:														**-**
a) financial assets available for sale	9,950,838	-	**9,950,838**	-	-		**-**	**-**	**-**	**-**	**-**	**-**	34,467,372	**44,418,210**
b) cash flow hedging	-	-	**-**	-	-	-	-	-	-	-	-	-	-	**-**
c) special revaluation laws	-	-	**-**	-	-	-	-	-	-	-	-	-	-	**-**
d) other	(5,134,219)	-	**(5,134,219)**	-	-		-	-	-	-	-	-	1,237,959	**(3,896,260)**
Equity instruments	-	-	**-**	-	-	-	-	-	-	-	-	-	-	**-**
Treasury shares	-	-	**-**	-	-	-	-	-	-	-	-	-	-	**-**
Profit (Loss) for the period	64,230,090	-	**64,230,090**	**(56,461,241)**	**(7,768,848)**	-	-	-	-	-	-	-	6,012,220	**6,012,220**
Shareholders' Equity	**617,219,927**	**-**	**617,219,927**	**-**	**(7,768,848)**	**-**	**120,000,000**	**-**	**-**	**-**	**-**	**-**	**41,717,551**	**771,168,629**

Statement of changes in Shareholders' Equity at 31 December 2016

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY AT 31 DECEMBER 2016

	balances at 31/12/2015	Change to opening balances	balances at 01/01/16	allocation of previous year's profit – reserves: Reserves	allocation of previous year's profit – dividends and other allocations: Dividends and other allocations	changes for the year: changes in reserves	changes for the year – operations on shareholders' equity: issue of new shares	purchase of treasury shares	distribution of extraordinary dividends	change in equity instruments	derivatives on treasury shares	stock options	Comprehensive income 2016	shareholders' equity at 31/12/2016
Share capital:														
a) ordinary shares	334,228,084	-	334,228,084	-	-	-	-	-	-	-	-	-	-	**334,228,084**
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Share premiums	366,090,483	-	366,090,483	-	-	-	-	-	-	-	-	-	-	**366,090,483**
Reserves														
a) from profits	162,608,520	-	162,608,520	**2,339,241**	-	3,665,525	-	-	-	-	-	-	-	**168,613,286**
b) from previous year's profit	(4,542,710)	-	(4,542,710)	-	-	-	-	-	-	-	-	-	-	**(4,542,710)**
b) other	(133,749,918)	-	(133,749,918)	-	-	-	-	-	-	-	-	-	-	**(133,749,918)**
Valuation reserves:														
a) financial assets available for sale	44,418,210	-	44,418,210	-	-	-	-	-	-	-	-	-	(38,527,509)	**5,890,702**
d) other	(3,896,260)	-	(3,896,260)	-	-	-	-	-	-	-	-	-	(1,616,225)	**(5,512,485)**
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Profit (Loss) for the period	6,012,220	-	6,012,220	**(2,339,241)**	**(3,672,979)**	-	-	-	-	-	-	-	58,536,893	**58,536,893**
Shareholders' Equity	**771,168,629**	**-**	**771,168,629**	**-**	**(3,672,979)**	**3,665,525**	**-**	**-**	**-**	**-**	**-**	**-**	**18,393,159**	**789,554,335**

As indicated under significant events in the year, as a result of the transfer of the SellaLab business unit to Banca Sella Holding, and the transfer of the Hype business unit to the company Easy Nolo, two positive reserves of € 0.4 million and € 3.3 million were recognised respectively for the consideration received. These amounts did not flow to the income statement in the year, in accordance with IFRS 3, given that the transaction was carried out under common control.

The transfer of the business unit took place following Banca Sella's subscription of a share capital increase (reserved) resolved by Easy Nolo. In order to complete the transaction, Easy Nolo resolved a share capital increase totalling € 4.9 million, consisting of the issuing of 140,566 new shares of a nominal € 1 each, at a unit price of € 34.63 (nominal value + premium).

Before the aforementioned transaction, 99.79% of Easy Nolo's shares were held by Banca Sella Holding and 0.21% by minority shareholders. The company share capital increase made provision, as stated, for the issuing of 140,566 new shares, with a nominal value of € 140.6 thousand and a premium of € 4.7 million, fully subscribed by Banca Sella through the contribution in kind of the business unit in question.

Following the transfer, Banca Sella therefore holds a stake of 6.89% in Easy Nolo.

Consolidated cash flow statement - Direct method

A. OPERATING ACTIVITIES	31/12/2016	31/12/2015
1. Operations	**109,998,450**	**113,850,270**
Interest income collected (+)	229,745,560	259,973,054
Interest expense paid (-)	(58,700,968)	(79,660,498)
Dividends and similar income	252,210	73,336
Net fees (+/-)	190,288,305	173,210,925
Personnel expenses	(161,076,736)	(157,509,747)
Other costs (-)	(153,471,939)	(148,279,176)
Other revenues (+)	67,750,852	67,904,659
Taxes and duties (-)	(4,788,834)	(1,862,283)
costs/revenues for asset groups held for sale and net of the tax effect (+/-)	-	-
2. Cash generated (absorbed) by financial assets	**(520,552,574)**	**(301,865,782)**
Financial assets held for trading	21,054,505	(1,598,620)
Financial assets available for sale	224,494,631	(345,970,151)
Due from customers	(308,398,317)	128,251,756
Due from banks	(478,178,897)	(6,539,119)
Other assets	20,475,504	(76,009,648)
3. Cash generated (absorbed) by financial liabilities	**438,012,433**	**97,977,234**
Due to banks	71,299,955	308,331,452
Due to customers	611,546,203	87,770,111
Securities issued	(222,472,487)	(272,280,681)
Financial liabilities held for trading	1,510,890	(5,242,759)
Other liabilities	(23,872,128)	(20,600,889)
Net cash generated (used) by operating activities	**27,458,309**	**(90,038,278)**
B. INVESTMENT ACTIVITIES	**31/12/2016**	**31/12/2015**
1. Cash generated by:	**2,061,249**	**158,476**
Sales of equity investments	-	-
Dividends collected on equity investments	-	-
Sales/redemptions of financial assets held to maturity	-	-
Sales of tangible assets	105,933	77,625
Sales of intangible assets	1,955,316	80,851
Sales of subsidiaries and business units	-	-
2. Cash (absorbed) by:	**(29,706,204)**	**(22,556,874)**
Purchases of equity investments	-	-
Purchases of financial assets held to maturity	-	-
Purchases of tangible assets	(12,947,345)	(6,267,056)
Purchases of intangible assets	(16,758,859)	(16,289,818)
Sales of subsidiaries and business units	-	-
Net cash generated (used) by investing activities	**(27,644,955)**	**(22,398,398)**
C. FUNDING ACTIVITIES	**31/12/2016**	**31/12/2015**
Issue/purchase of treasury shares	-	-
Issue/purchase of equity instruments	-	120,000,000
Distribution of dividends and other purposes	(3,672,979)	(7,768,848)
Net cash flow generated (used) by financing activities	**(3,672,979)**	**112,231,152**
NET CASH GENERATED (USED) IN THE PERIOD	**(3,859,625)**	**(205,524)**
RECONCILIATION	**31/12/2016**	**31/12/2015**
Cash and cash equivalents at start of year	**130,426,196**	**130,631,721**
Total net cash generated (used) in the period	(3,859,625)	(205,524)
Cash and cash equivalents at end of period	**126,566,571**	**130,426,197**

Notes to the Financial Statements

Part A - Accounting Policies

A.1 - General section

Section 1 - Declaration of compliance with international accounting standards

This financial report has been drawn up according to the international accounting standards IAS/IFRS (including the SIC and IFRIC interpretation documents) issued by the International Accounting Standards Board (IASB) and endorsed by the European Union as of 31 December 2016, pursuant to Community Regulation no. 1606 of 19 July 2002. As concerns the schemes and notes to the statements, the financial statements are prepared in application of the decrees of the Bank of Italy in the exercise of the powers established by Art. 43 of Italian Legislative Decree no. 136/2015 with Circular no. 262/05 as subsequently amended, was issued.

In order to facilitate interpretation of the international accounting standards reference was also made to the documents prepared by the OIC (Italian Accounting Body) and the ABI (Italian Bank Association).

The financial statements, therefore, are clearly set out and give a true and fair picture of the economic and financial situation of Banca Sella.

Section 2 - General drafting principles

The financial statements consist of the Balance Sheet, the Income Statement, the Comprehensive Income Statement, Statement of Changes in Shareholders' Equity, the Cash Flow Statement, and these Notes to the Financial Statements, and are accompanied by the Directors' Report on Operations, in total continuity with respect to 31 December 2015. The notes to the financial statements are stated in thousands of euro.

The financial statements are drafted clearly and give a true and fair view of the equity and financial situation and the economic result for the year.

They are prepared in compliance with the general standards provided for in IAS 1 and in accordance with the general assumptions envisaged in the Systematic Framework.

The Notes contain the information necessary to provide a true and correct representation, adding to the information foreseen under the international accounting standards and provisions contained in Circular 262/05, as updated.

If, in exceptional cases, the application of one of the provisions of the international accounting standards is incompatible with providing a true and fair view of the assets, liabilities, earnings and the economic result, the provision is not applied. The reasons for any exception and its impact on the presentation of the assets and liabilities, financial position and earnings are explained in the Notes to the Financial Statements.

The financial statements have been prepared in coherence with the accounting standards and criteria used the last financial year.

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

The following IFRS accounting standards, amendments and interpretations were considered for the drafting of the 2016 financial statements:

- Amendments to **IAS 19** "**Defined Benefit Plans: Employee Contributions**" (published on 21 November 2013): relating to the recognition in the financial statements of contributions from employees or third parties to defined benefit plans. The adoption of these amendments had no effects on the Bank's financial statements given that the severance indemnity is a defined contribution;
- Amendments to **IFRS 11** "**Accounting for acquisitions of interests in joint operations**" (published on 6 May 2014): relating to the accounting of the acquisition of interests in a joint

operation whose activities constitute a business. The adoption of these amendments had no effects on the Bank's financial statements, given it does not have any of these types of interests;

- Amendments to **IAS 16** and **IAS 41 "Bearer Plants"** (published on 30 June 2014): relating to bearer plants, i.e. fruit trees that produce annual crops (e.g. grapevines, hazelnut trees), which must be accounted for according to the requirements of IAS 16 (rather than IAS 41). The adoption of these amendments had no effects on the Bank's financial statements, given it does not have any of these types of products;
- Amendments to **IAS 16** and **IAS 38** "**Clarification of acceptable methods of depreciation and amortisation**" (published on 12 May 2014): according to which a method of depreciation and amortisation based on revenues is normally considered appropriate, given that the revenues generated by an initiative which includes the use of an asset subject to amortisation/depreciation generally reflects factors other than the consumption of the economic benefits embodied in the asset, a requirement which is, by contrast, required for amortisation/depreciation. The adoption of these amendments had no effects on the Bank's financial statements, given that this type of amortisation/depreciation did not apply to it;
- Amendment to **IAS 1 "Disclosure Initiative"** (published on 18 December 2014): the objective of the amendments is to provide clarifications regarding disclosure elements which could be perceived as impediments to a clear and intelligible preparation of the financial statements. The adoption of this amendment had no effects on the Bank's financial statements, given there are no perceived impediments;
- Amendments to **IFRS 10**, **IFRS 12** and **IAS 28** "**Investment Entities: Applying the Consolidation Exception**" (published on 18 December 2014), containing changes to issues that emerged following the application of the consolidation exception to investment entities. The adoption did not have any impact on the Bank's financial statements, given no investment entities present.

Lastly, as part of the annual process of improvements to standards, on 12 December 2013, the IASB published the document, **"Annual Improvements to IFRSs: 2010-2012 Cycle**" (including IFRS 2 Share Based Payments - Definition of vesting condition, IFRS 3 Business Combination - Accounting for contingent consideration, IFRS 8 Operating segments - Aggregation of operating segments e Reconciliation of 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 document "**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 supplements pre-existing standards. The adoption of these amendments had no effects on the Bank's financial statements.

Ifrs and Ifric accounting standards, amendments and interpretations approved by the European Union, still not necessarily applicable and not adopted early by the bank at 31 December 2016

- **IFRS 15 - Revenue from Contracts with Customers** (published on 28 May 2014 and supplemented with further clarifications published on 12 April 2016) which replaces the standards IAS 18 - Revenue and IAS 11 - Construction Contracts, as well as the interpretations IFRIC 13 - Customer Loyalty Programmes, IFRIC 15 - Agreements for the Construction of Real Estate, IFRIC 18 - Transfers of Assets from Customers e SIC 31 - Revenues-Barter Transactions Involving Advertising Services. The standard establishes a new model for the recognition of revenues, which will be applied to all contracts stipulated with customers, with the exception of those falling within the scope of application of other IAS/IFRS such as leases, insurance contracts and financial instruments. Fundamental steps in the recognition of revenues according to the new model are:
  - identification of the contract with the customer;
  - identification of the performance obligations of the contract;
  - determination of the price;
  - allocation of the price to the performance obligations of the contract;
  - criteria for the recognition of the revenue when the entity satisfies each performance obligation.

  The standard applies from 1 January 2018 but early application is permitted. Amendments to IFRS 15, Clarifications to IFRS 15 - Revenue from Contracts with Customers, published by the IASB on 12 April 2016, have, by contrast, still not been endorsed by the European Union. Directors do not expect the application of IFRS 15 to have a significant impact on the amounts of revenues recorded and on the associated disclosure in the financial statements. However, it is not possible to provide a reliable estimate of the effects until the Bank has completed a detailed analysis of contracts with customers.

- Final version of **IFRS 9 - Financial Instruments** (published on 24 July 2014). The document includes the results of the IASB project aimed at replacing IAS 39.

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

  In particular, the new standard:

- introduces significant changes to the rules of classification and measurement of financial assets, which will be based on the intention to manage contractual cash flows ("business model") and on the contractual characteristics of financial instruments (SPPI, or "Solely Payment of Principal and Interest"). These rules will involve different methods of classification and measurement of financial instruments with respect to IAS 39;
- introduces a new impairment accounting model based on an expected approach, in contrast to the current incurred type model set forth in IAS 39, based on the concept of lifetime expected loss which will lead to an advance of the losses on financial instruments that fall within the scope of the new standard and, more generally, a structural increase in value adjustments;
- addresses hedge accounting, re-writing the rules of designation and management of hedges and setting the goal of ensuring better alignment between the risk management objectives and subsequent balance sheet disclosure.

Due to the entry into force of IFRS 9, a revision of the prudential rules for calculating the absorption of capital on expected credit losses is also envisaged. The terms for said review are still not known.

In 2016, the Bank launched a special project targeted at analysing the impacts of the accounting standard and addressing the process of adjustment into line with the new accounting standard, which will replace IAS 39 currently in force: in particular, in order to achieve regulatory compliance from the date of the entry into force of the standard, the project envisages the identification of 3 areas of focus:

- Models area;
- Operating area;
- Implementation area.

For each of the first two areas of focus, an assessment phase was defined, which precedes the phase of definition of the methodology and of the functional requirements (design phase) targeted at the implementation itself.

The implementation of the shared planning and associated activities falls under the third area. Based on the outcomes of the design phase, the Bank will evaluate the effective implementation and the parallel running activities to be carried out by the end of 2017.

The entire project was developed with the involvement of the reference departments of the Bank and the active participation of the Board of Directors and Top Management.

The project reached the phase of definition of the methodology (design) on 31 December 2016; in particular, for existing credit exposures accounted for using the amortised cost method;

- an analysis was conducted on the contractual clauses in order to identify those which did not reflect the passage of time, the credit risk or other components of remuneration and, therefore, caused a significant change in cash flows;

- in the presence of variable rate remuneration, the nature of the periodicity of re-fixing will be compared with the frequency of its redetermination resulting from the amortisation plan. A provisional materiality threshold will be defined to verify the significance of said time misalignment;

- the initial characteristics were outlined that identify a business model for management of said financial assets aimed at collecting the contractual flows from these exposures.

In relation to debt securities already in the portfolio valued at amortised cost or classified under financial assets available for sale currently in the portfolio:

- the contractual clauses were analysed in order to identify those which did not reflect the passage of time, the credit risk or other components of remuneration and, therefore, caused a significant change in cash flows;

- the business models for management of said financial assets aimed at collecting the contractual flows and the contractual cash flows as well as all sums deriving from the sale of these financial instruments were identified in a general and preliminary manner.

Based on the analyses conducted up until now the Bank does not envisage the fair value measurement of significant amounts of financial assets with an impact on the income statement, currently measured at amortised cost, due to the fact that the relevant contractual flows cannot be considered as solely payments of principal and interest.

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

- the stage assignment process was defined on the basis of an analysis of the significant deterioration in the rating assigned internally with respect to the origination date, without, however, defining a low credit risk threshold, as well as through the adoption of other indicators of the risk of the position;

- provision is made for the determination of a 12-month expected loss for exposures classified in stage 1 and of a lifetime expected loss for exposures classified in stage 2 and 3; both these metrics include forward-looking elements in the relevant calculation, i.e. include expectations over the future trend in macroeconomic variables deemed significant for the estimate of risk parameters;

- the calculation of the lifetime expected loss characterising positions classified in stage 2 presume the calculation of expected loss relating to the entire residual life of the credit position.

As regards the timescales envisaged for the end of the project, the second half of 2017 will be targeted.

In light of possible developments in the methodological decisions currently defined, also based on the most recent guidelines adopted in the academic literature and practices, the Bank is unable to provide a sufficiently reliable estimate in these financial statements of the impacts of application of the standard.

However, based on the analyses conducted up until now, it is reasonable to expect:

- a significant increase in the level of provisioning on credit exposures classified in stage 2 which should represent a portfolio portion of between 5% and 15% of the exposure;

- a level of provisioning essentially in line with the one currently adopted for credit exposures classified in both stage 1 and stage 3;

- an increase in the level of provisioning on financial assets comprised of securities classified under financial assets available for sale, not currently subject to value adjustments;

- an increase in the variability of loss estimates based on the transfers of exposures between stage 1 and stage 2 and the inclusion in these of scenarios that make reference to information aimed at forecasting future conditions (“forward-looking”);
- an insignificant number of financial instruments subject to reclassification under financial assets carried at fair value with an impact on the income statement;
- no significant impact as regards financial instruments for which a hedging relationship has been designated.

Section 3 - Events subsequent to the balance sheet date

There are no relevant aspects to be reported.

Section 4 - Other issues

There are no other relevant aspects to be pointed out.

A.2 - Main accounting items

1 - Financial assets held for trading

Classification criteria

All financial instruments held for trading are classified in this category. Derivative contracts include those embedded in hybrid financial instruments which are accounted for separately because:

- their economic characteristics and risks are not closely related to those of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative;
- the hybrid instruments they belong to are not measured at fair value with the associated changes recognised in the Income Statement.

In the presence of events that are unusual and highly unlikely to recur in the near term financial instruments not held for trading may be reclassified in other categories established by IAS 39 if the conditions for their recognition apply (Investments held to maturity, Financial assets available for sale, Loans and Receivables). The transfer value is the fair value at the time of the reclassification. Upon reclassification, the presence of any embedded derivative contracts, that have to be separated, is assessed.

Recognition criteria

Initial recognition of financial assets takes place on the settlement date for debt and equity securities and at the signing date for derivative contracts.

At the moment of initial recognition financial assets held for trading are recognised at cost, understood as the fair value of the instrument. Any derivatives embedded in hybrid contracts not closely related to them and with characteristics that meet the definition of a derivative are separated from the host contract and measured at fair value, while the host contract is accounted for under the appropriate accounting standard.

Assessment criteria

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

In determining the fair value of financial instruments quoted on an active market, market listings are used. When there is no active market, estimation methods and assessment models are used that take into account risk factors associated with the instruments and are based on data that can be taken from the market, such as: methods based on listed instruments with similar characteristics, discounted cash flow calculations, option price determination models, and values taken from recent comparable transactions.

Equity securities and the related derivative instruments whose fair value cannot be determined in a reliable way according to the above guidelines are carried at cost.

Derecognition criteria

These financial assets are derecognised when the contractual rights to the financial flows deriving from them expire, or when the financial assets are sold transferring substantially all of the risks/benefits associated with them.

If a financial asset is not held for sale or for repurchase in the short term, this financial asset may be reclassified out of the category of fair value through profit and loss only if the following conditions are met:

- in rare circumstances;
- if the Bank has the intention and the ability to hold the financial asset in the foreseeable future or to maturity.

2 - Financial assets available for sale

Classification criteria

This category includes non-derivative financial assets not otherwise classified as Loans and receivables, Assets held for trading or Assets held to maturity.

In particular, the item includes equity interests not held for trading and not classifiable as in affiliates, or controlled or jointly-controlled companies.

In the cases provided for by the accounting standards, reclassifications are only permitted towards the category Investments held to maturity, unless there is an event that is unusual or highly unlikely to recur in the near term. In such cases, debt securities may be reclassified in the categories, established by IAS 39, Investments held to maturity and Loans and Receivables if the conditions for their recognition apply. The transfer value is the fair value at the time of the reclassification.

Recognition criteria

The initial recognition of the financial asset takes place on the settlement date for debt or equity securities and on the date of disbursement in the case of other financial assets not classified as loans and receivables.

At the moment of initial recognition these assets are accounted for at cost, understood as the fair value of the instrument, inclusive of transaction costs or revenues directly attributable to the instrument itself. If recognition occurs following reclassification from Assets held to maturity or Assets held for trading, the recognition value is the fair value at the moment of transfer.

Assessment criteria

After initial recognition, assets available for sale continue to be measured at fair value while gains or losses deriving from a change in fair value are recognised in a specific shareholders' equity reserve until the financial asset is derecognised or a lasting impairment is recognised. At the moment of disposal, the gains or losses accumulated are recycled to the Income Statement.

To determine a reliable fair value, if no quotations on active markets are available, recent transactions are taken into account and backed up by transactions occurring after the balance sheet date which confirm such fair values.

With reference to equity interests not classifiable as in affiliates, or in controlled or jointly-controlled companies, in the case of equity instruments which do not have a market price quoted on an active market and if no recent transactions are observable, as it is impossible to determine fair value in a reliable manner, they are carried at cost and written down in the case of lasting impairment.

According to the provisions of IAS 39, paragraph 58, at each reference date of the financial statements or quarterly report, the company shall verify if there is any objective evidence that a financial assets or group of financial assets has suffered a reduction in value.

More specifically, for debt instruments, evidence of a lasting loss of value consists of the quality and quantity information indicative of financial difficulties such as to prejudice to the collection of capital or interest, as indicated by the provisions of IAS 39, paragraph 59.

For capital instruments, a significant or prolonged decrease of the fair value of the financial asset concerned to below its cost shall also be considered objective evidence of a reduction in value.

More specifically, the significance of the impairment (so-called "Severity") should be measured both in absolute terms, as a negative performance of the financial asset, and in relative terms in connection with the trends of markets/sectors pertaining to the company analysed in this document; a reduction in the fair value of more than 50% is considered significant.

The persistence of the impairment over time (so-called “Durability”) is measured in connection with the time span during which such impairment was permanently and univocally maintained for a period longer than 15 months.

The negative characteristics of certain qualitative/quantitative criteria (so-called “Relativity”) lead to a significant writedown for the minority interest.

Severity, durability and relativity parameters should be regarded as alternative: it is sufficient for one of the three criteria to indicate a depreciation for the impairment of the investment to take place.

As a consequence, if the impairment of the carrying cost of an investment is higher or more prolonged than severity or durability limits, or if relativity elements are invalid, the loss is recognised in the income statement.

The existence of objective evidence of lasting impairment is checked at every annual or quarterly balance sheet date. If the reasons for the impairment cease following an event that occurs after recognition, writebacks are recognised in the Income Statement in the case of debt securities, and in Shareholders’ Equity in the case of equity securities. The amount of the writeback may not in any case exceed the amortised cost that the instrument would have had in the absence of the previous writedowns.

Derecognition criteria

Financial assets are derecognised when the contractual rights to the financial flows deriving from them expire, or when the financial assets are sold transferring substantially all of the risks/ benefits associated with them.

A financial asset classified as available for sale which, if it had not been designated as such, would have met the definition of a loan or receivable, may be reclassified out of the “available for sale” category and into the “loans and receivables” category if there is the intention and the ability to hold it for the foreseeable future or to maturity.

3– Receivables

Classification criteria

Loans and receivables include loans to customers and banks, both disbursed directly and purchased from third parties, which envisage fixed or at least determinable payments, which are not quoted on an active market and which have not been classified at the start as available-for-sale financial assets. The loans and receivables item also includes accounts receivable, repurchase agreements and securities purchased in subscription or private placement, with determined or determinable payments, not quoted on active markets.

Classification of credit exposures

With reference to the classification rules established by the Supervisory Body, Banca Sella’s exposures are classified as follows:

- performing exposures: exposures with subjects considered solvent, that have no significant anomalies nor past-due positions for more than 90 days with the exception of the materiality thresholds in effect at the time;
- non-performing exposures: exposures with subjects that meet one or both of the following conditions:
    - the company holds it improbable that, without the use of actions such as enforcement of guarantees, the debtor will fully meet their credit obligations in regards to said company or other Group companies which are exposed to the same, regardless of the existence of any past-due amount or the number of days past due;
    - the debtor is past-due by over 90 days on a significant credit obligation (specifically, exceeding the materiality threshold in effect at the time) within the Group;

  or written down exposures where there is clear proof of impairment following one or more loss events occurring after the initial granting of the loan and that this loss event (or events) has an influence on estimated future cash flows for the financial asset, or the group of financial assets, which can be reliably estimated.

In the context of the above definition, non-performing exposures can be further classified as:

- **Past Due**: past-due cash exposures or overdue for at least 90 continuous days, taking into account netting with any available margins on other credit lines in the name of the same debtor and on the condition that the entire past-due amount exceeds 5% of the greater between the average of the past-due portions and/or in excess of threshold for the entire exposure, recognised daily during the previous quarter, and the past-due portion and/or amount in excess of the threshold for the entire exposure in reference to the reference date of recognition.
- **Unlikely to pay**: cash and off-balance sheet exposures (loans, securities, derivatives), for which the subjective judgment of the lending subject suggests it is improbable that, without the use of actions such as enforcement of guarantees, the debtor will fully meet their credit obligations (in terms of capital and/or interest), independent of the presence of guarantees or any amounts past-due and unpaid, in line with an approach of the utmost promptness in classifying and managing customers with loans with a decline in their creditworthiness.
  Exposures in the name of debtors who have made a proposal to restructure their debts pursuant to articles 67 and 182 of the Bankruptcy Law (hereafter "BL") or who have made a request for a settlement agreement pursuant to article 161 of the BL, or settlement as a going concern pursuant to article 186 bis of the BL must be classified as unlikely to pay until the result of the request is not known, unless they are already classified as bad loans or meet the subjective requirements for classification as bad loans.
  If the settlement as a going concern occurs with the sale/transfer of the company working with third-parties, the exposure is reclassified as performing. This possibility is precluded in the case of sale/transfer to a company within the same economic group as the debtor.

  Another element which requires classifying exposures as unlikely to pay is classification as a non-performing loan by at least one other company in the Banca Sella Group.

  In the context of unlikely to pay exposures, and without prejudice to the uniformity of the classification category, a distinction is made between cancellations regarding exposures associated with subjects having difficulty in meeting their obligations and those for which the lending entity has revoked credit lines and requested full repayment of the relative loan.

- **Bad loans**: cash and off-balance sheet exposures (loans, securities, derivatives) involving insolvent subjects (even if not determined legally) or in substantially equivalent situations, regardless of any loss forecasts formulated by the lending entity.

Exposures classified as performing or non-performing, as described above, may be subject to grants (**concessions**) by the creditor in regards to its debtors, with the aim of assisting them in overcoming difficulties in fulfilling their financial commitments, whether already manifested or imminent. **The fundamental element for granting concessions is the debtor's difficulty**; it functions regardless of whether there are past-due amounts or exposures are classified as impaired. For the above, performing exposures subject to forbearance are classified as "forborne performing", while non-performing exposures subject to forbearance are classified as "forborne non-performing". A debtor's difficulty can be presumed absolute or to be ascertained.

Recognition criteria

Initial recognition of a loan or receivable occurs at the disbursement date or, in the case of a debt security, at the settlement date, on the basis of the fair value of the financial instrument. The latter is normally equivalent to the amount disbursed, or to the subscription price, inclusive of costs/revenues directly attributable to the single receivable and which can be determined right from the start of the transaction, even if they are liquidated at a later time. Costs which, while having the above characteristics, are refunded by the debtor counterparty, or are classifiable as normal administrative overheads, are excluded. For any lending transactions concluded at different terms from those of the market the fair value is determined using special valuation techniques; the difference with respect to the amount disbursed or to the subscription price is booked directly to the Income Statement. Repurchase agreements with an obligation to repurchase or resell forward are recognised as funding or lending operations. In particular, spot sale and forward repurchase operations are recognised as payables for the spot amount received, spot purchase and forward resale operations are recognised as receivables for the spot amount paid.

Assessment criteria

After initial recognition, receivables are measured at their amortised cost, which is equivalent to their value on initial recognition reduced/increased by repayments of principal, writedowns/writebacks and amortisation - calculated with the effective interest rate method - of the difference between the amount disbursed and the amount repayable at maturity, attributable typically to the costs/revenues booked directly to the single receivable. The effective interest rate is found by calculating the rate that makes the present value of future flows of the receivable, for principal and interest, equal to the amount disbursed inclusive of the costs/revenues associated with the receivable. This accounting method, using a financial formula, makes it possible to distribute the economic effect of the costs/revenues along the expected residual life of the receivable. The amortised cost method is not used for receivables whose short life makes it likely that the effect of application of the discounting formula will be negligible. These receivables are measured at their historical cost and the costs/revenues attributable to them are recognised in the Income Statement. The same valuation technique is adopted for receivables with no defined maturity or valid until revoked.

Analytical valuations

At every annual or interim balance sheet date all loans and receivables are examined to identify those that, following events that occurred after their recognition, show objective evidence of a possible impairment loss.

Loans classified as bad loans, unlikely to pay or past due in accordance with the current Bank of Italy rules, in line with IAS regulations, are the subject of an analytical evaluation process that is continually updated to verify any new elements that may determine possible changes in recoverability.

The amount of adjustment of each loan is the difference between the carrying value at the moment of the valuation (amortised cost) and the present value of the expected future cash flows, calculated by applying the original effective interest rate. The expected cash flows take into account expected recovery times, the presumable realisation value of any guarantees, and costs likely to be incurred for recovery of the loan exposure. The cash flows of receivables which are expected to be recovered in a short time are not discounted. The original effective interest rate of each loan remains unchanged over time even if the position has been rescheduled entailing a change in the contractual interest rate and even if the position, in practice, no longer earns contractual interest.

The valuation parameters are connected to the following classes of past due or unlikely to pay not revoked:

- analytical adjustments for exposures in excess of € 25,000 - past-due and/or deteriorated loans in excess of thresholds granted. The measurements that give rise to an analytical adjustment are proposed by the Anomalous Credit Management Service to the Management or to the delegated mechanisms/collegial bodies. The measurement is performed at the time of classification and subsequently, if new, significant events occur that make a new evaluation necessary (e.g. significant reduction of exposure, acquisition of new guarantees, new prejudicial events, significant new trend anomalies, provision revoking loans to the system, registration of legal mortgages or start-up of enforcement proceedings on property concerned by our mortgage guarantee); the valuations to be applied are aimed at determining the real possibility of returning the position to performing status and, where this possibility is in doubt, the assessment of the possible loss after having taken action to collect. The evaluation of the adjustments must be made, as a general rule, considering the equity of the debtor, its income capacity, its financial balance, future prospects, professional or entrepreneurial capacity, the regularity of the customer in managing bank relations, also considering any guarantees backing the credit facilities granted.

- one-off adjustments for exposures of less than € 25,000 - past-due and/or deteriorated loans in excess of thresholds granted. The one-off adjustments are made by applying a fixed percentage to the amount to be adjusted, as decided by Management, on the basis of statistics on the losses recorded for the three previous years;

The evaluation of the unlikely to pay not revoked will be made, as a general rule, considering the equity of the debtor, its income capacity, its financial balance, the prospects of the segment to which it belongs, managerial or entrepreneurial capacity, the regularity of managing bank relations and the customer morality, also considering any guarantees backing the credit facilities granted.

As a rule, all positions are measured analytically at the time it is decided to classify them as unlikely to pay, and subsequently each time the general conditions of the trend of the relationship and/or acquisition of new guarantees require a change to be made, and in any case at least once a year.

Writedowns are proposed by the Credit services and areas and are approved by the Bank's management or by the appropriate mechanisms/bodies.

The process used to measure exposures classified as unlikely to pay by the Bank (as envisaged for the Group) varies based on whether the use is greater or less than € 10,000 and for the latter, whether it is the first month of entrance or not.

Although not required, in the following cases, writedowns may be made, calculated on a lump sum basis, as follows:

a. Positions with uses within € 10 thousand: forfeit percentage calculated as the weighted average of adjustments made during the last three years to revoked positions with exposure of less than €10,000, in relation to the exposure that said positions had last year. The percentage is reviewed every year on the basis of the latest historic series by the end of February of each year after approval from the Board of Directors.

b. New entry positions with uses of more than € 10 thousand: average writedowns during the last 3 years made to positions classified as non-revoked unlikely to pay with uses exceeding € 10 thousand. This method will only be applied for the first month of entrance. For the next month, the adjustment will be calculated according to the new balances and percentage adjustment defined by the Bank during the previous month.

c. Positions with uses in excess of € 10 thousand already classed as unlikely to pay the previous month: analytical measurement performed by the Bank in the previous month. The percentage adjustment defined the previous month is applied to the new uses.

In the remaining cases, analytical writedowns are applied, assessing the general condition of the customer in terms of credit rating and considering the real possibility of restoring the customer relationship to performing status, after resolving the anomalies that led to classification as unlikely to pay.

Measurement of positions classified as revoked unlikely to pay and bad loan positions must consider all the elements involving a single customer, on the basis of the main debtor's capital/income capacities and the guarantees and collateral supporting the loan.

The valuation parameters are connected to the following classes of loans:

- Mortgage loans;
- Loans with other real guarantees
- Unsecured loans to property-owning private individuals/companies (main debtor and/or guarantors);
- Unsecured loans to non-property-owning private individuals/companies;

- Other Loans divided into amount bands.

The discount rate for disputed loans is determined on the basis of the time expected for recovery taking into account any guarantees and action to be activated.

The valuation times are:

- Valuation at the moment of default with classification as revoked unlikely to pay;
- Valuation at the moment of classification of the loans as bad loans;
- Valuation carried out during the stages of credit recovery management which by way of example can be summarised as acquisition of new real/personal guarantees, formalisation and verification of observance of repayment schedules, adverse events, state of attachment and settlements proceedings etc.

Following the methodology revision process, certain measurement parameters used for impaired loans were updated:

- Estimated recovery to be assigned to cases for which, at the end of in-court and out-of court collection actions, are classified as possible sale without recourse;
- Time estimates for the discounting of enforcements of guarantees deriving from first demand guarantee consortia;
- Estimates of costs connected to discounting for negative cash flows envisaged for real estate enforcement procedures.
- Estimated recovery for unsecured loans with balances of < € 50,000 and revoked unlikely to pay.

The updates to valuation parameters are backed by historical and statistical series for the bank's default loan portfolio.

In the context of the parameter revision process, the following evaluation parameters and time frames were confirmed, as summarised below:

- Percentage ratios for specific lump sum adjustments foreseen for past due amounts with balances < € 25,000;
- Percentage ratios for specific lump sum adjustments foreseen for unrevoked unlikely to pay with balances < € 10,000
- Estimated recovery to be assigned at the time the settlement agreement is filed for unsecured loans not backed by any guarantees.
- Estimated recovery to be assigned at the time bankruptcy is filed for unsecured loans not backed by any guarantees.
- Time estimates for the discounting of collection from disposals without recourse for bad loans;
- Average discounting times for real estate enforcement proceedings and settlements, broken down by geographic area;
- Average discounting times for subsidiary consortia guarantees;
- Discounting times for loans classified as non-revoked unlikely to pay;
- Average discounting times for loans classified as revoked unlikely to pay
- Valuation at the moment of default with classification as revoked unlikely to pay;

- Valuation at the moment of classification of the loans as bad loans;
- Valuation carried out during the stages of credit recovery management which by way of example can be summarised as acquisition of new real/personal guarantees, formalisation and verification of observance of repayment schedules, adverse events, state of attachment and settlements proceedings etc.

Collective valuations

Loans for which no specific objective evidence of loss has been found, which are normally performing loans, undergo collective valuation. Under the terms of the International Accounting Standards (IAS/IFRS), the definition of the generic reserve for performing loans should follow a model based on incurred losses. The term incurred loss means a loss for which the fact that it has already happened is clearly identifiable, although it has not yet become manifest (loss "incurred" but not "recognised").

The collective valuation of performing loans takes place by subdividing the clientèle into homogeneous segments in terms of credit risk. The relative percentage losses are estimated by taking into account probability of default (PD) and the loss given default rate (LGD), making use of appropriate adjustments aimed at converting the expected loss of Basel into incurred loss. Determination of the probability of insolvency and the recovery rate in the case of insolvency takes place using the same methodology on the basis of their individual customer portfolio. With specific reference to the PD variable, this is determined on the basis of internal rating models when available, and all other cases on the basis of default entry historic data.

In relation to LGD, the Bank has equipped itself with an estimate model of WorkoutLossGiven Default, on the basis of internal data. The estimate sample has been divided into subgroups with similar risk characteristics, and the resulting LGD for each subgroup is used as an estimate for future LGDs for all loans with the same characteristics.

The method described above makes it possible to estimate "latent loss" for each category of receivables. Writedowns determined collectively are recognised in the Income Statement. At every annual or interim balance sheet date any additional writedowns or writebacks are recalculated in a differential manner with reference to the entire portfolio of performing loans.

Derecognition criteria

Loans assigned are derecognised from the assets on the balance sheet only if the sale has entailed the substantial transfer of all the risks and benefits associated with them. On the contrary, if the risks and benefits of the credit sold have been kept, the receivables continue to be recognised as assets on the balance sheet, even if legal ownership of the credit has effectively been transferred. If it is impossible to ascertain the substantial transfer of the risks and benefits, the loans are derecognised if no type of control has been kept over them. On the contrary, if even partial control over credit is maintained, it is kept on the balance sheet to the extent that the remaining involvement, measured in terms of exposure to changes in the value of the credit sold and to changes in the relative cash flows. Finally, loans sold are derecognised when the contractual rights to receive the associated cash flows are kept, with the assumption at the same time of an obligation to pay these flows, and only these, to third parties.

4 - Hedging transactions

Classification criteria: types of hedging

Assets and liabilities include hedging derivatives which at the balance sheet date present positive and negative fair value respectively.

Transactions to hedge risks are designed to offset potential losses on a specific financial instrument or on a group of financial instruments, attributable to a specific risk, with the profits recognisable on a different financial instrument or group of financial instruments if that particular risk should actually occur.

IAS 39 describes the following types of hedges:

- fair value hedge: hedging exposure to changes in the fair value of an accounting item attributable to a particular risk;
- cash flow hedge: hedging the exposure to fluctuations in future cash flows attributable to particular risks associated with accounting items;
- foreign currency investment hedge: hedging the risks of an investment in a foreign operation expressed in a foreign currency.

Recognition criteria

A derivative instrument is designated as a hedge if there is formal documentation of the relation between the hedged instrument and the hedging instrument and if the hedge is effective at the moment in which the hedging begins and, prospectively, throughout its entire life. The effectiveness of the hedging depends on the extent to which the fair value changes of the hedged instrument or of its expected cash flows are offset by those of the hedging instrument. The effectiveness is therefore measured by comparing the above changes, taking into account the goal pursued by the company at the moment in which the hedge is put in place.

The hedge if effective (within the 80–125% range) when the changes in fair value (or cash flows) of the hedging financial instrument almost completely offset the changes in the hedged instrument, for the hedged risk element. The assessment of effectiveness is carried out every six months using:

- prospective tests, which justify the application of hedge accounting, as they show the expected effectiveness;
- retrospective tests, which show the degree of effectiveness of the hedge achieved in the period to which they refer. In other words, they measure the gap between the actual results and a perfect hedge.

If the tests do not confirm the effectiveness of the hedge, in accordance with the rules outlined above hedge accounting is discontinued and the hedging derivative contract is reclassified as a trading instrument.

Assessment criteria

Hedging derivatives are carried at fair value, and therefore, in the case of fair value hedging, the change in the fair value of the hedged element is offset by the change in the fair value of the hedging instrument. This offsetting is recognised by booking the value changes to the Income Statement, with reference both to the element hedged (as regards the changes produced by the underlying risk factor), and to the hedging instrument. Any difference, which represents the partial ineffectiveness of the hedge, consequently constitutes its net economic effect.

The fair value measurement of hedged fixed-rate loans requires financial consistency between hedged assets and the IRSs agreed upon for the hedge. At every measurement of the fair value, the cumulative stock of hedging IRSs and the cumulative stock of hedged loans are prepared, making sure that the amortisation profile of the IRSs corresponds to the amortisation profile of the hedged loans;

Subsequently, the weighted average fixed rate of hedging IRSs is calculated. Said rate represents the average effective market rate at the time of the agreement of the various IRSs and reflects the interest that was meant to be hedged at the time of loan hedging. In other words, such rate represents the actual part of interest hedged by the IRS, distinguishing it from the part of interest that is not hedged and corresponds to the spread (expressing customer risk rather than rate risk).

At this point, it is appropriate to prepare, beginning from the residual amortisation plan of the principal of all loans hedged, the amortisation plan of loans to be used for measuring the fair value. This plan shall be made up of loan principal flows (the difference between the residual debt of a period and the residual debt of the previous period according to the contractual amortisation plan) and the interest obtained applying the weighted average rate of hedging IRSs (expressing the hedged interest) to the residual debt for the period.

The instalments obtained can then be updated adopting the same yield curve used for measuring the fair value of hedging IRSs, and brought down in proportion to the actual hedging percentage at the date of the valuation (ratio between the “surfaces” - i.e. the sum of remaining principals for the respective duration days - of amortisation plans for the remaining IRS amount divided by the remaining loan credit), so as to obtain the current value of hedged loans. The remaining credit (multiplied by the hedging percentage) at the date of loan valuation shall be deducted from this value.

According to this procedure (current value of the instalments minus residual debt brought down according to the hedging percentage), the fair value at the end of financial year T and the fair value at the end of financial year T-1 is calculated. The difference between these two figures is the fair value delta of the loans, which is then compared with the fair value delta of the IRSs.

The fair value delta of the IRSs is calculated with the following methods:

- fair value is calculated through discounting future cash flows (Net Present Value - NPV): this method involves discounting estimated cash flows at a current rate that expresses the intrinsic risk of the instrument being measured;
- for IRSs hedging loans that already existed at the end of the previous financial year, the fair value delta is given by the difference between the fair value at the end of the year and the fair value at the end of the previous year;
- for IRSs hedging loans contracted during the financial year, the fair value delta is the fair value of the IRS at the end of the year;
- both the market values and the intrinsic values of all IRSs are calculated.

5 - Tangible assets

Classification criteria

Tangible assets include technical systems, furniture and fittings and equipment of all kinds. These are tangible assets held to be used in the production or supply of goods and services or for administrative purposes, or to be rented out to third parties, and which are likely to be used for more than one period. Improvements made to third party assets included in these items are improvements and extra costs in relation to identifiable and separable tangible assets. These investments are usually made to ensure that the property rented from third parties is suitable for use.

Improvements and incremental costs in relation to identifiable and non-separable tangible assets are instead included under item 160 “Other assets”.

Recognition criteria

Items of tangible assets are initially recognised at cost, which includes, besides the purchase price, any and all the ancillary charges directly attributable to the purchase and commissioning of the asset. Extraordinary maintenance expenses which lead to an increase in future economic benefits are recognised as an increase in the value of the assets, while other ordinary maintenance costs are booked to the Income Statement.

Assessment criteria

Items of tangible assets are carried at cost, after deducting any depreciation and impairment losses. These fixed assets are systematically depreciated over their useful life, adopting as the depreciation criterion the straight line method.

At every balance sheet date, if there is any indication that an asset may have suffered a loss in value, the carrying value of the asset is compared with its recoverable amount, which is the greater between the fair value and the use value of the asset, understood as the present value of the future flows originating from the item. Any adjustments are recognised in the Income Statement. If the reasons for recognition of the loss no longer apply, a writeback is made, which may not exceed the value that the asset would have had, net of the depreciation calculated, if the previous writedowns had not been made.

Derecognition criteria

A tangible fixed asset is derecognised from the Balance Sheet upon disposal or when the asset is permanently withdrawn from use and no future economic benefits are expected from its disposal.

6 - Intangible assets

Classification criteria

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

Recognition criteria

An intangible asset may be recognised as goodwill when the positive difference between the fair value of the asset items purchased and the cost of the equity interest represents the future earning capacity of the interest (goodwill). If this difference is negative (badwill) or in cases when the goodwill cannot be justified by the future earning capacity of the interest, the difference itself is recognised directly in the Income Statement.

Other intangible assets are recognised at cost, inclusive of any ancillary charges, only if it is probable that the future economic benefits attributable to the asset will be realised and if the cost of the asset itself can be measured reliably. Otherwise the cost of the intangible asset is recognised in the Income Statement in the year in which it is incurred.

Assessment criteria

As regards goodwill, whenever there is evidence of a loss of value and in any case at least once a year following the preparation of the three-year plan, a check is performed on the non-existence of lasting reductions in value. To this end it is first necessary to identify the cash flow generating unit to which to attribute the goodwill. The amount of any reduction of value is determined on the basis of the difference between the book value of the goodwill and its recovery value, if less. This recovery value is the greater of the fair value of the cash flow generating unit and its use value. The use value is the present value of the future cash flows expected from the generating units to which the goodwill has been attributed. The consequent writedowns are recognised in the Income Statement.

The cost of intangible fixed assets is amortised on a straight line basis over their useful life. If the useful life is unlimited amortisation is not applied; instead adequacy of the book value of the fixed assets is checked regularly. At every balance sheet date, if there is evidence of impairment losses, the recoverable amount of the asset is estimated. The amount of the loss, which is recognised in the Income Statement, is the difference between the carrying amount of the asset and the recoverable amount.

Derecognition criteria

An intangible fixed asset is derecognised from the Balance Sheet when it is disposed of or when future economic benefits are not expected.

7 - Current and deferred taxation

These headings include respectively the current and deferred tax assets, and the current and deferred tax liabilities.

Income taxes are recognised in the Income Statement with the exception of those relating to items debited or credited directly to shareholders' equity. Provisions for income taxes are determined on the basis of a prudential forecast of the current tax liability, and of deferred tax assets and liabilities.

Prepaid and deferred taxes are calculated on the temporary differences, with no time limit, between the book value and the tax value of the individual assets or liabilities.

Deferred tax assets are booked to the financial statements if they are likely to be recovered. In this regard, it should be noted the tax consolidating company Banca Sella Holding chose, on 28/07/2016, for the companies participating in tax consolidation, the option of maintaining the application of the provisions on the transformation of deferred tax assets to tax credits set forth in art. 11 of Decree Law no. 59 of 03/05/2016, converted, with amendments, from Law no. 119 of 30 June 2016. The result being the maintenance, as set out in Italian Law no. 225 of 2010, Art., paragraphs from 55 to 56-bis, of the convertibility into tax credits of prepaid taxes recognised in the financial statements against writedowns of loans and goodwill, in particular when the individual financial statements show a loss for the year. This convertibility allows an additional and supplementary method of recovery, which is capable of ensuring the recovery of these types of prepaid taxes in every situation, irrespective of the future profitability of the company. This convertibility is therefore, in every case, a sufficient condition for the recognition and maintenance in the financial statements of these kinds of prepaid taxes.

Deferred tax liabilities are recognised, with the sole exceptions of assets recognised for a higher amount than the fiscally recognised value and of reserves in tax suspension, for which it is reasonable to believe that no operations will be initiated such as to entail their taxation. The deferred tax assets and liabilities recognised are evaluated systematically to take account of any changes made to legislation or tax rates.

8 - Provisions for risks and liabilities

Other provisions for risks and charges refer to amounts set aside for current obligations deriving from a past event, where compliance with the said obligations will probably require the outlay of economic resources, provided that an accurate estimate of the amount of these obligations can be made.

The sub-item "Other provisions" contains provisions for risks and charges set aside in compliance with the International Accounting Standards, with the exception of writedowns due to impairment of guarantees given recognised under "Other liabilities".

Provisions are set aside for risks and liabilities only when:

- there is a current obligation (legal or implied) resulting from a past event;
- it is likely that resources will have to be used to produce economic benefits to settle the obligation;
- an accurate estimate of the amount of the obligation can be made.

The amount set aside represents the best estimate of the charge necessary to extinguish the obligation; this estimate takes into account the risks and uncertainties relating to the facts and circumstances in question.

If a significant period of time is expected to pass before the charge is incurred, the amount of the provision is the present value of the charge expected to be required to extinguish the obligation. In this case the discounting rate used is such as to reflect the current market valuations of the present value of the money.

The congruity of these amounts is also reviewed regularly.

If new, more or further information is acquired on the risk event, such as to lead to an update of the estimates originally made, the associated provisions are immediately adjusted.

Provisions are used only on occurrence of the risk events for which they were originally set aside.

9 - Payables

Classification criteria

The items “due to banks” and “due to customers” include various forms of interbanking funding and with customers.

Recognition criteria

These financial liabilities are initially recognised at the moment when the amounts are deposited or the debt securities issued. Initial recognition is performed on the basis of the fair value of the liabilities, which is normally equivalent to the amount collected or the issue price, increased by any additional costs/revenues directly attributable to the single issue or funding operation and not refunded by the creditor counterparty. Internal costs of an administrative nature are excluded.

Assessment criteria

After initial recognition, these financial assets are measured at the amortised cost, using the effective interest rate method. An exception is made for short-term liabilities - where the time factor is negligible - which remain recognised at the value collected and any costs attributed to them are booked to the Income Statement. It should be noted, also, that funding instruments subject to an effective hedging relationship are measured on the basis of the rules laid down for hedging transactions.

For hybrid instruments, if the requisites envisaged by IAS 39 are complied with, embedded derivatives are separated from the host contract and recognised at fair value as trading liabilities. In this last case the host contract is recognised at the amortised cost.

Derecognition criteria

Financial liabilities are derecognised when they have expired or have been settled. Derecognition also occurs if securities previously issued are repurchased. The difference between the book value of the liability and the amount paid to purchase it is entered in the Income Statement. Re-placing on the market of own securities after their repurchase is considered a new issue with recognition at the new placement price, with no effect on the Income Statement.

10 - Financial liabilities held for trading

Classification criteria

This item only includes the negative value of derivative contracts held for trading measured at fair value.

It also includes embedded derivatives which, in accordance with IAS 39, have been separated from the hybrid financial instruments hosting them are also included, subject to separate accounting because:

- their economic characteristics and risks are not closely related to those of the host contract;
- the embedded financial instruments satisfy the definition of a derivative, even if separate;
- the hybrid instruments they belong to are not measured at fair value with the associated changes recognised in the Income Statement.

Recognition criteria

Initial recognition of financial liabilities occurs on the date that the derivative contracts are signed.

At the moment of initial recognition financial liabilities held for trading are recognised at cost, understood as the fair value of the instrument. Any derivatives embedded in hybrid contracts not closely related to them and with characteristics that meet the definition of a derivative are separated from the host contract and measured at fair value, while the host contract is accounted for under the appropriate accounting standard.

Assessment criteria

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

Gains and losses deriving from the change in fair value and/or the sale of the trading instruments are accounted for in the Income Statement.

Derecognition criteria

Financial liabilities are derecognised when they have expired or have been settled.

11 - Foreign currency transactions

Initial recognition

Foreign currency transactions are entered, on initial recognition, in the accounting currency, applying to the foreign currency amount the exchange rate current at the time of the transaction.

Subsequent recognitions

At every balance sheet date, the accounting items in foreign currency are measured as follows:

- monetary items are converted at the exchange rate on the balance sheet date;
- non-monetary items carried at their historical cost are translated at the exchange rate in force at the time of the operation; to translate the revenue and cost items an exchange rate that approximates the exchange rates at the transaction dates is often used, for example an average exchange rate for the period;
- non-monetary items carried at fair value are translated at the exchange rates obtaining at the balance sheet date.

Exchange rate differences deriving from the settlement of monetary items or from the translation of monetary items at rates different from the initial ones or from those of translation of the previous financial statements, are charged to the Income Statement of the period in which they arise.

When a gain or loss relating to a non-monetary item is booked to shareholders' equity, the exchange difference relating to this item is also recognised in shareholders' equity. On the contrary, when a gain or loss is recognised in the Income Statement, the associated exchange difference is also booked to the Income Statement.

12 - Other information

Employee benefits

Employee severance indemnities are entered on the basis of their actuarial value. For the purposes of discounting to the present, the projected unit credit method is used; this involves the projection of the future outflows on the basis of historical statistical analyses and of the demographic curves, and the financial discounting of these flows on the basis of a market interest rate. The difference between actuarial gains and losses is recognised directly in Shareholders' equity, while the remaining components (the discounting effect) are recognised in the Income Statement.

According to IAS 19, provisions for severance indemnities represent post-employment defined benefits, which must be recognised making use of actuarial methods.

In the light of the rules laid down in the 2007 Budget Law, severance indemnities accrued from 1 January 2007 destined for complementary pension funds and the INPS Treasury Fund are to be considered a “defined contribution plan” and are, therefore, no longer the subject of actuarial valuation.

According to the international accounting standards, in fact, severance indemnities may not be recognised for an amount corresponding to that accrued (assuming that all the employees leave the company at the balance sheet date); instead the liability in question must be calculated projecting the amount already accrued to the future moment of termination of the employment relationship and then discounting this amount to the present at the balance sheet date using the actuarial “Projected Unit Credit Method”.

Recognition of revenues and costs

Revenues are recognised at the moment in which they are received or at least, in the case of sale of goods or products, when it is probable that the future benefits will be received and these benefits can be quantified in a reliable manner, in the case of performance of services, at the moment in which they are rendered. In particular:

- interest received is recognised pro rata temporis on the basis of the contractual or effective interest rate in the case of application of the amortized cost;
- any contractually envisaged default interest is accounted for in the income statement only at the moment in which it is actually collected;
- dividends are recognised in the income statement during the period in which their distribution is approved;
- fees received for services are recognised, on the basis of the existence of contractual agreements, in the period in which these services are rendered;
- gains and losses deriving from the trading of financial instruments are recognised in the income statement at the moment of conclusion of the sale, on the basis of the difference between the price paid or collected and the carrying amount of the instruments themselves;
- revenues deriving from the sale of non-financial assets are recognised at the moment of conclusion of the sale, unless most of the risks and benefits associated with the assets are maintained.

Costs are recognised in the income statement in the periods in which the associated revenues are accounted for. If the costs and revenues can be associated in a generic and indirect manner, the costs are booked over several periods with rational procedures and on a systematic basis. Costs which cannot be associated with revenues are immediately recognised in the income statement.

Accruals and deferrals

Accruals and deferrals that include charges and revenues accruing in the period to assets and liabilities are recognised to adjust the assets and liabilities to which they refer.

Expenses for improvements to third-party properties

The costs of renovating properties not owned are capitalised in consideration of the fact that for the duration of the rental contract the user company has control over the assets and can draw future economic benefits from them. The above costs, classified among Other assets as provided for in the Instructions of the Bank of Italy, are amortised for a period equivalent to the duration of the rental contract.

Provisions for guarantees issued and commitments

Provisions on a collective basis, in relation to the estimate of the possible outflows connected with the credit risk relating to the guarantees, determined applying the same criteria previously explained with reference to loans and receivables, are classified among Other liabilities, as envisaged in the instructions of the Bank of Italy.

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

In drafting the financial statements, the Bank made use of estimates and assumptions which can have effects on the amounts recognised in the balance sheet and income statement. These estimates are prepared:

- using the information available;
- adopting measurements, based also on historical experience, used in formulating rational assumptions for the recognition of operating data.

In future periods the current values recognised may differ, even significantly, following changes in the valuations used, because, by their very nature, the estimates and assumptions used may vary from one year to another.

The main cases which most require the use of valuations are:

- for the reduction of the value of loans and other financial assets, the determination of losses;
- in determining the fair value of financial instruments not quoted on active markets, the use of valuation models;
- for goodwill and other intangible assets, the estimate of the congruity of the value;
- for provisions for personnel and for risks and charges, estimates of their value;
- for deferred tax assets, estimates and assumptions on their recoverability;

Definition and criteria for fair value measurement

On 12 May 2011, the IASB published IFRS 13 “Fair Value Measurement”, which provides a complete guide on how to measure the fair value of financial and non-financial assets and liabilities and the relative disclosure. IFRS 13 was approved by EU Regulation 1255/2012, issued by the Commission on 11 December 2012.

The new standard applies every time that another accounting standard requires measuring an asset or liability at fair value or requires additional information about the measurement of fair value.

On the basis of that envisaged in IFRS 13, fair value is defined as the “*price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date*.”

The standard establishes that when transactions that can be directly observed on the market exist, the determination of fair value is immediate. In the absence of these conditions, it is necessary to make use of measurement techniques. IFRS 13 identifies three widely used measurement techniques and establishes that each entity, to measure fair value, must use measurement techniques that are in line with one or more of these methods:

- Market approach: with this technique, prices and other information related to transactions that involved identical or comparable financial assets or liabilities are made use of. Measurements based on determining market multiples fall within this category.
- Cost approach: the fair value is represented by the replacement cost of a financial asset.
- Income approach: the fair value is equal to the current value of future flows. These techniques can be based on current value.

In calculating fair value of a financial asset, IFRS 13 provides for the insertion of a credit value adjustment factor (CVA) which identifies the counterparty risk. This credit risk must be quantified as it would be determined by a market operator in defining the purchase price of a financial asset.

In determining the fair value of a financial liability, IFRS 13 envisages that a debt value adjustment factor (DVA) must also be quantified, which refers to own credit risk.

As already noted previously, on the basis of IFRS 13 the determination of fair value of financial instruments should use measurement techniques that maximise the use of inputs based on observable market data.

For this purpose, IFRS 13 establishes a hierarchy of fair value techniques, that classifies the input used for the techniques adopted to measure the fair value into three levels:

Level 1: quoted prices (not corrected) in active markets for identical assets and liabilities to which the entity has access at the measurement date.

Level 2: input other than quoted prices included in Level 1, directly or indirectly observable for the asset or liability. The prices of the assets or liabilities are inferred from listings on similar asset markets or through measurement techniques in which all the significant factors (credit spreads and liquidity) are inferred from observable market data.

Level 3: unobservable data for the asset or liability. The prices of the assets or liabilities are inferred using measurement techniques based on data processed using the best available information in regard to assumptions that market operators would use them to determine the price of the asset or liability (it involves, therefore, estimates and assumptions by management).

IFRS 13 defines an active market as “a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis”.

Input for the determination of fair value

Below are illustrated the various levels of input to use for determination of the fair value of the financial instruments to be measured at fair value:

(L1) Instruments whose fair value corresponds to the market value (instruments quoted on an active market):

- Securities listed on a regulated market or a multilateral trading facility (in which one or more market markets act continuously);
- Securities quoted on Bloomberg provided that the amount issued is higher than or equal to € 500 million and at least one market maker with regularly available prices exists;
- Funds for which the daily NAV or daily quotation are available;
- Investments listed on a regulated market;
- Derivatives quoted on regulated markets.

An “active market” means:

- A regulated market on which the instrument is traded and regularly listed;
- A multilateral trading facility on which one or more market makers act continuously;
- Those on Bloomberg provided that the amount issued is higher than or equal to € 500 million and at least one market maker with regularly available prices exists.

(L2) Instruments whose fair value is determined using inputs differing from the prices quoted in an active market, which are directly (as prices) or indirectly (derived from prices) observable in the market:

- Securities for which Bloomberg gives a quotation featuring an issued amount lower than € 500 million or securities for which, although featuring issued amounts higher than € 500 million, there is no Bloomberg market maker with regularly available prices.
- Securities listed on a multilateral trading facility on which there are no market makers with prices regularly available.
- Bonds issued by the Banca Sella Group, which are measured using the methods indicated below, used widely within the market;
  - ✓ Fixed rate bonds: “asset swap spreads”;
  - ✓ Variable rate bonds: “discount margins”;
  - ✓ Structured bonds: “net present value” (for the bond component).

  Structured bonds which, in addition to the bond component also incorporate an optional component (derivative), foresee the measurement of the latter on the basis of both prices used by market counterparties and on the basis of external (e.g. Black-Scholes) or proprietary measurement models.
- Securities defined as illiquid, explicitly measured using the model of input observable directly or indirectly on the market.
- Funds for which no daily NAV or daily quotation is available, but which periodically express a NAV or a reliable quotation.
- Investments that do not have an active market, for which a limited yet recurring number of transactions are known.
- OTC derivatives for which market parameters for measurement are available.

(L3) Instruments whose fair value is determined using input data that are not based on observable market values:

- Default or delisted securities, in the case in which the price communicated by the reference provider for the individual security is greater than 0. If, instead, this price is equal to 0, said securities are considered “not measured at fair value”.
- Securities defined as illiquid, explicitly measured using the model of non-observable input;
- Securities deriving from Mars 2600 and other ABS securitisations;
- Funds or Sicav specialising in ABS;
- Unlisted closed-end funds;
- Private equity funds;
- Investments that do not have an active market for which single transactions are carried out or for which valuation methods are used;
- OTC derivatives for which market parameters for measurement are not available.

Assessments regarding the congruence of the classification of the instrument with respect to the assigned input level are done on a half-yearly basis, in June and December, by the Securities Records Unit, which also ensures that any necessary changes are made to the specific information found in the securities records.

In order to determine the fair value of OTC derivatives according to accounting standard IFRS 13, they are divided into two levels:

- L2: plain vanilla OTC derivatives for which market parameters for measurement are available;
- L3: OTC derivatives for which market parameters for measurement are not available.

In order to apply the regulations foreseen in Regulation EU no. 575/2013, issued by the European Parliament and Council on 26 June 2013, related to prudential requirements for credit institutions and investment companies (CRR), both OTC derivatives included in L2 and L3, as above, are to be measured using a mark-to-model procedure.

In relation to Regulation (EU) no. 648/2012, issued by the European Parliament and Council on 4 July 2012, on OTC derivatives, central counterparties and trade repositories ("EMIR"), only OTC derivatives in L3, as above, are measured using a model.

Measuring counterparty risk

In calculating fair value of a financial asset, IFRS 13 provides for the insertion of a credit value adjustment factor (CVA) which identifies the counterparty risk. This credit risk must be quantified as it would be determined by a market operator in defining the purchase price of a financial asset.

In determining the fair value of a financial liability, IFRS 13 envisages that a debt value adjustment factor (DVA) must also be quantified, which refers to own credit risk.

Related to the bonds issued by the Banca Sella Group (structured and non-structured), the counterparty risk for the issuer is included in the spread.

Related to exposure to OTC derivatives, quantification of the CVA correctives (for exposures receivable) and DVA correctives (for exposures payable) is done by Dealer Wizard for all contracts, with the exception of those covered by netting and collateralisation agreements (e.g. ISDA, CSA, etc.).

The method used to calculate CVA/DVA correctives implemented in Dealer Wizard is based on the Discounted cash flows approach. This method, applied to all the types of derivatives used by the Group, foresees the application of a credit spread to discounting of expected cash flows and leads to the generation of a Fair Value Risk Adjusted. The difference between this and the Fair Value Risk Free is represented by the CVA/DVA.

The selection of the credit spread to be applied in discounting of the expected cash flows is connected to the direction of the flows, as well as the counterparty type. Specifically, based on whether the flows are "receive" or "pay", the spread applied must take into account the counterparty credit risk (in the case of receive) or the size (in the case of payment).

Related to the types of counterparties, we list the possible reference cases used in attributing the relative credit spread:

- *Institutional counterparty WITHOUT a stipulated CSA*: the CDS quote taken from Bloomberg is used for the credit spread. If there is no specific quote for the counterparty the CDS quote for a counterparty considered to be comparable in terms of sector, size and rating is used;

- *Institutional counterparty with a stipulated CSA*: in this case, the spread assigned is zero, as counterparty risk is mitigated by the collateralisation contract, meaning the Fair Value Risk Adjusted is the same as the Fair Value Risk Free;

- *GBS Customer (retail or corporate)*: the internal rating provided by Risk Management - Credit Risk is used. Specifically, the internally estimated credit spread represents the return rate required to cover the two loss components (expected and unexpected) that determine credit risk. To quantify the impact of the expected loss, the default probability value associated with the specific customer's rating class is used (in the case in which the customer is subject to internal rating calculation), or the average default rate recorded over the last 24 months within the bank's loan portfolio (in the case that the customer is not subject to internal rating calculation). To quantify the impact of the unexpected loss, the value of the equity required to satisfy the profit objective required by the shareholders is estimated, in the case of a current account loan with a one year maturity.

Related to the Banca Sella Group, the credit spread necessary as an input parameter to calculate the DVA corrective is determined in accordance with the spread applied on the same date to the ordinary bonds issued by the Group.

Measurement of the CVA/DVAs is done daily by the Banca Sella OTC Trading Unit. Risk Management carries out second level controls on a sampling basis, validating the methodology and market parameters used after the fact (shared with the Finance Unit).

For measurements related to implicit caps, while awaiting full automation of measurements by the Banca Sella Credit area and the related Group companies, the Parent Company's Finance Area uses the discounted cash flows approach.

As these are options sold to customers (implicit in mortgages with the maximum interest rate), the corrective DVA is determined by applying the credit spread related to the Banca Sella Group as shown above.

Frequency of fair value measurement

Measurement of fair value following the rules dictated by the Group Policy is generally done on a daily basis (generally weekly for bonds issued by the Group due to their limited volatility, unless a need for greater frequency is determined).

Loans: hedged fixed-rate loans

Related to hedged fixed-rate loans, fair value measurement requires financial consistency between the assets hedged and the IRSs agreed upon for the hedge. At every measurement of the fair value, the cumulative stock of hedging IRSs and the cumulative stock of hedged loans are prepared, making sure that the amortisation profile of the IRSs corresponds to the amortisation profile of the hedged loans;

Subsequently, the weighted average fixed rate of hedging IRSs is calculated. Said rate represents the average effective market rate at the time of the agreement of the various IRSs and reflects the interest that was meant to be hedged at the time of loan hedging. In other words, such rate represents the actual part of interest hedged by the IRS, distinguishing it from the part of interest that is not hedged and corresponds to the spread (expressing customer risk rather than rate risk).

At this point, it is appropriate to prepare, beginning from the residual amortisation plan of the principal of all loans hedged, the amortisation plan of loans to be used for measuring the fair value. This plan shall be made up of loan principal flows (the difference between the residual debt of a period and the residual debt of the previous period according to the contractual amortisation plan) and the interest obtained applying the weighted average rate of hedging IRSs (expressing the hedged interest) to the residual debt for the period.

The instalments obtained can then be updated adopting the same yield curve used for measuring the fair value of hedging IRSs, and decreased in proportion to the actual hedging percentage at the date of the valuation (ratio between the "surfaces" - i.e. the sum of remaining principals for the respective duration days - of amortisation plans for the remaining IRS amount divided by the remaining loan credit), so as to obtain the current value of hedged loans. The remaining credit (multiplied by the hedging percentage) at the date of loan valuation shall be deducted from this value.

According to this procedure (current value of the instalments minus residual debt reduced by the hedging percentage), the fair value at the end of financial year T and the fair value at the end of financial year T-1 is calculated. The difference between these two figures is the fair value delta of the loans, which is then compared with the fair value delta of the IRSs.

A.3 - Disclosure on transfers between financial asset portfolios

At the end of the year, no transfers of portfolios existed.

A.4 - Fair value disclosure

Qualitative information

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

Related to the measurement techniques, input and relative adjustments used in measuring the fair value of instruments in level 2 and level 3, below we provide an extract of that specified in the Fair Value Policy adopted by the Group and currently in effect.

The asset swap spread model is used for the valuation of fixed-rate bonds, while the discount margin model is adopted for floating rate bonds. Having recourse to said models is motivated by the consideration that they represent the market standard for these types of securities in Europe.

The Euro swap rate curve used as the pricing input for fixed-rate bonds derives from the info-providers used in the Bank, while the spread levels used derive from the elaboration of variables connected with credit spread reported by info-providers. The purpose of such processing is to consider various variables that may affect pricing processes.

If the bonds contain an optional component, when possible the Bloomberg pricing model is used, so as to guarantee an estimate based on the method most widely used on the market. For this purpose, similarly to the previous cases, the option-adjusted-spread (OAS) used is the spread level deduced from the elaboration of variables connected with credit spreads reported by info-providers.

The bonds with a structure that cannot be priced with Bloomberg models are priced by dividing their structure into simpler components.

The valuation of said components is carried out using some valuations deduced from those provided by counterparties for the hedging instrument or, if they are not available, Monte Carlo simulations, using as inputs the values of the variables reported by the main info-providers.

The OTC derivatives that can typically be found in the financial statements concern swaps, rate options and exchange options.

Rate swaps are evaluated according to the discounted cash flow (DCF) method, which is the market standard and uses the swap rate curve related to the contact currency as the input data. This curve is periodically drawn from the curve published by the main info-providers (Bloomberg/Reuters) in the Bank. If the swap structure is more complex, and such as to prevent a reasonable certainty in the estimate of the contract value, a valuation of the contract is requested to the counterparty of the transaction.

At present, rate options for the Banca Sella Group include only caps and floors and are measured using the Black model. This choice is based on the consideration that alternative models would present the problem of adjusting pricing parameters and would not provide significant improvement of the price estimate. Further elements supporting this choice are connected with the consideration that a wide amount of implicit volatility is reported by the main info-providers, together with the price of options themselves for standard maturity dates.

Both “plain vanilla” and “exotic” exchange options (European or American barrier options) are evaluated according to the Black&Scholes model. The necessary volatility curves for the calculation of implicit volatility for each option as well as the market rate and exchange quotations used for contract valuations are taken from the main info-providers in the Bank (Bloomberg). In the case of exotic options structures that are more complex and do not allow reasonable certainty about the value of the contract, when possible a measurement algorithm is developed internally or, when possible, an evaluation of the same is requested from a third party external to the transaction. These evaluations, when available, are part of the determination of the price together with the measurement provided by the counterpart in the transaction.

The fair value of ABS securities in the portfolio is measured according to Bloomberg pricing models. These models are based on a DCF (Discounted Cash Flow) method, using as input data the latest data provided by the company in charge of the securitisation.

The discount margin level used is deduced from the one reported by research, according to secondary market spreads for similar securities as to underlying security, country and rating. This level may be rectified to take into consideration external factors (and typical factors of the security) such as the different quality of assets, the performance of the underlying security, etc.

The techniques adopted to measure investments in AFS each time are:

- the income approach, which determines the value of the company on the basis of its ability to yield income; For this reason, the value of the company is calculated by discounting the expected income; average future earnings are estimated on the basis of corporate data (financial statements, interim reports, budgets, industrial plans); in addition to risk-free securities, the discount rate considers a premium for investments in business activities;

- multiple of earnings, which determines the company value on the basis of specific indicators relating market prices to financial statement values; multiple of earnings are expressed by a sample of quoted companies as similar as possible to the company to be evaluated; a number of factors are taken into account to establish sample homogeneity: belonging to the same economic sector, the size of the company, financial risks deriving from the corporate financial structure, market shares, geographical diversification, and so on.

- other measurement techniques commonly used by those participating in the market to give a price to companies if these techniques have demonstrated that the provide reliable estimates of the prices practices in current market transactions (these include the use of the equity method, which determines the value of the company on the basis of the algebraic balance between assets and liabilities; analysis on the basis of historic data obtained from company information; financial statements, half-yearly reports, budgets, industrial plans).

Unquoted close-end funds and private equity funds are evaluated on the basis of the data provided by the issuer or, if these data are not provided, according to the amount appropriated to the fund. Special attention will be paid to ABS funds where, as far as possible, the investor reports for the individual ABS will be analysed, which are available for individual funds in most cases.

In relation to the loans issued by each Bank in the Group and that subject to hedging, the determination of the fair value for the purposes of evaluating the efficacy of the same is done by using the discounted cash flow method. For this reason, the same risk-free curve utilised to measure the hedges is used, and the spread paid is obtained from the security coupon according to that indicated in the hedging contract.

Related to hedged fixed-rate loans, fair value measurement requires financial consistency between the assets hedged and the IRSs agreed upon for the hedge. At every measurement of the fair value, the cumulative stock of hedging IRSs and the cumulative stock of hedged loans are prepared, making sure that the amortisation profile of the IRSs corresponds to the amortisation profile of the hedged loans;

Subsequently, the weighted average fixed rate of hedging IRSs is calculated. Said rate represents the average effective market rate at the time of the agreement of the various IRSs and reflects the interest that was meant to be hedged at the time of loan hedging. In other words, such rate represents the actual part of interest hedged by the IRS, distinguishing it from the part of interest that is not hedged and corresponds to the spread (expressing customer risk rather than rate risk).

At this point, it is appropriate to prepare, beginning from the residual amortisation plan of the principal of all loans hedged, the amortisation plan of loans to be used for measuring the fair value. This plan shall be made up of loan principal flows (the difference between the residual debt of a period and the residual debt of the previous period according to the contractual amortisation plan) and the interest obtained applying the weighted average rate of hedging IRSs (expressing the hedged interest) to the residual debt for the period.

The instalments obtained can then be updated adopting the same yield curve used for measuring the fair value of hedging IRSs, and decreased in proportion to the actual hedging percentage at the date of the valuation (ratio between the “surfaces” - i.e. the sum of remaining principals for the respective duration days - of amortisation plans for the remaining IRS amount divided by the remaining loan credit), so as to obtain the current value of hedged loans. The remaining credit (multiplied by the hedging percentage) at the date of loan valuation shall be deducted from this value.

According to this procedure (current value of the instalments minus residual debt reduced by the hedging percentage), the fair value at the end of financial year T and the fair value at the end of financial year T-1 is calculated. The difference between these two figures is the fair value delta of the loans, which is then compared with the fair value delta of the IRSs.

A.4.2 Measurement processes and sensitivity

The use of the above described measurement techniques and models requires the selection and quantification of certain parameters, which vary based on the financial instrument to be measured.

These parameters are chosen and set up on the calculation software at the moment of a request for measurement of a new instrument.

The Risk Management service is responsible for validating the parameters defined.

Every time the fair value of the financial instrument is calculated, the above parameters are rechecked and updated both by the area that performs the calculation and by the Risk Management service.

By way of example, the main observable parameters can be linked to:

Rate Curve

This is a combination of yield rates for zero coupon synthetic securities, ordered in increasing order related to the maturity dates of the same. These rates are obtained using consolidated “bootstrapping” methods from the market rates for deposits (for maturities no greater than 12 months) and market rates for IRSs (for maturities of no less than 2 years). For the purposes of the measurements, the mid rates are used. This is at the base of the measurement of all OTC derivatives.

Volatility Matrix

This consists of a table that indicates, for every maturity date and strike for the options considered, the relative value of the mid volatility quoted on the market. This table is the same for all cap/floor type options.

Spread

To measure bonds issued by the Group (structured or not), two types of spread are taken into consideration:

- *Rate spread*: represents the margin on the variable rate subject to indexing (for variable rate securities) or the IRS rate for the same maturity dates (for fixed rate securities).
- *Price spread*: represents the differential to be subtracted from the theoretical price to take into account the riskiness of the structure.

Implicit Volatility

This is the volatility of the option prices quoted for a specific underlying instrument.

For every maturity date, the value of the at-the-money options is considered, or a weighted average of the volatility of the prices of the options quoted (even with different strikes) for the same maturity date.

Dividend Yield

In the measurement methodologies, this is obtained as the annualised logarithm of the ratio between dividend and price, as reported by the main information providers (Bloomberg, Reuters, etc.), for maturity dates analogous to those of the derivative in question.

By way of example, the main non-observable parameters can be linked to:

Correlations

To calculate correlations, the logarithmic variations in the prices of the two assets (exchange rate and price of the underlying instrument) considered are used. For this reason, data related to the last 6 months is generally used.

Historic Volatility

In the case that the implicit volatility of the options is not quoted, the historic volatility of the underlying instrument is used, measured on the basis of the standard deviation of the logarithmic variations of the prices of the same.

There is no significant observable input used for fair value measurement of assets and liabilities in level 3.

A.4.3 Fair value hierarchy

Any transfer from a fair value hierarchy level to another occurs as a function of the evolution of the characteristics of each security and in relation to the criteria which determine classification in the various levels of the fair value hierarchy. They are identified twice a year, at the time of the half-yearly and annual financial statements. The input levels which determine classification in a given fair value level are listed in these financial statements, in Part A.2 - The Main Accounting Items, in the section Input for the determination of fair value.

At 31 December 2016, there were no securities that improved or worsened their liquidity and had changed their fair value hierarchy level with respect to 31 December 2015.

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.

Quantitative information

A.4.5 Fair value hierarchy

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

Financial assets/liabilities measured at fair value	31/12/2016			31/12/2015		
	L1	L2	L3	L1	L2	L3
1. Financial assets held for trading	5,532	41,927	-	20,434	38,871	2
2. Financial assets carried at fair value	-	-	-	-	-	-
3. Financial assets available for sale	1,466,451	6,015	21,788	1,630,284	11,817	47,963
4. Hedging derivatives	-	5,927	-	-	10,282	-
5. Tangible assets	-	-	-	-	-	-
6. Intangible assets	-	-	-	-	-	-
Total	**1,471,983**	**53,869**	**21,788**	**1,650,718**	**60,970**	**47,965**
1. Financial Liabilities Held for Trading	-	20,518	-	21	18,986	-
2. Financial liabilities carried at fair value	-	-	-	-	-	-
3. Hedging derivatives	-	111,206	-	-	115,422	-
Total	**-**	**131,724**	**-**	**21**	**134,408**	**-**

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

At 31 December 2016, there were no securities that have changed their fair value hierarchy level with respect to 31 December 2015.

The table below summarises the impacts of application of IFRS 13, divided by derivative type:

Net impact at 31 December 2016 (in Euros)

	Banca Sella	
	CVA	DVA
IRS	-178,031	56,277
CAP_FLOOR	-	13,485
COLLAR	-732	-
OPT_CURRENCY OPTION	-25,072	6,854
NDF_NON DELIVERABLE FORWARD	-53,757	-
OUTRIGHT	-139,824	454
IMPLICIT OPTIONS ON MORTGAGES	-	521,204
Total	**-397,417**	**598,274**

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

	Financial assets held for trading	Financial assets carried at fair value	Financial assets available for sale	Hedging derivatives	Tangible assets	Intangible assets
1. Opening balance	**2**	**-**	**47,963**	**-**	**-**	**-**
2. Increases	**-**	**-**	**22,706**	**-**	**-**	**-**
2.1. Purchases	-	-	21,287	-	-	-
2.2. Profits allocated to:						
2.2.1. Income Statement	-	-	-	-	-	-
- of which capital gains	-	-	-	-	-	-
2.2.2. Shareholders' Equity	X	X	1,419	-	-	-
2.3. Transfers from other levels	-	-	-	-	-	-
2.4. Other increases	-	-	-	-	-	-
3. Decreases	**2**	**-**	**48,882**	**-**	**-**	**-**
3.1. Sales	-	-	46,147	-	-	-
3.2. Repayments	-	-	-	-	-	-
3.3. Losses allocated to:						
3.3.1. Income Statement	2	-	1,955	-	-	-
- of which capital losses	-	-	-	-	-	-
3.3.2. Shareholders' Equity	X	X	780	-	-	-
3.4. Transfers to other levels	-	-	-	-	-	-
3.5. Other decreases	-	-	-	-	-	-
4. Closing balance	**-**	**-**	**21,787**	**-**	**-**	**-**

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

Assets/liabilities not measured at fair value or measured at fair value on a non-recurring basis	31/12/2016				31/12/2015			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Financial assets held to maturity	-	-	-	-	-	-	-	-
2. Due from banks	2,062,213	-	52,495	2,009,764	1,584,035	-	187,223	1,397,187
3. Due from customers	6,985,593	-	80	7,104,331	6,734,457	-	120	6,876,060
4. Tangible assets held for investment	4,955	-	-	6,868	5,171	-	-	8,197
5. Non-current assets and asset groups held for sale	-	-	-	-	-	-	-	-
Total	**9,052,761**	**-**	**52,575**	**9,120,963**	**8,323,663**	**-**	**187,343**	**8,281,444**
1. Due to banks	406,483	-	-	406,483	335,183	-	-	335,183
2. Due to customers	9,254,133	-	-	9,254,133	8,642,587	-	-	8,642,587
3. Securities issued	453,518	-	459,525	67	678,825	-	681,617	67
4. Liabilities associated with assets held for sale	-	-	-	-	-	-	-	-
Total	**10,114,134**	**-**	**459,525**	**9,660,683**	**9,656,595**	**-**	**681,617**	**8,977,837**

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

A.5 - "Day one profit/loss" disclosure

IAS 39 requires financial instruments to initially be recognised in the financial statements at fair value, the latter usually coinciding with the price at which the purchase transaction is concluded. IFRS 7 then sets forth that, where the security forming the object of the transaction is level 3, there is greater discretionality in the evaluation of the price, given there is no fixed and specific frame of reference for the fair value. In that case, the initial recognition must always occur at the price at which the purchase/sale is completed, recognising the subsequent valuation as Dop/l with respect to fair value. This rule is clearly applicable to categories of securities for which provision is made for the fair value recognition with a contra-entry in the income statement and, with specific reference to the Bank's financial statements, to securities in the category financial assets held for trading.

Now, therefore, in 2016, the amounts to be recognised as day one profit/loss as part of the purchase of securities not listed on an active market and falling under the category financial assets held for trading were not identified.

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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 on hand	126,567	130,426
b) Demand deposits at Central Banks	-	-
Total	**126,567**	**130,426**

Section 2 - Financial assets held for trading - Item 20

2.1 Financial assets held for trading: Product breakdown

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	5,532	20,656	-	20,387	20,231	2
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	5,532	20,656	-	20,387	20,231	2
2. Equity securities	-	-	-	-	-	-
3. UCITS units	-	-	-	-	-	-
4. Loans	-	-	-	-	-	-
4.1 Repurchase agreements receivable	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total A	**5,532**	**20,656**	**-**	**20,387**	**20,231**	**2**
B. Derivative instruments						
1. Financial derivatives:	-	21,271	-	47	18,640	-
1.1 held for trading	-	21,231	-	47	18,576	-
1.2 linked to fair value option	-	-	-	-	-	-
1.3 other	-	40	-	-	64	-
2. Credit derivatives:	-	-	-	-	-	-
2.1 held for trading	-	-	-	-	-	-
2.2 linked to fair value option	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
Total B	**-**	**21,271**	**-**	**47**	**18,640**	**-**
Total (A+B)	**5,532**	**41,927**	**-**	**20,434**	**38,871**	**2**

Financial assets held for trading mainly consist of debt securities, in particular Italian government securities, senior bank bonds and bonds issued by banks within the Banca Sella Group. At 31 December 2016, the following types of securities are held:

- Italian government securities 15%;
- Senior bank bonds 6%;
- Banca Sella Group bonds 79%.

The amount of this segment fell by around € 14.4 million, down from € 40.6 million at 31 December 2015 to € 26.2 million at 31 December 2016. With regard to asset allocation, the variable rate component was almost entirely eliminated, and almost all of the category is invested in short-term fixed rate securities. Exposure to interest-rate risk was contained for the entire period in question.

2.2 Financial assets held for trading: breakdown by debtors/issuers

Item/Value	Total 31/12/2016	Total 31/12/2015
A. CASH ASSETS		
1. Debt securities	**26,188**	**40,620**
a) Governments and Central Banks	3,831	18,672
b) Other public bodies	-	-
c) Banks	22,357	21,948
d) Other issuers	-	-
2. Equity securities	**-**	**-**
a) Banks	-	-
b) Other issuers:	-	-
- insurance companies	-	-
- financial companies	-	-
- non-financial companies	-	-
- other	-	-
3. UCITS units	**-**	**-**
4. Loans	**-**	**-**
a) Governments and Central Banks	-	-
b) Other public bodies	-	-
c) Banks	-	-
d) Other entities	-	-
Total A	**26,188**	**40,620**
B. DERIVATIVE INSTRUMENTS		
a) Banks	10,330	9,679
b) Customers	10,941	9,008
Total B	**21,271**	**18,687**
Total (A + B)	**47,459**	**59,307**

Section 4 - Financial assets available for sale - Item 40

4.1 Financial assets available for sale: product breakdown

Item/Value	31/12/2016			31/12/2015		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	1,464,769	6,015	-	1,628,795	11,817	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	1,464,769	6,015	-	1,628,795	11,817	-
2. Equity securities	-	-	19,304	-	-	44,600
2.1 Carried at fair value	-	-	13,269	-	-	41,459
2.2 Carried at cost	-	-	6,035	-	-	3,141
3. UCITS units	1,682	-	2,216	1,489	-	1,250
4. Loans	-	-	268	-	-	2,113
Total	**1,466,451**	**6,015**	**21,788**	**1,630,284**	**11,817**	**47,963**

The debt securities component, following the significant increase in 2015, recorded a decrease of roughly 10.4% in 2016; this decrease was due primarily to the non-renewal of Italian Government securities which reached maturity in the fourth quarter. The objective for 2017 is to renew the investments in order to increase portfolio profitability and pursue a strategy of greater diversification of financial assets, with particular attention paid to the quality of the bonds from banks and financial and corporate issuers in the portfolio.

The category is composed primarily of Italian Government securities and bank and corporate bonds with a high credit rating; 3 closed-end funds were introduced during the year intended for investment primarily in debt instruments issued by small-medium Italian companies. At 31 December 2016, the following types of securities are held:

- CCT (Treasury Credit Certificates) 34.0%;
- BTP (Multi-year Treasury Bonds) 13.2%;
- Inflation-linked BTPs 42.5%;
- Senior bank bonds 6.7%;
- Senior corporate bonds 3.6%.

In 2016, the amount of this segment fell by around € 168.7 million, reaching a value of € 1,470.8 million at 31 December 2016. The asset class that saw the biggest change was BTPs, which registered an annual drop of roughly € 195 million, while the exposure to other classes of securities rose by a total of approximately € 28.1 million and € 18.7 million respectively for CCTs, € 2 million for bank bonds and € 7.4 million for corporate bonds.

With regard to asset allocation, the variable component, which rose slightly with respect to 31 December 2015, represented about 34% of the category, while the remaining 66% was invested in fixed rate securities with short or medium-term maturity partly linked to inflation. Exposure to interest-rate risk remained at very low levels for the entire period in question. With an eye on greater diversification, exposure to private issuers increased during the year, both banking and corporate, with an average maturity of 3 years.

Equity securities also includes **minority investments** which, according to the requirements of IFRS, were subject to impairment testing, continuing with the approach adopted in the financial statements at 31 December 2015. The main ones are reported below:

- VISA INC: Visa Inc class C shares for a value net of the lock-up clauses of € 11.1 million; for which a positive equity reserve was recognised, with respect to initial recognition on 21 June 2016, amounting to roughly € 950,000;
- PENSPLAN INVEST SGR Spa (equity valuation method): after the writedown effected in the income statement at the end of the second quarter of 2016 for € 16,439.78, the book value was maintained

at 30 June;
- Funivie Madonna di Campiglio (equity and stock exchange multiples valuation method): the value at 31 December 2015 was maintained;
- Funivie Folgarida Marilleva (equity and stock exchange multiples valuation method): during the fourth quarter, as a result of the evaluation of the figures in the financial statements of the investee with the stock exchange multiples method, the company value was written down in the income statement by around € 93,800.00 compared to the value at 31 December 2015;
- E-MID Spa: whose book value was supplemented by a positive shareholders' equity reserve of € 16,517.14 following an irrevocable purchase offer received from BrokerTec Europe Limited, which values the investee with a premium of 54.6% on the book value at 31 December 2015.

In the item 'loans', the Comital Saiag S.p.A. position, now Cuki Group S.p.a., was included as participating financial instruments, for which a restructuring agreement was signed in 2009, generating the partial conversion of the total amount owed to the Bank of € 9 million.
Based on the economic and financial information supplied by the Comital Group, as part of the presentation of the "Update to the 2016-2018 Business Plan", and the Cuki Group's Consolidated Financial Statements at 31 December 2015, during the first quarter, the valuation of the participating financial instrument was updated. Considering the most recent final data of the company, it was considered appropriate to effect a writedown of € 200,000 in the income statement. In the second quarter, given the bank became aware of the transfer of the receivables of the investee company and of the participating financial instruments in question by two leading national banks to a fund specialised in non-performing loans, a new valuation was arranged. The details of the transactions referred to establish, for the participating financial instruments, a value of € 1 for the entire package held by the sellers and, therefore, it was deemed correct to write the investment down in the income statement by the entire amount. The book value at 31 December 2016 was therefore eliminated.
In relation to the voluntary scheme and the communication from FITD (Interbank Deposit Protection Fund) dated 20 January 2017, following the Cassa di Risparmio di Cesena capital operation, and the periodic updating of the fair value measurements of the financial assets acquired, a writedown of € 0.7 million was effected. In application of the Dividend Discount Model methodology, the value of the economic capital of Cassa di Risparmio di Cesena was defined. Based on its contribution share to the voluntary scheme, Banca Sella adjusted the book value of Cassa di Risparmio di Cesena for around € 2.8 million.

As regards minority investments in Group companies, it should be noted that:
- the company C.B.A. Vita was sold on 30 June 2016; for more details, please refer to the Report on Operations in these financial statements;
- the transfer of the HYPE business unit from Banca Sella to Easy Nolo was completed on 1 November, through the share capital increase; following the transfer, Banca Sella therefore holds a stake of 6.89% in Easy Nolo. In order to complete said transaction, an external firm was appointed to provide an updated valuation of the entities involved in the transaction. The book value is therefore the one reported following the transfer.
Also for the impairment test to calculate the recoverable value, reference was made to the external estimated valuation mentioned above.
The tables below provide a summary of the impairment test:

Companies subject to impairment testing *(figures in thousands of euro)* [1]

Company	CGU	Carrying value (before any write-downs in the year) A	Shareholders' equity amount B	Difference B-A
Easy Nolo	CGU A	4,868	587	-4,281

(1) As required by the IFRS, equity investments were subjected to impairment tests in order to ascertain whether there was objective evidence that might indicate that the book value of such assets was not fully recoverable. The impairment test aims at assessing the existence of impairment indicators. In particular, the impairment test is carried out on companies that reported negative economic results in the last financial year and/or companies whose Shareholders' Equity is lower than the carrying amount.

Methods of calculating the recoverable amount of the CGU and the results of the impairment tests:

Impairment test: CGU subject to further analysis

CGU	Recoverable value	Method of calculation used	Result of impairment test
CGU A	Value in use	Dividend discount model (excess capital version)	The impairment test detected no loss in value

Elements used to calculate the recoverable value:

CGU: elements used to calculate recoverable value

CGU	Basic assumptions	Calculation method	Note
CGU A	Economic and balance sheet variables	2016-2020 Plan	The valuation refers to the estimate report drafted by an external advisor as part of the transfer of the "Hipe Light Banking" business unit headed up by Banca Sella S.p.A. to Easy Nolo completed in December 2016.
	Discount rate	Estimated using the Capital Asset Pricing Model (CAPM).	- The discount rate used was 8.1%
	Profitability beyond the forecast period	Constant annual growth rate at 2%	

Conclusions

The values reported in the estimate appraisal prepared by the external advisor support the book value of the Easy Nolo investment.

4.2 Financial assets available for sale: breakdown by debtors/issuers

Item/Value	Total 31/12/2016	Total 31/12/2015
1. Debt securities	**1,470,784**	**1,640,612**
a) Governments and Central Banks	1,319,337	1,499,763
b) Other public bodies	-	-
c) Banks	89,455	86,438
d) Other issuers	61,992	54,411
2. Equity securities	**19,304**	**44,600**
a) Banks	-	-
b) Other issuers:	19,304	44,600
- insurance companies	-	2,133
- financial companies	13,756	41,993
- non-financial companies	559	259
- other	4,989	215
3. UCITS units	**3,898**	**2,739**
4. Loans	**268**	**2,113**
a) Governments and Central Banks	-	-
b) Other public bodies	-	-
c) Banks	-	-
d) Other entities	268	2,113
Total	**1,494,254**	**1,690,064**

At 31 December 2016, there were no equity securities issued by subjects classified as bad loans or unlikely to pay.

Section 6 - Loans to banks - Item 60

6.1 Loans to banks: product breakdown

Type of transaction/Value	Total 31/12/2016				Total 31/12/2015			
	BV	FV			BV	FV		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Due from Central Banks	**1**	**-**	**-**	**1**	**1**	**-**	**-**	**1**
1. Term deposits	-	X	X	X	-	X	X	X
2. Obligatory reserve	1	X	X	X	1	X	X	X
3. Repurchase agreements receivable	-	X	X	X	-	X	X	X
4. Other	-	X	X	X	-	X	X	X
B. Due from banks	**2,062,212**	**-**	**52,495**	**2,009,763**	**1,584,034**	**-**	**187,223**	**1,397,187**
1. Loans	2,009,762	-	-	2,009,763	1,397,187	-	-	1,397,187
1.1 Current accounts and demand deposits	1,818,174	X	X	X	1,207,556	X	X	X
1.2 Term deposits	89,211	-	-	-	83,688	-	-	-
1.3. Other loans and advances:	102,377	X	X	X	105,943	X	X	X
- Repurchase agreements receivable	-	X	X	X	-	X	X	X
- Financial leasing	-	X	X	X	-	X	X	X
- Other	102,377	X	X	X	105,943	X	X	X
2. Debt securities	52,450	-	52,495	-	186,847	-	187,223	-
2.1 Structured securities	-	X	X	X	-	X	X	X
2.2 Other debt securities	52,450	X	X	X	186,847	X	X	X
Total	**2,062,213**	**-**	**52,495**	**2,009,764**	**1,584,035**	**-**	**187,223**	**1,397,188**

FV=fair value BV=book value

Almost all current accounts and demand deposits are held at the Parent company Banca Sella Holding; the increase in the sub-item falls under the normal relations with the parent company, as does the term deposit of € 89 million used for keeping the obligatory reserve at Banca Sella Holding which manages it on behalf of the Bank.

Other loans and advances includes the balance of the current account, again held at the Parent company, on which Banca Sella deposits margins for existing derivatives.

Under the item 'due from banks', debt securities consist exclusively of bonds issued by Banca Sella Holding. During the year, the segment decreased by about € 134.4 million. The decrease is entirely due to the maturity of bonds that were only partially renewed.

Section 7 - Loans to customers - Item 70

7.1 Due from customers: product breakdown

Type of transaction/Value	Total 31/12/2016						Total 31/12/2015					
	Book value			Fair Value			Book value			Fair Value		
	Non-impaired	Impaired		L1	L2	L3	Non-impaired	Impaired		L1	L2	L3
		Acquired	Other					Acquired	Other			
Loans	**6,472,423**	**-**	**513,090**	**-**	**-**	**7,104,331**	**6,174,638**	**-**	**559,699**	**-**	**-**	**6,876,060**
1. Current accounts	617,909	-	120,352	X	X	X	665,522	-	136,148	X	X	X
2. Repurchase agreements receivable	1,203	-	-	X	X	X	412	-	-	X	X	X
3. Mortgage loans	3,851,174	-	299,198	X	X	X	3,687,755	-	322,163	X	X	X
4. Credit cards, personal loans and salary-backed loans	228,568	-	6,024	X	X	X	247,011	-	7,044	X	X	X
5. Financial leasing	-	-	-	X	X	X	-	-	-	X	X	X
6. Factoring	-	-	-	X	X	X	-	-	-	X	X	X
7 Other loans and advances	1,773,569	-	87,516	X	X	X	1,573,938	-	94,344	X	X	X
Debt securities	**80**	**-**	**-**	**-**	**80**	**-**	**120**	**-**	**-**	**-**	**120**	**-**
8. Securities structured	-	-	-	X	X	X	-	-	-	X	X	X
9. Other debt securities	80	-	-	X	X	X	120	-	-	X	X	X
Total	**6,472,503**	**-**	**513,090**	**-**	**80**	**7,104,331**	**6,174,758**	**-**	**559,699**	**-**	**120**	**6,876,060**

The item recorded an increase, thanks to the Bank's commitment to continue providing support to private customers and companies in terms of the provision of credit. A decrease in current accounts was recorded, while mortgages and other loans and advances rose; the impaired component registered a drop.
Debt securities refer exclusively to a subordinated Confidi 6% bond maturing on 27 December 2018.

7.2 Loans to customers: breakdown by borrower/issuer

Type of transaction/Value	Total 31/12/2016			Total 31/12/2015		
	Non-impaired	Impaired		Non-impaired	Impaired	
		Acquired	Other		Acquired	Other
1. Debt securities	**80**	**-**	**-**	**120**	**-**	**-**
a) Governments	-	-	-	-	-	-
b) Other public bodies	-	-	-	-	-	-
c) Other issuers	80	-	-	120	-	-
- non-financial companies	-	-	-	-	-	-
- financial companies	80	-	-	120	-	-
- insurance companies	-	-	-	-	-	-
- other	-	-	-	-	-	-
2. Loans to:	**6,472,423**	**-**	**513,090**	**6,174,638**	**-**	**559,699**
a) Governments	1,570	-	468	834	-	55
b) Other public bodies	5,364	-	3,189	9,504	-	3,223
c) Other entities	6,465,490	-	509,433	6,164,300	-	556,421
- non-financial companies	2,658,927	-	358,876	2,602,709	-	404,434
- financial companies	1,456,571	-	1,590	1,297,706	-	1,558
- insurance companies	80	-	-	4,006	-	-
- other	2,349,911	-	148,967	2,259,879	-	150,429
Total	**6,472,503**	**-**	**513,090**	**6,174,758**	**-**	**559,699**

Section 8 - Hedging derivatives - Item 80

8.1 Hedging derivatives: breakdown by hedge type and level

	FV 31/12/2016			NV 31/12/2016	FV 31/12/2015			NV 31/12/2015
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
A) Financial derivatives								
1) Fair value	-	5,927	-	131,886	-	10,282	-	201,639
2) Cash flows	-	-	-	-	-	-	-	-
3) Foreign investments	-	-	-	-	-	-	-	-
B) Credit derivatives								
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
Total	**-**	**5,927**	**-**	**131,886**	**-**	**10,282**	**-**	**201,639**

Key FV = fair value NV= notional value

Despite a context of a further drop in interest rates, the reduction in the nominal value of derivatives (due to amortisation/maturities) determined a simultaneous decrease in the fair value of the derivatives.

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

Transaction/Type of hedging	Fair value						Cash flows		Foreign investments
	Micro					Macro	Micro	Macro	
	interest rate risk	exchange rate risk	credit risks	price risk	more than one risk				
1. Financial assets available for sale	-	-	-	-	-	x	-	x	x
2. Receivables	-	-	-	x	-	x	-	x	x
3. Financial assets held to maturity	x	-	-	x	-	x	-	x	x
4. Portfolios	x	x	x	x	x	812	x	-	x
5. Other transactions	-	-	-	-	-	x	-	x	-
Total assets	**-**	**-**	**-**	**-**	**-**	**812**	**-**	**-**	**-**
1. Financial liabilities	5,115	-	-	x	-	x	-	x	x
2. Portfolios	x	x	x	x	x	-	x	-	x
Total liabilities	**5,115**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Expected transactions	x	x	x	x	x	x	-	x	x
2. Portfolio of financial assets and liabilities	x	x	x	x	x	-	x	-	-

Section 9 - Fair value adjustment of financial assets subject to macrohedging in portfolios - Item 90

9.1 Fair value adjustments of hedged assets: breakdown by hedged portfolio

Value adjustments of hedged assets / Values	Total 31/12/2016	Total 31/12/2015
1. Increases	**108,044**	**110,546**
1.1 of specific portfolios:	108,044	110,546
a) receivables	108,044	110,546
b) financial assets available for sale	-	-
1.2 total	-	-
2. Decreases	**-**	**-**
2.1 of specific portfolios:	-	-
a) receivables	-	-
b) financial assets available for sale	-	-
2.2 total	-	-
Total	**108,044**	**110,546**

9.2 Assets subject to macrohedging for interest rate risk

Hedged assets	31/12/2016	31/12/2015
1. Receivables	567,743	623,447
2. Financial assets available for sale	-	-
3. Portfolios	-	-
Total	**567,743**	**623,447**

Section 11 - Tangible assets - Item 110

11.1 Tangible assets used in operations: breakdown of assets measured at cost

Asset/Amount	Total 31/12/2016	Total 31/12/2015
1.1. Owned assets	**39,687**	**33,828**
a) land	4,917	4,793
b) buildings	15,002	14.686
c) furniture	787	679
d) electronic equipment	14,454	8,792
e) other	4,527	4,878
1.2 Assets purchased under finance leases	**-**	**-**
a) land	-	-
b) buildings	-	-
c) furniture	-	-
d) electronic equipment	-	-
e) other	-	-
Total	**39,687**	**33,828**

The increase in the item is due to the electronic systems, which rose from € 8.8 million to € 14.5 million. Significant investments were made in 2016 in the IT system and new automatic data processing machines were acquired for around € 10 million.

11.2 Tangible assets held for investment: breakdown of assets measured at cost

Asset/Amount	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	**4,956**	**-**	**-**	**6,868**	**5,171**	**-**	**-**	**8,197**
a) land	2,720	-	-	3,195	2,708	-	-	3,109
b) buildings	2,236	-	-	3,673	2,463	-	-	5,088
2. Assets purchased under finance leases	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) land	-	-	-	-	-	-	-	-
b) buildings	-	-	-	-	-	-	-	-
Total	**4,956**	**-**	**-**	**6,868**	**5,171**	**-**	**-**	**8,197**

Tangible fixed assets are measured at cost. Prominent firms outside the Group are appointed to carry out their valuation, to ensure accurate appraisals.

11.5 Tangible assets used in operations: annual changes

Asset/Amount	Land	Buildings	Furniture	Electronic equipment	Other	Total
A. Gross opening balance	**4,793**	**22,954**	**16,863**	**89,971**	**43,814**	**178,395**
A.1 Total net reductions in value	-	(8,268)	(16,184)	(81,180)	(38,936)	(144,568)
A.2 Net opening balance	**4,793**	**14,686**	**679**	**8,791**	**4,878**	**33,827**
B. Increases	**124**	**1,007**	**337**	**10,495**	**976**	**12,939**
B.1 Purchases	124	1,007	337	10,492	976	12,936
- of which business combinations	-	-	-	-	-	-
B.2 Capitalised improvement expenses	-	-	-	-	-	-
B.3 Writebacks	-	-	-	-	-	-
B.4 Increases in fair value charged to:	-	-	-	-	-	-
- a) shareholders’ equity	-	-	-	-	-	-
- b) income statement	-	-	-	-	-	-
B.5 Positive exchange differences	-	-	-	3	-	3
B.6 Transfers from properties held for investment	-	-	-	-	-	-
B.7 Other changes	-	-	-	-	-	-
C. Decreases	**-**	**691**	**229**	**4,832**	**1,327**	**7,079**
C.1 Sales	-	-	9	30	6	45
- of which business combinations	-	-	9	25	6	40
C.2 Depreciation	-	691	214	4,754	1,316	6,975
C.3 Impairment losses charged to:	-	-	-	-	-	-
- a) shareholders’ equity	-	-	-	-	-	-
- b) income statement	-	-	-	-	-	-
C.4 Reductions in fair value charged to:	-	-	-	-	-	-
- a) shareholders’ equity	-	-	-	-	-	-
- b) income statement	-	-	-	-	-	-
C.5 Negative exchange differences	-	-	-	-	-	-
C.6 Transfers to:	-	-	-	-	-	-
- a) Tangible assets held for investment	-	-	-	-	-	-
- b) assets held for sale	-	-	-	-	-	-
C.7 Other changes	-	-	6	48	5	59
D. Net closing balance	**4,917**	**15,002**	**787**	**14,454**	**4,527**	**39,687**
D.1 Total net impairments	-	(8,959)	(16,398)	(85,058)	(40,136)	(150,551)
D.2 Gross closing balance	**4,917**	**23,961**	**17,185**	**99,512**	**44,663**	**190,238**
E. Carried at cost	-	-	-	-	-	-

11.6 Tangible assets held for investment: annual changes

	Total	
	Land	Buildings
A. Opening balance	**2,708**	**2,463**
B. Increases	**12**	**-**
B.1 Purchases	12	-
- of which business combinations	-	-
B.2 Capitalised improvement expenses	-	-
B.3 Increases in fair value	-	-
B.4 Writebacks	-	-
B.5 Positive exchange differences	-	-
B.6 Transfers from buildings for business purposes	-	-
B.7 Other changes	-	-
C. Decreases	**-**	**227**
C.1 Sales	-	-
- of which business combinations	-	-
C.2 Depreciation	-	227
C.3 Reductions in fair value	-	-
C.4 writedowns from impairment	-	-
C.5 Negative exchange rate differences	-	-
C.6 Transfers from other asset portfolios	-	-
a) buildings for business purposes	-	-
b) non-current assets held for sale	-	-
C.7 Other changes	-	-
D. Closing balance	**2,720**	**2,236**
E. Carried at fair value	3,195	3,673

Section 12 - Intangible assets - Item 120

12.1 Intangible assets: breakdown by type of asset

Asset/Amount	Total 31/12/2016		Total 31/12/2015	
	Defined duration	Indefinite duration	Defined duration	Indefinite duration
A.1 Goodwill	x	13,531	x	13,755
A.2 Other intangible assets	39,086	-	37,903	-
A.2.1 Assets carried at cost:	39,086	-	37,903	-
a) Intangible assets generated internally	7,592	-	6,957	-
b) Other assets	31,494	-	30,946	-
A.2.2 Assets carried at fair value:	-	-	-	-
a) Intangible assets generated internally	-	-	-	-
b) Other assets	-	-	-	-
Total	**39,086**	**13,531**	**37,903**	**13,755**

International Accounting Standards 36 (“IAS 36”) establishes the accounting and information principles for the financial statements related to impairment of certain types of assets, including goodwill, illustrating the principles that a company must follow to ensure that their assets are registered in the financial statements (carrying value) at a value that does not exceed the recoverable value.
On the basis of requirements of IAS 36, it is necessary to compare the carrying value of the goodwill with its recoverable value each time that there is an indication that the asset may have been subject to impairment and in any case at least once per year, at the time that the financial statements are prepared (Impairment Test).
The recoverable value of the goodwill is estimated in reference to the business units (Cash Generating Unit - CGU) in as much as the goodwill is not able to produce cash flow in an autonomous manner.

The CGU is the smallest identifiable group of assets able to generate financial inflows independent of incoming financial flows generated by other assets or groups of assets for which the Group has independent detection of the results through the management reporting systems.

Below are indicated, with the aid of an appropriate summary table, the following:
- the CGUs identified and hence subjected to impairment tests with the relative goodwill allocated;
- the calculation methods used and the results of the impairment tests for each CGU;
- the description of the methods used;
- the elements used to calculate the recoverable value for each CGU;
- the sensitivity analysis performed;
- the conclusions obtained.

Entity subject to impairment test and relative goodwill allocated *(figures in thousands of euro)*

Company	CGU	Goodwill allocated (before writedowns for the year)
Milan branch, via Gonzaga (1)	CGU 1	542
Former Cram branches (2)	CGU 2	3,209
S.Michele and Fasano branches (3)	CGU 3	1,938
Former Banca Generoso Andria branches (4)	CGU 4	8,066
Total		**13,755**

(1) The entity subject to impairment test is the branch of Milan, Via Gonzaga, purchased by the Banco di Chiavari e della Riviera in 1999.
(2) The entity subject to impairment test is the group of branches purchased by the former-CRA Monreale in 1997.
(3) The entity subject to impairment test is the group of branches purchased by Credito Cooperativo di Ostuni in 2000.
(4) The entity subject to impairment test is the group of branches purchased by the former Banca Generoso Andria in 2001

The accounting standards of reference state that the impairment test must be carried out comparing the book value of the CGU with its recoverable value. If this value is found to be less than the book value, a value adjustment must be recognised. The recoverable value of the CGU is the greater of its fair value net of selling costs and its value in use.

Below is a list of the CGU that were analysed and, on the side, the recoverable value calculation methods used and the results of the impairment test:

Impairment test: CGU subject to further analysis

CGU	Recoverable value	Method of calculation used	Result of impairment test
CGU 1	Value in use	Dividend discount model (excess capital version)	The impairment test detected no loss in value
CGU 2	Value in use	Dividend discount model (excess capital version)	The impairment test detected no loss in value
CGU 3	Value in use	Dividend discount model (excess capital version)	The impairment test showed a loss in value of € 224 thousand
CGU 5	Value in use	Dividend discount model (excess capital version)	The impairment test detected no loss in value

Method used

The **Value in use** is defined as the present value of future cash flows expected to derive from an asset. The model used to determine the value in use is DDM (dividend discount model), to discount back distributable income flows after meeting the prescribed minimum capital requirement (excess capital).

The estimate of value in use incorporates the following elements:
- estimate of future cash flows that the company envisages will derive from the continuous use of the asset and its final sale: the most recent budget/plans related to the CGU as approved by the governing bodies of the company were used as references. Apart from the period covered by said plans, the projections of financial flows are estimated by using, for the following years, a steady “g” rate aligned with the expected long-term inflation rate (2%);
- discount rate (Ke): it was calculated according to the Capital Asset Pricing Model (CAPM). The formula used is: Ke = Rf + Beta * (RM- Rf) where:
    - Rf is the risk free rate determined using the average recorded in the fourth quarter of 2016 of the return on ten-year BTPs. The value used was 1.746%;

- (Rm - Rf) is the market risk premium. It is given by the difference between the yield of a diversified portfolio made up of all risky investments available in the market and the yield of a risk-free security. The value used was 6.0%;
- Beta is the specific risk of the investment. Beta expresses the correlation between the yield of one risky investment and the yield of the market portfolio.

- capital requirement for the estimate of distributable cash flows (when the excess capital method was used): it was defined using that envisaged in the Supervisory regulations.

Future cash flows were determined by using three-year plans for each CGU.
These three-year plans were prepared using reasonable and consistent preconditions representing the best estimate that the corporate management could make within the range of possible economic conditions that may occur during the useful life of each entity.
The table below shows the elements used for calculating the recoverable amount:

CGU: elements used to calculate recoverable value

CGU	Basic assumptions	Calculation method	Note
CGU 1 CGU 2 CGU 3 CGU 4	Economic and balance sheet variables	Three-year plan (2017–2019) approved by the Board of Directors of the company	- The forecast data take into account a gradual recovery in the profitability of the retail bank business of the CGUs, mainly deriving from improved contribution from revenues from services and the reduction in the impact of credit risks
	Discount rate	Estimated using the Capital Asset Pricing Model (CAPM).	- The discount rate used w as 8.0%, incorporating a Beta of 1.047
	Profitability beyond the forecast period	Constant annual grow th rate at 2%	

Sensitivity analysis

Since the value in use is determined by using estimates and assumptions that may contain some level of uncertainty, sensitivity analyses to verify the sensitivity of the results obtained to changes in the parameters and in the underlying hypotheses were carried out, as required by the IFRS.
In particular, the impact on the value in use of an increase in discounting rates and a decrease in the growth rate for terminal value purposes was verified.
The table below shows the sensitivity of the value in use of the various CGU to the increase/decrease in the discount rate or growth rate "g" to +/- 25 bps.

Sensitivity analysis

CGU	Change in discount rate		Change in profit growth rate	
	Change considered	% sensitivity of the value in use	Change considered	% sensitivity of the value in use
CGU 1	+ 25 b.p.	7.20%	- 25 b.p.	6.1%
CGU 2	+ 25 b.p.	7.60%	- 25 b.p.	6.4%
CGU 3	entity for w hich the impairment w as recorded			
CGU 4	+ 25 b.p.	5.4%	- 25 b.p.	4.6%

In addition, analyses aimed at highlighting the value limits beyond which impairment testing of the CGU in question would require recognition of impairment. For this reason the table below illustrates the "g" rate and the discount rate that would lead, assuming the same cash flows to be discounted, to values in use that are aligned to the book values.

Sensitivity analysis

CGU	Discount rate	"G" growth rate
CGU 1	14.4%	-7.4%
CGU 2	8.9%	1.0%
CGU 3	entity for which the impairment was recorded	
CGU 4	11.5%	-2.7%

Conclusions

As a result of the analyses conducted, it was necessary to write down the book value of goodwill relating to the group of branches "Fasano e S. Michele ex Credito Cooperativo di Ostuni" (CGU 3) for a total of € 224 thousand.

The sensitivity analysis revealed no indications of reduction in value requiring registration.

12.2 Intangible assets: annual changes

	Goodwill	Other intangible assets: internally generated		Other intangible assets:		Total
		Defined	Undefined	Defined	Undefined	
A. Gross opening balance	**13,755**	**15,510**	**-**	**156,737**	**-**	**186,444**
A.1 Total net reductions in value	-	(8,553)	-	(125,791)	-	(134,786)
A.2 Net opening balance	**13,755**	**6,957**	**-**	**30,946**	**-**	**51,658**
B. Increases	**-**	**3,626**	**-**	**13,133**	**-**	**16,759**
B.1 Purchases	-	3,626	-	13,133	-	16,759
- of which business combinations	-	-	-	-	-	-
B.2 Increases in internal intangible assets	x	-	-	-	-	-
B.3 Writebacks	x	-	-	-	-	-
B.4 Increases in fair value	-	-	-	-	-	-
- at shareholders' equity	x	-	-	-	-	-
- to income statement	x	-	-	-	-	-
B.5 Positive exchange differences	-	-	-	-	-	-
B.6 Other changes	-	-	-	-	-	-
C. Decreases	**224**	**2,991**	**-**	**12,585**	**-**	**15,800**
C.1 Sales	-	319	-	1,345	-	1,664
- of which business combinations	-	319	-	1,345	-	1,664
C.2 Writedowns	224	2,672	-	10,948	-	13,844
- Amortisation/depreciation	x	2,672	-	10,948	-	13,620
- Writedowns	224	-	-	-	-	224
+ shareholders' equity	x	-	-	-	-	-
+ income statement	224	-	-	-	-	224
C.3 Reductions in fair value	-	-	-	-	-	-
- at shareholders' equity	x	-	-	-	-	-
- to income statement	x	-	-	-	-	-
C.4 Transfers to non-current assets held for sale	-	-	-	-	-	-
C.5 Negative exchange rate differences	-	-	-	8	-	8
C.6 Other changes	-	-	-	284	-	284
D. Net closing balance	**13,531**	**7,592**	**-**	**31,494**	**-**	**52,617**
D.1 Total net adjustments	(224)	(11,142)	-	(136,213)	-	(147,579)
E. Gross closing balance	**13,755**	**18,734**	**-**	**167,707**	**-**	**200,196**
F. Carried at cost	-	-	-	-	-	-

Section 13 - Tax assets and liabilities - Item 130 of the assets and item 80 of the liabilities

Current tax assets: breakdown

		Total 31/12/2016	Total 31/12/2015
Prepaid taxes		42,421	55,044
Credits for withholdings		-	-
Assets from inclusion in tax consolidation		-	-
Tax credits		10,912	10,422
	Total	**53,333**	**65,466**

Current tax liabilities: breakdown

		Total 31/12/2016	Total 31/12/2015
Provisions for direct taxes		6,799	11,538
Provisions for indirect taxes		-	-
	Total	**6,799**	**11,538**

13.1 Deferred tax assets: breakdown

	IRES	IRAP	OTHER	31/12/2016	31/12/2015
Losses on receivables	99,487	9,028	-	108,515	114,165
Provisions for sundry risks and liabilities	5,117	565	-	5,682	2,622
Depreciation and valuation of properties	1,978	104	-	2,082	2,025
Sundry administrative expenses	1,448	-	-	1,448	290
Personnel expenses	892	-	249	1,141	564
Collective valuations of sureties issued	324	-	-	324	413
Goodwill and costs related to purchase of company branch	288	58	-	346	397
Val. financial assets avail. for sale	27	6	-	33	-
Sheltering of consolidated goodwill	43	9	-	52	-
Other assets	1,089	94	29	1,212	1,070
Total deferred tax assets (charged to income statement)	**110,693**	**9,864**	**278**	**120,835**	**121,546**
Depreciation and valuation of properties	1,525	307	-	1,832	1,832
Val. financial assets avail. for sale	57	11	-	68	4
Total deferred tax assets (charged to shareholders' equity)	**1,582**	**318**	**-**	**1,900**	**1,836**

13.2 Deferred tax liabilities: breakdown

	IRES	IRAP	OTHER	31/12/2016	31/12/2015
Different calculation of amortisation of tangible assets	449	90	-	539	539
Gain on sale of business unit	1,054	-	-	1,054	2,108
Goodwill	2,595	522	-	3,117	2,874
Other liabilities	578	116	9	703	-
Total deferred taxes (charged to Income Statement)	**4,676**	**728**	**9**	**5,413**	**5,521**
Measurement of available-for-sale financial assets	2,191	494	-	2,685	5,709
Depreciation and valuation of properties	747	150	-	897	896
Total deferred taxes (charged to Shareholders' Equity)	**2,938**	**644**	**-**	**3,582**	**6,605**

The amount of € 2.68 million refers to deferred taxes as a contra-entry to shareholders' equity calculated on the positive valuation of debt securities due to central EU administrations present in the proprietary portfolio at 31/12/2016.

13.3 Changes in deferred tax assets (charged to income statement)

	Total 31/12/2016	Total 31/12/2015
1. Opening amount	**121,546**	**114,858**
2. Increases	**7,747**	**10,400**
2.1 Deferred tax assets recognised during the year	7,742	10,400
a) relating to previous years	543	198
b) due to changes in accounting policies	-	-
c) writebacks	-	-
d) other	7,199	10,202
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	5	-
- business combinations	-	-
3. Decreases	**8,458**	**3,712**
3.1 Deferred tax assets derecognised during the year	8,458	3,712
a) reversals	8,413	3,710
b) writedowns for unrecoverable items	45	2
c) changes in accounting policies	-	-
d) other	-	-
3.2 Reductions in tax rates	-	-
3.3 Other decreases	-	-
a) change in tax credits as per Law 214/2011	-	-
b) other	-	-
- of which business combinations	-	-
4. Closing amount	**120,835**	**121,546**

13.3.1 Changes in prepaid tax pursuant to Italian Law no. 214/2011 (charged to income statement)

	Total 31/12/2016	Total 31/12/2015
1. Opening amount	**114,562**	**106,251**
2. Increases	**62**	**8,316**
- of which business combinations	-	-
3. Decreases	**5,712**	**5**
3.1 Reversals	5,711	4
3.2 Transformation into tax receivables	-	-
a) deriving from period losses	-	-
b) deriving from tax losses	-	-
3.3 Other decreases	1	1
- of which business combinations	-	-
4. Closing amount	**108,912**	**114,562**

Italian Law no. 225 of 2010, Art. 2, paragraphs from 55 to 56-bis, provided for the convertibility into tax credits of prepaid taxes recognised in the financial statements against writedowns of loans and goodwill, in particular when the individual financial statements show a loss for the year. This convertibility introduced an additional and supplementary method of recovery, which is capable of ensuring the recovery of these types of prepaid taxes in every situation, irrespective of the future profitability of the company. This convertibility is therefore, in every case, a sufficient condition for the recognition and maintenance in the financial statements of these kinds of prepaid taxes. The above arrangement was also confirmed in the joint Bank of Italy, Consob and ISVAP Document no. 5 of 15 May 2012 (issued in the context of the Coordination Forum on Application of the IASs/IFRSs), in relation to the “Accounting Treatment of Deferred Tax Assets deriving from Italian Law 214/2011”.

13.4 Changes in deferred taxes (charged to income statement)

	Total 31/12/2016	Total 31/12/2015
1. Opening amount	**5,521**	**6,342**
2. Increases	**1,251**	**383**
2.1 Deferred taxes recognized during the year	1,251	383
a) relating to previous years	-	-
b) due to changes in accounting policies	-	-
c) others	1,251	383
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
- of which business combinations	-	-
3. Decreases	**1,359**	**1,205**
3.1 Deferred taxes cancelled during the year	1,359	1,205
a) reversals	1,359	1,205
b) due to changes in accounting policies	-	-
c) others	-	-
3.2 Reductions in tax rates	-	-
3.3 Other decreases	-	-
- of which business combinations	-	-
4. Closing amount	**5,413**	**5,521**

13.5 Changes in deferred tax assets (charged to shareholders' equity)

	Total 31/12/2016	Total 31/12/2015
1. Opening amount	**1,836**	**1,832**
2. Increases	**64**	**4**
2.1 Prepaid taxes during the year	64	4
a) relating to previous years	-	-
b) due to changes in accounting policies	-	-
c) others	64	4
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
- of which business combinations	-	-
3. Decreases	**-**	**-**
3.1 Prepaid taxes cancelled during the year	-	-
a) reversals	-	-
b) writedowns for unrecoverable items	-	-
c) due to changes in accounting policies	-	-
d) other	-	-
3.2 Reductions in tax rates	-	-
3.3 Other decreases	-	-
- of which business combinations	-	-
4. Closing amount	**1,900**	**1,836**

13.6 Changes in deferred tax liabilities (charged to shareholders' equity)

	Total 31/12/2016	Total 31/12/2015
1. Opening amount	**6,605**	**5,804**
2. Increases	**600**	**2,843**
2.1 Deferred taxes recognized during the year	600	2,843
a) relating to previous years	-	-
b) due to changes in accounting policies	-	-
c) others	600	2,843
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
- of which business combinations	-	-
3. Decreases	**3,623**	**2,042**
3.1 Deferred taxes cancelled during the year	3,623	2,042
a) reversals	3,623	2,042
b) due to changes in accounting policies	-	-
c) others	-	-
3.2 Reductions in tax rates	-	-
3.3 Other decreases	-	-
- of which business combinations	-	-
4. Closing amount	**3,582**	**6,605**

Section 15 - Other assets - Item 150

15.1 Other assets: breakdown

	Total 31/12/2016	Total 31/12/2015
Cheques - own current accounts	2,063	1,850
Credits for withholding tax	51,834	61.500
Improvements to leased third-party properties	1,329	1,315
Prepaid expenses	3,708	3,721
Payment orders to sundry others being debited	12,541	12,736
Current account cheques drawn against third parties	25,843	29,139
Fees, commissions and other income being debited	37,286	36,492
Advances and receivables/suppliers	5,597	803
Charges/invoices to be issued to customers	7,406	3,324
Other	8,205	16,350
Total	**155,812**	**167,230**

Part B - Information on the balance sheet

Liabilities

Section 1 - Due to banks - Item 10

1.1 Due to banks: breakdown

Type of transaction/Value	31/12/2016	31/12/2015
1. Due to central banks	**-**	**-**
2. Due to banks	**406,483**	**335,183**
2.1 Current accounts and demand deposits	37,508	40,904
2.2 Term deposits	334,311	293,710
2.3 Loans and advances	33,562	23
2.3.1 Repurchase agreements payable	-	-
2.3.2 Other	33,562	23
2.4 Liabilities for repurchase commitments of own equity instruments	-	-
2.5 Other payables	1,102	546
Total	**406,483**	**335,183**
Fair value - level 1	**-**	**-**
Fair value - level 2	**-**	**-**
Fair value - level 3	**406,483**	**335,183**
Total fair value	**406,483**	**335,183**

The item increased due to the growth in term deposits stipulated with the parent company in relation to the TILTRO programme.

Section 2 - Due to customers - Item 20

2.1 Due to customers: product breakdown

Type of transaction/Value	31/12/2016	31/12/2015
1. Current accounts and demand deposits	8,167,958	7,356,416
2. Term deposits	742,213	904,064
3. Loans	114,569	117,152
3.1 Repurchase agreements payable	12,272	46,251
3.2 Other	102,297	70,901
4. Liabilities for repurchase commitments of own equity instruments	-	-
5. Other payables	229,393	264,955
Total	**9,254,133**	**8,642,587**
Fair value - level 1	**-**	**-**
Fair value - level 2	**-**	**-**
Fair value - level 3	**9,254,133**	**8,642,587**
Fair value	**9,254,133**	**8,642,587**

Direct deposits including repurchase agreements were essentially stable. The decrease in repurchase agreements was compensated for by the increase in current accounts and demand deposits.

2.3 Details of item 20 “Due to customers”: structured debt

	31/12/2016	31/12/2015
A. Due to customers		
A.1 Structured debt	4,466	11,098

Section 3 - Securities issued - Item 30

3.1 Securities issued: product breakdown

Type of securities / Values	31/12/2016				31/12/2015			
	Book Value	*Fair Value*			Book Value	*Fair Value*		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Securities								
1. Bonds	453,451	-	459,525	-	678,758	-	681,617	-
1.1 structured	-	-	-	-	-	-	-	-
1.2 other	453,451	-	459,525	-	678,758	-	681,617	-
2. Other securities	67	-	-	67	67	-	-	67
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	67	-	-	67	67	-	-	67
Total	**453,518**	**-**	**459,525**	**67**	**678,825**	**-**	**681,617**	**67**

The decrease in bonds is due to the fact that securities maturing during the year were not entirely replaced with new issues.

3.2 Details of item 30 “Securities issued”: subordinated securities

	Total 31/12/2016	Total 31/12/2015
A. Securities issued		
Securities issued - Convertible	-	-
Securities issued - Subordinated	297,419	325,217

3.3 Details of item 30 Securities issued with specific hedges

	Total 31/12/2016	Total 31/12/2015
1. Securities subject to micro-hedging of fair value:	125,595	185,013
a) interest rate risk	125,595	185,013
b) exchange rate risk	-	-
c) other risks	-	-
2. Securities subject to micro-hedging of cash flows:	-	-
a) interest rate risk	-	-
b) exchange rate risk	-	-
c) other	-	-

Section 4 - Financial liabilities held for trading - Item 40

4.1 Financial liabilities held for trading: product breakdown

Type of transaction/Value	31/12/2016					31/12/2015				
	NV	FV			FV*	NV	FV			FV*
		L1	L2	L3			L1	L2	L3	
A. Cash liabilities										
1. Due to banks	-	-	-	-	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-	-	-	-	-
3. Debt securities	-	-	-	-	-	-	-	-	-	-
3.1 Bonds	-	-	-	-	-	-	-	-	-	-
3.1.1 Structured	-	-	-	-	x	-	-	-	-	x
3.1.2 Other bonds	-	-	-	-	x	-	-	-	-	x
3.2 Other securities	-	-	-	-	-	-	-	-	-	-
3.2.1 Structured	-	-	-	-	x	-	-	-	-	x
3.2.2 Other	-	-	-	-	x	-	-	-	-	x
Total A	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B. Derivative instruments										
1. Financial derivatives	x	-	20,518	-	x	x	21	18,986	-	x
1.1 Held for trading	x	-	20,518	-	x	x	21	18,986	-	x
1.2 Linked to fair value option	x	-	-	-	x	x	-	-	-	x
1.3 Other	x	-	-	-	x	x	-	-	-	x
2. Credit derivatives	x	-	-	-	x	x	-	-	-	x
2.1 Held for trading	x	-	-	-	x	x	-	-	-	x
2.2 Linked to fair value option	x	-	-	-	x	x	-	-	-	x
2.3 Other	x	-	-	-	x	x	-	-	-	x
Total B	**x**	**-**	**20,518**	**-**	**x**	**x**	**21**	**18,986**	**-**	**x**
Total (A+B)	**x**	**-**	**20,518**	**-**	**x**	**x**	**21**	**18,986**	**-**	**x**

Key

FV = fair value

FV* = fair value calculated excluding changes in value due to changes in credit worthiness of the issuer with respect to the issue date

NV = nominal or notional value

L1 = Level 1

L2 = Level 2

L3 = Level 3

At 31 December 2016, there were no positions related to technical exposures.

Section 6 - Hedging derivatives - Item 60

6.1 Hedging derivatives: breakdown by hedge type and hierarchy level

	Fair Value 31/12/2016			NV	Fair Value 31/12/2015			NV
	L1	L2	L3	31/12/2016	L1	L2	L3	31/12/2015
A. Financial derivatives	**-**	**111,206**	**-**	**436,567**	**-**	**115,422**	**-**	**476,655**
1) Fair value	-	111,206	-	436,567	-	115,422	-	476,655
2) Cash flows	-	-	-	-	-	-	-	-
3) Foreign investments	-	-	-	-	-	-	-	-
B. Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
Total	**-**	**111,206**	**-**	**436,567**	**-**	**115,422**	**-**	**476,655**

Key

NV = nominal or notional value

L1 = Level 1

L2 = Level 2

L3 = Level 3

Despite a context of a further drop in interest rates, the reduction in the nominal value of derivatives (due to amortisation) determined a simultaneous decrease in the fair value of the derivatives.

6.2 Hedging derivatives: breakdown by hedged portfolio and type of hedge

Transaction/Type of hedging	Fair Value						Cash flows		Foreign investments
	Micro					Macro	Micro	Macro	
	Interest rate risk	Exchange rate risk	Credit risks	Price risk	More than one risk				
1. Financial assets available for sale	-	-	-	-	-	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	111,206	x	-	x
5. Other transactions	-	-	-	-	-	x	-	x	-
Total assets	**-**	**-**	**-**	**-**	**-**	**111,206**	**-**	**-**	**-**
1. Financial liabilities	-	-	-	x	-	x	-	x	x
2. Portfolio	x	x	x	x	x	-	x	-	x
Total liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Expected transactions	x	x	x	x	x	x	-	x	x
2. Portfolio of financial assets and liabilities	x	x	x	x	x	-		-	-

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 ongoing operations	3,933	2,502
Amounts payable to tax authorities on behalf of third parties	26,349	24,482
Payables for commitments to Single Resolution Fund (SRF)	4,477	-
Deferred income	1,382	1,466
Bank transfers and other payments due	70,434	51,238
Due from suppliers and fees to be charged to sundry	23,329	29,713
Debts for personnel expenses	12,073	11,742
Debts to collective valuations of guarantees and commitments	1,179	1,502
Contributions payable to sundry entities	7,520	7,348
Other	5,098	6,779
Total	**155,774**	**136,772**

As per the communication of the Bank of Italy dated 25 January 2017 - Additional contributions to the national resolution fund: treatment in the financial statements and in supervisory reports - a payable of € 4.5 million was recorded due to the Single Resolution Fund (SRF). In the case of additional contributions to the national resolution fund for which the Bank of Italy, pursuant to art. 25 of Decree Law no. 237/2016, establishes that they are due over a long-term period and annually communicates their amount in each year, it is to be recognised as a liability in the financial statements, in accordance with IAS 37 and IFRIC 21.
The item Credit transfers and other payments to be made of € 70,434 million refers primarily to the account 'EBA credit transfers' ordered by customers pending transmission for settlement, whose analysis at 31/12/2016 notes a higher balance than the previous year of around € 20 million.
Following an analysis of some accounts relating to payables for sums to be disbursed to various entities for staff redundancy incentives, the bank saw fit to reclassify said items from the item "Amounts available to customers and banks for ongoing operations" to the item "Payables for personnel expenses"; consequently, for purposes of a homogeneous comparison, 2015 was also adjusted.

Section 11 - Employee severance indemnities - Item 110

11.1 Employee severance indemnities: annual changes

	Total 31/12/2016	Total 31/12/2015
A. Opening balance	**32,010**	**35,505**
B. Increases	**2,471**	**229**
B.1 Provisions for the year	99	120
B.2 Other changes	2,371	109
C. Decreases	**1,384**	**3,724**
C.1 Payments made	771	1.920
C.2 Other changes	613	1,804
D. Closing balance	**33,097**	**32,010**

As required by IAS 19R, for purposes related to disclosure, a series of sensitivity analyses were performed upon a change in the main actuarial valuation parameters and a projection of future cash flows. In addition, the Duration of future cash flows linked to the liability subject to valuation is reported, and the breakdown of the Defined Benefit Cost and the Remeasurement of the items that compose it.
As indicated in IAS Accounting Principle 19R (article 76), the hypotheses related to the phenomena that determine the timing and the size of future costs which the company must sustain to pay benefits for its

employees must represent the "best estimate" possible in terms of the future performance of the phenomena in question. The technical outlines were reviewed at the time of this evaluation, observing the experience of the Company related to the period 01.07.2011–30.06.2015. The parameters shown in the following sections were applied to each company in question.

Demographic assumptions

- deaths: the ISTAT survival rate tables were used, broken down by age and sex, updated in 2015;
- retirement, resignations/dismissals, contract expiration: these causes were deduced by observing corporate data, with the exception of retirement, for which that foreseen in the current regulations was assumed. For staff with non-permanent contracts, the time period was brought to the expiration of the contract (as no contractual terms guaranteed the continuation of the employment relationship) and no early dismissal was assumed before the expiration of the contract. The actuarial evaluation considered the start dates for pension arrangements envisaged in Decree Law 201 of 6 December 2011, containing "Urgent Provisions for growth, fairness and the consolidation of public accounts" converted, with amendments by Law 214 of 22 December 2011, as well as the regulations to adjust the requirements to access the pension system to the increases in life expectancy pursuant to article 12 of Decree law 78 of 31 May 2010, converted, with amendments by Law 122 of 30 July 2010.
- severance indemnity advances: in order to take into account the effects that these advances may have on the timing of the severance pay and the discounting of the company's debt, the probability for the disbursement of a part of accrued amounts was calculated. The annual advance frequency, deduced by observing corporate data, was 2%, while the severance indemnity percentage requested as advance was set at 64%;
- complementary pensions: those who have always paid all their severance indemnity contributions to supplementary pension funds relieve the Company from paying severance indemnities and, therefore, were not assessed. By contrast, as regards other employees, the evaluation was carried out considering the choices made by employees at 31.12.2016, communicated by the company;
- additional amount of remuneration (Qu.I.R.): the employee's choice to exercise the option for a severance indemnity advance in their paystub may be made at any time between 1 March 2015 and 30 June 2018 and is irrevocable. Actuarial assessment was done considering the choices effectively made by employees as of the assessment date (31.12.2016) as communicated by Group companies, without making any hypotheses.

The method established by IAS 19R requires the adoption of underlying economic - financial techniques that affect both the prospective flow development (following salary increases and foreseeable inflationary scenarios) and, above all, the discounting of the estimated debt of the Company as of the measurement date. The discount rate is, in fact, the main assumption significantly affecting the results of the processing.
More specifically, the following hypotheses are adopted in actuarial valuation:

- inflation: the decision was taken to adopt a 1.5% rate as the average scheduled inflation scenario taken from the "2016 Economy and Finance Update Note".

- wage rises: this phenomenon was considered by taking into account two components: the first regarding merit and contractual issues, the second inflation.

With reference to the first component, we adopted an annual increase rate of zero.
As regards the second component mentioned, we considered inflation levels mentioned above in point 1. Please remember that the assumption relating to salary trends was only adopted for the companies of the Group not required to deposit severance indemnity with the INPS-managed Treasury Fund insofar as only for these the actuarial valuation of severance indemnity continues to consider the shares of future annual severance indemnities accrued by employees (and not paid into social security funds).

- discount rate: determined with reference to the market yield of leading company bonds at the measurement date. In this connection, the AA Composite rate curve was used (source: Bloomberg) with reference to 30 December 2016.

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	19,119	11,214
2.1 legal disputes and customer complaints	6,873	6,598
2.2 personnel expenses	10,478	965
2.3 operating risks	644	1,815
2.4 supplementary customer allowance and goodwill compensation for termination of agency relationship	265	254
2.5 other	859	1,582
Total	**19,119**	**11,214**

The increase in the item is attributable entirely to the provisions for personnel given that, on 21 October 2016, Banca Sella Holding (on its own behalf and representing Banca Sella, Banca Patrimoni Sella & C., Consel and Biella Leasing) and the Group's Trade Union Delegation signed the agreement for accessing the extraordinary services of the "Solidarity Fund for professional retraining and requalification, to support employment and the income of credit personnel" which 65 Banca Sella employees subscribed to: following the acceptance of all applications for participation, the provision for personnel expenses rose by € 9.7 million; the terminations of service of the personnel involved will take place in 2017.

A list is provided below of the most significant contingent liabilities - deriving from disputes and litigation of a fiscal nature - which the Bank has assessed as possible but not probable and with reference to which, therefore, no provisions have been set aside:

- the former Banca Sella Sud Arditi Galati merged by incorporation in 2011: tax assessment notice with findings pertaining to the IRES taxable base. Period 2005. Total disputed amount (including taxes, interest and fines): approximately € 0.7 million. Amounts paid provisionally while judgment is pending: approximately € 0.2 million. Judgment of first instance favourable. Awaiting filing of judgment of second instance.

12.2 Provisions for risks and charges: annual changes

Item/Component	Pension funds	Legal disputes and customer complaints	Operating risks	Personnel expenses	Supplementary customer allowance and goodwill compensation for termination of agency relationship	Other	Total
A. Opening balance	**-**	**6,598**	**1,815**	**965**	**254**	**1,582**	**11,214**
B. Increases	**-**	**2,357**	**-**	**9,883**	**40**	**407**	**12,687**
B.1 Provisions for the year	-	2,312	-	9,687	40	407	12,446
B.2 Changes due to passing of time	-	1	-	-	-	-	1
B.3 Variations due to changes in the discount rate	-	1	-	-	-	-	1
B.4 Other changes	-	43	-	196	-	-	239
- business combinations	-	-	-	-	-	-	-
- exchange difference (-)	-	-	-	1	-	-	1
- Other changes (+)	-	43	-	195	-	-	238
C. Decreases	**-**	**2,081**	**1,171**	**370**	**29**	**1,130**	**4,781**
C.1 Utilisation in the period	-	1,429	-	361	29	226	2,045
C.2 Variations due to changes in the discount rate	-	-	-	-	-	-	-
C.3 Other changes	-	652	1,171	9	-	904	2,736
- business combinations	-	-	-	-	-	-	-
- exchange difference (-)	-	-	-	-	-	-	-
- other changes (-)	-	652	1,171	9	-	904	2,736
D. Closing balance	**-**	**6,873**	**644**	**10,478**	**265**	**859**	**19,119**

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

14.1 “Capital” and “Treasury shares”: breakdown

	31/12/2016			31/12/2015		
	Shares issued	Shares subscribed and not yet paid up	Total	Shares issued	Shares subscribed and not yet paid up	Total
A. Capital						
A.1 Ordinary shares	334,228	-	334,228	334,228	-	334,228
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: annual changes

Item/Type	Ordinary	Other
A. Total shares at start of period	**668,456,168**	**-**
- fully paid up	668,456,168	-
- not fully paid up	-	-
A.1 Treasury shares (-)	-	-
A.2 Shares outstanding: opening	**668,456,168**	**-**
B. Increases	**-**	**-**
B.1 New issues	-	-
- for payment	-	-
- business combinations	-	-
- conversion of bonds	-	-
- exercise of warrants	-	-
- other	-	-
- free of charge	-	-
- for employees	-	-
- for 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 Disposal of businesses	-	-
C.4 Other changes	-	-
D. Shares outstanding: closing	**668,456,168**	**-**
D.1 Treasury shares (+)	-	-
D.2 Total shares at end of period	668,456,168	-
- fully paid up	668,456,168	-
- not fully paid up	-	-

Following the capital increase, completed in December, note that the 105,263,158 shares subscribed all have “single votes”, while the previous 563,193,010 shares were converted into “multiple vote” shares (3 votes per share).

At the end of the financial year, the share capital requirements due to the suspended tax regime were € 8,235 thousand, illustrated below:

- Restrictions deriving from the incorporation of Banca Sella Sud Arditi Galati made in 2011 of € 5,784 thousand, consisting of:

- property revaluation reserve under law no. 266 of 2005, art. 1, paragraph 469: € 5,090 thousand;
- revaluation reserve under law no. 413 of 1991: € 694 thousand

- Restrictions deriving from the incorporation of Banca Sella Nord Est Bovio Calderari made in 2012 of € 2,451 thousand, consisting of:
    - property revaluation reserve under Law no. 413 of 1991; € 1,457 thousand;
    - revaluation reserve under Law no. 72/83: € 62 thousand;
    - revaluation reserve under Law no. 576/75: € 28 thousand;
    - property realignment reserve under Law no. 266 of 2005, art. 1, paragraph 469: € 904 thousand.

14.3 Capital: other information

	Total 31/12/2016	Total 31/12/2015
Par value per share (zero if the shares have no nominal value)	0.5	0.5
- Fully paid up:		
Number	668,456,168	668,456,168
Value	334,228,084	334,228,084
Contracts in place for the sale of shares:		
Number of shares under contract	-	-
Total value	-	-

The Bank does not hold, nor has it held, nor bought or sold during the period, any treasury shares or shares of the parent company Banca Sella Holding.

14.4 Retained earnings: other information

of profits:	31/12/2016	31/12/2015
Legal Reserve	36,388	35,666
Statutory Reserve	94,773	93,571
Extraordinary reserve	36,164	35,749
Extraordinary unrestricted reserve	35,019	31,559
Extraordinary reserve restricted under the terms of Law 218/90 Art 7	1,145	1,145
Extraordinary reserve restricted under the terms of Law 266/05 Art 1 paragraph 469	-	3,045
Application reserve, IAS 8	(1,102)	(1,102)
IAS/IFRS adoption reserve	(1)	(1)
Losses carried forward in application of IAS 8	(4,197)	(4,197)
Deficits from previous years	(416)	(416)
Reserve for purchase of business units from Group companies	(1,275)	(1,275)
Profits carried forward in application of IAS 8	70	70
Reserve from the transfer of business units to Group companies	368	-
Reserve from transfer of properties from Group companies	3,298	-
Total profit reserves	**164,070**	**158,065**

other reserves:	31/12/2016	31/12/2015
Group company merger deficits	(70,765)	(70,765)
Reserve from transfer of business units from Group companies	(63,380)	(63,380)
Group company merger surpluses	151	151
Reserve from the transfer of investments to Group companies	244	244
Reserve from the acquisition of business units from Group companies	-	-
Total other reserves	**(133,750)**	**(133,750)**

14.6 Other information Proposed allocation of profit

	31/12/2016	31/12/2015
Profit for the year	58,536,893.33	6,012,219.83
to the Statutory reserve, pursuant to Articles of Association	11,707,378.67	1,202,443.97
to the Legal Reserve, pursuant to Articles of Association	7,024,427.20	721,466.38
to Shareholders		
€ 0.01107 dividend	7,399,809.78	3,602,978.75
number of shares	668,456,168	668,456,168
to the Fund for charity and sundry donations	70,000.00	70,000.00
the remainder to the Extraordinary reserve	32,335,277.68	415,330.73

Given the nature of the disclosure, the table is shown in Euro cents, with the exception of the dividend and the number of shares.

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

	Amount	Possibility of utilisation (*)	Proportion available for distribution	Summary of utilisations in the three previous years	
				To cover losses	For other reasons
Capital	**334,228**				
Equity reserves					
Share premium reserve	366,090	A - B - C	366,090	-	-
Profit reserves					
Legal reserve	36,388	A [(1)] - B	-	-	-
Statutory reserve	94,773	B	-	-	-
Extraordinary unrestricted reserve	35,019	A - B - C	35,019	-	-
Extraordinary reserve restricted under the terms of Law 218/90 Art 7	1,145	A - B[(2)] - C[(3)]	1,145	-	-
IAS/IFRS adoption reserve	(1)	---	(1)	-	-
Reserve from the transfer of business units to Group companies	368	A - B[(2)] - C[(3)]	368	-	-
Reserve from application of IAS 8	(1,102)	---	(1,102)	-	-
Losses carried forward from application of IAS 8	(4,197)	---	(4,197)	-	-
Deficits from previous years	(416)	---	(416)	-	-
Profits carried forward from application of IAS 8	70	A - B - C	70	-	-
Reserve for purchase of business units from Group companies	(1,275)	---	(1,275)	-	-
Reserve from transfer of properties from Group companies	3,298	A - B - C	3,298	-	-
Valuation reserves					
Valuation reserve, assets available for sale, Legislative Decree 38/05, article 7, paragraph 2	5,891	---(5)	-	-	-
Valuation reserve: actuarial profit/losses in relation to defined benefit pension plans (see table for details)	(5,512)	---	(5,512)	-	-
Other reserves					
Reserve from the transfer of investments to Group companies	244	A - B[(2)] - C[(3)]	244	-	-
Reserve from transfer of business units from Group companies	-63,380	---	(63,380)	-	-
Group company merger deficits	(70,765)	---	(70,765)	-	-
Group company merger surpluses	151	A - B - C	151	-	-
Total	**731,017**		**259,737**		
Proportion not available for distribution pursuant to Art 2426 no. 5 of the Italian Civil Code			-		
Remainder of proportion available for distribution			259,737		

(*) Key: A: for capital increase B: to cover losses C: for distribution to shareholders
(1) Can be used for capital increase (A) for the portion that exceeds one fifth of share capital.
(2) If used to cover losses (B) no profits can be distributed until the reserve has been reinstated or its amount correspondingly reduced.
The reduction must be made after a resolution made by an extraordinary shareholders' meeting, without following the provisions of paragraphs 2 and 3 of Art. 2445 of the Italian Civil Code
(3) If not allocated to capital the reserve may be reduced only in accordance with the provisions of paragraphs 2 and 3 of Art. 2445 of the Italian Civil Code.
If distributed to shareholders it counts towards the taxable income of the company.
(5) The reserve is unavailable pursuant to article 6 of Legislative Decree 38/2005.

Other information

1. Guarantees issued and Commitments

Transactions	Amount 31/12/2016	Amount 31/12/2015
1) Financial guarantees issued	36,587	32,603
a) Banks	-	16
b) Customers	36,587	32,587
2) Commercial guarantees issued	178,336	174,561
a) Banks	841	1,058
b) Customers	177,495	173,503
3) Irrevocable commitments to disburse funds	205,586	191,788
a) Banks	904	2,147
i) usage certain	904	2,147
ii) usage uncertain	-	-
b) Customers	204,682	189,641
i) usage certain	27,702	22,951
ii) usage uncertain	176,980	166,690
4) Commitments underlying credit derivatives: protection sales	-	-
5) Assets pledged as collateral for third-party obligations	-	-
6) Other commitments	-	-
Total	**420,509**	**398,952**

2. Assets pledged as collateral against own liabilities and commitments

Portfolios	Amount 31/12/2016	Amount 31/12/2015
1. Financial assets held for trading	-	-
2. Financial assets carried at fair value	-	-
3. Financial assets available for sale	246,894	5,856
4. Financial assets held to maturity	-	-
5. Due from banks	102,354	37,970
6. Due from customers	182,994	-
7 Tangible assets	-	-

The column relating to 2015 includes the items relating to the item ‘Due from customers’ for the purposes of a homogeneous comparison with 2016.

4. Management and broking for third parties

Type of services	Amount 31/12/2016	Amount 31/12/2015
1. Orders executed on behalf of customers	**-**	**-**
a) purchases	-	-
1. settled	-	-
2. not settled	-	-
b) sales	-	-
1. settled	-	-
2. not settled	-	-
2. Portfolio management	**1,441,653**	**1,731,760**
a) Individual	1,441,653	1,731,760
b) Collective	-	-
3. Custody and administration of securities	**21,622,412**	**22,844,174**
a) third-party securities on deposit as custodian bank (exclusive of portfolios managed)	-	-
1. securities issued by the reporting bank	-	-
2. other securities	-	-
b) third party securities on deposit (excluding portfolio management): other	9,495,308	9,586,795
1. securities issued by the reporting bank	323,522	398,510
2. other securities	9,171,786	9,188,285
c) third-party securities deposited with third parties	10,310,270	10,723,620
d) own securities deposited with third parties	1,816,834	2,533,759
4. Other transactions	**79,710,880**	**107,757,497**

The item Other transactions includes the volume of work of receiving and sending orders, which is divided as follows:
- purchases: 40,728,000 thousand
- sales: 38,982,880 thousand

Following the analysis of the deviations in alignment of the nominal value of a provision, the amounts relating to the item ‘custody and administration of securities’, aggregate b) other securities and aggregate c) third-party securities deposited with third parties were adjusted, with respect to the amount reported in the financial statements at 31 December 2015.

The table below shows a breakdown of indirect funding for the Bank:

Indirect deposits, breakdown

	31/12/2016	31/12/2015
a) Indirect deposits from management and broking for third parties (see previous table)		
- Portfolio management	1,441,653	1,731,760
- Custody and administration of securities:		
- third-party securities on deposit as custodian bank (exclusive of assets managed) - Other securities	-	-
- other third-party securities on deposit (excluding asset management): other - Other securities	9,171,786	9,188,285
b) Indirect deposits from insurance policies	1,390,579	1,059,294
Total indirect deposits	**12,004,018**	**11,979,339**

5. Financial assets subject to netting in the balance sheet, or subject to framework netting agreements or similar

Technical types		Gross amount of financial assets (a)	Net amount of financial assets netted in the balance sheet (b)	Net amount of financial assets shown in the balance sheet (c=a-b)	Related amounts not subject to netting in balance sheet		Net amount 31/12/2016	Net amount 31/12/2015
					Financial instruments (d)	Cash deposits received as collateral (e)		
1. Derivatives		16,258	-	16,258	16,258	-	-	-
2. Repurchase agreements		-	-	-	-	-	-	-
3. Securities lending		-	-	-	-	-	-	-
4. Other		-	-	-	-	-	-	-
Total	**31/12/2016**	**16,258**	**-**	**16,258**	**16,258**	**-**	**-**	**x**
Total	**31/12/2015**	**19,962**	**-**	**19,962**	**19,962**	**-**	**x**	**-**

6. Financial liabilities subject to netting in the balance sheet or subject to framework netting agreements or similar

Technical types		Gross amount of financial liabilities (a)	Net amount of financial liabilities offset in the balance sheet (b)	Net amount of financial liabilities reported in the balance sheet (c=a-b)	Related amounts not subject to netting in balance sheet		Net amount 31/12/2016	Net amount 31/12/2015
					Financial instruments (d)	Cash deposits made as collateral (e)		
1. Derivatives		122,306	-	122,306	16,258	102,354	3,694	-
2. Repurchase agreements		-	-	-	-	-	-	-
3. Securities lending		-	-	-	-	-	-	-
4. Other transactions		-	-	-	-	-	-	-
Total	**31/12/2016**	**122,306**	**-**	**122,306**	**16,258**	**102,354**	**3,694**	**x**
Total	**31/12/2015**	**124,684**	**-**	**124,684**	**19,962**	**104,722**	**x**	**-**

Within the derivatives item found in the previous tables, OTC contracts consisted of swap, options on rates and options on currencies.
Rate swaps are evaluated according to the discounted cash flow (DCF) method, which is generally the market standard and uses the swap rate curve related to the contact currency as the input data. This curve is periodically drawn from the curve published by the main info-providers (Bloomberg/Reuters) in the Bank. If the swap structure is more complex, and such as to prevent a reasonable certainty in the estimate of the contract value, a valuation of the contract is requested to the counterparty of the transaction.
The rate options are only represented by cap and floor, and are evaluated according to the Black&Schole model. This choice is based on the consideration that alternative models would present the problem of adjusting pricing parameters and would not provide significant improvement of the price estimate. Further elements supporting this choice are connected with the consideration that a wide amount of implicit volatility

is reported by the main info-providers, together with the price of options themselves for standard maturity dates.
Both “plain vanilla” and “exotic” exchange options (European or American barrier options) are evaluated according to the Black&Scholes model. The necessary volatility curves for the calculation of implicit volatility for each option as well as the market rate and exchange quotations used for contract valuations are taken from the main info-providers in the Bank (Bloomberg). In the case of exotic options structures that are more complex and do not allow reasonable certainty about the value of the contract, when possible a measurement algorithm is developed internally or an evaluation of the same is requested from a third party external to the transaction. These evaluations are part of the determination of the price together with the measurement provided by the counterpart in the transaction.
Related to exposure to OTC derivatives, quantification of the CVA correctives (credit value adjustment) for exposures receivable and DVA (debit value adjustment) for exposures payable is carried out for all contracts, with the exception of those covered by netting and collateralisation agreements (e.g. ISDA, CSA, etc.).

According to the provisions of IAS 32, paragraph 42: “An asset and a financial liability must be offset and the net balance shown in the balance sheet when and only when an entity:
(a) currently has an exercisable right to offset for amounts recognised for accounting purposes; and
(b) intends to settle net, or realise the asset and simultaneously settle the liability.
In recognising an operation to transfer a financial asset that does not meet the conditions required for its elimination, the entity must not offset the asset transferred and the associated liability (see IAS 39, paragraph 36)”.
The Bank does not make use of such netting and therefore does not hold it necessary to provide the information requested in circular 262/05 and subsequent updates.

Part C - Information on the Income Statement

Section 1 - Interest - Items 10 and 20

1.1 interest receivables and similar income: breakdown

Item/Technical type	Debt securities	Loans	Other transactions	Total 31/12/2016	Total 31/12/2015
1. Financial assets held for trading	372	-	1,847	2,219	1,241
2. Financial assets available for sale	11,189	7	-	11,196	15,139
3. Financial assets held to maturity	-	-	-	-	-
4. Due from banks	602	3,553	-	4,155	5,634
5. Due from customers	7	188,691	1	188,699	218,954
6. Financial assets carried at fair value	-	-	-	-	-
7 Hedging derivatives	x	x	4,213	4,213	6,877
8 Other assets	x	x	96	96	133
Total	**12,170**	**192,251**	**6,157**	**210,578**	**247,978**

The main decrease (-15.1%) regards interest on loans to customers despite the presence of a generally stable average total with respect to 2015. Less interest income on securities available for sale, despite increased average volumes compared to 2015. The decrease was heavily influenced by the trend in interest rates and the drop in debt securities in said portfolio.

Details are provided below on interest accrued on bad loans, unlikely to pay positions, past-due/loans in excess of thresholds and restructured exposures:

Interest receivable and similar income: breakdown of interest accrued on impaired loans

	31/12/2016	31/12/2015
- accrued on bad loans	167	115
- accrued on unlikely to pay positions	9,866	11,060
- accrued on loans past-due/overdue	566	802

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	3,238	2,256

1.4 Interest expense and similar charges: breakdown

Item/Technical type	Payables	Securities	Other transactions	Total 31/12/2016	Total 31/12/2015
1. Due to central banks	-	x	-	-	-
2. Due to banks	338	x	-	338	516
3. Due to customers	17,670	x	-	17,670	34,561
4. Securities issued	x	15,599	-	15,599	19,454
5. Financial liabilities held for trading	-	-	1,630	1,630	741
6. Financial liabilities carried at fair value	-	-	-	-	-
7. Other liabilities and provisions	x	x	1,187	1,187	122
8. Hedging derivatives	x	x	22,277	22,277	24,267
Total	**18,008**	**15,599**	**25,094**	**58,701**	**79,661**

The reduction in interest expense (-26.3%) is a consequence both of the continued trend of lower funding costs, despite increased direct deposit volumes, and the decrease in the stock of securities issued.

1.5 Interest expense and similar charges: differentials related to hedging transactions

	31/12/2016	31/12/2015
A. Positive differentials on hedging transactions	4,213	6,877
B. Negative differentials on hedging transactions	22,277	24,267
C. Balance (A-B)	**(18,064)**	**(17,390)**

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	2,543	1,587

Section 2 - Commissions - Items 40 and 50

2.1 Commission income: breakdown

Type of service/Value	Total 31/12/2016	Total 31/12/2015
a) sureties issued	3,426	3,623
b) credit derivatives	-	-
c) asset management, brokerage and advisory services:	74,361	76,504
1. financial instruments trading	-	61
2. currency trading	1,164	1,517
3. portfolio management	13,857	14,635
3.1. individual	13,833	14,635
3.2 collective	24	-
4. custody and administration of securities	1,712	1,691
5. custodian bank	-	15
6. placement of securities	25,174	25,067
7. activities related to receiving and sending orders	18,896	21,613
8. consultancy activities	77	77
8.1 regarding investments	77	77
8.2 regarding financial structure	-	-
9. distribution of third party services	13,481	11,828
9.1 portfolio management	-	-
9.1.1. individual	-	-
9.1.2. collective	-	-
9.2 insurance products	11,090	9,963
9.3 other products	2,391	1,865
d) collection and payment services	116,166	114,923
e) servicing of securitisation transactions	-	1
f) services for factoring transactions	-	-
g) tax collection services	-	-
h) activities for management of multilateral trading facilities	-	-
i) current account keeping and management	20,797	22,803
j) other services	44,354	39,695
Total	**259,104**	**257,549**

Fee and commission income is in line with 31 December 2015, thanks to the maintenance of revenues for the acquiring service, for loans granted to customers, for the collection of mortgages and for the financial insurance service.

Fee and commission income: detail of the item “Other services”

	31/12/2016	31/12/2015
- credit and debit cards	10,700	10,898
- expense recovery on loans to customers	1,060	1,118
- fees and commissions on relations with credit institutions	516	567
- safe deposit box leasing	220	201
- recovery of postal, printing and similar expenses	1,789	1,841
- fees on loans to customers	25,465	20,967
Other	4,604	4,103
Total “other services”	**44,354**	**39,695**

2.2 Fee and commission income: product and service distribution channels

Channel/Amount	Total 31/12/2016	Total 31/12/2015
a) at own branches		
1. portfolio management	13,833	14,635
2. placement of securities	25,144	25,051
3. third party products and services	13,201	11,083
b) off-site sales		
1. portfolio management	-	-
2. placement of securities	30	16
3. third party products and services	187	201
c) other distribution channels		
1. portfolio management	24	-
2. placement of securities	-	-
3. third party products and services	93	544

2.3 Fee expense: breakdown

Service/Amount	Total 31/12/2016	Total 31/12/2015
a) sureties received	327	320
b) credit derivatives	-	-
c) asset management and brokerage services:	24,340	26,260
1. financial instruments trading	5,069	6,616
2. currency trading	-	-
3. portfolio management:	-	-
3.1 own	-	-
3.2 delegated by third-parties	-	-
4. custody and administration of securities	540	460
5. placement of financial instruments	109	78
6. off-site sales of financial instruments, products and services	18,622	19,106
d) collection and payment services	42,487	55,925
e) other services	1,662	1,833
Total	**68,816**	**84,338**

Lower fee and commission expenses are attributable primarily to lower costs of interchange fees following the entry into force of MIF regulations in December 2015.

Fee expense: breakdown of sub-item "Other services"

	31/12/2016	31/12/2015
Relations with banks	179	565
Loans	177	-
Other	1,306	1,268
Total "Other services"	**1,662**	**1,833**

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	177	-	-	-
B. Financial assets available for sale	50	25	63	10
C. Financial assets carried at fair value	-	-	-	-
D. Equity investments	-	x	-	x
Total	**227**	**25**	**63**	**10**

The Bank holds exclusively minority investments classified under financial assets. As regards minority investments, please refer to tables 2.1 and 4.1 of part B - information on balance sheet assets of these financial statements.

Section 4 - Net gains (losses) on trading activities - Item 80

4.1 Net gains (losses) on trading activities: breakdown

Transactions/Income components	Capital gains (A)	Trading profits (B)	Capital losses (C)	Trading losses (D)	Net gains (losses) [(A+B) - (C+D)]
1. Financial liabilities held for trading	**445**	**58**	**(37)**	**(9)**	**457**
1.1 Debt securities	445	58	(37)	(9)	457
1.2 Equity securities	-	-	-	-	-
1.3 UCITS units	-	-	-	-	-
1.4 Loans and advances	-	-	-	-	-
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 rate differences	**x**	**x**	**x**	**x**	**5,727**
4. Derivative instruments	**4,462**	**2,389**	**(3,005)**	**(2,389)**	**3,069**
4.1 Financial derivatives:	4,462	2,389	(3,005)	(2,389)	3,069
- On debt securities and interest rates	4,462	2,389	(3,005)	(2,389)	1,457
- On equity securities and stock indices	-	-	-	-	-
- On currencies and gold	x	x	x	x	1,612
- Other	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
Total	**4,907**	**2,447**	**(3,042)**	**(2,398)**	**9,253**

Section 5 - Net gains (losses) on hedging activities- Item 90

5.1 Net gains (losses) on hedging activities: breakdown

Income components/Amounts	Total 31/12/2016	Total 31/12/2015
A. Income from:		
A.1 Fair value hedging derivatives	5,023	24,074
A.2 Hedged financial assets (fair value)	14,014	-
A.3 Hedged financial liabilities (fair value)	2,882	4,369
A.4 Cash flow hedging derivatives	-	-
A.5 Assets and liabilities in foreign currency	-	-
Total hedging income (A)	**21,919**	**28,443**
B. Expenses from:		
B.1 Fair value hedging derivatives	5,334	4,995
B.2 Hedged financial assets (fair value)	16,516	23,256
B.3 Hedged financial liabilities (fair value)	-	-
B.4 Cash flow hedging derivatives	-	-
B.5 Assets and liabilities in foreign currency	-	-
Total expenses for hedging activities (B)	**21,850**	**28,251**
C. Net gains (losses) on hedging activities (A-B)	**69**	**192**

Section 6 - Profit (loss) from sale/repurchase - Item 100

6.1 Profit (loss) from sale/repurchase: breakdown

Item/Income component	Total 31/12/2016			Total 31/12/2015		
	Gains	Losses	Net gains/losses	Gains	Losses	Net gains/losses
Financial assets						
1. Due from banks	-	-	-	-	-	-
2. Due from customers	1,583	2,822	(1,239)	464	371	93
3. Financial assets available for sale	57,481	8,068	49,413	21,143	3,302	17,841
3.1 Debt securities	10,092	8,068	2,024	21,143	3,302	17,841
3.2 Equity securities	47,389	-	47,389	-	-	-
3.3 UCITS units	-	-	-	-	-	-
3.4 Loans and advances	-	-	-	-	-	-
4. Financial assets held to maturity	-	-	-	-	-	-
Total assets	**59,064**	**10,890**	**48,174**	**21,607**	**3,673**	**17,934**
Financial liabilities						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Securities issued	180	228	(48)	28	654	(626)
Total liabilities	**180**	**228**	**(48)**	**28**	**654**	**(626)**

The item was mainly impacted by the Visa Inc transaction, which involved gains of € 47.4 million. For details, please refer to the Report on Operations in these financial statements.

Section 8 - Net writedowns for impairment - Item 130

8.1 Net writedowns for impairment of loans: breakdown

	Writedowns (1)			Writebacks (2)				Total	
	Specific		Portfolio	Specific		Portfolio		31/12/2016	31/12/2015
	Write-offs	Other		A	B	A	B		
A. Due from banks									
- Loans	-	-	-	-	-	-	73	73	225
- Debt securities	-	-	-	-	-	-	-	-	-
B. Due from customers									
Impaired loans acquired									
- Loans	-	-	x	-	-	x	x	-	-
- Debt securities	-	-	x	-	-	x	x	-	-
Other receivables									
- Loans	(2,302)	(93,056)	-	15,900	18,818	-	4,544	(56,096)	(98,969)
- Debt securities	-	-	-	-	-	-	-	-	-
C. Total	**(2,302)**	**(93,056)**	**-**	**15,900**	**18,818**	**-**	**4,617**	**(56,023)**	**(98,744)**

A= from interest B= other writebacks

Net writedowns on loans and advances amounted to € 56 million, down by 43.3% compared to € 98.7 million at 31 December 2015. Despite continuing to keep the loan measurement parameters constantly updated, 2016 saw a continuation of the positive trend which started in the last few months of 2015, which saw a reduction in new entries to positions classified as impaired and subsequently lower adjustments; the drop in incoming flows concerned all impairment statuses.

8.2. Net writedowns for impairment of financial assets available for sale: breakdown

Transactions/Income components	Writedowns (1)		Writebacks (2)		Total 31/12/2016	Total 31/12/2015
	Specific		Specific			
	Write-offs	Other	A	B		
A. Debt securities	-	-	-	-	-	-
B. Equity securities	-	(796)	-	-	(796)	-
C. UCITS units	-	-	x	x	-	-
D. Loans to banks	-	-	x	-	-	-
E. Loans to customers	-	(1,818)	-	-	(1,818)	(6)
F. Total	**-**	**(2,614)**	**-**	**-**	**(2,614)**	**(6)**

A= from interest B= other writebacks

Writedowns on financial assets available for sale, totalling € 2.6 million, refer mainly to the writedown of the equity interest in Comital Saiag S.P.A., now Cuki Group S.p.a., (€ 1.8 million) and the writedown of the voluntary contribution scheme (€ 0.7 million), as a result of the intervention of FITD (Interbank Deposit Protection Fund) in favour of Cassa di Risparmio di Cesena.

8.4 Net writedowns for impairment of other financial transactions: breakdown

Transactions/Income components	Writedowns (1)			Writebacks (2)				Total	
	Specific		Portfolio	Specific		Portfolio		31/12/2016	31/12/2015
	Write-offs	Other		A	B	A	B		
A. Sureties issued	-	-	-	-	-	-	324	324	(62)
B. Credit derivatives	-	-	-	-	-	-	-	-	-
C. Commitments to disburse funds	-	-	-	-	-	-	-	-	-
D. Other transactions	(62)	(470)	-	-	-	-	-	(532)	-
E. Total	**(62)**	**(470)**	**-**	**-**	**-**	**-**	**324**	**(208)**	**(62)**

A= from interest B= other writebacks

Section 9 - Administrative Expenses - Item 150

9.1 Expenses for personnel: breakdown

Type of expense/Amount	Total 31/12/2016	Total 31/12/2015
1) Employees	160,223	155,731
a) Wages and Salaries	117,128	113,174
b) Social security contributions	28,299	28,471
c) Severance indemnities	3,321	2,920
d) Pension expenses	1,346	1,089
e) Provision for severance indemnities	99	120
f) Provision for pensions and similar obligations:	-	-
– defined contribution	-	-
- defined benefit	-	-
g) Payments into external supplementary pension funds:	5,474	5,200
– defined contribution	5,474	5,200
- defined benefit	-	-
h) Costs deriving from payment agreements based on own equity instruments	-	-
i) other employee benefits	4,556	4,757
2) Other current personnel	287	992
3) Directors and auditors	645	544
4) Retired personnel expenses	-	-
5) Recovery of costs of employees on secondment to other companies	(3,346)	(2,493)
6) Recovery of costs of employees on secondment within the Company	3,367	2,855
Total	**161,176**	**157,630**

The increase of +2.3% in personnel expenses is essentially due to variable pay, based on the better results achieved in the year and a slight increase in the average number of bank employees, despite the workforce in December 2016 being smaller than that in December 2015, i.e. 43 full time equivalent (fte) staff less, due to the transfers of two business units completed towards the end of the year.

9.2 Average number of employees per category

	Total 31/12/2016	Total 31/12/2015
1) Employees	**2,748**	**2,785**
a) executives	32	35
b) middle managers	703	703
c) remaining employees	2,013	2,047
2) Other personnel	**23**	**26**
Total	**2,771**	**2,811**

Following the refinement of the calculation of average employees, 2015 was adjusted for the purposes of a homogeneous comparison.

9.4 Other employee benefits

Type of expense/Amount	Total 31/12/2016	Total 31/12/2015
- early retirement incentives and provision to support income	124	106
- benefits for dependent children	94	91
- benefits in kind	1,739	1,651
- insurance expenses	1,524	1,545
- professional training courses	548	641
- travel expenses	82	64
Other	446	659
Total	**4,557**	**4,757**

9.5 Other administrative expenses: breakdown

Type of service/Value	Total 31/12/2016	Total 31/12/2015
Legal and notarial expenses	6,029	6,351
IT assistance and sundry advice	2,162	3,042
Printing and stationery	386	443
Leasing of electronic machines and software licences	975	504
Sundry rentals and expenses for services provided by third parties	37,052	35,072
Fees for data transmission and telephone	3,292	3,357
Postal and telegraphic expenses	2,741	3,114
Transport expenses	451	431
Cleaning of premises	874	876
Surveillance and escort of valuables	2,435	2,519
Electricity and heating	2,904	3,014
Rent of premises	18,094	18,195
Sundry insurance policies	935	1,004
Advertising and promotion	2,234	2,736
Entertainment expenses	266	233
Donations	213	102
Membership fees	924	830
Subscriptions and books	89	89
Information and inspections	2,115	2,649
Travelling expenses	1,549	1,826
Expenses for interbank network service	639	659
Website expenses	18	16
Pension expenses for financial promoters	122	105
Other	2,134	2,454
Maintenance and repair expenses	**8,753**	**8,196**
- Properties owned	230	240
- Movables	3,189	3,052
Hardware and software	5,334	4,904
Indirect taxes	**52,524**	**46,847**
- Stamp duty	35,954	36,997
- Substitute tax Pres. Dec. 601/73	1,542	1,381
- Single municipal tax (IMU)	341	302
- DGS and SRF contribution	13,823	7,356
- Other indirect taxes and duties	864	811
Total	**149,910**	**144,664**

As already occurred in 2015, also in 2016 administrative expenses saw an increase, mainly due to contributions to the SRF, DGS and FITD. These contributions amounted to around € 11.1 million, divided between the Single Resolution Fund (SRF), with € 2.2 million as the ordinary portion and € 4.5 million as the extraordinary portion, the Deposit Guarantee Scheme (DGS), with € 4.4 million as an ordinary contribution and € 2.7 million for the FITD to support Banca Tercas. Net of these contributions, administrative expenses would have fallen by 0.9%.

In accordance with art. 2427, paragraph 16-bis of the Italian Civil Code, the information required in relation to fees paid to the independent auditing firm are disclosed 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

	Balances as of: 31/12/2016	Balances as of: 31/12/2015
Provisions for risks and charges for revocations	120	104
Provisions for personnel expenses	9,687	668
Provisions for legal disputes	1,945	943
Provisions for customer complaints	249	279
Provisions for employee disloyalty	-	1
TAX Provisions	40	76
Other provisions	407	238
Reattributions to Income Statement relating to provisions for revocations	(61)	(10)
Reattributions to Income Statement relating to provisions for personnel expenses	(7)	(5)
Reattributions to Income Statement relating to legal disputes	(469)	(515)
Reattributions to Income Statement relating to customer complaints	(122)	(64)
Reattributions to Income Statement relating to operating risks of the company GBS	(850)	-
Reattributions to Income Statement relating to employee disloyalty	(322)	-
Reattributions to Income Statement relating to other provisions	(861)	(39)
Total	**9,756**	**1,676**

The increase in the item is attributable entirely to the provisions for personnel given that, on 21 October 2016, Banca Sella Holding (on its own behalf and representing Banca Sella, Banca Patrimoni Sella & C., Consel and Biella Leasing) and the Group’s Trade Union Delegation signed the agreement for accessing the extraordinary services of the “Solidarity Fund for professional retraining and requalification, to support employment and the income of credit personnel” which 65 Banca Sella employees subscribed to: following the acceptance of all applications for participation a provision of € 9.4 million was set aside; the terminations of service of the personnel involved will take place in 2017.

Section 11 - Net writedowns on tangible assets - Item 170

11.1 Net writedowns on tangible assets: breakdown

Asset/Income component	Amortisation/depreciation (a)	Impairment writedown (b)	Writebacks (c)	Net income/losses (a + b + c) 31/12/2016
A. Tangible assets				
A.1 Company owned	7,202	-	-	7,202
- For business purposes	6,975	-	-	6,975
- For investment	227	-	-	227
A.2 Assets acquired through financial leasing	-	-	-	-
- For business purposes	-	-	-	-
- For investment	-	-	-	-
Total	**7,202**	**-**	**-**	**7,202**

Section 12 - Net writedowns on intangible assets - Item 180

12.1 Net writedowns on intangible assets: breakdown

Asset/Income component	Amortisation/depreciation (a)	Impairment writedown (b)	Writebacks (c)	Net income/losses (a + b + c) 31/12/2016
A. Intangible assets				
A.1 Company owned	13,620	-	-	13,620
- Generated internally by the company	2,672	-	-	2,672
- Other	10,948	-	-	10,948
A.2 Assets acquired through financial leasing	-	-	-	-
Total	**13,620**	**-**	**-**	**13,620**

Section 13 - Other operating income and expenses - Item 190

Other operating expenses/income

	31/12/2016	31/12/2015
Total other operating expenses	3,562	3,615
Total other operating income	67,751	67,904
Other operating expenses/income	**64,189**	**64,289**

13.1 Other operating expenses: breakdown

	Total 31/12/2016	Total 31/12/2015
Amortisation of expenses for improvements on third party assets	656	483
Losses connected to operating risk	2,343	2,288
Refunds of interest on collection and payment transactions	-	-
Penalties payable for contract defaults	19	2
Restitution of Fund/SICAV incentives to customers (MIFID)	-	-
Other charges	544	842
Total	**3,562**	**3,615**

13.2 Other operating income: breakdown

	Total 31/12/2016	Total 31/12/2015
Rents and instalments receivable	318	504
Charges to third parties and refunds received:	37,016	37,533
- taxes recovered	36,837	37,474
- insurance premiums and refunds	179	59
Expenses recovered and other revenues on current accounts and deposits	7,039	9,007
Income for software services	5,693	6,006
Recoveries of interest on collection and payment transactions	4	6
POS fees receivable	2,629	2,363
Administrative services rendered to third parties	5,388	5,871
Penalties receivable for contract defaults	32	19
Expenses recovered for services rendered in relation to credit recovery	3,262	3,140
Recovery of other expenses	1,891	2,405
Gain on sale of business unit	-	-
Other income	4,479	1,050
Total	**67,751**	**67,904**

As a result of the analysis of some accounts relating to the compensation for damages for contractual default by carta si, postal expenses charged to customers for the transmission of credit card reminders and postal expenses charged to customers for the transmission of pos transaction reminders, it was deemed appropriate to reclassify said items from the item “other income” to the item “recovery of other expenses”; consequently, for the purposes of a homogeneous comparison, 2015 was also adjusted.

Section 16 - Writedowns on goodwill - Item 230

16.1 Writedowns on goodwill

	31/12/2016	31/12/2015
Impairment of branch goodwill	224	442
Total	**224**	**442**

The item included the effects of the writedown on goodwill relating to the Fasano and S. Michele branches acquired in 2000 from Credito Cooperativo di Ostuni. For details, see part B - Assets, section 12, Disclosure relating to the goodwill impairment test.

Section 17 - Profit (loss) from disposal of investments - Item 240

17.1 Profit (loss) from disposal of investments: breakdown

Income component/Amount	Total 31/12/2016	Total 31/12/2015
A. Properties	-	-
- Gains on sales	-	-
- Losses on sales	-	-
B. Other assets	5	12
- Gains on sales	7	12
- Losses on sales	(2)	-
Net gains/losses	**5**	**12**

Section 18 - Income taxes for the period on continuing operations Item 260

18.1 Income taxes for the year on continuing operations: breakdown

Income components/Amounts	Total 31/12/2016	Total 31/12/2015
1. Current taxes (+/-)	(5,163)	(9,617)
2. Change in current taxes of previous years (+/-)	862	111
3. Decreases in current taxes for the year (+)	-	-
3. bis Reduction in current taxes for the year for tax credits pursuant to law 214/2011 (+)	120	135
4. Changes in prepaid taxes (+/-)	(716)	6,686
5. Changes in deferred taxes (+/-)	108	822
6. Taxes for the year	(4,789)	(1,863)

The trend in income taxes, which rose considerably with respect to the previous financial year, can essentially be explained by the evolution of the pre-tax result and the different incidence on this result of dividends and capital gains from the sale of investments, partially excluded from taxation.

18.2 Reconciliation between theoretical tax burden and actual tax burden in the financial statements

description	taxable amount	rate	Income taxes
Pre-tax profit from continuing operations	63,326		
Nominal rate (1)		33.06%	20,933
Dividends excluded from taxation	-227	-0.10%	-62
Profits and losses on sales of investments	-44,853	-19.48%	-12,335
Non-deductible costs	2,387	1.04%	656
4% deduction on amounts paid to pension funds	-275	-0.12%	-76
IMU - Non-deductible IRES	287	0.12%	79
Investment concession - “super-amortisation”	-405	-0.18%	-111
Interest expenses due to third parties - non-deductible 4% Robin Tax, IRES	1,323	0.57%	364
Writedowns of equity investments	110	0.05%	30
deduction of IRES for IRAP (on interest and labour costs)	-271	-0.12%	-75
use of provisions without deferred taxes	-850	-0.37%	-234
amortisation of goodwill without use of deferred taxes (goodwill on branches and India reserve)	-334	-0.14%	-92
lower or higher taxes of previous years	-	-2.15%	-1,360
cinema tax credit	-	-0.19%	-120
net foreign taxes - India	-	0.16%	103
net foreign taxes - other foreign withholding taxes	-	0.01%	9
Adjusted rate	-	12.18%	7,711
Interest expenses - non-deductible 4% Robin Tax, IRAP	1,325	0.12%	74
Untaxed dividends - IRAP	-19	0.00%	-1
Personnel costs - non-deductible IRAP (item 150)	7,721	0.68%	429
Non-deductible provisions for risks and value adjustments - IRAP (items 160 and 130)	3,774	0.33%	210
Portion of non-deductible administrative expenses - IRAP (items 150 and 170)	13,726	1.20%	763
Other untaxed operating income and other operating expenses not deducted for IRAP purposes (item 190) other than costs regarding personnel	-12,749	-1.12%	-708
Deduction of IRAP for without recourse assignment of receivables	-66,192	-5.81%	-3,678
Recovery of writedowns of IRAP of previous years on AFS investments transferred -	-509	-0.04%	-28
IMU - Non-deductible IRAP	341	0.03%	19
other differences - deferred tax and current IRAP rates		0.00%	-1
other differences between IRES and IRAP taxable base	-1	0.00%	-
Effective rate		7.56%	4,789

(1): IRES rate + average weighted IRAP rate based on the regional distribution of the taxable base.

Part D - Comprehensive income

Comprehensive income breakdown

COMPREHENSIVE INCOME BREAKDOWN

	Item	Gross amount	Income taxes	Net amount
10.	**Profit (Loss) for the period**	**X**	**X**	**58,537**
	Other comprehensive income without transfer to income statement			
20.	Tangible assets	-	-	-
30.	Intangible assets	-	-	-
40.	Defined benefit plans	(2,229)	613	(1,616)
50.	Non-current assets held for sale	-	-	-
60.	Share of valuation reserves in relation to investments valued using the equity method	-	-	-
	Other comprehensive income with transfer to income statement			
70.	**Foreign investment hedging:**	**-**	**-**	**-**
	a) fair value changes	-	-	-
	b) transfer to income statement	-	-	-
	c) other changes	-	-	-
80.	**Exchange rate differences:**	**-**	**-**	**-**
	a) changes in value	-	-	-
	b) transfer to income statement	-	-	-
	c) other changes	-	-	-
90.	**Cash flow hedging:**	**-**	**-**	**-**
	a) fair value changes	-	-	-
	b) transfer to income statement	-	-	-
	c) other changes	-	-	-
100.	**Financial assets available for sale:**	**(41,398)**	**2,870**	**(38,528)**
	a) fair value changes	(39,608)	2,279	(37,329)
	b) transfer to income statement	(1,790)	591	(1,199)
	- impairment losses	-	-	-
	- realised gains/losses	(1,790)	591	(1,199)
	c) other changes	-	-	-
110.	**Non-current assets held for sale:**	**-**	**-**	**-**
	a) fair value changes	-	-	-
	b) transfer to income statement	-	-	-
	c) other changes	-	-	-
120.	**Share of valuation reserves in relation to investments valued using the equity method:**	**-**	**-**	**-**
	a) fair value changes	-	-	-
	b) transfer to income statement	-	-	-
	- impairment losses	-	-	-
	- realised gains/losses	-	-	-
	c) other changes	-	-	-
130.	**Total other comprehensive income**	**(43,627)**	**3,483**	**(40,144)**
140.	**Comprehensive income (Items 10 +130)**			**18,393**

The change in comprehensive income relating to financial assets available for sale is attributable almost entirely to the acquisition of Visa Europe by Visa Inc. Lastly, at the end of 2015 a reserve of around € 38.6 million was recognised for the fair value measurement of the investment held. The transfer of the investment was completed in 2016, with the generation of a capital gain of approximately € 43.7 million and the subsequent reversal of the valuation reserve to the income statement.

Part E - Information on risks and related hedging policies

Introduction

Banca Sella attaches great importance on the management and control of risk, as a condition to guarantee sustainable value creation in a context of controlled risk. Risk management and control are carried out by the corporate second level (Compliance and Risk Management) and third level (Internal Audit) control departments. Specifically, the Parent Company's Risk Management department has the mission of actively contributing to the achievement of effective risk management and an efficient risk/return profile, through the identification, measurement and control of the First and Second Column Risks under Basel III, operating in close connection with the management of economic and equity variables and in constant respect for adaptation to changes imposed through the regulations and in line with system best practices.

The risk objectives consistent with the maximum risk that can be assumed, the business model and the strategic guidelines are a key element in determining a risk governance policy and a risk management process geared towards the principles of sound and prudent company management. These objectives are formalised through the Risk Appetite Framework (hereinafter also "RAF") which is brought to the attention of the competent bodies for final definition and subsequent approval.

In addition to the definition of the risk objectives and thresholds, in defining its RAF, the Group proposes to:

- integrate the RAF with the other Group governance processes in order to pursue the strategic objectives;
- strengthen the ability to take early action, through the incorporation of forward-looking elements;
- simplify the monitoring and communication of compliance with the risk objectives;
- identify the unique metrics of each business model through the active involvement of Group companies.

The Risk Management function is distinct and independent from the corporate functions assigned to manage operating risk and reports directly to the Managing Director.

The Banca Sella Group's culture of control and risk is widespread at all levels. Corporate strategies focus on careful training work and continuous professional updating. Particular attention is paid to resources, whether directly operating as audits or in operative departments, ensuring constant professional growth through the use of external training and constant professional and regulatory updates, also through participation in inter-banking work groups.

The change in the organisational structure for the Non-Performing Exposures service, which already started in 2014, is aimed at meeting the need to effectively manage non-performing loans while harmonising and integrating initiatives. The NPE service is responsible for non-performing loans in all the various categories of criticality, managing and assessing impaired loans.

Related to this latter aspect, the NPE service uses a structured combination of parameters to assess non-performing loans classified as past due, unlikely to pay and bad loans.

This combination of non-performing loan assessment parameters includes:

- specific lump-sum adjustments applied exclusively to smaller loans in the categories of impaired, past due and unlikely to pay, without revocation of credit lines

- specific analytical adjustments to be applied to larger loans in the categories of impaired, past due and unlikely to pay without revocation, and specific analytical adjustments to be applied to all unlikely to pay loans with revocations and bad loans.

These parameters, used throughout all the Group's banks through the Credit Regulations, make it possible to identify the elements to be evaluated to express the recoverability of the credits, the methods to evaluate these elements, and the frequency with which the evaluation of the credits should be updated in a detailed and careful way, so as to update the allocations made to the relative adjustment provisions in a timely manner.

On an annual basis, the Loan Administration service verifies the congruence of these evaluation parameters, through statistical checks on the own portfolio.

This activity, which is monitored over time, makes is possible to refine the combined assessment parameters and establish an appropriate provisioning policy that takes into account unfavourable conditions in the external situation, various macroeconomic factors, and organisational and process changes.

Section 1 - Credit risk

Qualitative information

1. General aspects

Banca Sella considers the measurement and management of credit risk to be fundamentally important. The activity of loan supplies has always looked towards traditional business forms, supporting household financing needs and providing the necessary support to businesses - in particular small and medium sized enterprises - in order to support growth projects, consolidation phases and financial needs during negative phases of the economic cycle. With regard to the credit risk, there are no transactions at present in innovative or complex financial products.

The lending policies and processes for the disbursement and monitoring of loans are consequently defined so as to combine customer needs with the need to ensure the maintenance of quality for the lending business. In addition, in drawing up the policies for monitoring credit risks, special attention is paid to maintaining an adequate risk/return profile and assuming risks consistently with the propensity to risk defined and approved by the competent bodies.

2. Credit risk management policies

2.1 Organisational Aspects

In the process of credit disbursement, applications must first be assessed by a specific decision-making structure in the branch. In support of the valuation process, the bank has equipped itself with scoring and rating systems that are applied differently to the different categories of customers: retail, small business, SME and Corporate. In accordance with the limits of its autonomy, the branch may accept the application, reject it or, sometimes, modify it (for example requesting further guarantees or proposing a reduction in the amount applied for or a different type of loan or advance).

With specific reference to credit risk control activities, these are the responsibility of the Risk Management department and Credit Area of Banca Sella.

Within the Risk Management Service, activities are structured as follows:

- The mission of the Parent Company's Credit Risk Reporting & Strategy Office is to quantify and monitor credit risk at portfolio level. Monitoring is performed also with benchmarking tools aimed at assessing positioning with respect to system figures. In addition, on the basis of the evidence resulting from analysis, risk management guidelines are identified.

- The mission of Banca Sella's Credit Risk Control Office is to perform accurate controls on the credit risk of credit portfolios from time to time, in order to give assurances to the management and strategic supervision bodies regarding the consistency between the practices adopted regarding the classification, valuation of guarantees, adequacy of the adjustments and effectiveness of the dispute processes, and the provisions of the applicable legislation and internal regulations.
- to Banca Sella's Credit Quality Control Department: the Credit Area is responsible for credit disbursement policies, product development, credit support system development, management of performing and impaired loans, as well as being responsible for monitoring credit risk through specific organisational structures (the Banca Sella Quality and Credit Control Service). This monitoring involves traditional first-level checks, mainly focused on ensuring effective application of the bank's policies, analysing individual positions and trend analysis of variables held to be significant for the purposes of controlling credit risk.

2.2 Systems of management, measurement and control

The Parent Company's Risk Management Service has the task of developing credit risk measurement methods and developing specific models for the assessment of risk components on the individual loan portfolios.

The Risk Management Service also prepares reports on trends and monitors compliance with RAF metrics. In addition, the activities performed by the Risk Management Service include defining forecast analysis methods, preparing forecasts and analysing differences with respect to final figures, as well as carrying out analysis and research on specific risk profiling issues and preparing metrics for the Risk Appetite Framework and the risk limits system.

In terms of assessing insolvency risk, there are management processes and analysis tools which are selected on the basis of internal customer segmentation. The segmentation of customers enables, amongst other aspects, the distinguishing between businesses into four different dimension classes, based on their exposure and turnover, referred to in increasing order: small business, small/medium enterprises, corporate business and large corporate business.

- Each company is assigned a summary risk judgment which is attributed through the use of one of the two internal ratings model in use at Banca Sella. One is for small business and small/medium businesses and the other for corporate and large corporate customers. The internal rating in place at Banca Sella is an automatic judgment integrated into the company information systems and consists of the following components that are measured differently in measurement according to the type of counterparty (small business and small and medium enterprises or corporate and large corporate): Financial information (balance sheet data);

- Qualitative information through the compilation of the appropriate questionnaire by the relationship manager;

- Performance information (the bank's internal data and Central Credit Register data).

In 2016, a new scoring model of acceptance was developed and integrated in the loan disbursement process, in support of new disbursements of mortgages to private customers. Following an initial phase in which the new model will be an information tool in support of the approval decision, it is expected to gradually evolve to become more central and integrated in all phases of the loan disbursement process. In 2016, the Credit Risk Control Committee continued its activities, with the objective of favouring coordinated monitoring of the credit risk profile of all the entities with credit exposure within the Banca Sella Group. During committee meetings, trends and forecasts for macroeconomic variables are discussed in relation to the evolution of loan risk profiles and risk metrics. The committee monitors differences between final monthly figures and expected figures related to the Risk Appetite Framework (RAF) forecasts and for loan adjustments. It maintains a register which shows any major issues identified and responsibilities assigned, monitors respect for deadlines and the effectiveness of corrective actions for anomalies or after controls carried out pursuant to Circular 285 (former 263/2006). It plans research in regards to specific areas requiring attention and verifies whether the entities comply with the governance rules established in the Parent Company's risk management policy.

During the course of 2016 the work of the Ratings Committee also continued, providing both advice and making decisions and whose main functions include resolving to override the rating assessment of business customers. Override resolutions take place in accordance with the powers assigned to the Committee and in compliance with specific guidelines. Causes must lie in a specific list of grounds and there will be an audits system in place in order to guarantee the homogeneity, integrity and efficiency of these measures, in any case only to be implemented with regard to residual cases that are not easy to standardise or not considered by the model.

The supervisory regulations, known as Basel III, were immediately interpreted as an opportunity to refine the credit risk measurement techniques and to ensure supervision through the use of techniques with a growing degree of sophistication. Banca Sella is also aware of the importance of all the risk factors that are connected with credit risk but not measured by the instruments provided in the First Pillar of Basel 3, such as the concentration risk (in its dual single-name and segment meaning) and residual risk (the risk that credit mitigation techniques prove to be less effective than expected). Alongside scrupulous observance of the supervisory legislation on the subject of large risks and the quantification of internal capital to cover concentration risk under the terms of the Second Pillar of Basel 3, the Parent Company has defined precise guidelines designed to mitigate concentration risk through fragmentation, both at the level of single entities, and in terms of product sector. The loan disbursement process also provides for growing decision-making limits on the basis of the amounts being lent. Individual loan applications for which the total exposure of the debtor and of any group of customers associated with it exceeds certain thresholds are always examined by the Parent Company.

At the same time as drafting the ICAAP Report (analysis of capital adequacy in accordance with the Second Pillar of Basel 3) and therefore at least once a year, the Parent Company carries out stress tests on the consolidated loan portfolio and on the individual Group companies. The stress test procedures consist of analysing the sensitivity of internal capital against the credit risk should specific negative events occur that, although extreme, are plausible (such as, for example, a deterioration in the decline rate of the loans portfolio).

During 2016, activities continued to ensure full implementation of the 19th update to Bank of Italy circular 263/2006, now included in Circular 285/2013, specifically:

- implementation of second level controls on credit risk by Banca Sella's Risk Management Service;
- assessment of the coherence between the RAF for significant operations and loan disbursement/renewal under the responsibility of the Board of Directors.

Furthermore, with regard to control at individual level, Banca Sella has equipped itself with an Anomalous Credit Managers service, now included in the Non-Performing Exposures area, which assists branches in managing relations with clientèle that have high levels of credit anomalies.

The Banca Sella Quality and Credit Control service, through the Credit Control service, carries out actions to verify the adequacy of credit risk supervision, with constant monitoring of performance and customer data and with controls on the operations of the Banca Sella distribution network and the Credit Area services assigned to disburse credit and manage non-performing loans. The activities performed by Credit Control are also outsourced via Biella Leasing.

More specifically, the service operates through:

- remote control of the correct supply of loans and management of branches in most anomalous trends;

- control of the correct exercise of delegated powers;
- control of compliance with internal regulations on the disbursement and management of loans;
- systematic controls on customer positions with anomalous trends and monitoring the timeliness of interventions by the distribution network and the Credit area services responsible for managing non-performing loans, requesting resolution and if necessary beginning escalation processes;
- sharing actions and schedules for resolving problems with managers responsible for customer relations;
- identifying proactive and early actions and associated procedure management;
- managing follow-ups on activities performed.

The various monitoring purposes, the different areas to be observed and reporting timing are such as to require the adoption of different and complementary instruments, whose use and specific operation techniques are such as to avoid report overlaps.

Within the scope of its trend monitoring work, the Credit Quality Service employs the following information procedures:

ARC - AUTOMATIC RISK CLASSIFICATION - procedure.

The procedure classifies all positions in the Credit Portfolio of the Group Banks (borrowers or with overdrafts in use) into 4 classes on the basis of the credit risk:

- ARC class 1 (green): positions with no anomalies and positions with a low level of anomalies;
- ARC class 2 (yellow): positions with more serious anomalies, not such as to jeopardise continuation of the relationship, but which need to be remedied;
- ARC class 3 (red): anomalous positions which provide for action on the basis of the type of anomaly in being, the amount of the exposure and the amount past-due understood as the sum of instalments unpaid and unauthorised current account overdraft;
- ARC class 4 (black): positions with significant anomalies such as to require immediate action to remedy them.

Purpose: The ARC procedure is aimed at:

- classifying the loan portfolio according to the credit risk associated with customers;
- making available a customer risk record useful for monitoring and managing credit risk; the record is integrated into the platform in CRM and enables all the indicators used to calculate policies to be displayed on one screen, together with other information useful for managing the position.

Data update frequency: once a week.

Credit risk monitoring: The credit risk management process is carried out on the CRM platform, where there is a section devoted to monitoring credit risk, referred to as “Credit Alarms”.

The contacts are included with anomalies relating to: ARC risk and the exceeding of current account thresholds and unpaid instalments.

Through CRM, timely contact is provided to work to reduce the risk of losses on credits, in CRM information is given on the customers, including commercial information, thereby ensuring a complete overview of the customer. The following are involved in the CRM monitoring process: the branch, phone collection, anomalous loan auditors and decision-makers.

Performance anomaly classes aim to immediately identify any customer positions showing significant performance anomalies within the classifications already made by the ACR - Automatic Risk Classification procedure. They make it possible to:

- define the seriousness of the relationships;
- set action priorities.

The 12 classes represent probability of default in the short term. A higher class corresponds to a more critical customer relationship. Class 12, in fact, includes all positions marked as “Unlikely to pay, without revocation”. The class can be viewed in the ARC risk record integrated into the CRM.

Data update frequency: once a week.

TABLEAU DE BORD

This tool enables viewing of the trend of specific performance data with the possibility of segmenting the portfolio reports at the level of the Bank, a Territory, a District and a Branch.

Purpose: the Tableau de Bord has the purpose of monitoring the trend of specific performance anomalies and measuring the achievement of the targets assigned (unauthorised current account overdrafts, Frozen current accounts, Delinquency Ratio, Past-due invoices, Past-due resolutions, Past-due foreign loans, Subject-to-collection portfolio non-payments, Loan performance by ARC risk classes, non-revoked unlikely to pay, Past-due)

Users: the data contained in the Tableau de Bord are available to the internal Offices and the Distribution Network.

Data updating period: the data are updated every month and refer to the figures in being at the end of the month. Unauthorised overdrafts and Delinquency ratios are instead updated daily.

Special care is dedicated to indicators of tension represented by current account overdrafts and late payment of instalments, through the development of computer signalling procedures that are able to guarantee more timely intervention. This intervention aims to solve the trend anomaly, seeking the best solution with the customer to allow him to obtain regular reimbursement of the benefit he has enjoyed, at the same time safeguarding the portfolio credit risk.

2.3 Credit risk mitigation techniques

In the light of the significant attention paid to the work of loan disbursement, approval for credit is granted only after a particularly detailed initial selection of possible borrowers. In the first place, the assessment of creditworthiness is founded on the actual ability of borrowers to fulfil the commitments assumed exclusively on the basis of their capacity to generate adequate cash flows. However, in the process of disbursement and monitoring of loans, forms of protection from credit risk given by the technical type and by the presence of sureties are not neglected, above all with reference to customers associated with a higher probability of default.

The guarantees normally acquired from counterparties are those typical of the banking business, primarily: personal guarantees and real guarantees on property and financial instruments. Banca Sella does not have recourse to the use of netting agreements related to balance-sheet and “off-balance-sheet” transactions nor to the purchase of credit derivatives.

Banca Sella is well aware that credit risk mitigation techniques are more effective if they are acquired and managed so as to comply with the requirements of the Basel 3 standard in all its aspects: legal, rapid realisation, organisational and specific to each guarantee. Effective compliance with the admissibility requisites is the result of a complex process, which is differentiated on the basis of the type of credit risk attenuation technique, which involves numerous players: from the Distribution staff who deal with the guarantee acquisition process to the Credit Quality Control Service that performs first-level controls on the completeness and accuracy of the documentation, to the Parent Company's Risk Management Service which handles the stage of verifying the admissibility of these guarantees. With specific reference to the guarantee acquisition phase, the process is supported by an appropriate electronic procedure that comes between the approval phase and the credit facility completion phase, targeted at managing the acquisition of guarantees (pledges, mortgages and sureties) and restricting the completion of the required controls when the guarantees are obtained.

As regards the guarantee admissibility verification stage, starting out from the input data from the software procedure supporting the acquisition of new guarantees, the Parent Company's Risk Management Service works in two ways:

- statistical revaluations (known as surveillance) of the value of properties mortgaged for all contracts for which the Regulation 575/2013 permits recourse to this type of valuation. To this end the Group makes use of a database on property market trends divided by geographical area and type of property acquired from an external supplier;
- checks on the general and specific admissibility of all credit risk mitigation tools. To this end a special software procedure has been developed which, for each guarantee, certifies compliance with the general and specific admissibility requisites at each date of calculation of capital requirements.

With specific reference to personal guarantees, the specific admission requirements for guarantors are quite strict and, substantially, they exclusively recognise guarantees issued by sovereign states, public bodies, multilateral development banks, supervised brokers and companies with good credit rating for the purposes of capital requirement mitigation against credit risk. Banca Sella has continued, also in 2016, to make use of, when possible, the guarantees issued by the Guarantee Fund for SMEs, which, thanks to the presence of the Italian State as counter-guarantor, allow for mitigating the credit risk to comply with regulatory ratios. With the belief that the personal guarantees issued by entities that do not fall within the standard list may as well provide effective credit risk mitigation for management purposes, it shall be common practice to also accept individual persons or companies without external rating as guarantors, if necessary.

No concentration conditions were recognised for guarantee categories.

2.4 Impaired financial assets

The activities performed by the Non-Performing Exposures service are aimed at meeting the need to achieve effective management of non-performing loans, harmonising and integrating actions, starting from the moment the initial signs of impairment are seen, through to situations with more serious and/or irreversible problems.

The Non-Performing Exposures service is responsible for non-performing loans in all the various categories, managing and assessing impaired loans.

The structure within Banca Sella carries out activity for Banca Sella itself and, for collection activities for disputed loans related to revoked unlikely to pay positions and bad loans, it provides services through outsourcing to Banca Patrimoni Sella & C. and Biella Leasing.

The Non-Performing Exposures Service is divided into 4 services:

- Anomalous Loan Managers Service: composed of local specialised workers who manage relationships with non-performing customers classified as unlikely to pay and past due with amounts exceeding € 10,000, supporting and cooperating with the Distribution Network. Similar figures at the head offices provide coordination and control activities;

- Phone Collection Service: composed of individuals located at the head offices and the Group's Services Centre, managing phone collection for non-performing loans of non-significant amounts; in 2016, phone collection activities were extended to the reminder of instalments relating to loan repayment plans with credit facilities already revoked and/or non-performing;

- Restructured Loans Service: composed of specialised workers at the head office responsible for significant positions, with exposures that involve multiple credit institutions or exposures that have special legal/economic aspects. They also work with customers in cooperation with the Anomalous Loan Managers and corporate employees in the Distribution Network;

- Dispute Service: composed of workers at the head office responsible for all positions for which a forced recovery stage has been begun, as the actions of the previous services did not obtain definitive resolution of the customer's problems.

Related to the category of customers with lower exposures, support from Phone Collection makes it possible to manage a high number of customers effectively and continuously, as soon as the initial signs of impairment appear, while also allowing the Distribution Network to maintain focus on developing sales. The Phone Collection structure makes use of the Group's Services Centre with personnel working throughout the day, with consequent improvement in collection performance for smaller overdue amounts.

Where do not appear to be concrete prospects to return positions to performing, the transfer to the dispute service is made, to begin foreclosures.

For the positions involving larger exposures, the Anomalous Loan Managers from the Non-Performing Exposures have the objective of working with the Distribution Network, promptly taking on direct management of impaired customers to resolve problems and identifying solutions to return these exposures to performing status.

In particular, management of these positions by Anomalous Loan Managers and the Restructured Loans sector is intended to:

- assess debtors' future prospects;
- adjusting the due dates of financial commitments to adjust them to situations of temporary difficulty;
- contribute to resolving performance anomalies identified;
- acquiring guarantees that mitigate credit risk;
- participate at the negotiating table with customers and the banking structure;
- analyse the documents provided by the customer and appointed consultants, in order to assess business and financial plans proposed to restore the debts;
- prepare appropriate investigations in the electronic credit line system to be submitted to the relevant decision-making bodies, with the solutions identified or being prepared by the customers;
- guarantee pricing adequate to the risk profile;
- not increasing the overall risk level when concrete prospects for recovery do not exist;
- determine proper impairment classification for the loan during trading;
- assess proper recoverability, applying the provisioning policy;
- assessing whether to start collections on the loan when performance and the overall situation for the customer lead to the decision to extricate the bank from the relationship.

In this latter case, and every time the requirements are met, non-performing positions must be transferred to the dispute office, which has the task of:

- revoking credit lines;
- acting in a timely manner to recover loans in default and acquiring further guarantees to cover exposure;
- beginning foreclosures in order to enforce guarantees, when the requirements to grant adjustments to payment schedules and/or other similar actions are no longer met;
- promptly calculating expected losses in an analytical manner at the level of individual customer accounts;
- periodically checking the adequacy of the recovery forecasts and the terms of recoverability of the credit;
- optimising the costs/results of the legal measures taken to recover the credit;
- making losses recorded at the end of court and out-of-court procedures definitive.

Decision-making responsibilities related to the assessment of collections for non-performing customers and settlement proposals, in regards to Banca Sella spa, are granted directly to the manager of the service, and his employees, with powers conferred on an individual basis and, for transactions for a larger amount, to the CEO and the other monocratic bodies as part of the powers conferred by with the Board of Directors.

For disputes associated with other companies managed through outsourcing, the powers are granted to the individual CEOs of the companies.

Forecasts for the recoverability of disputed loans are done through an analytical evaluation process, without using estimation models for expected cash flows. Instead, a specific repayment schedule is drawn up on the basis of the features of each position, taking into account the guarantees given and/or acquirable and any agreements reached with the customers.

In particular, this evaluation takes the following into consideration:

- the amount of the recovery value as the sum of the expected cash flows estimated on the basis of the types of guarantees given and/or acquirable, their estimated realisation value, the costs to be sustained and the debtor’s willingness;
- the recovery times estimated on the basis of the types of guarantees, the in-court or out-of-court liquidation methods for the guarantees, bankruptcy proceedings and the geographical area to which the loan belongs;
- discounting rates; for all credits measured at the amortised cost the original effective rate of return is used, whereas for revocable credit lines the interest rate considered is that at the moment of default.

Qualitative information

A. Credit quality

For the purpose of providing quantity information on credit quality, the term “credit exposure” is used excluding capital securities and units of UCITs, whilst the term “exposure” includes these elements.

A.1 Impaired and performing loans: amounts, writedowns, changes, economic and territorial breakdown

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

Portfolio/Quality		Bad loans	Unlikely to pay	Impaired past-due loans	Other non-impaired exposures	Non-impaired exposures	Total
1. Financial assets available for sale		-	-	-	-	1,471,052	1,471,052
2. Financial assets held to maturity		-	-	-	-	-	-
3. Due from banks		-	-	-	-	2,062,213	2,062,213
4. Due from customers		299,823	204,427	8,840	122,020	6,350,483	6,985,593
5. Financial assets carried at fair value		-	-	-	-	-	-
6. Financial assets held for sale		-	-	-	-	-	-
Total	**31/12/2016**	**299,823**	**204,427**	**8,840**	**122,020**	**9,883,748**	**10,518,858**
Total	**31/12/2015**	**305,461**	**244,813**	**11,243**	**156,624**	**9,243,076**	**9,961,217**

Non-impaired past-due exposures at 31/12/2016 amounted to € 122 million.
These mainly relate to exposures deriving from mortgages for around 74%, while the remaining derives from current accounts, subsidies, and commercial advances.
Exposures mainly fall into the category of past-due within 90 days, in particular the segment between 1 and 30 days overdue, which account for around 69% of exposures recognised.
As illustrated above, mortgages and loans account for most of this initial segment - technical types with repayment through instalments. It should be specified that, in the case of mortgages and loans, there may also be situations of "technical" past-due items that derive from misalignment between the due date for the instalment and the date the funds arrive in the account (for direct deposit of salaries and pensions), which lead to quickly covered past-due amounts.
Exposures falling in the next segment of past-due items, which on the other hand may indicate signals of deterioration in creditworthiness, are much more limited and decline progressively.
The remaining exposures are those that are past-due for more than 90 days, which are for minimal amounts that fall below the threshold for past-due recognition.
The portion of non-impaired past-due exposures supported by guarantees is sizeable, deriving from the type of technical form.

Non-impaired past due exposures with a total balance (past due and not past due) exceeding € 50,000 represent around 70% of exposures recognised, while in the remaining cases average exposure is much lower.

Related to management of non-impaired past-due exposures, please refer to the qualitative information provided above.

A.1.2 Breakdown of credit exposure by portfolio and credit quality (gross and net amounts)

Portfolio / Quality		Impaired assets: Gross exposure	Impaired assets: Specific writedowns	Impaired assets: Net exposure	Non-impaired assets: Gross exposure	Non-impaired assets: Portfolio writedowns	Non-impaired assets: Net exposure	Total (net exposure)
1. Financial assets available for sale		-	-	-	1,471,052	-	1,471,052	1,471,052
2. Financial assets held to maturity		-	-	-	-	-	-	-
3. Due from banks		-	-	-	2,062,319	(106)	2,062,213	2,062,213
4. Due from customers		1,027,461	(514,371)	513,090	6,501,352	(28,849)	6,472,504	6,985,593
5. Financial assets carried at fair value		-	-	-	X	X	-	-
6. Financial assets held for sale		-	-	-	-	-	-	-
Total	**31/12/2016**	**1,027,461**	**(514,371)**	**513,090**	**10,034,723**	**(28,955)**	**10,005,769**	**10,518,859**
Total	**31/12/2015**	**1,075,793**	**(514,276)**	**561,517**	**9,433,410**	**(33,710)**	**9,399,700**	**9,961,217**

Portfolio / Quality		Assets with evident low creditworthiness: Cumulative capital losses	Assets with evident low creditworthiness: Net exposure	Other assets: Net exposure
1. Financial assets held for trading		-	64	47,395
2. Hedging derivatives		-	-	5,927
Total	**31/12/2016**	**-**	**64**	**53,322**
Total	**31/12/2015**	**-**	**9**	**69,580**

A.1.3 Cash credit and off-balance sheet exposures to banks: gross and net amounts and past-due segments

Type of exposure/amounts	Gross exposure					Specific writedowns	Portfolio writedowns	Net exposure
	Impaired assets				Non-impaired assets			
	Up to 3 months	More than 3 months to 6 months	More than 6 months to 1 year	Over 1 year				
A. CASH EXPOSURES								
a) Bad loans	-	-	-	-	X	-	X	-
- of which: exposures subject to forbearance	-	-	-	-	X	-	X	-
b) Unlikely to pay	-	-	-	-	X	-	X	-
- of which: exposures subject to forbearance	-	-	-	-	X	-	X	-
c) Impaired past-due loans	-	-	-	-	X	-	X	-
- of which: exposures subject to forbearance	-	-	-	-	X	-	X	-
d) Non-impaired past-due loans	X	X	X	X	-	X	-	-
- of which: exposures subject to forbearance	X	X	X	X	-	X	-	-
e) Other non-impaired exposures	X	X	X	X	2,174,131	X	106	2,174,025
- of which: exposures subject to forbearance	X	X	X	X	-	X	-	-
TOTAL A	**-**	**-**	**-**	**-**	**2,174,131**	**-**	**106**	**2,174,025**
B. OFF-BALANCE SHEET EXPOSURES								
a) Impaired	-	-	-	-	X	-	X	-
b) non-impaired	X	X	X	X	17,100	X	1	17,099
TOTAL B	**-**	**-**	**-**	**-**	**17,100**	**-**	**1**	**17,099**
TOTAL (A+B)	**-**	**-**	**-**	**-**	**2,191,231**	**-**	**107**	**2,191,124**

A.1.6 cash credit and off-balance sheet exposures to customers: gross and net amounts and past-due segments

Type of exposure/amounts	Gross exposure					Specific writedowns	Portfolio writedowns	Net exposure
	Impaired assets				Non-impaired assets			
	Up to 3 months	More than 3 months to 6 months	More than 6 months to 1 year	Over 1 year				
A. CASH EXPOSURES								
a) Bad loans	853	-	-	755,452	X	456,482	X	299,823
- of which: exposures subject to forbearance	-	-	-	50,699	X	22,928	X	27,771
b) Unlikely to pay	161,794	33,133	27,727	38,428	X	56,655	X	204,427
- of which: exposures subject to forbearance	101,558	21,867	19,645	21,243	X	30,544	X	133,769
c) Impaired past-due loans	2,243	5,244	1,909	678	X	1,234	X	8,840
- of which: exposures subject to forbearance	690	867	61	-	X	34	X	1,584
d) Non-impaired past-due loans	X	X	X	X	123,609	X	1,589	122,020
- of which: exposures subject to forbearance	X	X	X	X	19,921	X	687	19,234
e) Other non-impaired exposures	X	X	X	X	7,763,172	X	27,260	7,735,912
- of which: exposures subject to forbearance	X	X	X	X	118,910	X	4,408	114,502
TOTAL A	**164,890**	**38,377**	**29,636**	**794,558**	**7,886,781**	**514,371**	**28,849**	**8,371,022**
B. OFF-BALANCE SHEET EXPOSURES	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) Impaired	9,516	-	-	-	X	-	X	9,516
b) non-impaired	X	X	X	X	423,364	X	1,178	422,186
TOTAL B	**9,516**	**-**	**-**	**-**	**423,364**	**-**	**1,178**	**431,702**
TOTAL (A+B)	**174,406**	**38,377**	**29,636**	**794,558**	**8,310,144**	**514,371**	**30,027**	**8,802,723**

A.1.7 Cash credit exposure to customers: trend of gross impaired loans

Description/Category	Bad loans	Unlikely to pay	Impaired past-due loans
A. Opening gross exposure	**763,124**	**299,926**	**12,744**
- of which: exposures sold but not derecognised	3,042	5,523	165
B. Increases	**123,024**	**131,828**	**26,771**
B.1 inflows from performing exposures	1,657	116,406	25,237
B.2 transfers from other categories of impaired loans	93,087	12,167	626
B.3 other increases	28,280	3,255	908
- of which business combinations	-	-	-
C. Decreases	**129,843**	**170,672**	**29,441**
C.1 outflows to performing exposures	-	53,888	11,709
C.2 Write-offs	76,564	642	-
C.3 collections	37,498	11,665	-
C.4 profits from sales	8,513	-	-
C.5 losses on sale	2,822	-	-
C.6 transfers to other categories of impaired loans	-	93,713	12,167
C.7 other decreases	4,446	10,764	5,565
- of which business combinations	-	-	-
D. Closing gross exposure	**756,305**	**261,082**	**10,074**
- of which: exposures sold but not derecognised	1,712	3,226	110

A.1.7bis Cash credit exposure to customers: trend in gross exposures subject to forbearance, broken down by credit quality

Description/Category	Exposures subject to forbearance: impaired	Exposures subject to forbearance: non-impaired
A. Opening gross exposure	**213,040**	**137,202**
- of which: exposures sold but not derecognised	-	-
B. Increases	**150,975**	**79,062**
B.1 inflows from performing exposures not subject to forbearance	24,375	57,436
B.2 inflows from performing exposures subject to forbearance	26,124	X
B.3 inflows from exposures subject to forbearance: impaired	X	19,825
B.4 other increases	100,476	1,801
- of which business combinations	-	-
C. Decreases	**147,385**	**77,433**
C.1 outflows to performing exposures not subject to forbearance	X	44,787
C.2 outflows to performing exposures subject to forbearance	19,825	X
C.3 Outflows to exposures subject to forbearance	X	26,124
C.4 Write-offs	4,708	-
C.5 collections	25,775	-
C.6 profits from sales	121	-
C.7 losses on sale	54	-
C.8 other decreases	96,902	6,522
D. Closing gross exposure	**216,630**	**138,831**
- of which: exposures sold but not derecognised	1,005	6,322

A.1.8 Cash credit exposure to customers: trend of total writedowns

Description/Category	Bad loans		Unlikely to pay		Impaired past-due loans	
	Total	Of which: exposures subject to forbearance	Total	Of which: exposures subject to forbearance	Total	Of which: exposures subject to forbearance
A. Initial total adjustments	**457,664**	**17,642**	**55,114**	**21,548**	**1,500**	**9**
- of which: exposures sold but not derecognised	826	-	205	-	7	-
B. Increases	**113,355**	**15,483**	**27,178**	**13,892**	**3,510**	**254**
B.1 writedowns	90,153	14,624	19,279	11,340	2,821	-
B.2 losses on sale	2,822	54	-	-	-	-
B.3 transfers from other categories of impaired loans	19,179	261	1,868	79	111	89
B.4 other increases	1,201	544	6,031	2,473	578	165
C. Decreases	**114,537**	**10,197**	**25,637**	**4,896**	**3,776**	**229**
C.1 writebacks from valuation	22,961	4,987	4,296	3,169	-	-
C.2 writebacks from collection	6,659	1,089	1,180	734	-	-
C.3 gains on disposal	1,583	6	-	-	-	-
C.4 Write-offs	76,564	4,066	642	642	-	-
C.5 transfers to other categories of impaired loans	-	-	19,290	350	1,868	79
C.6 other decreases	6,770	49	229	1	1,908	150
D. Final total adjustments	**456,482**	**22,928**	**56,655**	**30,544**	**1,234**	**34**
- of which: exposures sold but not derecognised	457	-	59	13	17	-

A.2 Classification of exposures by external and internal ratings

Banca Sella makes use of the external credit rating agencies Fitch Rating and Cerved Rating Agency, the latter solely for determining weighting ratios when calculating capital requirements for exposures with companies classified as capital companies.

The table below shows the distribution of exposures by external rating classes assigned by Fitch and by Cerved of the customers of Banca Sella.

A.2.1 Distribution of cash and off-balance sheet exposures by external rating classes

Exposures	External rating classes						Without rating	Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
A. Cash credit exposures	**23,189**	**375,540**	**1,830,321**	**219,465**	**26,397**	**2,763**	**8,071,271**	**10,548,946**
B. Derivatives	**57**	**4,299**	**1,826**	**94**	**1**	**-**	**20,921**	**27,198**
B.1 Financial derivatives	57	4,299	1,826	94	1	-	20,921	27,198
B.2 Credit derivatives	-	-	-	-	-	-	-	-
C. Sureties issued	**4,540**	**33,396**	**34,524**	**10,952**	**846**	**134**	**130,532**	**214,924**
D. Commitments to disburse funds	**1,043**	**3,943**	**4,168**	**4,139**	**1,803**	**404**	**190,086**	**205,586**
E. Other	**-**	**-**	**104**	**-**	**-**	**-**	**989**	**1,093**
Total	**28,829**	**417,178**	**1,870,943**	**234,650**	**29,047**	**3,301**	**8,413,799**	**10,997,747**

Banca Sella makes use of the external credit rating agencies Fitch Rating and Cerved Rating Agency, the latter solely for determining weighting ratios when calculating capital requirements for exposures with companies classified as capital companies.

The table below shows the distribution of exposures by external rating classes assigned by Fitch and by Cerved of the customers of Banca Sella.

External rating classes are shown based on the ECAI rating maps recognised by the Bank of Italy. The mapping shown in the table is related to the long-term ratings assigned by Fitch Ratings and Cerved Rating Agency:

- creditworthiness class 1 includes Fitch ratings from AAA to AA- and Cerved ratings from A1.1 to A1.3;
- creditworthiness class 2 includes Fitch ratings from A+ to A- and Cerved ratings from A2.1 to A3.1;
- creditworthiness class 3 includes Fitch ratings from BBB+ to BBB- and Cerved ratings from B1.1 to B1.2;
- creditworthiness class 4 includes Fitch ratings from BB+ to BB- and Cerved ratings from B2.1 to B2.2;
- creditworthiness class 5 includes Fitch ratings from B+ to B- and Cerved ratings C1.1;
- creditworthiness class 6 includes Fitch ratings CCC+ and lower and Cerved ratings from C1.2 to C2.1.

Note that 90% of exposures with counterparts rated by Fitch Ratings or Cerved Rating Agency have ratings equal to or better than investment grade. Additionally, we note that over 42% of Banca Sella’s unrated exposures are associated with companies within the Banca Sella Group scope of consolidation.

A.2.2 Distribution of cash and "off-balance sheet" exposures by internal rating classes

Exposures	Internal rating classes									Without rating	Total
	AAA/SA1	AA/SA2	A/SA3	BBB/SA4	BB/SA5	B/SA6	CCC/SA7	CC/SA8	C/SA9		
A. CASH EXPOSURES	**262,381**	**306,036**	**500,628**	**563,566**	**335,301**	**185,393**	**89,035**	**27,248**	**8,652**	**8,266,808**	**10,545,048**
B. Derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**27,198**	**27,198**
B.1 Financial derivatives	-	-	-	-	-	-	-	-	-	27,198	27,198
B.2 Credit derivatives	-	-	-	-	-	-	-	-	-	-	-
C. Sureties issued	**39,664**	**21,318**	**23,311**	**18,699**	**16,480**	**4,112**	**3,187**	**516**	**56**	**87,581**	**214,924**
D. Commitments to disburse funds	**7,175**	**7,487**	**13,539**	**6,423**	**2,290**	**2,182**	**1,382**	**148**	**216**	**164,744**	**205,586**
E. Other	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,093**	**1,093**
Total	**309,220**	**334,841**	**537,478**	**588,688**	**354,071**	**191,687**	**93,604**	**27,912**	**8,924**	**8,547,424**	**10,993,849**

With regard to internal ratings, almost all banks of the Group have an internal model for assigning corporate and large corporate companies a creditworthiness rating and a model for small business and small/medium enterprises. These models are used to calculate the collective measurements of performing positions. The internal rating system includes, for terminological conformity with the scale adopted by external rating agencies, nine credit rating classes for creditworthy customers, from AAA/SA1 (the least risky) to C/SA9 (the riskiest). At present, internal ratings are not used for calculating capital requirements.

The previous table shows the distribution of exposures by rating classes of the corporate or large corporate customer companies and of the Small Business and Small/Medium Enterprises companies that are customers of Banca Sella. The "No rating" column includes both exposures to companies with no internal rating and exposures to customers belonging to segments other than the "corporate and large corporate" and "Small Business and Small/Medium Enterprises" segments. In addition, note that for Banca Sella the percentage of coverage of the "Corporate and Large Corporate" segment is around 97% of total exposures, while coverage of the "Small Business and Small/Medium Enterprise" segment is around 95% of total exposures.

A.3 Distribution of guaranteed exposures by type of guarantee

A.3.2 Guaranteed credit exposures to customers

p.1

	Net exposure value	Collateral securities (1)				Personal guarantees (2)		
						Credit derivatives		
							Other derivatives	
		Real estate, mortgages	Real estate, financial leasing	Securities	Other collateral	CLN	Governments and Central Banks	Other public bodies
1. Guaranteed cash credit exposures:	3,890,301	2,808,992	-	120,164	37,044	-	-	-
1.1. totally guaranteed	3,722,779	2,803,907	-	103,423	35,692	-	-	-
- of which impaired	410,587	316,850	-	3,692	252	-	-	-
1.2. partially guaranteed	167,522	5,085	-	16,741	1,352	-	-	-
- of which impaired	15,090	4,034	-	133	135	-	-	-
2. Off-balance sheet guaranteed credit exposures:	139,810	8,942	-	15,395	10,173	-	-	-
2.1. totally guaranteed	73,515	1,169	-	9,837	7,614	-	-	-
- of which impaired	2,913	1,104	-	62	323	-	-	-
2.2. partially guaranteed	66,295	7,773	-	5,558	2,559	-	-	-
- of which impaired	298	-	-	-	-	-	-	-

A.3.2 Guaranteed credit exposures to customers

p.2

	Personal guarantees (2)						Total (1)+(2)
	Credit derivatives		Endorsement loans				
	Other derivatives						
	Banks	Other entities	Governments and Central Banks	Other public bodies	Banks	Other entities	
1. Guaranteed cash credit exposures:	-	-	4,464	934	33,323	795,515	3,800,436
1.1. totally guaranteed	-	-	355	568	143	755,147	3,699,235
- of which impaired	-	-	-	191	-	85,211	406,196
1.2. partially guaranteed	-	-	4,109	366	33,180	40,368	101,201
- of which impaired	-	-	-	-	24	8,749	13,075
2. Off-balance sheet guaranteed credit exposures:	-	-	-	-	-	92,367	126,877
2.1. totally guaranteed	-	-	-	-	-	54,119	72,739
- of which impaired	-	-	-	-	-	1,392	2,881
2.2. partially guaranteed	-	-	-	-	-	38,248	54,138
- of which impaired	-	-	-	-	-	207	207

B. Distribution and concentration of credit exposures

B.1 Sectorial distribution of credit exposure of cash and “off-balance” sheet to customers (book value)

p.1

Exposure/Counterparty		Governments			Other public bodies			Financial companies		
		Net exposure	Specific value adjustments	Portfolio writedowns	Net exposure	Specific value adjustments	Portfolio writedowns	Net exposure	Specific value adjustments	Portfolio writedowns
A. CASH EXPOSURES										
A.1 Bad loans		-	-	x	-	-	x	1,075	(1,607)	x
- of which exposures subject to forbearance		-	-	x	-	-	x	-	-	x
A.2 Unlikely to pay		465	(42)	x	3,189	(186)	x	499	(157)	x
- of which exposures subject to forbearance		-	-	x	767	(45)	x	401	(77)	x
A.3 Impaired past-due loans		3	-	x	1	-	x	16	(5)	x
- of which exposures subject to forbearance		-	-	x	-	-	x	6	(2)	x
A.4 Non-impaired loans		1,324,739	x	(8)	5,364	x	(15)	1,479,704	x	(425)
- of which exposures subject to forbearance		1	x	-	-	x	-	149	x	(18)
Total A		**1,325,207**	**(42)**	**(8)**	**8,554**	**(186)**	**(15)**	**1,481,294**	**(1,769)**	**(425)**
B. Off-balance sheet exposures										
B.1 Bad loans		-	-	x	-	-	x	-	-	x
B.2 Unlikely to pay		-	-	x	-	-	x	-	-	x
B.3 Other impaired assets		-	-	x	-	-	x	4	-	-
B.4 Non-impaired loans		904	x	-	196	x	(1)	17,706	x	(34)
Total B		**904**	**-**	**-**	**196**	**-**	**(1)**	**17,710**	**-**	**(34)**
Total (A+B)	**31/12/2016**	**1,326,111**	**(42)**	**(8)**	**8,750**	**(186)**	**(16)**	**1,499,004**	**(1,769)**	**(459)**
Total (A+B)	**31/12/2015**	**1,521,471**	**(7)**	**(5)**	**13,225**	**(188)**	**(27)**	**1,340,073**	**(1,437)**	**(368)**

B.1 Sectorial distribution of credit exposure of cash and "off-balance" sheet to customers (book value)

p.2

Exposure/Counterparty	Insurance companies			Non-financial companies			Other entities		
	Net exposure	Specific value adjustments	Portfolio writedowns	Net exposure	Specific value adjustments	Portfolio writedowns	Net exposure	Specific value adjustments	Portfolio writedowns
A. CASH EXPOSURES									
A.1 Bad loans	-	-	x	222,192	(336,949)	x	76,556	(117,926)	x
- of which exposures subject to forbearance	-	-	x	20,288	(17,324)	x	7,483	(5,604)	x
A.2 Unlikely to pay	-	-	x	132,173	(43,753)	x	68,101	(12,517)	x
- of which exposures subject to forbearance	-	-	x	92,941	(23,107)	x	39,660	(7,315)	x
A.3 Impaired past-due loans	-	-	x	4,510	(547)	x	4,313	(682)	x
- of which exposures subject to forbearance	-	-	x	989	(26)	x	589	(6)	x
A.4 Non-impaired loans	80	x	(1)	2,697,863	x	23,135	2,350,181	x	(5,265)
- of which exposures subject to forbearance	-	x	-	72,353	x	3,692	61,233	x	(1,385)
Total A	**80**	**-**	**(1)**	**3,056,738**	**(381,249)**	**23,135**	**2,499,151**	**(131,125)**	**(5,265)**
B. Off-balance sheet exposures									
B.1 Bad loans	-	-	x	807	-	x	493	-	x
B.2 Unlikely to pay	-	-	x	7,457	-	x	390	-	x
B.3 Other impaired assets	-	-	x	257	-	x	108	-	x
B.4 Non-impaired loans	1,096	x	(4)	272,224	x	1,090	128,967	x	(49)
Total B	**1,096**	**-**	**(4)**	**280,745**	**-**	**1,090**	**129,958**	**-**	**(49)**
Total (A+B) 31/12/2016	**1,176**	**-**	**(5)**	**3,337,483**	**(381,249)**	**24,225**	**2,629,109**	**(131,125)**	**(5,314)**
Total (A+B) 31/12/2015	**5,103**	**-**	**(15)**	**3,310,082**	**(378,769)**	**28,173**	**2,526,351**	**(133,874)**	**(6,445)**

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

p.1

Exposure/Geographical area	Italy		Other European Countries		America
	Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure
A. CASH EXPOSURES					
A.1 Bad loans	299,156	455,854	561	572	5
A.2 Unlikely to pay	197,656	54,345	6,745	2,304	26
A.3 Impaired past-due loans	8,829	1,230	7	2	2
A.4 Non-impaired loans	7,794,101	28,529	39,834	188	8,823
Total A	**8,299,742**	**539,958**	**47,147**	**3,066**	**8,856**
B. Off-balance sheet exposures					
B.1 Bad loans	1,300	-	-	-	-
B.2 Unlikely to pay	7,846	-	-	-	-
B.3 Other impaired assets	370	-	-	-	-
B.4 Non-impaired loans	420,213	1,178	581	-	296
Total B	**429,729**	**1,178**	**581**	**-**	**296**
Total A+B 31/12/2016	**8,729,471**	**541,136**	**47,728**	**3,066**	**9,152**
Total A+B 31/12/2015	**8,651,161**	**547,306**	**45,844**	**1,762**	**7,294**

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

p.2

Exposure/Geographical area		America	Asia		Rest of the world	
		Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns
A. CASH EXPOSURES						
A.1 Bad loans		8	-	-	101	48
A.2 Unlikely to pay		6	-	-	-	-
A.3 Impaired past-due loans		1	2	1	-	-
A.4 Non-impaired loans		40	4,145	5	11,028	87
Total A		**55**	**4,147**	**6**	**11,129**	**135**
B. Off-balance sheet exposures						
B.1 Bad loans		-	-	-	-	-
B.2 Unlikely to pay		-	-	-	-	-
B.3 Other impaired assets		-	-	-	-	-
B.4 Non-impaired loans		-	-	-	3	-
Total B		**-**	**-**	**-**	**3**	**-**
Total A+B	**31/12/2016**	**55**	**4,147**	**6**	**11,132**	**135**
Total A+B	**31/12/2015**	**28**	**1,288**	**2**	**10,716**	**210**

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

Exposure/Geographical area		North West Italy		North East Italy		Central Italy		Southern Italy and Islands	
		Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns
A. Cash exposures									
A.1 Bad loans		114,785	186,581	51,233	73,470	49,642	67,617	83,496	128,186
A.2 Unlikely to pay		76,706	30,113	31,892	6,220	35,742	8,414	53,316	9,598
A.3 Impaired past-due loans		4,281	657	324	61	1,448	180	2,776	332
A.4 Non-impaired loans		4,098,802	14,702	581,595	3,633	1,968,389	3,313	1,145,315	6,881
Total A		**4,294,574**	**232,053**	**665,044**	**83,384**	**2,055,221**	**79,524**	**1,284,903**	**144,997**
B. Off-balance sheet exposures									
B.1 Bad loans		928	-	80	-	167	-	125	-
B.2 Unlikely to pay		1,710	-	795	-	1,255	-	4,086	-
B.3 Other impaired assets		124	-	97	-	131	-	18	-
B.4 Non-impaired loans		231,299	676	34,645	61	72,594	237	81,675	204
Total B		**234,061**	**676**	**35,617**	**61**	**74,147**	**237**	**85,904**	**204**
Total (A+B)	**31/12/2016**	**4,528,635**	**232,729**	**700,661**	**83,445**	**2,129,368**	**79,761**	**1,370,807**	**145,201**
Total (A+B)	**31/12/2015**	**4,282,735**	**232,190**	**695,583**	**83,539**	**2,293,744**	**83,526**	**1,379,100**	**148,052**

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

p.1

Exposure/Geographical area		Italy		Other European Countries		America
		Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure
A. Cash exposures						
A.1 Bad loans		-	-	-	-	-
A.2 Unlikely to pay		-	-	-	-	-
A.3 Impaired past-due loans		-	-	-	-	-
A.4 Non-impaired loans		2,141,640	-	27,729	105	31
Total A		**2,141,640**	**-**	**27,729**	**105**	**31**
B. Off-balance sheet exposures						
B.1 Bad loans		-	-	-	-	-
B.2 Unlikely to pay		-	-	-	-	-
B.3 Other impaired assets		-	-	-	-	-
B.4 Non-impaired loans		16,977	1	123	-	-
Total B		**16,977**	**1**	**123**	**-**	**-**
Total A+B	**31/12/2016**	**2,158,617**	**1**	**27,852**	**105**	**31**
Total A+B	**31/12/2015**	**1,654,708**	**-**	**56,702**	**(178)**	**-**

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

p.2

Exposure/Geographical area		America	Asia		Rest of the world	
		Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns
A. Cash exposures						
A.1 Bad loans		-	-	-	-	-
A.2 Unlikely to pay		-	-	-	-	-
A.3 Impaired past-due loans		-	-	-	-	-
A.4 Non-impaired loans		-	2,188	-	2,437	1
Total A		**-**	**2,188**	**-**	**2,437**	**1**
B. Off-balance sheet exposures						
B.1 Bad loans		-	-	-	-	-
B.2 Unlikely to pay		-	-	-	-	-
B.3 Other impaired assets		-	-	-	-	-
B.4 Non-impaired loans		-	-	-	-	-
Total B		**-**	**-**	**-**	**-**	**-**
Total A+B	**31/12/2016**	**-**	**2,188**	**-**	**2,437**	**1**
Total A+B	**31/12/2015**	**-**	**1,990**	**-**	**56**	**-**

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

Exposure/Geographical area	North West Italy		North East Italy		Central Italy		Southern Italy and Islands	
	Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns
A. Cash exposures								
A.1 Bad loans	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-
A.3 Impaired past-due loans	-	-	-	-	-	-	-	-
A.4 Non-impaired loans	2,105,006	-	15,652	-	20,982	-	-	-
Total A	**2,105,006**	**-**	**15,652**	**-**	**20,982**	**-**	**-**	**-**
B. Off-balance sheet exposures								
B.1 Bad loans	-	-	-	-	-	-	-	-
B.2 Unlikely to pay	-	-	-	-	-	-	-	-
B.3 Other impaired assets	-	-	-	-	-	-	-	-
B.4 Non-impaired loans	16,932	-	45	-	-	-	-	-
Total B	**16,932**	**-**	**45**	**-**	**-**	**-**	**-**	**-**
Total (A+B) 31/12/2016	**2,121,938**	**-**	**15,697**	**-**	**20,982**	**-**	**-**	**-**
Total (A+B) 31/12/2015	**1,614,399**	**-**	**14,949**	**-**	**25,360**	**-**	**-**	**-**

B.4 Large exposures

	31/12/2016
a) amount (book value)	5,291,285
b) amount (weighted value)	123,372
c) number	2

The two positions refer to Group companies and the Tesoro dello Stato (State Treasury).

C. Securitisations

Qualitative information

Securitisations in which banks in the same banking group are the originators and the collection of liabilities issued (e.g. ABS securities, loans at the "warehousing" phase) by vehicle companies is subscribed at the time of the issuing by one or more companies of the banking group (e.g. Parent Bank) are not subject to measurement in this section.

Beginning in financial year 2000 the Group carried out traditional 7 securitisation transactions.

Two of these, concluded before 1 January 2006 (more specifically, in 2000 and 2005), were carried out by Banca Sella S.p.A., now Banca Sella Holding S.p.A., and involved performing mortgage loans. The assets associated with these transactions were conferred, on 1 January 2006, by Banca Sella Holding S.p.A. (formerly Sella Holding Banca S.p.A.) to the "new" Banca Sella S.p.A.

On 4 April 2008, 8 January 2009, 9 January 2012 and 9 April 2014, Banca Sella S.p.A. completed four transfer transactions, again of performing mortgage loans.

The transactions were conducted in order to diversify the types of funding in order to improve the correlation of maturities between funding and lending.

On 31 October 2010, the securitisation carried out with Secursel S.r.l. in 2000 was concluded. Banca Sella bought back the loans from the vehicle company, which provided for the early reimbursement of the securities still existing.

On 23 January 2014, 30 January 2014 and 23 April 2015 and 25 November 2016 respectively, the operations commenced in 2008, 2009, 2005 and 2012, were concluded. Banca Sella bought back the loans from the vehicle company, which provided for the early reimbursement of the securities still existing.

The role of servicer in various securitisation transactions was always played by the originators (Banca Sella S.p.A.).

Banca Sella S.p.A, as the originator of the operations, subscribed the entire amount of the junior securities issued in relation to the various securitisations. Junior securities for the existing operation are still held by the same. In addition, in regard to the securitisations of 2008, 2009 and 2012, the Bank subscribed the entire amount of the securities issued. In relation to the 2014 operation, the Bank fully subscribed the fixed rate senior tranche, while the variable rate senior tranche was placed on the market with institutional investors. The securities subscribed by the originator can be used as collateral for repurchase agreements with the ECB.

The risk of the assets sold is still borne by Banca Sella S.p.A., which, consequently, monitor performance constantly, preparing also regular reports.

The assets sold continue to be represented in the financial statements in that the sale did not substantially transfer the risks to third-parties.

Banca Sella S.p.A. securitisation of performing loans - financial year 2014

The transaction was completed at two subsequent moments: the purchase of the loans was completed by the special purpose vehicle Mars 2600 S.r.l. on 9 April 2014, while the securities were issued on 12 June 2014.

The portfolio, which was sold without recourse, consisted of performing residential mortgage loans granted by Banca Sella S p A to residents of Italy.

The transaction entailed the sale without recourse to the special purpose vehicle, of receivables guaranteed by mortgages for a total of around € 489.0 million, inclusive of the principal amount of the loans and the interest accrued up to the date of sale.

In exchange for this transaction, Mars 2600 S.r.l. issued class A1 notes amounting to € 216.0 million, class A2 notes amounting to € 216.0 million, and Class D notes in the amount of € 67.7 million.

The Class A1 and A2 notes are quoted on the Luxembourg stock exchange. Moody's currently gives the following ratings: Aa2 both for class Aa2 and class A2 notes. The same securities have the following ratings from DBRS: AA both for class A1 and class A2 notes. Class D notes are not listed and have no rating.

Banca Sella S.p.A. subscribed the fixed rate class A2 securities, and the class D securities, while the variable rate class A1 securities were placed on the market with institutional investors. The sum paid for the subscription of the class D securities was used for the creation of a cash reserve.

At 31 December 2016, the Class A1 and A2 notes earned interest of about € 3.8 million. In financial year 2016, class D securities earned interest for around € 6.2 million. Banca Sella S.p.A. is responsible for collecting the receivables sold and for the cash desk and payment services, as well as collecting disputed receivables, under the terms of a servicing agreement which as consideration provides for a servicing fee, to be paid quarterly, equivalent to 0.45% of the amount of the collections of the performing pecuniary loans and 0.05% of the amount of collections related to disputed receivables achieved by Banca Sella S.p.A. during the reference quarter.

Quantitative information

C.1 Exposures deriving from main "own" securitisation operations divided by type of securitised assets and type of exposures

p.1

Type of securitised assets/Exposures	Cash exposures					
	Senior		Mezzanine		Junior	
	Book value	Writedowns/Writebacks	Book value	Writedowns/Writebacks	Book value	Writedowns/Writebacks
A. Subject to total derecognition in the financial statements	-	-	-	-	-	-
B. Subject to partial derecognition in the financial statements	-	-	-	-	-	-
C. Not derecognised from financial statements						
C.1 Mars 2600 S.r.l.						
- Performing loans	112,981	-	-	-	67,700	(22)

C.1 Exposures deriving from main "own" securitisation operations divided by type of securitised assets and type of exposures

p.2

Type of securitised assets/Exposures	Guarantees issued					
	Senior		Mezzanine		Junior	
	Book value	Writedowns/Writebacks	Book value	Writedowns/Writebacks	Book value	Writedowns/Writebacks
A. Subject to total derecognition in the financial	-	-	-	-	-	-
B. Subject to partial derecognition in the financial	-	-	-	-	-	-
C. Not derecognised from financial						
C.1 Mars 2600 S.r.l.						
- Performing	-	-	-	-	-	-

C.1 Exposures deriving from main "own" securitisation operations divided by type of securitised assets and type of exposures

p.3

Type of securitised assets/Exposures	Credit lines					
	Senior		Mezzanine		Junior	
	Book value	Writedowns/Writebacks	Book value	Writedowns/Writebacks	Book value	Writedowns/Writebacks
A. Subject to total derecognition in the financial statements	-	-	-	-	-	-
B. Subject to partial derecognition in the financial statements	-	-	-	-	-	-
C. Not derecognised from financial statements						
C.1 Mars 2600 S.r.l.						
- Performing loans	-	-	-	-	-	-

C.3 Special purpose vehicle for the securitisation

Company name	Registered office	Consolidation	Assets			Liabilities		
			Receivables	Debt securities	Other	Senior	Mezzanine	Junior
SPV - Mars 2600 Srl	Treviso	YES	290,668	-	26,901	225,795	-	67,700

D. Disclosure on structured entities not consolidated for accounting purposes (other than special purpose vehicles for the securitisation)

Qualitative information

The Bank has exposures with non-consolidated structured entities due to investments in units issued by investment funds (UCITS), which are classified as structured entities under IFRS 12.

Quantitative information

Disclosure on structured entities not consolidated for accounting purposes (other than special purpose vehicles for the securitisation)

balance sheet item/type of structured entity	accounting portfolio of assets	total assets (A)	accounting portfolio of liabilities	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	3,898	-	-	3,898	3,898	-

E. Disposals

The disclosure pursuant to this part regards all the sale transactions (including securitisation operations).

A. Financial assets sold but not fully derecognised

Qualitative information

With the exception of amounts due from customers, "financial assets sold but not fully derecognised," refer to repurchase agreements with customers (with underlying debt securities issued by the parent company or Italian government securities).

Quantitative information

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

part 1

Technical type/Portfolio	Financial assets held for trading			Financial assets carried at fair value		
	A	B	C	A	B	C
A. Cash assets	**-**	**-**	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-	-	-
2. Equity securities	-	-	-	-	-	-
3. UCITS	-	-	-	-	-	-
4. Loans	-	-	-	-	-	-
B. Derivative instruments	**-**	**-**	**-**	**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 partially recognised (book value)
C = partially recognised financial assets (full value)

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

part 2

Technical type/Portfolio	Financial assets available for sale			Financial assets held to maturity		
	A	B	C	A	B	C
A. Cash assets	**9,370**	**-**	**-**	**-**	**-**	**-**
1. Debt securities	9,370	-	-	-	-	-
2. Equity securities	-	-	-	x	x	x
3. UCITS	-	-	-	x	x	x
4. Loans	-	-	-	-	-	-
B. Derivative instruments	**x**	**x**	**x**	**x**	**x**	**x**
Total 31/12/2016	**9,370**	**-**	**-**	**-**	**-**	**-**
of which impaired	-	-	-	-	-	-
Total 31/12/2015	**5,856**	**-**	**-**	**-**	**-**	**-**
of which impaired	-	-	-	-	-	-

A = financial assets sold and fully recognised (book value)
B = financial assets sold and partially recognised (book value)
C = partially recognised financial assets (full value)

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

part 3

Technical type/Portfolio	Due from banks			Due from customers			Total	
	A	B	C	A	B	C	31/12/2016	31/12/2015
A. Cash assets	**-**	**-**	**-**	**289,737**	**-**	**-**	**299,107**	**408,155**
1. Debt securities	-	-	-	-	-	-	9,370	43,826
2. Equity securities	x	x	x	x	x	x	-	-
3. UCITS	x	x	x	x	x	x	-	-
4. Loans	-	-	-	289,737	-	-	289,737	364,329
B. Derivative instruments	**x**	**x**	**x**	**x**	**x**	**x**	**-**	**-**
Total 31/12/2016	**-**	**-**	**-**	**289,737**	**-**	**-**	**299,107**	**x**
of which impaired	-	-	-	4,549	-	-	4,549	x
Total 31/12/2015	**37,970**	**-**	**-**	**364,329**	**-**	**-**	**x**	**408,155**
of which impaired	-	-	-	7,591	-	-	x	7,591

A = financial assets sold and fully recognised (book value)
B = financial assets sold and partially recognised (book value)
C = partially recognised financial assets (full value)

E.2. Financial liabilities against financial assets sold but not derecognised: book value

Liability/Asset portfolio		Financial assets held for trading	Financial assets carried at fair value	Financial assets available for sale	Financial assets held to maturity	Due from banks	Due from customers	Total
1. Due to customers		**-**	**-**	**9,360**	**-**	**-**	**112,814**	**122,174**
a) against fully recognised assets		-	-	9,360	-	-	112,814	**122,174**
b) against partially recognised assets		-	-	-	-	-	-	**-**
2. Due to banks		**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) against fully recognised assets		-	-	-	-	-	-	**-**
b) against partially recognised assets		-	-	-	-	-	-	**-**
3. Securities issued		**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) against fully recognised assets		-	-	-	-	-	-	**-**
b) against partially recognised assets		-	-	-	-	-	-	**-**
Total	**31/12/2016**	**-**	**-**	**9,360**	**-**	**-**	**112,814**	**122,174**
Total	**31/12/2015**	**-**	**-**	**5,857**	**-**	**38,158**	**157,900**	**201,915**

E.3 Sale transactions with liabilities having recourse only to the assets sold: fair value

p.1

Technical type/Portfolio		Financial assets held for trading		Financial assets carried at fair value		Financial assets available for sale		Financial assets held to maturity (fair value)
		A	B	A	B	A	B	A
A. Cash assets		**-**	**-**	**-**	**-**	**(9,370)**	**-**	**-**
1. Debt securities		-	-	-	-	(9,370)	-	-
2. Equity securities		-	-	-	-	-	-	-
3. UCITS		-	-	-	-	-	-	-
4. Loans		-	-	-	-	-	-	-
B. Derivative instruments		**-**	**-**	-	-	-	-	-
	Total Assets	**-**	**-**	**-**	**-**	**(9,370)**	**-**	**-**
C. Associated liabilities		**-**	**-**	**-**	**-**	**9,360**	**-**	**-**
1. Due to customers		-	-	-	-	9,360	-	-
2. Due to banks		-	-	-	-	-	-	-
	Total Liabilities	**-**	**-**	**-**	**-**	**9,360**	**-**	**-**
Net Value	**31/12/2016**	**-**	**-**	**-**	**-**	**(18,730)**	**-**	**-**
Net Value	**31/12/2015**	**-**	**-**	**-**	**-**	**(1)**	**-**	**-**

A = financial assets sold and fully recognised

B = financial assets sold and partially recognised

E.3 Sale transactions with liabilities having recourse only to the assets sold: fair value

p.2

Technical type/Portfolio	Financial assets held to maturity (fair value)	Loans to banks (fair value)		Loans to customers (fair value)		Total	
	B	A	B	A	B	31/12/2016	31/12/2015
A. Cash assets	**-**	**-**	**-**	**(289,737)**	**-**	**(299,107)**	**408,155**
1. Debt securities	-	-	-	-	-	(9,370)	43,826
2. Equity securities	x	x	x	x	x	-	-
3. UCITS	x	x	x	x	x	-	-
4. Loans	-	-	-	(289,737)	-	(289,737)	364,329
B. Derivative instruments	x	x	x	x	x	**-**	**-**
Total Assets	**-**	**-**	**-**	**(289,737)**	**-**	**(299,107)**	**408,155**
C. Associated liabilities	**-**	**-**	**-**	**112,814**	**-**	x	x
1. Due to customers	-	-	-	112,814	-	x	x
2. Due to banks	-	-	-	-	-	x	x
Total Liabilities	**-**	**-**	**-**	**112,814**	**-**	**122,174**	**201,915**
Net Value 31/12/2016	**-**	**-**	**-**	**(402,551)**	**-**	**(421,281)**	x
Net Value 31/12/2015	**-**	**(188)**	**-**	**206,429**	**-**	x	**206,240**

A = financial assets sold and fully recognised
B = financial assets sold and partially recognised

B. Financial assets sold and cancelled fully with recognition of continuous involvement

During the year, the Bank did not have this type of asset.

Section 2 - Market risks

Market risk relates to unexpected variations in market factors such as interest rates, exchange rates and share prices that may cause fluctuations in the value of a position held in the trading book and in the values of investments arising from commercial operations and strategic choices (banking book).

2.1 Interest-rate risk and price risk - regulatory trading book

For the compilation of this section we consider only financial instruments (assets and liabilities) held in the "regulatory trading book", as defined in the provisions on market risk regulatory reporting (see Bank of Italy Circular no. 286 of 17 December 2013).

Qualitative information

A. General aspects

The Bank's trading book is mainly composed of listed bonds, equities, UCITS and derivatives for the hedging of positions. The bond component of the portfolio is made up primarily of short-term bonds issued by the Italian Republic. The prevailing portion of portfolio risk is composed of issuer risk.

The goals and strategies underlying the trading activity involving the own securities portfolio aim to limit risks and maximise returns on the portfolio itself in the field of action laid down in the Group rules on the subject.

B. Management processes and methods for measuring interest rate risk and price risk

The process of managing the market risk of the trading book is governed by a specific company regulation, approved by the Board of Directors and periodically reviewed. This regulation formalises the performance of Risk Management activities regarding market risk, defines the tasks and responsibilities assigned to the different organisational units responsible for the matter and outlines, among other things, the methods of measurement, exposure limits, information flows and any mitigation actions. Investment and trading activities are therefore carried out in compliance with the aforementioned regulation and incorporated in a system of delegation of management powers and within the framework of a regulation that sets forth operating limits that are defined in terms of instruments, amounts, investment markets, issue and issuer types, sector and rating.

The Risk Management Service monitors the exposure to market risk and verifies its consistency with the propensity to risk defined by the company bodies as part of the Risk Appetite Framework and the compliance with the system of limits. The exposure to market risk, consistent with the Risk Appetite Framework adopted by the Banca Sella Group, is monitored with reference to the current portfolio (composed of financial instruments classified as Held for Trading and Available for Sale), held primarily for medium and long-term investment purposes.

Adequate information flows are provided regularly and promptly to the company bodies and management departments.

For prudential purposes to measure the interest rate and price risks inherent in the regulatory trading book, the Banca Sella Group applies the "standardized approach" defined in Bank of Italy Circular no. 285/2013, and subsequent updates. Hence, capital absorption to cover market risk is represented by the sum of the capital requirements for each individual risk that makes up market risk, on the basis of the so-called building block approach.

At the same time as drafting the ICAAP Report (analysis of capital adequacy in accordance with the Second Pillar of Basel 3) and therefore at least once a year, the Parent Company carries out stress tests on the working portfolios. The stress test procedures consist of analysing the economic results upon an occurrence of specific negative events, which are extreme but plausible, (such as, for example, a deterioration in the creditworthiness of issuers of securities in the portfolio).

Quantitative information

1. Regulatory trading book: distribution for remaining duration (re-pricing date) of the financial assets and liabilities in cash and financial derivatives

As allowed by Circular 262/2005 and subsequent updates, this table was not prepared given that in the Notes an analysis of the sensitivity to interest rate risk is provided on the basis of internal models or other methodologies.

2. Regulatory trading book: distribution of exposures in equity securities and equity indices by main quotation market countries

As allowed by Circular 262/2005, this table was not prepared given that in the Notes an analysis of the sensitivity to price risk is provided on the basis of internal models or other methodologies.

3. Regulatory trading book - internal models and other methods used for sensitivity analysis

For management purposes, the trading book market risk is measured and monitored on the basis of the VaR (value at risk), which is basically assessed according to the historical simulation approach. VaR measures the maximum potential loss which, within a certain confidence interval, may occur if a certain portfolio is kept unchanged for a certain period of time. Historical simulation involves daily revaluation of position on the basis of the market price trends over an appropriate time interval. The empirical distribution of gains/losses that results is analysed to determine the effect of extreme market swings on the portfolios. The percentile distribution corresponding to the confidence interval set gives the VaR.

The Risk Management Department carries out checks on VaR trends (time horizon: 3 months and confidence level: 99%) on own portfolios and carries out sensitivity analysis, including: portfolio duration, effects of sudden interest rate shocks. Lastly, checks on the operational limits on investment in securities are constantly guaranteed.

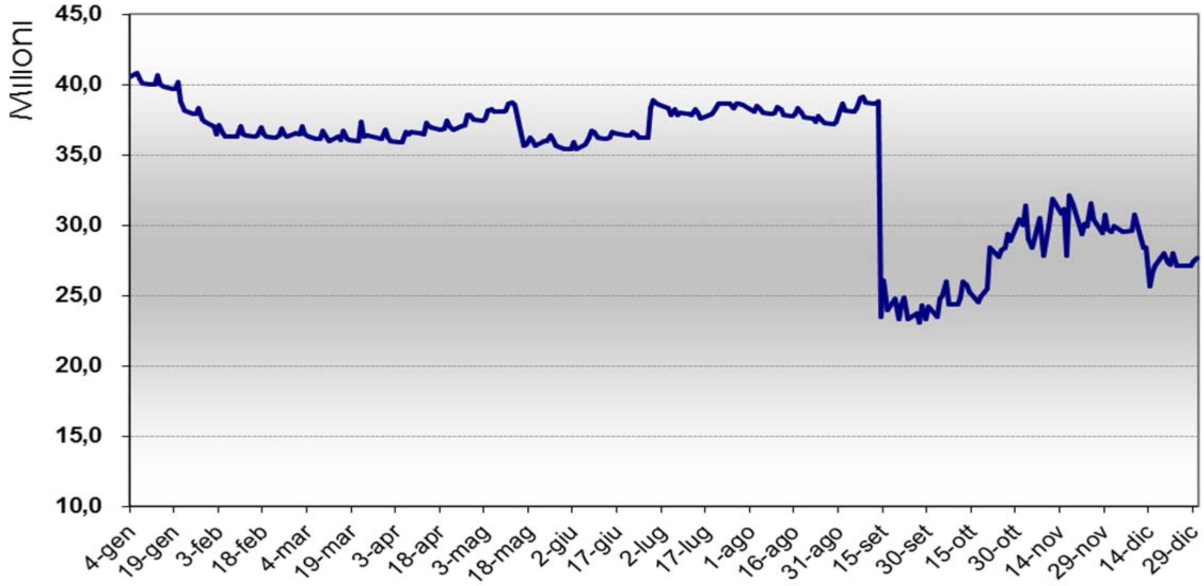
The average duration of the Banca Sella working portfolio is equal to 1.41 years while sensitivity, estimated on a parallel movement of +100 basis points in the interest rate curve, is approximately € 20.8 million (about 1.41% of the portfolio).

The trend in the VaR of Banca Sella (confidence interval 99%, time horizon of 3 months) is shown in the chart below.

During the course of the year, the prudential limits approved by the Bank were not exceeded.

Banca Sella - Working Portfolio

Market Risks VaR (time horizon three months - confidence interval 99%)



Millions - Jan - Jan - Feb - Feb - Mar - Mar - Apr - Apr - May - May - Jun - Jun - Jul - Jul - Aug - Aug - Aug - Sep - Sep - Oct - Oct - Nov - Nov - Dec - Dec

2.2 Interest rate and price risks - banking book

The banking book consists of all the financial instruments (assets and liabilities) not included in the trading book, pursuant to section 2.1, mainly receivables and payables due from and to banks and customers and securities not belonging to the regulatory trading book.

Qualitative information

A. Management processes and methods for measuring interest rate risk and price risk

The main sources of interest rate risk generated in the banking book can be traced back to:

• maturity mismatches (risk connected with the exposure of positions to changes in the slope and the shape of the yield curve);

• mismatches arising from the imperfect correlation between changes in charged and paid interest rates on the various instruments (indexing risk).

Interest rate risk is mainly generated by customer funding and lending transactions, fixed and variable rate securities of the banking book, interbank deposits (assets and liabilities), as well as derivative instruments contracted to mitigate exposure to interest rate risk. The Group's policy is to provide elevated hedging of items, while strategic and management choices are aimed at minimising the volatility of the total economic value when the rate structure changes.

Internal interest rate risk management processes are based on an organisational structure, which provides that the information is analysed at operational level and critically assessed by the Group's ALM Committee every month. This Committee also provides appropriate operational guidelines.

The Risk Management Service monitors, on a monthly basis, the exposure to interest rate risk and verifies its consistency with the propensity to risk defined by the company bodies as part of the Risk Appetite Framework and the compliance with the system of limits. Adequate information flows are provided regularly and promptly to the company bodies and management departments.

The interest rate risk of the banking book is measured through the quantification of the interest rate risk coefficient, equal to the ratio between the change in the economic value of the banking book following interest rate shocks and regulatory capital.

The risk coefficient is calculated using different methods, depending on the purposes:

- compliance test objective: measurement according to the standard methodology indicated by the Bank of Italy in annex C of Bank of Italy Circular no. 285/2013. The measurement performed using the standard methodology allows an evaluation of the impact of a hypothetical variation of +-200[1]basis points in interest rates on the exposure to the interest rate risk. The interest rate risk coefficient calculated in this way should not exceed 20%[2]. Beyond this limit, the Bank of Italy studies the results in depth with the Bank and reserves the right to implement the necessary measures.
- RAF and ICAAP measurement purposes: internal methodology which envisages the use of modelling of “sight items” and the adjustment of positions to take account of ‘prepayments’. The internal methodology follows the standard methodology pursuant to the previous point, without prejudice to the representation of the risk profile generated by the sight items and the prepayment effect.

The methodology adopted for the modelling of sight items (so-called ‘sight items model’), developed in-house by the Parent Company’s Risk Management Service, makes provision for the use of an econometric model which reflects the behavioural characteristics of sight deposits in terms of the persistence (stability over time) and riskiness (reactiveness of the cost of sight deposits to a change in the market rates).

To measure the prepayment effect, the Constant Prepayment Rate (CPR) model is adopted, which measures the annual percentage of prepayment of the items subject to analysis, through the application of the prepayment rate to the amortisation profiles of fixed rate mortgages.

For management purposes, in addition to the risk indicator limit envisaged for the compliance test, internal provisions have been made for more prudential danger thresholds, which, when exceeded, lead to the assessment of operational strategies aimed at mitigating said risk.

The Banca Sella Group carries out, at the consolidated level, stress tests to measure and control interest-rate risk for the banking book at least once a year, at the time the ICAAP Report is prepared. The variables used for the stress tests can be taken from external valuations (e.g. forecasts provided by ABI) or prepared internally with the assistance of the Group’s Financial Analysis service. Stress tests may envisage parallel and immediate shock situations on the rate curve, impacts that may exceed 200 basis points.

B. Fair value hedging activities

Hedging transaction strategies are mainly aimed at mitigating the exposure to interest-rate risk inherent in financial instruments, deriving predominantly from forms of disbursement of credit (general hedges, such as mortgage loans) or bonds issued (specific hedges).

Exposure to interest rate risk inherent in the disbursement of credit is hedged by derivative instruments such as amortising interest rate swaps and cap options, on the basis of the amount of the loan portfolio disbursed and the average maturities of this portfolio. Other interest rate swaps are implemented when fixed-rate bond loans are issued. Additional hedges are established with the goal of mitigating interest-rate risk generated by the forms of funding. Further hedging is put in place to mitigate interest-rate risk or exchange rate risk through simple derivative products such as domestic currency swaps, currency options, or overnight interest swaps traded by customers of the Group’s banks.

The Bank generally adopts measurement methods and techniques based on the Black-Scholes, Monte Carlo and Net Present Value models using a number of parameters, which vary depending on the financial instrument to be measured. These parameters, which are approved by the Parent Company Risk

[1]In compliance with the constraint of non-negative interest rates set forth in Circular no. 285/2013 Title III, chapter 1, annex C.
[2] CRD IV, Article 97, paragraph 5;

Management Service, are chosen and set up on the calculation software at the moment of a request for measurement of a new derivative instrument. At every periodic calculation of the fair value of the financial instrument, first and second level controls are carried out on the aforesaid parameters.

C. Cash flow hedging activities

Due to the substantial balance of assets and liabilities, no hedging is provided for interest-rate risk on cash flow generated by variable rate items.

D. Foreign investment hedging activities

Due to the minor amount of foreign investments, no hedging is provided for the interest-rate risks arising from them.

Quantitative information

1. Banking book: distribution for remaining duration (re-pricing date) of the financial assets and liabilities

As allowed by Circular 262/2005 and subsequent updates, this table was not prepared given that in the Notes an analysis of the sensitivity to interest rate risk is provided on the basis of internal models or other methodologies.

2. Banking book: internal models and other methods used for sensitivity analysis

As indicated in the section relating to “Qualitative information”, the rate risk is measured using proprietary models for the processing of items in liabilities with undefined contractual due dates (sight items) and for the measurement of prepayments. For all other assets and liabilities items, the rules defined by Bank of Italy Circular no. 285/2013, as subsequently amended, are used. The audit is carried out taking into consideration all the positions assumed on and off the balance sheet, but limited to interest-bearing assets and liabilities.

To calculate the internal capital, parallel shifts in the rate curve of +200 basis points (increase scenario) and -40 basis points (decrease scenario compatible with the constraint of non-negative interest rates) are hypothesised respectively.

The sensitivity analysis figures at 31.12.2016 show a low risk for the Banca Sella banking book (see the table below for total and percentage impact on the economic value).

Shift	Total Sensitivity	Regulatory Capital	Sensitivity %
+200 bps / -40 bps	14.77	896	1.65%

Amounts in Euro millions

The price risk of the portfolio is attributable primarily to the equity interests held for permanent investment purposes. These relate to positions assumed directly on the basis of the provisions authorised by the Board of Directors and managed by the Bank’s Treasury from an operational standpoint. The price risk for these financial instruments is monitored using the investment management approach.

2.3 Exchange rate risk

All the assets and liabilities (both on and “off-balance-sheet”) in currencies fall under this risk profile, including operations in Euro indexed to the performance of currency exchange rates. Operations in gold are considered as similar to currency operations.

Exchange rate risk is monitored in relation to the entire balance sheet.

Qualitative information

A. General aspects, management processes and methods of managing the risk of exchange rate

Foreign exchange risk is monitored with the “standardised method” indicated by the Bank of Italy in Circular no. 285/2013.

During 2016, the limit of 2% of regulatory capital defined for positions in foreign currency held by Banca Sella was not exceeded. Therefore, no capital requirements were generated in regards to foreign exchange risk.

The Risk Management Department monitors exchange risk exposure values and reports them to the Group’s ALM Committee. This committee, with the assistance of the Parent Company Treasury, assesses possible hedging action, should the exposures to given currencies be considered significant.

B. Exchange rate risk hedging activities

Banca Sella hedges transactions in foreign currency daily. The Bank activity typically subject to this risk is lending, customer deposits and bank-issued securities denominated in foreign currency.

Quantitative information

1. Distribution by currency of denomination of assets, liabilities and derivatives

Item	Currency					
	USD	AUD	CHF	GBP	NOK	OTHER CURRENCIES
A. Financial assets	**141,355**	**5,472**	**8,225**	**10,906**	**429**	**13,503**
A.1 Debt securities	2,170					
A.2 Equity securities	11,120					
A.3 Loans and advances to banks	110,295	266	5,399	9,701	429	11,254
A.4 Loans and advances to customers	17,770	5,206	2,826	1,205	-	2,249
A.5 Other financial assets						
B. Other assets	**2,226**	**209**	**1,072**	**693**	**82**	**518**
C. Financial liabilities	**131,077**	**5,716**	**9,252**	**11,502**	**510**	**11,562**
C.1 Due to banks	68	2,867	2	-		2,089
C.2 Due to customers	131,009	2,849	9,250	11,502	510	9,473
C.3 Debt securities						
C.4 Other financial liabilities						
D. Other liabilities	**5**			**4**		**380**
E. Financial derivatives	**(2,453)**	**23**	**(126)**	**(80)**	**6**	**(123)**
- Options						
+ Long positions	108,846	2,622	2,433	7,774	562	9,515
+ Short positions	108,928	2,590	2,460	7,788	557	9,526
- Other derivatives						
+ Long positions	94,649	3,746	1,703	9,793	221	4,796
+ Short positions	97,020	3,755	1,802	9,859	220	4,908
Total Assets	**347,076**	**12,049**	**13,433**	**29,166**	**1,294**	**28,332**
Total Liabilities	**337,030**	**12,061**	**13,514**	**29,153**	**1,287**	**26,376**
Imbalance (+/-)	**10,046**	**(12)**	**(81)**	**13**	**7**	**1,956**

2.4 Derivatives instruments

The tables below show the stand alone financial and credit derivatives and derivatives incorporated into hybrid instruments.

A. Financial derivatives

A.1 Regulatory trading book: notional amounts at end of period

Underlying assets/Type of derivatives	Total 31/12/2016		Total 31/12/2015	
	Over the counter	Central Counterparties	Over the counter	Central Counterparties
1. Debt securities and interest rates	**339,807**	**-**	**287,450**	**-**
a) Options	75,139	-	75,830	-
b) Swaps	264,668	-	211,620	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
2. Equity securities and equity indices	**-**	**-**	**-**	**-**
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
3. Currencies and gold	**858,280**	**-**	**765,079**	**-**
a) Options	641,899	-	442,488	-
b) Swaps	30,502	-	36,066	-
c) Forward	185,879	-	286,525	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
4. Commodities	**-**	**-**	**-**	**-**
5. Other underlying	**-**	**-**	**-**	**-**
Total	**1,198,087**	**-**	**1,052,529**	**-**

A.2 Banking book: notional amounts at end of period

A.2.1 For hedging

Underlying assets/Type of derivatives	Total 31/12/2016		Total 31/12/2015	
	Over the counter	Central Counterparties	Over the counter	Central Counterparties
1. Debt securities and interest rates	**568,454**	**-**	**678,294**	**-**
a) Options	-	-	-	-
b) Swaps	568,454	-	678,294	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
2. Equity securities and equity indices	**-**	**-**	**-**	**-**
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
3. Currencies and gold	**-**	**-**	**-**	**-**
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
4. Commodities	**-**	**-**	**-**	**-**
5. Other underlying	**-**	**-**	**-**	**-**
Total	**568,454**	**-**	**678,294**	**-**

A.2.2 Other derivatives

Underlying assets/Type of derivatives	Total 31/12/2016		Total 31/12/2015	
	Over the counter	Central Counterparties	Over the counter	Central Counterparties
1. Debt securities and interest rates	**2,090,863**	**-**	**2,793,207**	**-**
a) Options	2,090,863	-	2,793,207	-
b) Swaps	-	-	-	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
2. Equity securities and equity indices	**-**	**-**	**-**	**-**
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
3. Currencies and gold	**4,313**	**-**	**11,368**	**-**
a) Options	4,313	-	11,368	-
b) Swaps	-	-	-	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
4. Commodities	**-**	**-**	**-**	**-**
5. Other underlying	**-**	**-**	**-**	**-**
Total	**2,095,176**	**-**	**2,804,575**	**-**

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

Portfolio/Type of derivatives	Positive fair value			
	Total	31/12/2016	Total	31/12/2015
	Over the counter	Central Counterparties	Over the counter	Central Counterparties
A Regulatory trading book	**17,827**	**-**	**14,225**	**-**
a) Options	9,144	-	5,268	-
b) Interest Rate Swaps	5,148	-	5,295	-
c) Cross currency swap	-	-	-	-
d) Equity Swap	-	-	-	-
e) Forward	2,989	-	3,459	-
f) Futures	-	-	-	-
g) Other	546	-	203	-
B. Banking book - hedging	**5,927**	**-**	**10,282**	**-**
a) Options	-	-	-	-
b) Interest Rate Swaps	5,927	-	10,282	-
c) Cross currency swap	-	-	-	-
d) Equity Swap	-	-	-	-
e) Forward	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
C. Banking book - other derivatives	**3,444**	**-**	**4,463**	**-**
a) Options	3,444	-	4,463	-
b) Interest Rate Swaps	-	-	-	-
c) Cross currency swap	-	-	-	-
d) Equity Swap	-	-	-	-
e) Forward	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
Total	**27,198**	**-**	**28,970**	**-**

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

Portfolio/Type of derivatives	Negative fair value			
	Total	31/12/2016	Total	31/12/2015
	Over the counter	Central Counterparties	Over the counter	Central Counterparties
A Regulatory trading book	**17,994**	**-**	**14,791**	**-**
a) Options	9,189	-	5,333	-
b) Interest Rate Swaps	5,270	-	5,549	-
c) Cross currency swap	-	-	-	-
d) Equity Swap	-	-	-	-
e) Forward	2,914	-	2,704	-
f) Futures	-	-	-	-
g) Other	621	-	1,205	-
B. Banking book - hedging	**111,206**	**-**	**115,422**	**-**
a) Options	-	-	-	-
b) Interest Rate Swaps	111,206	-	115,422	-
c) Cross currency swap	-	-	-	-
d) Equity Swap	-	-	-	-
e) Forward	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
C. Banking book - other derivatives	**2,524**	**-**	**4,216**	**-**
a) Options	2,524	-	4,216	-
b) Interest Rate Swaps	-	-	-	-
c) Cross currency swap	-	-	-	-
d) Equity Swap	-	-	-	-
e) Forward	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
Total	**131,724**	**-**	**134,429**	**-**

A.5 OTC financial derivatives - Regulatory trading book: notional values, gross positive and negative fair value by counterparty - contracts not covered by netting agreements

Contracts not covered by netting agreements	Governments and Central Banks	Other public bodies	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities
1. Debt securities and interest rates							
- notional value	-	-	-	11,000	-	155,151	3,753
- positive fair value	-	-	-	575	-	4,521	79
- negative fair value	-	-	-	-	-	161	6
- future exposure	-	-	-	55	-	1,098	5
2. Equity securities and equity indices							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
3. Currencies and gold							
- notional value	-	-	-	-	-	391,167	35,591
- positive fair value	-	-	-	-	-	4,737	988
- negative fair value	-	-	-	-	-	6,650	78
- future exposure	-	-	-	-	-	2,536	390
4. Other values							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-

A.6 OTC financial derivatives - Regulatory trading book: notional values, gross positive and negative fair value by counterparty - contracts covered by netting agreements

Contracts covered by netting agreements	Governments and Central Banks	Other public bodies	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities
1. Debt securities and interest rates							
- notional value	-	-	169,903	-	-	-	-
- positive fair value	-	-	190	-	-	-	-
- negative fair value	-	-	5,307	-	-	-	-
2. Equity securities and equity indices							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
3. Currencies and gold							
- notional value	-	-	431,522	-	-	-	-
- positive fair value	-	-	6,737	-	-	-	-
- negative fair value	-	-	5,792	-	-	-	-
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 value by counterparty - contracts not covered by netting agreements

Contracts not covered by netting agreements	Governments and Central Banks	Other public bodies	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities
1. Debt securities and interest rates							
- notional value	-	37	-	38,838	-	595,684	1,146,928
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	40	2,484
- future exposure	-	-	-	-	-	-	-
2. Equity securities and equity indices							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
3. Currencies and gold							
- notional value	-	-	-	-	-	1,557	2,756
- positive fair value	-	-	-	-	-	14	26
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	16	27
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 value by counterparty - contracts covered by netting agreements

Contracts covered by netting agreements	Governments and Central Banks	Other public bodies	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities
1. Debt securities and interest rates							
- notional value	-	-	877,830	-	-	-	-
- positive fair value	-	-	9,331	-	-	-	-
- negative fair value	-	-	111,206	-	-	-	-
2. Equity securities and equity indices							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
3. Currencies 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 asset/Residual life		Up to 1 year	From 1 year to 5 years	More than 5 years	Total
A. Regulatory trading book		**885,148**	**167,025**	**145,914**	**1,198,087**
A.1 Financial derivatives on debt securities and interest rates		28,765	165,128	145,914	339,807
A.2 Financial derivatives on equity securities and equity indices		-	-	-	-
A.3 Financial derivatives on exchange rates and gold		856,383	1,897	-	858,280
A.4 Financial derivatives on other securities		-	-	-	-
B. Banking book		**170,739**	**506,593**	**1,986,298**	**2,663,630**
B.1 Financial derivatives on debt securities and interest rates		166,426	506,593	1,986,298	2,659,317
B.2 Financial derivatives on equity securities and equity indices		-	-	-	-
B.3 Financial derivatives on exchange rates and gold		4,313	-	-	4,313
B.4 Financial derivatives on other securities		-	-	-	-
Total	**31/12/2016**	**1,055,887**	**673,618**	**2,132,212**	**3,861,717**
Total	**31/12/2015**	**1,012,746**	**874,606**	**2,648,046**	**4,535,398**

B. Credit derivatives

At 31 December 2016 and during the year, the Bank did not have any operations of this type.

C. Financial and credit derivatives

C.1 Financial derivatives and credit derivatives: net fair values and future exposure by counterparty

	Governments and Central Banks	Other public bodies	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities
1) Bilateral financial derivatives	**-**	**-**	**177,888**	**-**	**-**	**-**	**-**
- positive fair value	-	-	16,258	-	-	-	-
- negative fair value	-	-	122,305	-	-	-	-
- future exposure	-	-	11,549	-	-	-	-
- net counterparty risk	-	-	27,776	-	-	-	-
2) Bilateral credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
- net counterparty risk	-	-	-	-	-	-	-
3) “Cross product” agreements	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
- net counterparty risk	-	-	-	-	-	-	-

Section 3 - Liquidity risk

Qualitative information

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

Liquidity risk corresponds to the risk arising from the inability to meet promises to pay, which may be caused by the inability to raise funds (funding liquidity risk) or by the presence of asset liquidity limits (market liquidity risk).

The Banca Sella Group's liquidity risk management ensures the maintenance of conditions of economic and financial equilibrium of the Group and guarantees the pursuit of the objectives of sound and prudent management. The governance model defined for managing the Banca Sella Group's liquidity risk is based on the following principles:

- prudent management of liquidity risk to ensure solvency, including under stress conditions;
- conformity of liquidity risk management and monitoring processes and methods with prudential regulatory indications;
- decision sharing and distinction of responsibilities among management, controlling and operating bodies;

The liquidity level is managed by the Banca Sella Holding Finance Department. The Finance Department's objective is to direct, coordinate and control the Banca Sella Group's financial activities, through careful management of risk and a solid liquidity position. In particular, Banca Sella Holding's ALM and Treasury service holds a central role in this area, which engages in careful management of the Group's liquidity, helping, in observance of the risk parameters set in the Risk Appetite Framework, to increase the value of the company over time. The ALM and Treasury service also contributes to the valuation of liquidity reserves. The Group's Treasuries, where present, are responsible for liquidity management in accordance with the principles and strategic guidelines that apply to the Group.

Banca Sella Holding's Risk Management Service is responsible for measuring the liquidity risk, determining the liquidity situation at consolidated level, both under ordinary operating conditions and under stress conditions, defining the risk objectives in terms of the Risk Appetite Framework, their monitoring and the related reporting and warning activities. Banca Sella Holding's Risk Management Service is also responsible for the valuation of the liquidity reserves. The Risk Management Departments of the Group companies are delegated the responsibility for controlling and monitoring liquidity risk, verifying compliance with the approved limits consistent with the Group levels and adequate reporting to its company bodies.

In addition, the liquidity position is examined and critically evaluated on a monthly basis by the Group's ALM Committee. This Committee also provides appropriate operational guidelines.

The Banca Sella Group employs a Contingency Funding Plan (CFP) to manage liquidity risk under stress conditions. The CFP is the plan for managing liquidity contingency situations in order to deal with adverse situations in obtaining funds and to guarantee the prompt economic and financial stability of the Banca Sella Group.

Liquidity risk is measured on the basis of different time horizons: “Intraday”, “Short-term” and “Structural". The Group also autonomously performs activities involving the evaluation of the degree of liquidity of financial instruments held as liquidity reserve.

A broad set of indicators are used for the measurement focused on the trend in the systemic and specific liquidity situation, including the regulatory indicators LCR (Liquidity Coverage Ratio) and NSFR (Net Stable Funding Ratio).

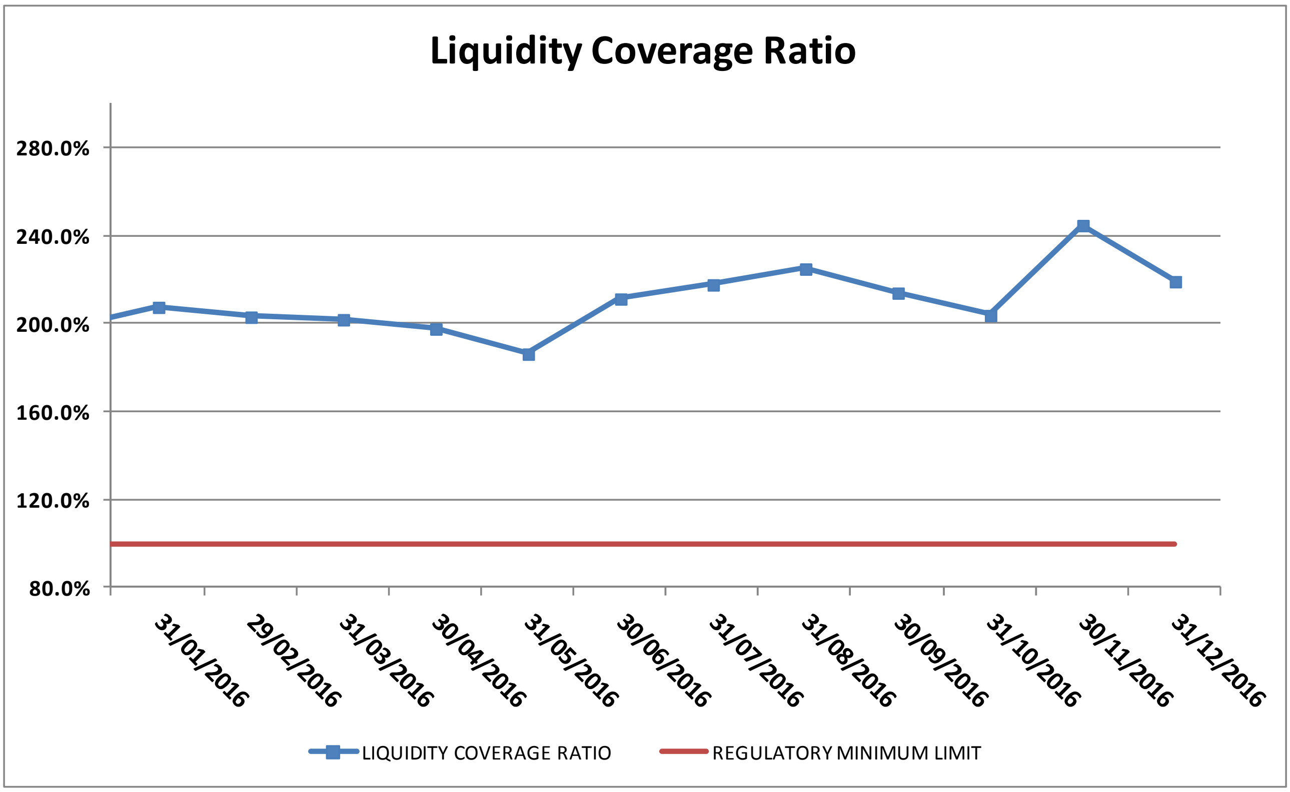
In addition to the information provided by liquidity indicators, Banca Sella Holding's Risk Management service and the Finance Department of Banca Sella Group are responsible for carrying out stress analyses on the liquidity reserve of the Group itself.

The approach underlying the stress analysis consists in assessing, through the use of a Maturity Ladder[3], the ability to withstand a liquidity crisis (measured in days), of the entire Banca Sella Group if a systemic or specific crisis situation arises. The ability to withstand is calculated under the assumption that the business structure and capital profile of the Group will not be altered.

The Maturity Ladder is realised through the time-band mapping (horizon up to 3 months) of current and expected cash flows, together with items regarded as "potential liquidity reserves". This instrument allows assessing in various operational scenarios (business as usual and stress scenario) the net financial position as to liquidity in different time buckets.

The stress test has always demonstrated cash and cash equivalents or easily cashed assets for the Group that are adequate to deal with any crises, of either systemic or specific origin.

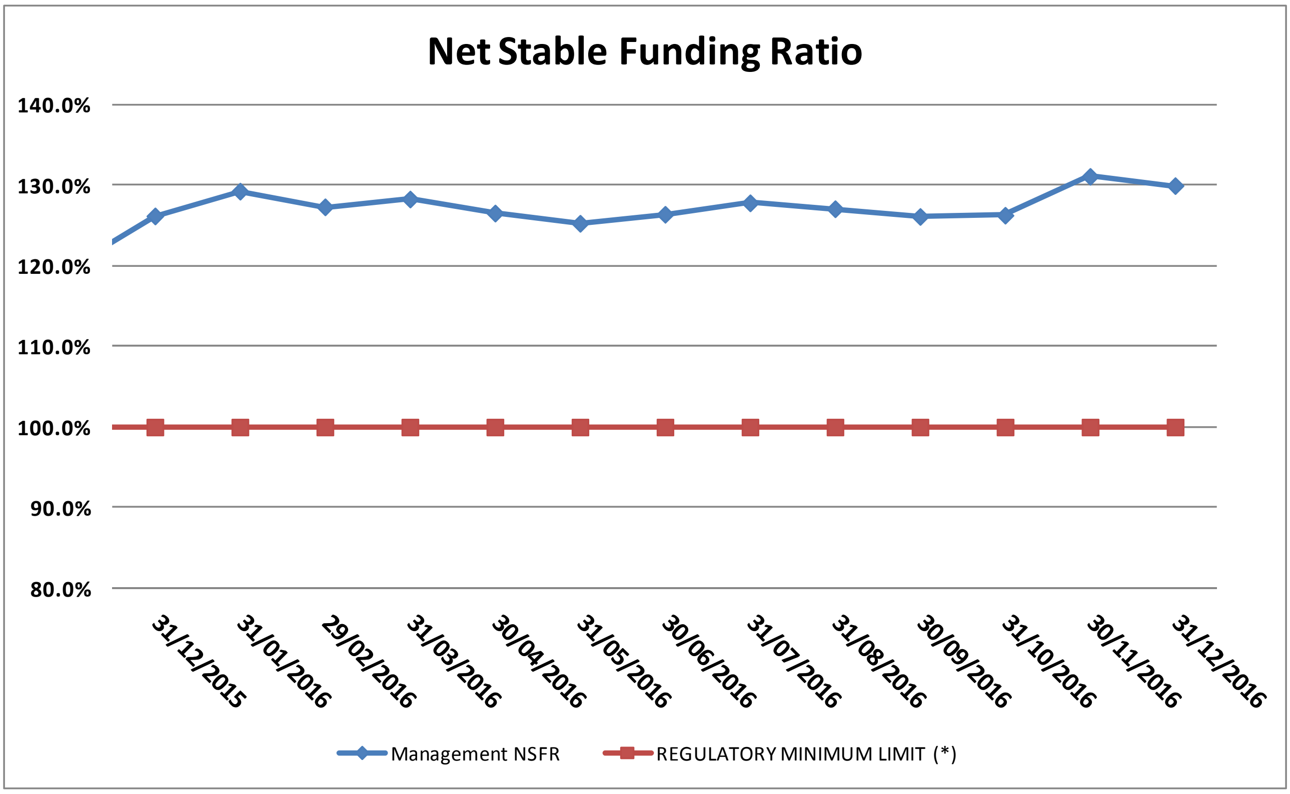
The trend in the short-term liquidity ratio (LCR) of the Banca Sella Group is reported below, which gives an indication of the Group's ability to deal with net cash outflows over a period of 30 days with a stock of high quality liquid assets. The minimum regulatory limit of this ratio is 100%[4].



[3] A Maturity Ladder is the projection of the net financial position over time

[4] The regulatory limit of 100% will come into force on 1 January 2018. The limit of DELEGATED REGULATION (EU) no. 61/2015 which envisages a gradual phase-in period of 3 years is still in force. From 1 January 2016, the regulatory limit is 70%.

The trend in the Banca Sella Group's structural liquidity ratio (NSFR) is reported below, calculated at management level, which gives an indication of the Group's capacity to ensure an adequate level of stable funding to finance medium/long-term lending. This ratio will come into force in January 2018, with a minimum regulatory limit of 100%.



Quantitative information

1. Time distribution of financial assets and liabilities by residual contractual term- currency of denomination: EURO

Item/ Time band	On demand	More than 1 day to 7 days	More than 7 days to 15 days	More than 15 days to 1 month	More than 1 month to 3 months	More than 3 months to 6 months	More than 6 months to 1 year	More than 1 year to 5 years	More than 5 years	No fixed term
Cash assets	**2,924,272**	**59,830**	**95,244**	**233,240**	**609,441**	**753,952**	**911,302**	**2,882,984**	**2,057,527**	**-**
A.1 Government securities	-	-	32	-	15,106	286,417	357,872	396,184	255,835	-
A.2 Other debt securities	1	-	7,587	18,202	14,626	14,756	42,121	86,951	34,401	-
A.3 UCITS units	3,898	-	-	-	-	-	-	-	-	-
A.4 Loans and advances	2,920,373	59,830	87,625	215,038	579,709	452,779	511,309	2,399,849	1,767,291	-
- Banks	1,757,057	-	1	89,211	23	-	-	-	-	-
- Customers	1,163,316	59,830	87,624	125,827	579,686	452,779	511,309	2,399,849	1,767,291	-
Cash liabilities	**8,200,154**	**15,644**	**31,568**	**50,545**	**122,682**	**144,127**	**207,626**	**1,073,550**	**106,935**	**-**
B.1 Deposits and current accounts	8,097,206	7,487	13,529	26,236	91,409	122,139	128,386	629,590	1,219	-
- Banks	32,481	-	-	-	-	-	-	335,000	-	-
- Customers	8,064,725	7,487	13,529	26,236	91,409	122,139	128,386	294,590	1,219	-
B.2 Debt securities	75	243	17,494	21,251	29,870	13,651	69,927	271,903	33,994	-
B.3 Other liabilities	102,873	7,914	545	3,058	1,403	8,337	9,313	172,057	71,722	-
Off-balance sheet transactions										
C.1 Financial derivatives with equity swaps										
- Long positions	-	12,119	2,024	26,462	71,328	58,217	47,736	515	10	-
- Short positions	47	11,027	1,824	26,191	71,947	52,554	48,308	486	-	-
C.2 Financial derivatives without equity swaps										
- Long positions	5,366	212	-	-	673	698	1,191	2,370	1,955	-
- Short positions	5,475	2,699	-	-	2,468	5,082	9,142	55,258	39,330	-
C.3 Deposits and loans receivable										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to provide funds										
- Long positions	148,320	79	34	796	897	5,930	2,584	21,148	62,180	-
- Short positions	156,834	1,806	-	-	21,148	12,655	49,525	-	-	-
C.5 Financial guarantees issued	-	-	9	-	-	13	25	31	190	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

1. Time distribution of financial assets and liabilities by residual contractual term- currency of denomination: OTHER CURRENCIES

Item/ Time band	On demand	More than 1 day to 7 days	More than 7 days to 15 days	More than 15 days to 1 month	More than 1 month to 3 months	More than 3 months to 6 months	More than 6 months to 1 year	More than 1 year to 5 years	More than 5 years	No fixed term
Cash assets	**144,633**	**1,669**	**782**	**3,412**	**14,357**	**1,782**	**190**	**5**	**2,372**	**-**
A.1 Government securities	-	-	-	-	-	-	-	-	-	-
A.2 Other debt securities	-	-	-	-	-	27	-	-	2,372	-
A.3 UCITS units	-	-	-	-	-	-	-	-	-	-
A.4 Loans and advances	144,633	1,669	782	3,412	14,357	1,755	190	5	-	-
- Banks	137,351	-	-	-	-	-	-	-	-	-
- Customers	7,282	1,669	782	3,412	14,357	1,755	190	5	-	-
Cash liabilities	**110,747**	**86**	**179**	**1,070**	**15,895**	**22,322**	**19,148**	**-**	**-**	**-**
B.1 Deposits and current accounts	109,442	-	179	1,070	15,895	22,322	19,148	-	-	-
- Banks	5,027	-	-	-	-	-	-	-	-	-
- Customers	104,415	-	179	1,070	15,895	22,322	19,148	-	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	1,305	86	-	-	-	-	-	-	-	-
Off-balance sheet transactions										
C.1 Financial derivatives with equity swaps										
- Long positions	48	10,400	1,868	28,487	77,191	57,589	54,427	497	-	-
- Short positions	-	12,441	2,074	28,653	76,391	62,462	53,781	496	-	-
C.2 Financial derivatives without equity swaps										
- Long positions	546	-	-	-	-	-	-	-	-	-
- Short positions	621	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans receivable										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to provide funds										
- Long positions	-	33	-	-	-	-	-	-	-	-
- Short positions	-	33	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

Section 4 - Operating risks

Qualitative information

A. General aspects, management processes and methods of measuring operating risk

Operating risk is the risk of suffering losses deriving from the inadequacy or failure of procedures, human resources and internal systems, or from external events. This type includes, among others, losses deriving from internal/external fraud, human errors, business interruptions, unavailability of systems, contractual non-fulfilment and natural catastrophes. Operating risk includes legal risk, but does not include strategic and reputational risks.

The Parent Company Banca Sella Holding, more specifically the Risk Management Service, fulfils the function of management and coordination for the control of exposure to the risks assumed by the Banca Sella Group companies in carrying out their ordinary and extraordinary business, delegating the specific operational aspects to the Bank's Risk Management service. This service is responsible for measuring, monitoring and managing the Bank's exposure to the risks indicated under the First and Second Pillars of Basel III and, in particular, verifying compliance with the regulations, the guidelines provided by the Parent Company and the propensity to operating risk defined by the body responsible for strategic supervision.

The operating risk measurement, management and control systems adopted by the Banca Sella Group can be summed up in the operating risk management framework, which is made up of:

- collection of quantitative data related to operating loss and the income statement;
- mitigation and control organisational structures;
- operating risk exposure assessment;
- output and tools to assist in managing operating risk.

Through the data collection activity the necessary information is collected to assess the exposure to operating risk of the Group as a whole and of individual Companies. In addition, the data collection activity allows to promptly inform the Risk Management service about operating risks taking place inside the Group and the respective operating loss, in order to take remedial action. The operating risk detection instruments include:

- the computer applications for the collection of operating losses (Anomaly Detection procedure to support the "Control Cycle");
- operating risk loss data from external sources (DIPO - Italian Operational Loss Database, joined by the Banca Sella Group)[5];
- the factors of the operating context and the internal control system, that is specific KPIs (Key Performance Indicators) or KRIs (Key Risk Indicators) that reflect improvement or worsening of the bank/group's risk profile following actions taken or reinforcement of controls (e.g.: service level indicators, anomalies and inspection findings, process ratings and business growth).

The Control Cycle is an internal process that has been effectively adopted by the entire Group for several years for the processing of anomalies and removing the effects and the causes that generated them. This process, through the use of a specific software application, presides over the work of surveying, monitoring and managing all the anomalous events that occur in all the Group companies, so as to facilitate the consequent follow-up activities.

Ex ante and ex post organisational protections, established to mitigate and control operating risk, make it possible to monitor and limit the occurrence of operating risk events and their associated losses. In fact, effective

[5]DIPO information also allows comparing internal operating loss data and system operating loss data (DIPO – Italian Operational Loss Database).

organisational protections allow for timely identification of any inefficiencies and the establishment of appropriate mitigation strategies.

The main organisational controls adopted by the Banca Sella Group and, more specifically, Banca Sella, to mitigate and control operating risk, in addition to the above-mentioned Control Cycle process, incorporate the assessment of the risk of new initiatives and IT risk, mapping and validating company processes, certifying and reporting service levels and line controls, and controls by means of the “alarm bells” (automatic processing and/or KRIs related to accounting, movement of accounts, use of products and access to services with the goal of identifying and/or preventing possible operational anomalies, generated by subjects outside and/or inside the company).

The assessment of new initiatives is performed through the ex-ante analysis of the risks that may be determined by the creation of new products/services or entry into new businesses and markets. This assessment permits the assignment of a “risk exposure” indicator on a normal scale with values ranging from 1 (minimum risk) to 5 (maximum risk), and favours the implementation of mitigating actions to ensure the risk assumed is in line with the risk appetite profiles approved by the Board of Directors.

As regards the monitoring of IT risk, evaluations are carried out to determine the ICT risk profile of the intermediary, linking IT risk with the organisational context. In respect of which, for each ICT resource, its risk is calculated as a combination of the probability of occurrence of the risk scenarios identified and the impact in critical terms on a scale of 1 (minimum risk) to 5 (maximum risk).

In the context of company process validation, each process is “assigned” a rating of the operating risk inherent in a process (which assesses the risk factors on the process without taking into account the mitigating effect of existing audits) and a rating of the residual operating risk of the process (obtained by assessing the mitigating effect of audits of the inherent risks). The risk ratings are measured on a discrete scale with values from 1 (minimum risk) to 5 (maximum risk). For the purposes of early detection of symptoms of process vulnerability and having an immediate perception of the areas most exposed to risks, end to end mapping of business processes was carried out[6].

In the case of the assessments of both new initiatives, of IT risk and of processes with a residual operating risk of equal to or higher than 4, before any action is taken, the Committee for the Assumption of Operating risk must first perform an examination and evaluation, as the Parent Company’s approval mechanism.

In addition, the activities carried out by the Banca Sella “Network Controls” function also contribute to the mitigation of operating risk, aimed at maintaining adequate supervision of operating risk control. The activities carried out by this service consist in centralised and second level controls of the activities carried out by the Banca Sella network.

Monitoring of the risk translates also into specific reporting functions at all levels of the corporate organisation, in accordance with the legislation which states that timely information must be provided on the subject of operating risks. The Control Cycle provides the information basis which, at the occurrence of the anomaly and according to a precise escalation, generates and sends communication flows to the parties concerned.

In addition, in order to ensure an assessment of the performance of the management of operating risk, the Risk Management service produces regular summary and detailed statements which summarise for each Group company, the degree of risk assumed in relation to:

- anomalous events and operating losses reported in the Audit Cycle database (highlighting the more serious anomalies);
- the outcome of line audits;

[6]The process is defined as end-to-end when it is set up in such a way as to form a “value flow” in complete logic of satisfying the intended purposes of the customer, whether internal or external, starting from the request and running through to delivery of the service.

- the trend in service levels;

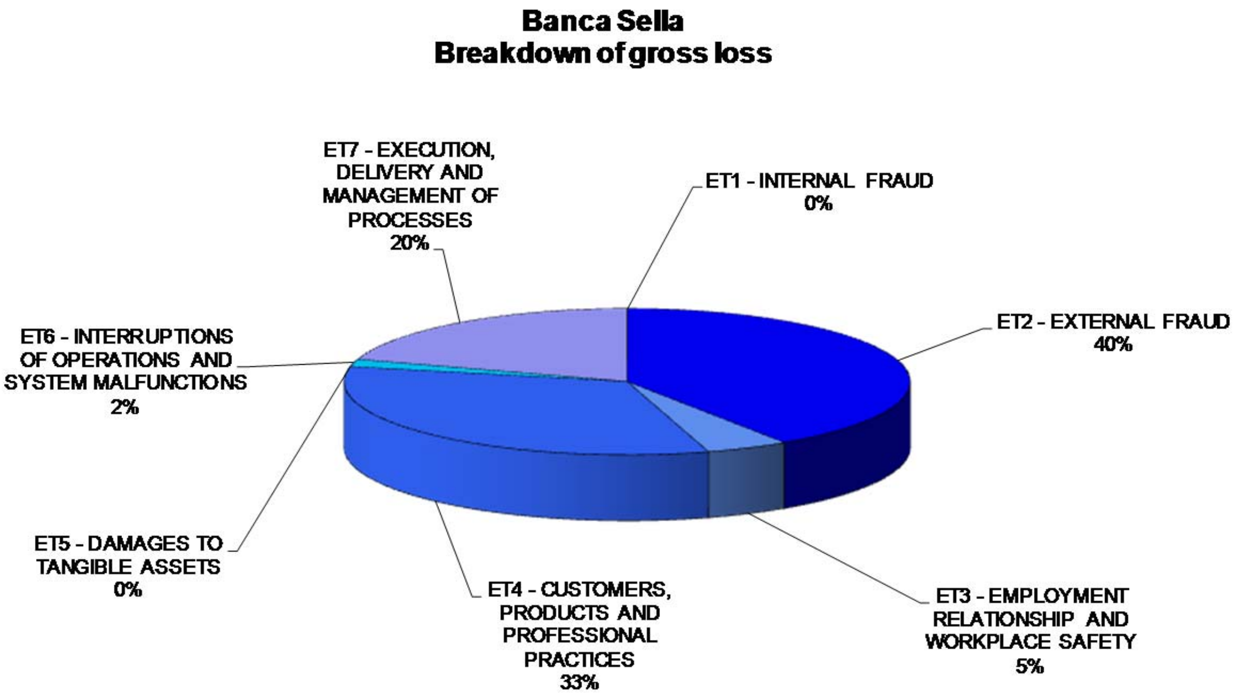
This evidence is disclosed, at different levels of details and according to severity, to the managers overseeing risks, the CEOs, appointed committees and corporate bodies.

Regarding legal issues, note that the Bank is involved in a number of legal proceedings of various types and legal proceedings originating from the ordinary performance of their activities. In as much as it is not possible to predict the final results with certainty, it is held that any unfavourable results of said proceedings would not have, either singularly or as a whole, important negative effects on the financial and economic situation of the Bank.

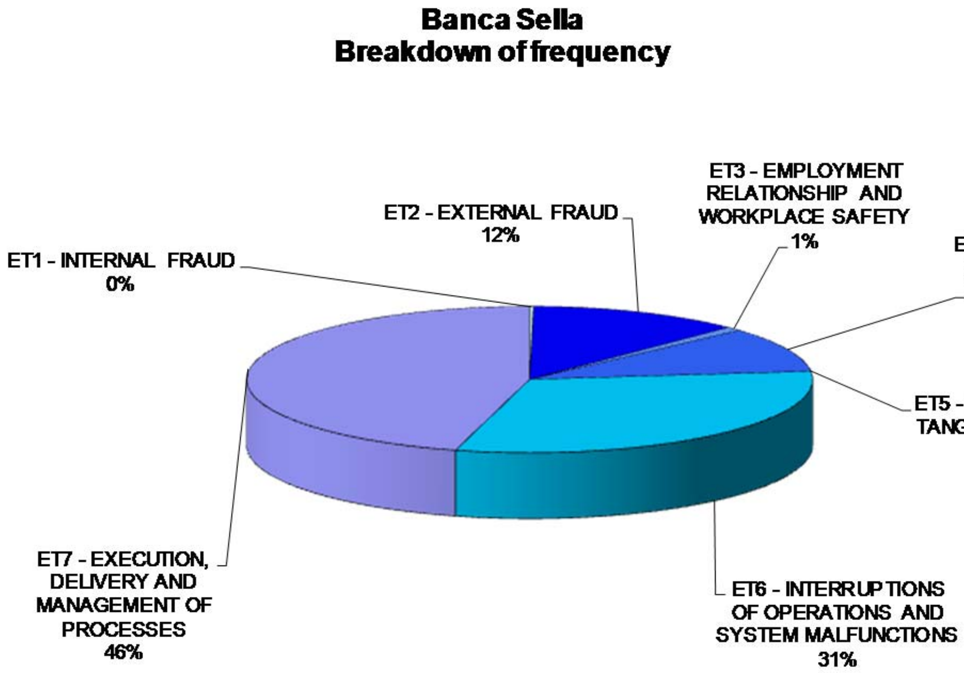
For the purposes of calculation of the capital requirement to cover exposure to operating risk, the method adopted is the Basic Indicator Approach (BIA). In the Basic method, capital requirements are calculated by applying a fixed regulatory ratio of 15% to the three-year average of the indicator in question[7].

Quantitative information

The graphs below, resulting from the processing of the information contained in the Loss Data Collection, illustrate the operating loss data relevant to the period 01/01/2016–31/12/2016, classified by type of event according to Basel 2 and subdivided in terms of impact and frequency.



[7] Article 316 - Title III - PART THREE of Regulation EU 575/2013 of the European Parliament and Council of 26 June 2013 details the elements to be added together to calculate the indicator in question. Table 1 of this article shows: 1) interest and similar income; 2) interest and similar expense; 3) income from shares, units and other securities with variable/fixed income; 4) income from fees/commissions; 5) charges from fees/commissions; 6) profit (loss) from financial operations; 7) other operating income.


Banca Sella
Breakdown of frequency
ET1 - INTERNAL FRAUD
0%
ET2 - EXTERNAL FRAUD
12%
ET3 - EMPLOYMENT RELATIONSHIP AND WORKPLACE SAFETY
1%
ET4 - CUSTOMERS, PRODUCTS AND PROFESSIONAL PRACTICES
10%
ET5 - DAMAGES TO TANGIBLE ASSETS
0%
ET6 - INTERRUPTIONS OF OPERATIONS AND SYSTEM MALFUNCTIONS
31%
ET7 - EXECUTION, DELIVERY AND MANAGEMENT OF PROCESSES
46%

Part F - Information on consolidated equity

Section 1 - Corporate equity

A. Qualitative information

As of 1 January 2014, the new harmonised regulations for banks and investment companies took effect as found in regulation 575/2013 (CRR) and in directive 2013/36/EU (CRD IV), which implement within the European Union the standards defined by the Basel Committee for bank supervision (Basel 3).

To implement and support the application of the new EU regulations, as well as to fully revise and simplify supervisory regulations for banks, the Bank of Italy issued Circular 285 “Supervisory provisions for banks” and subsequent updates which:

i) implement the regulations of CRD IV, which the Bank of Italy is responsible for enacting, pursuant to the Consolidated Banking Act;

ii) indicates the methods in which discretion was used, as granted to national authorities in the EU regulations;

iii) outlines a complete, organic and rational regulatory framework, integrated with the directly applicable EU rules, so as to make it easier to use by operators.

Within Banca Sella, capital adequacy is ensured through Capital Management activities.

The Capital Management plan is defined together with the strategic plan and the Risk Appetite Framework (RAF) and is made concrete through assessing the impact of ordinary operations and defining any extraordinary operations with an eye to meeting the capitalisation objectives (represented by the Common Equity Tier 1 ratio) held to be necessary and adequate to ensure the Bank has a solid and sustainable situation, both now and in the future.

The Capital Management plan is systematically monitored by the Parent Company Risk Management area, through activities that supervise capital amounts and absorption, including:

i) monthly calculation of final figures, based on operating profit achieved;

ii) quarterly simulation of future trends, aimed at preventing any situations in which the established levels are not respected.

The Bank’s solvency ratios are included in the monthly reports prepared for the Board of Directors and for the Group’s Alignment and Trend Verification Meeting.

B. Quantitative information

B.1 Corporate equity: breakdown

Item/Value	Amount 31/12/2016	Amount 31/12/2015
1. Capital	334,228	334,228
2. Share premiums	366,090	366,090
3. Reserves	30,321	24,316
- of profits	164,071	158,066
a) legal	36,388	35,666
b) statutory	94,773	93,571
c) treasury shares	-	-
d) other	32,909	28,829
- other	(133,750)	(133,750)
3.5 Advances on dividends	-	-
4. Equity instruments	-	-
5. (Treasury shares)	-	-
6. Valuation reserves	378	40,522
- Financial assets available for sale	5,891	44,418
- Actuarial profits (losses) in relation to defined benefit pension plans	(5,512)	(3,896)
7 Profit (Loss) for the period	58,537	6,012
Total	**789,554**	**771,168**

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

Asset/Amount	Total 31/12/2016		Total 31/12/2015	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	5,331	-	5,810	-
2. Equity securities	698	-	38,616	-
3. UCITS units	-	(138)	-	(8)
4. Loans	-	-	-	-
Total	**6,029**	**(138)**	**44,426**	**(8)**

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

	Debt securities	Equity securities	UCITS units	Loans
1. Opening balance	**5,810**	**38,616**	**(8)**	**-**
2. Increases	**2,993**	**970**	**1**	**-**
2.1 Increases in fair value	2,944	970	1	-
2.2 Reversal to income statement of negative reserves	49	-	-	-
- from impairment	-	-	-	-
- realised	49	-	-	-
2.3 Other changes	-	-	-	-
- of which business combinations	-	-	-	-
3. Decreases	**3,472**	**38,888**	**131**	**-**
3.1 Reductions in fair value	2,225	38,888	131	-
3.2 Impairment losses	-	-	-	-
3.3 Reversal to income statement from positive reserves: realised	1,247	-	-	-
3.4 Other changes	-	-	-	-
- of which business combinations	-	-	-	-
4. Closing balance	**5,331**	**698**	**(138)**	**-**

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

	31/12/2016
1. Opening balance	**-3,896**
2. Increases	
2.1 Positive valuation component	-
2.2 New entries	-
3. Decreases	
3.1 Negative valuation component	-1,616
3.2 New exits	-
4. Closing balance	**-5,512**

Section 2 - Own funds and capital adequacy ratios

2.1 Own funds

Qualitative information

The main features of the shares included in Banca Sella's regulatory capital calculation at 31 December 2016 are reported below:

- Common Equity Tier 1 - CET1 668,456,168 ordinary shares with a nominal value of € 0.50 (zero point fifty) each, including share premiums, reserves and profits accrued for a calculable value of € 782,084,525;
- there were no calculable financial instruments in Additional Tier 1 Capital;
- Tier 2 - T2 included subordinated loans issued by Banca Sella at 31 December 2016 for an amount of € 168,385,628.

N.	Current interest rate risk (%)	Interest rate type	Book value at 31/12/2016	Inclusion in calculation	Issue date	Start date of prudential amortisation	Expiry date	Subject to constant (equal) repayments	Calculable balance
1	0.79	Variable	4,300,000	YES	03/06/09	03/06/14	03/06/19	NO	2,081,709
2	4.55	Fixed	1,000,000	YES	21/05/09	21/05/14	21/05/19	NO	476,999
3	0.49	Variable	2,130,000	YES	15/07/09	15/07/14	15/07/19	NO	1,080,164
4	0.49	Variable	210,000	YES	15/07/09	15/07/14	15/07/19	NO	106,495
5	0.39	Variable	2,500,000	YES	31/07/09	31/07/14	31/07/19	NO	1,289,704
6	0.39	Variable	2,500,000	YES	04/09/09	04/12/14	04/12/19	NO	1,462,212
7	4.075	Fixed	1,000,000	YES	04/09/09	04/12/14	04/12/19	NO	584,885
8	0.38	Variable	10,000,000	YES	10/09/09	10/12/14	10/12/19	NO	5,881,709
9	0.38	Variable	930,000	YES	16/09/09	16/12/14	16/12/19	NO	550,055
10	4.10	Fixed	2,500,000	YES	05/10/09	05/01/15	05/01/20	NO	1,506,024
11	4.10	Fixed	5,000,000	YES	15/10/09	15/01/15	15/01/20	NO	3,039,430
12	4.10	Fixed	5,000,000	YES	26/10/09	26/01/15	26/01/20	NO	3,069,551
13	4.10	Fixed	2,500,000	YES	26/10/09	26/01/15	26/01/20	NO	1,534,775
14	4.10	Fixed	10,000,000	YES	29/10/09	29/01/15	29/01/20	NO	6,155,531
15	4.10	Fixed	5,000,000	YES	23/11/09	23/02/15	23/02/20	NO	3,146,221
16	4.00	Fixed	5,000,000	YES	16/12/09	16/03/15	16/03/20	NO	3,204,707
17	2.95	Fixed	2,500,000	YES	12/10/10	12/10/12	12/10/17	NO	390,197
18	2.50	Variable	5,000,000	YES	20/10/10	20/10/12	20/10/17	NO	802,300
19	3.15	Fixed	500,000	Calculable (as a result of transitory provisions)	22/11/10	22/11/12	22/11/17	YES	446,331
20	3.70	Fixed	10,000,000	YES	14/01/11	14/01/12	14/01/17	NO	76,628
21	4.65	Fixed	10,000,000	Calculable (as a result of transitory provisions)	15/03/11	15/03/16	15/03/21	YES	8,406,353
22	4.30	Fixed	3,306,800	Calculable (as a result of transitory provisions)	15/06/11	15/06/13	15/06/18	YES	2,404,040
23	5.20	Fixed	600,000	Calculable (as a result of transitory provisions)	25/10/11	25/10/12	25/10/17	YES	489,595
24	5.10	Fixed	1,960,200	Calculable (as a result of transitory provisions)	11/11/11	11/11/12	11/11/17	YES	1,690,753
25	5.75	Fixed	4,000,000	Calculable (as a result of transitory provisions)	12/12/11	12/12/12	12/12/17	YES	3,789,704
26	5.60	Fixed	2,000,000	Calculable (as a result of transitory provisions)	30/12/11	30/12/12	30/12/17	YES	1,867,400
27	5.40	Fixed	8,000,000	NO	17/01/12	17/01/13	17/01/18	YES	0
28	5.50	Fixed	2,000,000	NO	01/02/12	01/02/13	01/02/18	YES	0
29	5.00	Fixed	6,000,000	NO	14/02/12	14/02/13	14/02/18	YES	0
30	4.45	Fixed	2,000,000	NO	01/03/12	01/09/12	01/09/17	YES	0
31	4.15	Fixed	2,000,000	NO	13/03/12	13/09/12	13/09/17	YES	0
32	4.55	Fixed	5,000,000	YES	31/08/12	28/02/13	28/02/18	NO	1,161,008
33	3.50	Fixed	10,000,000	YES	15/11/12	15/11/13	15/11/18	NO	3,745,893
34	3.45	Fixed	5,000,000	YES	10/12/12	10/12/13	10/12/18	NO	1,941,402
35	3.25	Fixed	15,000,000	YES	07/01/13	07/01/14	07/01/19	NO	6,054,217
36	3.05	Fixed	2,500,000	YES	17/01/13	17/07/13	17/07/18	NO	770,811
37	3.00	Fixed	5,000,000	YES	31/01/13	31/01/14	31/01/19	NO	2,083,790
38	3.20	Fixed	10,000,000	YES	31/01/13	31/01/15	31/01/20	NO	6,166,484
39	3.15	Fixed	15,000,000	YES	22/03/13	22/03/14	22/03/19	NO	6,662,103
40	3.30	Fixed	10,000,000	YES	03/05/13	03/05/15	03/05/20	NO	6,672,140
41	3.20	Fixed	15,000,000	YES	17/05/13	17/05/15	17/05/20	NO	10,123,153
42	2.90	Fixed	6,000,000	NO	19/08/13	19/08/14	19/08/19	YES	0
43	3.10	Fixed	5,000,000	YES	04/10/13	04/10/14	04/10/19	NO	2,757,393
44	2.75	Fixed	3,000,000	NO	04/10/13	04/10/14	04/10/19	YES	0
45	3.10	Fixed	5,000,000	YES	22/10/13	22/10/14	22/10/19	NO	2,757,393
46	3.00	Fixed	10,000,000	YES	06/11/13	06/11/14	06/11/19	NO	5,750,274
47	3.00	Fixed	7,500,000	YES	13/11/13	13/11/14	13/11/19	NO	4,300,383
48	1.95	Fixed	4,541,000	YES	29/05/14	29/05/15	29/05/20	NO	3,094,442
49	3.25	Fixed	5,100,000	YES	23/04/15	23/04/16	23/04/21	NO	4,396,166
50	3.25	Fixed	900,000	NO	15/12/14	15/12/16	15/12/21	YES	0
51	3.40	Fixed	10,200,000	YES	29/05/15	29/05/16	29/05/21	NO	8,993,428
52	3.25	Fixed	3,000,000	YES	15/05/15	15/05/15	15/05/20	NO	2,021,346
53	3.875	Fixed	3,500,000	YES	09/11/15	09/11/16	09/11/21	NO	3,400,329
54	5.325	Variable	25,000,000	YES	27/10/15	27/10/20	27/10/25	NO	25,000,000
55	5.298	Variable	5,000,000	YES	11/11/15	11/11/20	11/11/25	NO	5,000,000
Overall total			305,678,000						168,385,628

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	**782,085**	**767,496**
of which CET1 instruments subject to transitional provisions	-	-
B. CET1 prudential filters (+/-)	(400)	(401)
C. CET1 gross of elements to be deducted and the effects of the transitional regime (A +/- B)	**781,685**	**767,095**
D. Elements to be deducted from CET1	**49,500**	**48,783**
E. Transitional regime - Impact on CET1 (+/-)	**(4,880)**	**(28,966)**
F. Total Common Equity Tier 1 (Common Equity Tier 1 - CET1) (C - D +/- E)	**727,305**	**689,346**
G. Additional Tier 1 - AT 1, gross of elements to be deducted and the effects of the transitional regime	**-**	**-**
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 (Additional Tier 1 - AT1) (G - H +/- I)	**-**	**-**
M. Tier 2 - AT 2, gross of elements to be deducted and the effects of the transitional regime	**168,386**	**228,148**
of which T2 instruments subject to transitional provisions	**19,094**	**35,840**
N. Elements to be deducted from T2	**-**	**-**
O. Transitional regime - Impact on T2 (+/-)	**337**	**11,589**
P. Total Tier 2 - T2 (M - N +/- O)	**168,723**	**239,737**
Q. Total own funds (F + L + P)	**896,028**	**929,083**

On the basis of prudential regulatory provisions, the total requirement is equal to the sum of the capital requirements prescribed against credit and counterpart, adjustment of credit measurement, regulatory, market and operating risk.

In general, methods used to calculate capital requirements refer to the standardised approach and basic indicator approach (BIA), in terms of operating risk.

Banca Sella’s capital management policies have the goal of guaranteeing that the capital base is in line with the level of risk taken on, while complying with regulatory requirements and company development plans.

Quantitative information

2.2 Capital adequacy - B. Quantitative information

Categories/Amounts	Non-weighted amounts		Weighted amounts / requirements	
	31/12/2016	31/12/2015	31/12/2016	31/12/2015
A. RISK ASSETS				
A.1 Credit and Counterparty Risk	11,177,304	10,637,674	3,968,838	3,931,284
1. Standardised method	11,177,304	10,637,674	3,968,838	3,931,284
2. Internal rating-based methodology	-	-	-	-
2.1 Basic	-	-	-	-
2.2 Advanced	-	-	-	-
3. Securitisations	-	-	-	-
B. REGULATORY CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			317,507	314,503
B.2 Credit evaluation adjustment risk			-	-
B.3 Regulatory Risk			-	-
B.4 Market risks			1,870	2,462
1. Standardised method			1,870	2,462
2. Internal models			-	-
3. Concentration risk			-	-
B.5 Operating risk			58,260	58,905
1. Basic method			58,260	58,905
2. Standardised method			-	-
3. Advanced method			-	-
B.6 Other calculation elements			-	-
B.7 Total prudential requirements			377,638	375,870
C. RISK ASSETS AND CAPITAL RATIOS				
C.1 Risk-weighted assets			4,720,469	4,698,375
C.2 Tier 1 capital/Risk-weighted assets (CET 1 capital ratio)			15.41%	14.67%
C.3 Tier 1 capital/Risk-weighted assets (Tier 1 capital ratio)			15.41%	14.67%
C.4 Total own funds//Risk-weighted assets (Total capital ratio)			18.98%	19.77%

At 31 December 2016, the capital ratios exceeded the minimum requirements set forth in the regulations in effect as of the reporting date:

- Common Equity Tier 1 ratio: 15.41%, against a minimum level of 5.125%;
- Tier 1 ratio: 15.41%, against a minimum level of 6.625%;
- Total Capital ratio: 18.98%, against a minimum level of 8.625%.

Part G - Business combinations involving companies or business units

Section 1 - Operations carried out during the year

In 2016, no business combination transactions occurred.

Section 2 - Operations completed after year end

No business combination transactions occurred after the end of financial year 2016.

Section 3 - Retrospective adjustments

During 2016, as no business combination transactions occurred, there were no retrospective adjustments.

Part H - Related party transactions

1. Information on the remuneration of managers with strategic responsibility

In accordance with IAS 24, the types of related parties, with reference to the specific organisational structure and governance, comprise:

a) Banca Sella Holding S.p.A. as the parent company which controls Banca Sella S.p.A.;

b) directors, statutory auditors and top management of Banca Sella S.p.A. (managers with strategic responsibilities);

c) companies controlled by or associated with one of the subjects referred to in point b);

d) close family members of one of the subjects referred to in point b);

e) directors, statutory auditors and top management of the controlling company Banca Sella Holding (managers with strategic responsibilities);

f) the companies of the Group in as much as, together with Banca Sella S.p.A., subject to the direction and coordination of Banca Sella Holding S.p.A.;

With the 9th update, on 12 December 2011, the Bank of Italy introduced into Circular no. 263 “New regulations for the prudential supervision of banks”, the new TITLE V - Chapter 5 (Section IV) “Risk activities and conflict of interest with regards to related parties” in application of CICR Resolution no. 277 of 29 July 2008 and Art. 53, paragraphs 4, 4-ter and 4-quater of Italian Legislative Decree no. 385 of 1 September 1993.

The Bank introduces these provisions, explaining that “The regulation of related party transactions aims to monitor the risk that the nearness of some subjects to the bank’s decision-making units may compromise the objectivity and impartiality of the decisions relating to the granting of loans and other transactions with regards to said subjects, with possible distortion of the resource allocation process, exposure of the bank to risks that have not been adequately measured or monitored and potential damages for investors and shareholders”.

As parent company, Banca Sella Holding S.p.A. has prepared suitable group procedures to ensure compliance with the above provisions, the general rules of which are dictated by two internal regulatory documents: the “Group Regulation for the management of related party transactions” and the “Internal Controls Policies”.

Both documents have been approved by the Board of Directors of the parent company and subsequently enacted by the Bank.

The table below indicates the fees received by managers with strategic responsibilities. The managers with strategic responsibilities also include directors and statutory auditors.

Fees paid to managers with strategic responsibilities *in Euro thousands*

Item	Total 31/12/2016
a) Short-term employee benefits	1,237
b) Post-employment benefits	-
c) Other long-term benefits	-
d) Severance indemnities	72
e) Share-based payments	-
Total	**1,309**

Fees paid to Directors and Statutory Auditors *in Euro thousands*

Item	Total 31/12/2016
Directors	455
Statutory Auditors	142
Total	**597**

2. Information on transactions with related parties

Transactions with related parties were carried out, as a rule, on the basis of terms equivalent to those applied for operations performed with independent third parties. The transactions based on the Finrep reporting scheme are reported below, with a rationale that involves different drafting criteria from those relating to the preparation of the table of relations with Group companies in the Report on Operations. Therefore, there could be some differences, including the one relating to the item ‘Due from banks’ concerning the security deposit at the Parent Company amounting to € 102.4 million, paid as guarantee for derivative transactions, not recorded as a related party given classified in the notes to the financial statements under other receivables and is not included in the details of related parties “Loans and advances”.

Transactions with related parties at 31 December 2016

	Parent company and entities that have joint control or significant influence	Affiliates and other entities in the same group	Associates and joint ventures	Managers with strategic responsibilities for the entity or its parent	Other related parties
Selected financial assets	**1,897,827**	**1,399,439**	**-**	**4,296**	**2,605**
Equity instruments	-	4,868	-	-	-
Debt securities	73,106	-	-	-	-
Loans and advances	1,877,171	1,394,571	-	4,296	2,605
of which: financial assets that have suffered impairment	-	-	-		-
Selected financial liabilities	**339,268**	**91,304**	**-**	**4,692**	**937**
Deposits	339,268	90,366	-	4,627	937
Debt securities issued	62,808	-	-	66	-
Nominal amount of commitments to disburse loans, financial guarantees and other commitments given	1,217	252,998	-	6,577	566
of which: in default status	-	-	-	-	-
Commitments to disburse loans, financial guarantees and other commitments received	-	-	-	-	-
Notional amount of derivatives	1,479,256	37,000	-	402	-
Related parties: accumulated impairment, accumulated fair value changes, due to credit risks and provisions on impaired exposures	-	-	-	-	-
Interest income	9,197	18,869	-	14	530
Interest expense	25,350	474	-	10	20
Income from dividends	-	-	-	-	-
Revenues - fees and compensation	906	15,787	-	143	3,196
Expenses - fees and compensation	5,960	15,834	-	-	50

Sundry fees

Banca Sella offered various services and outsourcing. The services relating to Corporate Secretary, Inspectorate, IT Security and Bond Loan Issues are handled by Banca Sella Holding.

These activities, which are governed by specific contracts, are carried out following assessments of mutual benefit, in line with market terms, with the aim of creating value within the Group.

The fees which Banca Sella paid for outsourced services are summarised below:

Various fees paid by Banca Sella (in Euro thousands)

Company	Amount at 31/12/2016
Banca Patrimoni Sella & C. S.p.A.	312
Family Advisory sim S.p.A.	244
Banca Sella Holding S.p.A.	900
Easy Nolo S.p.A.	7,224
Brosel S.p.A.	25
Selir S.r.l.	4,457
Mars 2600	112

The fees which Banca Sella received for services provided through outsourcing are summarised below:

Various fees collected by Banca Sella (in Euro thousands)

Company	Amount at 31/12/2016
Banca Sella Holding S.p.A.	5,047
Sella Gestioni S.g.r S.p.A.	124
Sella Capital Management S.g.R S.p.A. in liquidation	9
Biella Leasing S.p.A.	261
Immobiliare Lanificio Maurizio Sella S.p.A.	25
Immobiliare Sella S.p.A.	21
Selfid S.p.A.	30
Consel S.p.A.	145
Banca Patrimoni Sella & C. S.p.A.	1,505
Easy Nolo S.p.A.	127
Brosel S.p.A.	43
C.B.A. Vita S.p.A.	108
Sella Life L.t.d.	9
Selir S.r.l.	27
Family Advisory SIM S.p.A.	20
Miret S.A.	0
Finanziaria 2010 S.p.A.	15
Maurizio Sella Sapa	27
Selban	11

Part I - Payment Agreements Based On Own Equity Instruments

The Bank does not use this type of agreement.

Part L - Segment information

Segment information, as permitted by the 3rd update to Circular 262/05, is optional for Banca Sella and is prepared at the Group level. Please see the consolidated financial statements for the Banca Sella Group.

Other information

Parent company or community credit enterprise

Company name

Banca Sella Holding S.p.A.

Registered Office

Piazza Gaudenzio Sella no. 1 - BIELLA
Biella Companies Register number and Tax Code 01709430027
Enrolled on the Register of Banking Groups under no. 03311

Financial statements of the company exercising management and co-ordination

Attached are the Balance Sheet and Income Statement of Banca Sella Holding S.p.A. relating to financial years 2015 and 2014, as the company which at 31 December 2016 performed management and coordination.

BALANCE SHEET ASSETS

Assets	31/12/2015	31/12/2014	Difference %
20. Financial assets held for trading	509,884,023	594,420,994	-14.22%
40. Financial assets available for sale	668,233,278	704,428,359	-5.14%
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%
100. Equity investments	792,063,779	838,804,223	-5.57%
110. Tangible assets	36,494,338	36,738,375	-0.66%
120. Intangible assets	2,218,404	1,539,440	44.10%
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 asset groups held for sale	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	Difference %
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. Securities issued	270,391,385	439,135,632	-38.43%
40. Financial liabilities held for trading	176,729,421	263,215,500	-32.86%
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%
100. Other liabilities	111,218,904	119,800,290	-7.16%
110. Provision for severance indemnities	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 premiums	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%**

INCOME STATEMENT

Item	31/12/2015	31/12/2014	Difference %
10. Interest receivables and similar income	23,974,724	33,516,199	-28.47%
20. Interest payable and similar charges	(10,936,954)	(14,758,897)	-25.90%
30. Net interest income	**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 expenses	(8,050,240)	(11,394,673)	-29.35%
60. Net fees	**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) on trading activities	12,749,194	10,331,685	23.40%
90. Net gains (losses) on hedging activities	(9,036)	18,308	-149.36%
100. Profit (loss) from sale or repurchase of:	25,098,384	22,355,834	12.27%
a) receivables	(4,091)	-	0.00%
b) financial assets available for sale	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%
120. Net banking income	**70,788,591**	**65,391,505**	**8.25%**
130. Net writedowns for impairment of:	(4,837,637)	(3,678,820)	31.50%
a) receivables	(31,755)	(2,027)	1466.60%
b) financial assets available for sale	(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 financial operating gains (losses)	**65,950,954**	**61,712,685**	**6.87%**
150. Administrative expenses:	(40,988,333)	(35,857,444)	14.31%
a) personnel expenses	(19,171,048)	(17,323,900)	10.66%
b) other administrative expenses	(21,817,285)	(18,533,544)	17.72%
160. Net provisions for risks and charges	(631,491)	(868,950)	-27.33%
170. Net writedowns on tangible assets	(1,884,747)	(1,935,659)	-2.63%
180. Net writedowns on intangible assets	(661,680)	(455,968)	45.12%
190. Other operating expenses/income	3,176,035	2,865,362	10.84%
200. Operating costs	**(40,990,216)**	**(36,252,659)**	**13.07%**
210. Profit (loss) on equity investments	(1,581,516)	(2,771,671)	-42.94%
240. Profit (loss) from disposal of investments	3,279	(8,267)	-139.66%
250. Profit (loss) on continuing operations before tax	**23,382,501**	**22,680,088**	**3.10%**
260. Income taxes for the period on continuing operations	(60,660)	(6,509,657)	-99.07%
270. Profit (loss) on continuing operations after tax	**23,321,841**	**16,170,431**	**44.23%**
280. Profit (loss) on asset disposal groups held for sale after tax	1,481,921	-	0.00%
290. Profit (Loss) for the period	**24,803,762**	**16,170,431**	**53.39%**

Report of the board of statutory auditors

BANCA SELLA S.P.A.

Head office: Biella, piazza Gaudenzio Sella, 1

Share capital: € 334,228,084 fully paid up

Register of Companies of Biella: 02224410023

Register of Banks: 5626; ABI Code: 03268

Subject to direction and coordination

by BANCA SELLA HOLDING S.P.A.

REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE SHAREHOLDERS' MEETING OF 20 APRIL 2017

Dear Shareholders,

recalling that the company - whose shares are traded on the multilateral HI-MTF order driven system - as of 1 January 2016 is subject to the regulations for *issuers of widely distributed financial instruments* and is listed in the relevant register, we summarise the content and results of the activities carried out in the last year of *our* three-year period, during which we obviously set out to continue monitoring general compliance with the legislation, the provisions of the BANK OF ITALY, of CONSOB, IVASS and the statutory provisions.

Through the preparation and informed participation in Board meetings – normally held at least monthly, in compliance with the precepts of article 2381 of the Italian Civil Code, according to commonly used methods and contents, fully aware of directors' responsibility to disclose any own interests or third party interests and in the presence of suitable measures for excluding any consequent criticalities–, we acquired information on the ordinary activities and on the initiatives of the greatest economic, financial and equity importance.

We considered the transactions approved and those implemented to be compliant with these provisions and not manifestly imprudent or hazardous, as such as to compromise the integrity of equity and not unusual owing to their nature, size, content, conditions, or timing.

We monitored the application of the CONSOB *Regulation* governing related party transactions and the related company *procedure*, which can be consulted on the company's website, by acquiring directly from the relevant committee - also competent on the matter of *affiliated* and *relevant* entities governed by the BANK OF ITALY and that, naturally, issues the required quarterly reports - elements regarding the operating methods applied and examined the minutes from its meetings.

The directors ascertained that the transactions entered into did not require the publication of disclosures.

We point out that, in the relevant paragraph of the eleventh chapter of the report on operations, they report the tables of balance sheet and income statement results for transactions with Group companies and summarise, in *section H* of the explanatory notes, related party transactions, reporting that they were normally carried out in line with market conditions and following evaluations of mutual economic benefit.

In addition, moreover, during the course of our eighteen meetings, we:

- ensured the preparation of periodic reports on operations;
- acquired the results of the calculation of regulatory capital and capital ratios;
- supervised procedures to prevent, manage and mitigate risk, including aspects of *monitoring* of the risk appetite framework;
- maintained systematic contact - in order to review operating results, the intervention guidelines established when necessary and progress in implementing those worthy of note - with the managers and supervisors of the *internal audit* and *compliance* units, in the diversified and specific structures, and with *risk management and anti-money laundering* personnel and, periodically, with its owner;
- acquired elements from managers or from members of other company departments, and from others, placed in BANCA SELLA

HOLDING, who also operate on behalf of the company – including, generally: *general affairs and company secretary, investment banking services; financial statements and supervisory reporting; management control; loans; finance; HR management and development; ICT; organisation, management and coordination; credit products; complaints; network; group secretary; security–,* sometimes *called* jointly, also as part of the necessary information, and subsequently, operational link;

- held discussions, now and then, with the Chief Executive Officer and the General Manager;

- systematically interacted with members of the Independent Auditors, pursuant to Legislative Decree 39/2010, also with reference to Legislative Decree 135/2016, who frequently took part in our sessions;
  - both to monitor the execution of the third-party action plan; and this did not include unexpected or critical issues which required supplementary checks worthy of mention;
  - and to exchange information about the respective operations and make use of those results, from which, and in the absence of other opportunities to gain knowledge, we found no events worthy of censure or omissions to be reported;
  - both to monitor its independence, regarding which we have no reservations to make, also considering the amount of fees accrued for additional services provided to the parent

company, for audit-related aspects, for those deriving from the legislation and from the provisions of authorities and for others;

- considering, also from an appropriately different perspective, the knowledge acquired through serving as the supervisory body pursuant to Legislative Decree 231/2001, a responsibility assigned to us, effective as of 1 July 2014, by the Shareholders' Meeting held on 29 April of that year;

- maintained relations and carried out activities of common interest with colleagues – that similarly hold the role of supervisory body – of BANCA SELLA HOLDING, also at meetings for the exchange of information between the Boards of Statutory Auditors of the group companies;

- excluded, by acquiring the positive and recurring assessments of the directors and formulating our own, the relevance of the elements such to invalidate the overall adequacy of the organisational structure and internal audit system, meaning - for simplicity's sake - all those means, procedures and rules useful to ensure, in the performance of activities, observance of the laws, provisions and company and group provisions regarding operations, administration and accounting - although with the presence of ongoing initiatives and always desirable margins for constant improvement;

- deemed the administrative and accounting system able to ensure compliance with the principles of proper administrative conduct and to represent operating events appropriately as part of the financial disclosure process, in the absence of indications to the contrary;

- communicated, pursuant to article 52 of Italian Legislative Decree 231/2007, notifications of anomalies in inserting details in the *single electronic archive*, in regards to which the corrective actions previously initiated were continued, with others being adopted and more being planned;

- considered the annual report of the *internal audit* unit on the *important outsourced operating or control functions*;

- took account of the measures in place at the entry into force of *EU* Regulation 596/2014 regarding market abuse, whose process is centralised at the parent company;

- followed the annual self-assessment process - conducted with the help of an independent external consultant - for the appropriateness of the composition, characterised by professionalism and diversified skills, as well as the operations of the Board which, despite the reassuring newly produced results, must develop areas for improvement, both due to the inherent subjectivity that characterises the process, and as far as the body independently anticipates;

- completed, with similar results and limits, the functional and operational review of the Board of Statutory Auditors and its members, including all considerations aimed at ascertaining the permanence of independence requirements for all regular auditors, none of which highlighted the existence of obstructing relations;
- sent the Board – considering it useful practice and, therefore, continuing to adhere to the guidelines of the parent company – the results of our activities, summarised in the appropriate quarterly reports, thus systematically informing it of all recommendations to eliminate deficiencies and criticalities formulated to corporate representatives and all suggestions it is hoped will help prevent similar situations to the ones represented.

We have not received any notifications and complaints, either directly or through the company, pursuant to article 2408 of the Italian Civil Code.

We expressed the opinions within our competence and attended the annual shareholders' meeting.

We did not identify any other elements that appear worthy of note, other than those indicated by the directors, which, naturally, give account of the inspections carried out by the BANK OF ITALY.

We have considered the structure and approach of the draft financial statements at 31 December 2016, whose balance sheet posted a break-even position of € 11,259,197,902, and which recorded final profits of € 58,536,893 (€ 6,012,220 in 2015).

Among other things, the Report on Operations highlights the factors that had the most significant impact on the year, summarises the various activities and sectors in which the company works, comments on the economic, financial and equity figures, describes the evolution of the commercial model, addresses human resources, provides details on the information system and provides a summary of the framework of possible risks to which the company is subject, including any particular disputes.

As regards the case brought by some shareholders of the incorporated company BANCA SELLA SUD ARDITI GALATI, to sustain the legitimacy of the exercising of the right of withdrawal - awaiting what the Board will definitely report at the shareholders' meeting-, we anticipate that, following the meeting on 14 March, when it has formalised the draft financial statements, on 21 March notice was served of judgment no. 318/2017 of the First Civil Section of the Lecce Court of Appeal, published on the same date, which rejected BANCA SELLA's appeal.

The notes to the financial statements indicate the accounting standards and criteria used to determine the items in the balance sheet and income statement which, based on the going concern assumption, the directors hereby certify were applied; it reports the breakdown and changes in the items which occurred, it accompanies the data with explanations, addresses the issue of risks and hedging policies, contains information on assets and deals with other matters.

Due to the elements we directly reviewed, in regards to the structure and formulation, and the audit conclusions of DELOITTE & TOUCHE, which lack any findings or requests for additional information, as well as the observations found in its *Report on Fundamental Questions*, which does not highlight any major deficiencies in the internal control system as regards the financial disclosure process, reviewed in-depth by the shareholder responsible at today's summary meeting on the respective activities in the year just ended, we believe that the draft 2016 financial statements should be approved.

The proposed allocation of profit appears compliant with the constraints applied to the same, observing that the most recent indications issued by the EUROPEAN CENTRAL BANK on 13 December

2016, reiterated by the BANK OF ITALY on 14 March 2017, do not deviate from those indicated for the previous year.

We do not hold that further comments or proposals are necessary in regards to the items placed on the agenda of the shareholders' meeting called.

Finally, we turn our thoughts to the memory of the multi-faceted and unforgettable figure of Lodovico Sella, who, for many years, held positions of increasing importance and top management posts also at BANCA SELLA, in mourning the loss of his unique personal and professional qualities.

Biella, 3 April 2017

The Board of Statutory Auditors

Paolo Piccatti

Riccardo Foglia Taverna

Vincenzo Rizzo

Independent Auditors’ Report

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INDEPENDENT AUDITORS' REPORT
PURSUANT TO ART. 14 AND 16 OF LEGISLATIVE DECREE N. 39 OF JANUARY 27, 2010

To the Shareholders of
Banca Sella S.p.A.

Report on the Financial Statements

We have audited the accompanying financial statements of Banca Sella 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 Sella 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 Sella S.p.A., with the financial statements of Banca Sella S.p.A. as at December 31, 2016. In our opinion the report on operations is consistent with the financial statements of Banca Sella S.p.A. as at December 31, 2016.

DELOITTE & TOUCHE S.p.A.

Signed by
Claudio Crosio
Partner

Turin, Italy
April 3, 2017