GRUPPO BANCA SELLA

REPORT AND CONSOLIDATED

FINANCIAL STATEMENTS 2016

Drawn up by the Parent company

B A N C A   S E L L A   H O L D I N G

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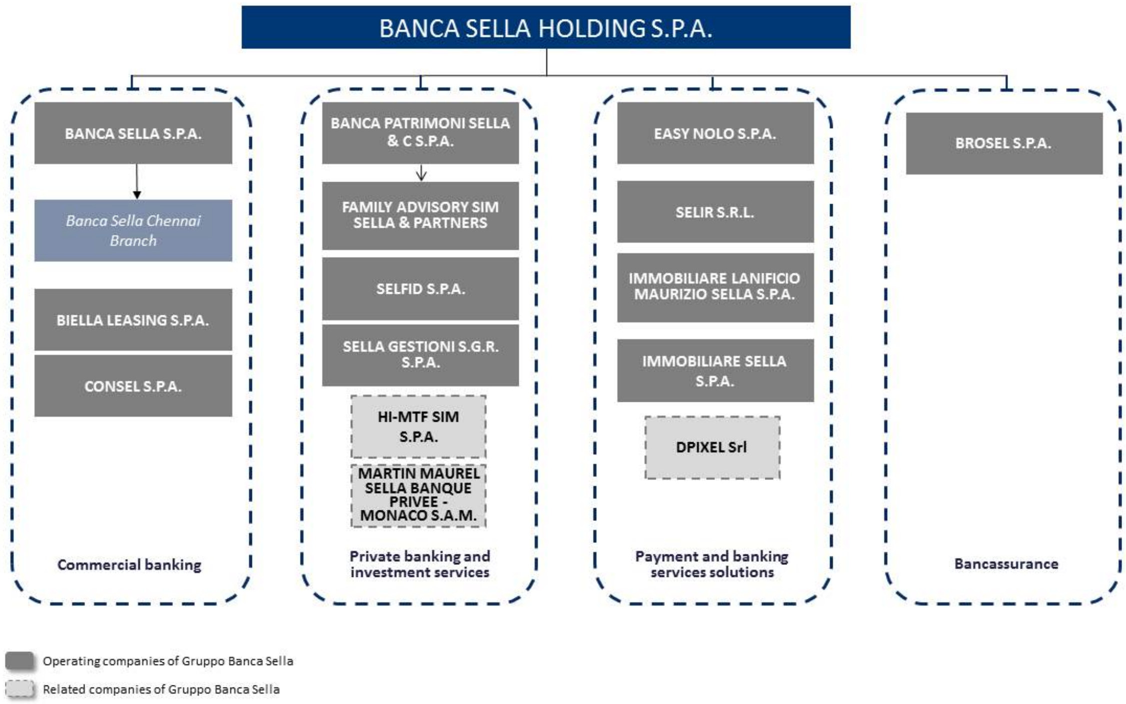
Map of the Group at 31 December 2016



Other fully consolidated companies:
Finanziaria 2010 S. p.A
Miret S.A.
Sella Synergy India P.LTD
Mars 2600 S.r.l. (special purpose vehicle for Group securitisation transactions)
Monviso 2014 S.r.l. (special purpose vehicle for Group securitisation transactions)
Sella Capital Management Sgr S.p.A. in liquidation

Investee companies consolidated at net equity:
Martin Maurel Sella Banque Privee
HI-MTF Sim S.p.A
S.C.P. VDP 1
Enersel S.p.A.
DPixel S.r.l.

Corporate Officers of the Parent Company

BOARD OF DIRECTORS

In office up to the approval of the 2018 financial statements

Chairman	Maurizio Sella
Deputy Chairman	Sebastiano Sella
" "	Giacomo Sella
Honorary Deputy Chairman (*)	Lodovico Sella (deceased on 26.09.2016)
" " (*)	Franco Sella
Chief Executive Officer	Pietro Sella
Director	Francesca Arnaboldi
"	Mario Bonzano
"	Franco Cavalieri
"	Massimo Condinanzi
"	Jean Paul Fitoussi
"	Giovanna Nicodano (co-opted until the Shareholders' Meeting)
"	Giovanni Petrella
"	Ernesto Rizzetti
"	Caterina Sella
"	Federico Sella
"	

RISK COMMITTEE

Member – Chairman	Giovanni Petrella
"	Mario Bonzano
"	Francesca Arnaboldi

REMUNERATION COMMITTEE

Member – Chairman	Mario Bonzano
"	Jean Paul Fitoussi
"	Francesca Arnaboldi

APPOINTMENTS COMMITTEE

Member – Chairman	Mario Bonzano
"	Maurizio Sella
"	Giovanni Petrella

BOARD OF STATUTORY AUDITORS

In office up to the approval of the 2017 financial statements

Regular auditor – Chairman	Pierluigi Benigno
" "	Gianluca Cinti
" "	Daniele Frè
Alternate Auditor	Riccardo Foglia Taverna
" "	Pier Angelo Ogliaro

GENERAL MANAGEMENT

Director General	Pietro Sella
Co-Director General	Attilio Viola

INDEPENDENT AUDITING FIRM	Deloitte & Touche S.p.A.

(*) the honorary Deputy Chairmen are not on the Board of Directors

Please recall that on 14 July 2016 Anna Maria Ceppi, Director and member of the Risk Committee, Remuneration Committee and Appointments Committee, passed away.

Remembrance of Lodovico Sella, Honorary deputy chairman of the Banca Sella Group

Dear Shareholders,

It is important for us to share our heartfelt thoughts with you about Lodovico Sella, born on 15 June 1929, who passed away on 26 September.

Hired by Banca Sella on 4 January 1954, his daily commitment and valuable contributions benefitted our bank for sixty-two years.

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

A highly cultured man of infinite knowledge, with uncommon talents of rigour, while never losing his compassion, willingness to engage in constructive dialogue, curiosity, enthusiasm and genuine openness to the new, he naturally embodied, spread and passed on through his everyday life the principles and moral values of the Sella family.

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

He leaves an immense human and professional void, which marks the history of the Group and the People who knew him and who had the privilege to walk and to build our future together with him.

Report on Consolidated Operations

I. Banca Sella Group – Main figures and indicators

Banca Sella Group Summary data (euro thousands)

BALANCE SHEET DATA	31/12/2016	31/12/2015	Changes	
			absolute	%
Total assets	13,298,375.6	13,968,072.7	(669,697.1)	-4.8%
Financial assets (1) (9)	2,633,322.3	3,017,885.8	(384,563.5)	-12.7%
Cash loans, exclusive of repurchase agreements receivable	7,802,138.6	7,686,109.3	116,029.3	1.5%
repurchase agreements receivable	*103,381.3*	*347,432.4*	(244,051.1)	-70.2%
Total cash loans (2)	7,905,519.9	8,033,541.7	(128,021.8)	-1.6%
Guarantees issued	205,423.6	211,550.7	(6,127.1)	-2.9%
Equity investments (9)	12,169.9	11,482.2	687.6	6.0%
Non-current assets and asset groups held for sale	-	1,517,183.6	(1,517,183.6)	-100.0%
Tangible and intangible fixed assets	288,711.1	295,207.9	(6,496.8)	-2.2%
Direct deposits, exclusive of repurchase agreements payable	10,969,997.0	10,164,719.2	805,277.7	7.9%
repurchase agreements payable	*12,278.1*	*17,800.5*	(5,522.4)	-31.0%
Total direct deposits (3) (9)	10,982,275.1	10,182,519.8	799,755.3	7.9%
Nominal indirect deposits (4)	18,108,383.3	16,623,762.5	1,484,620.9	8.9%
Nominal total deposits	29,090,658.4	26,806,282.2	2,284,376.2	8.5%
Total deposits valued at market prices (5)	33,174,306.0	32,131,545.0	1,042,761.0	3.3%
Common Equity Tier 1 (CET 1)	900,789.6	857,437.8	43,351.8	5.1%
Additional Tier 1 capital (AT 1)	10,329.4	6,887.0	3,442.4	50.0%
Tier 2 (T2)	131,481.2	193,038.6	(61,557.4)	-31.9%
Total own funds	1,042,600.2	1,057,363.4	(14,763.2)	-1.4%

RECLASSIFIED ECONOMIC DATA (6)	31/12/2016	31/12/2015	Changes	
			absolute	%
Net interest income	241,739.8	253,960.0	(12,220.2)	-4.8%
Gross revenues from services (7)	375,573.7	378,563.0	(2,989.4)	-0.8%
Fee expenses	(102,264.6)	(114,576.5)	12,311.9	-10.8%
Net revenues from services (net of fee expenses)	273,309.1	263,986.5	9,322.6	3.5%
Net banking income	515,048.9	517,946.4	(2,897.6)	-0.6%
Operating costs net of recovery of stamp duties and other taxes (8)	(390,404.9)	(376,239.0)	(14,165.8)	3.8%
Operating profit/loss	124,644.0	141,707.4	(17,063.4)	-12.0%
Net value adjustments for impairment losses	(82,029.8)	(128,967.2)	46,937.3	-36.4%
Other economic items	57,583.2	16,021.8	41,561.3	259.4%
Profit (loss) for the period pertaining to Parent Company	79,563.1	28,502.9	51,060.2	179.1%
Profit (loss) for the period pertaining to minority interests	14,426.8	3,124.5	11,302.4	361.7%

(1) Equal to the sum of the following items in the Balance Sheet Assets: item 20 "financial assets held for trading", item 30 "financial assets carried at fair value" and item 40 "financial assets available for sale";
(2) Item 70 of the Balance Sheet assets "loans to customers" and includes bad loans;
(3) Equal to the sum of the following Balance Sheet liabilities items: item 20 "due to customers" and item 30 "securities in issue";
(4) The aggregate, excluding "cash" (included in direct deposits), is the sum of the following items of the section "Other Information" of the Notes to the Balance Sheet: "asset management", "other securities of third parties deposited (net of securities issued by companies included in consolidation)" and components related to units in investment funds subscribed by customers and insurance income; if the figure at 31 December 2015 is considered on a like-for-like basis, or net of the disposal of C.B.A. Vita, indirect deposits would have totalled € 17,919,466.58 thousand, a decline of € 269,657.4 thousand, or -1.5%;
(5) The aggregate, valued at market prices, includes administered securities and funds and the component relating to insurance income;
(6) As per items reported in the reclassified consolidated Income Statement;
(7) Equal to the sum of the following Reclassified income statement items: items 40 and 50 "net fees", items 80 and 90 "net income (loss) from trading and hedging activities" and item 100 "Income (losses) from sale or repurchase";
(8) Equal to the sum of the following items: "Administrative expenses" item 180, "Value adjustments on tangible fixed assets" item 200, "Value adjustments on intangible fixed assets", item 210 "Other operating income and expenses" item 220. At 30 September 2016, administrative expenses included contributions to the National Resolution Fund;

(9) To ensure a uniform comparison, the comparative data in the "31/12/2015" column, corresponding to the "Financial Assets" and "Equity investments" items, were reclassified in the financial statements at 31 December 2015 with respect to the assets and liabilities associated with the equity investment in the company C.B.A. Vita. In this statement, as the sale took place at 30 June 2016, they were included in the item "Non-current assets and asset groups held for sale" to allow for a proper comparison.

Alternative performance indicators

PROFITABILITY RATIOS (%)	31/12/2016	31/12/2015
R.O.E. (return on equity) (1)	9.8%	3.3%
R.O.A. (return on assets) (2)	0.7%	0.2%
Net interest income (3) / Net banking income (3)	46.9%	49.0%
Net income from services (3) / Net banking income (3)	53.1%	51.0%
Cost to income (4)	75.0%	72.0%
Cost to income net of National Resolution and Guarantee Fund contributions (5)	72.1%	70.1%
PRODUCTIVITY RATIOS (euro thousands)	**31/12/2016**	**31/12/2015**
Net banking income (3) / Average no. of employees	120,226.2	122,373.6
Operating result (3) / Average no. of employees	29,095.2	33,480.8
Cash loans (net of repurchase agreements) / Employees at year end	1,829.8	1,785.8
Direct deposits (net of repurchase agreements payable) / No. of employees at the end of the year	2,572.7	2,361.7
Direct deposits / No. of employees at year end	6,822.4	6,228.2
EQUITY AND LIQUIDITY RATIOS (%)	**31/12/2016**	**31/12/2015**
Cash loans (net of repurchase agreements) / Direct deposits (net of repurchase agreements)	71.1%	75.6%
Cash loans (net of repurchase agreements) / Total assets	58.7%	55.0%
Direct deposits (net of repurchase agreements payable) / Total assets	82.5%	72.8%
Liquidity Coverage Ratio (LCR) (6)	219.5%	197.9%
Net Stable Funding Ratio (NSFR) (7)	124.0%	122.4%
CREDIT RISK RATIOS (%)	**31/12/2016**	**31/12/2015**
Net impaired loans / Cash loans (net of repurchase agreements)	7.5%	8.5%
Net bad loans / Cash loans (net of repurchase agreements)	4.3%	4.2%
Net value adjustments to loans (8) / Cash loans (net of repurchase agreements receivable)	1.1%	1.8%
Coverage rate for impaired loans	51.1%	47.7%
Coverage rate for bad loans	61.7%	60.3%
Texas ratio (9)	74.3%	80.3%
SOLVENCY RATIOS (%)	**31/12/2016**	**31/12/2015**
CET 1 ratio (10)	12.23%	11.59%
Tier 1 ratio (10)	12.37%	11.68%
Total capital ratio (10)	14.16%	14.29%

(1) Ratio between operating profit and equity, net of valuation reserves, both including minority interests;
(2) Ratio between "Net profit including minority interests" and "Total assets";
(3) As per item reported in the reclassified consolidated 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 calculated net of the contribution to the National Resolution Fund (SRF) and the Deposit Guarantee Scheme (DGS);
(6) LCR: minimum limit in force for all of 2016, equal to 70% (minimum limit after start-up period, 100%, as of 1 January 2018);
(7) NSFR: officially takes effect as of 1 January 2018, with a minimum limit of 100%;
(8) Obtained from the sum of items 100 a) and 130 a) in the reclassified income statement;
(9) Ratio between gross impaired assets and tangible equity, understood as the sum of equity and value adjustments on impaired assets, and net of intangible assets (item 130 of the balance sheet assets);
(10) The ratios are calculated on the basis of the prudential consolidation perimeter.

To ensure a uniform comparison, the data in the "31/12/2015" column were calculated with reference to reclassified data in the financial statements at 31 December 2015 with respect to the items associated with the equity investment in the company C.B.A. Vita. In this statement, as the sale took place at 30 June 2016, the indicators were recalculated to allow for a proper comparison, since the insurance items were included in the item "Profit (loss) on asset disposal groups held for sale after tax".

These are positive consolidated financial statements for the Banca Sella Group, which closed 2016 with growth in net profit, an improvement in the already solid financial position, considerably higher than the required minimum thresholds, a further improvement in credit quality and a confirmation of customer confidence, as witnessed by growth in deposits. The picture is completed with the traditional strength of liquidity parameters, stability in credit provided to the economy despite the continuing unfavourability of the general economic scenario and good performance in the Group's sectors of excellence like private banking and asset management, online trading, payment systems, e-commerce and the distinctive propensity towards innovation, especially in the fintech sector, also thanks to the accelerator, SellaLab.

The consolidated net profit of the Group at 31 December 2016 totalled € 79.6 million, compared to the € 28.5 million recorded in the previous year. This result was impacted by several non-recurring components, deriving in particular from the acquisition by Visa Inc of the ordinary shares held in Visa Europe and the sale to HDI Assicurazioni of the insurance company C.B.A. Vita. However, profit would have risen even without considering these non-recurring components, reaching € 17.8 million, compared to € 10 million in the previous year.

In 2016, the Banca Sella Group also marked further improvement in its already robust financial position, broadly exceeding the required minimum thresholds: the phased in CET1 rose to 12.23% (from 11.59% at the end of 2015) and the Total Capital Ratio amounted to 14.16% (compared to 14.29% at the end of 2015). Banca Sella's CET1 rose to 15.41% (from 14.67% at the end of 2015) and the Total Capital Ratio amounted to 18.98% (compared to 19.77% at the end of 2015). Banca Patrimoni Sella & C.'s CET1 rose to 16.57% (from 15.80% at the end of 2015) and the Total Capital Ratio amounted to 16.59% (compared to 15.83% at the end of 2015).

The Banca Sella Group confirmed its traditionally excellent metrics in the area of liquidity as well. The LCR came to 219.5%, significantly higher than the minimum of 80% required since January 2017, as well as the limit of 100% that will be required as of 2018. The NSFR, for which a minimum threshold of 100% will be required as of 2018, stood at 124%.

The financial statement results also brought to light growth of € 2.3 billion in total deposits, which reached € 29.1 billion, an increase of 8.5% compared to the previous year, confirming the trust placed in us by customers. At market value, these deposits grew by € 1 billion, reaching € 33.2 billion (+3.3%). Direct deposits net of repurchase agreements payable grew by € 805 million to € 11 billion (+7.9%).

Despite the general economic scenario which continues to be challenging, with a decline in credit demand, loans net of repurchase agreements stood at € 7.8 billion, an increase of 1.5% compared to the previous year. In addition, the process of credit quality improvement continued. Net value adjustments decreased by 36.4% from € 129 million at the end of 2015 to € 82 million at the end of 2016. The ratio between adjustments and total loans net of repurchase agreements declined to 1.1% (from 1.8% at 31 December 2015). The coverage rate for impaired loans rose to 51.1% (from 47.7% at 31 December 2015), against a sector average of 46.4% (at 30 June 2016, most recent available figure). The coverage rate for only bad loans rose to 61.7% (from 60.3% at 31 December 2015), against a sector average of 59% (at 30 June 2016, most recent available figure[1]). Impaired loans stood at 7.5% of net loans, a further improvement compared to 8.5% in the same period of the previous year, against a sector average of 10.4% (at 30 June 2016, most recent available figure). The Banca Sella Group's Texas Ratio came to 74.3%, marking an additional sharp improvement compared to 80.3% last year.

The Group's commitment to providing credit to the economy despite the general environment was also enacted through a series of agreements and initiatives meant to favour and incentivise this, such as the "InnovFin" agreement entered into by Banca Sella and the European Investment Fund to support innovative SMEs and small caps, which benefits from the support of the European Fund for Strategic Investments, the primary instrument of the Investment Plan for Europe. In addition, a new agreement was entered into with Sace with a credit line of € 50 million in new funding available to innovation and growth projects abroad. Locally, an agreement was entered into by Banca Sella, Unione Industriale Biellese and Confidi Systema to facilitate access to credit for companies that want to make investments for internationalisation, business development and the optimisation of business processes by means of new digital technologies.

Net interest income declined by 4.8% compared to the previous year, to € 241.7 million, primarily as a result of low interest rates. Net banking income, cleared of the effects in 2015 of the disposal of impaired loans by Consel, decreased by 3.8% to € 515 million. Net revenues from services rose by 3.5% to € 273.3 million, also thanks to the excellent performance of the electronic payment systems sector. Operating expenses increased by 3.8%, particularly due to the growth of 2.8% in personnel expenses and 1.9% in

[1] *Source: Bank of Italy, Report on financial stability 2/2016 November 2016*

administrative expenses, net of the recovery of taxes, due to contributions paid to the System resolution funds, without which such expenses would have been down by 1.2%.

Lastly, during the year the evolution of digital solutions and services continued at a rapid pace, leading to the Banca Sella Group being recognised as one of the most innovative and cutting-edge banks. Some of the services introduced include a new digital services platform (Hype for Business), a system for making payments in roughly 80 thousand brick-and-mortar shops using a smartphone and an ad hoc version of the Hype money management app for young people 12 years of age and older. Particularly with regard to the Fintech sector, the accelerator SellaLab, with offices in Biella, Turin and Lecce, is becoming an open district fintech operation aimed at creating a reference ecosystem in Italy for the provision of fintech services, enabling new business models and the evolution of banking activities. Until the end of 2016, SellaLab viewed 730 business plans and the 28 associated startups generated more than one hundred new jobs.

Moody's Investor Service assigned Banca Sella Holding the following ratings:

Rating - Moody's	
Long-term rating for deposits	Baa3
Prospects	Negative
Short-term rating for deposits	P-3

According to Moody's, the negative outlook for the long-term deposits rating reflects the likelihood that the stock of existing liabilities eligible for bail-ins will continue to decline over time, resulting in an increase in loss given failure.

DBRS assigned Banca Sella Holding the following ratings:

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

DBRS assigned Banca Sella the following ratings:

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

The negative trend assigned by DBRS reflects the challenges that, according to the agency, the Group will need to face in terms of profitability and asset quality due to the difficult economic environment in Italy.

Staff and branches *(year end)*

	2016	2015	2014	2013	2012	2011	2010
Employees of banking group	4,242	4,253	4,117	4,001	4,100	4,121	4,229
Employees of insurance companies and other companies	22	51	44	41	42	44	44
Total employees of Banca Sella Group (*)	4,264	4,304	4,161	4,042	4,142	4,165	4,273
Branches in Italy and abroad	300	304	304	304	332	334	335
Financial advisors authorised to make off-site sales	359	356	331	295	292	281	295

(*) In years prior to 2016, the figure included employees of the Group's insurance companies, a business unit sold on 30 June 2016; in 2016, it includes the employees of "other companies" (Brosel).

II. Macroeconomic reference scenario

World context

In 2016, the global economy continued to expand at a modest pace, substantially in line with that recorded in 2015, although during the year signs of moderate acceleration emerged in the aggregate of advanced economies as well as emerging areas. The final projection for world growth in 2016 made by the International Monetary Fund (IMF) was 3.1%, as stated in the January 2017 update, the result of 1.6% growth for advanced economies and 4.1% growth for emerging countries.

After the modest growth of 1.4% in the first half of the year, the **US economy** recovered its drive in the second half of the year and, according to International Monetary Fund estimates, is expected to have achieved growth of 1.6% in 2016, in any event lower than the 2.6% growth seen in 2015. Over the year, private consumption provided the main contribution to GDP trends, supported by the gradual strengthening of employment conditions which, aside from several important exceptions, came back into line with those observed before the large international crisis, and by accumulated wealth, in the real estate as well as financial components. On the other hand, the weakness of private investments intensified, with a slowdown, from the good pace seen in the previous year, in the residential sector and a further deterioration of business investments, due to profitability under pressure and high uncertainty during the year caused by the presidential elections, and despite the stabilisation of the component most linked to the evolution of crude oil prices. In 2016, public expenditure was confirmed as the element supporting growth, albeit less than in 2015, while, although net foreign demand was not penalising as in 2015, it did not generate value on the whole for the US economy, due to weak exports on one hand and modest performance for imports on the other.

Bolstered by further improvements in the job market and the recovery in inflation (which rose from 0.1% in 2015 to 1.3% in 2016, thanks to the good performance of more stable components and the less negative contribution of the energy component), at its December meeting the US Fed increased the reference federal funds range by 25 basis points to 0.5-0.75%, one year after the first policy rate hike since the years of the great recession. The Federal Reserve noted that monetary conditions remain accommodating in any event and that the policy of reinvesting securities about to expire will be continued until the normalisation of the cost of money level is at an advanced state. The guidelines for the official rate continue to signal the monetary policy Committee’s desire to gradually move towards raising rates, guided by progress achieved and expected in regards to the dual mandate of supporting employment and price stability: given the average judgement of the Committee members, the official rate will be between 1.25% and 1.50% at the end of 2017, i.e., 75 basis points higher than the current level.

The **Eurozone** economy continued to expand in 2016, at a relatively good pace in the first quarter and moderating on a quarterly basis in the two subsequent quarters; the macroeconomic data published in the final months of the year were characterised by a particularly positive intonation, consistent with the strengthening of growth. The outcome of the 23 June referendum on whether the United Kingdom would remain in the European Union did not have immediate negative impacts on the economic recovery in the monetary union. According to estimates of the International Monetary Fund in January 2017, 2016 closed with an increase in Eurozone GDP by 1.7%, compared to 2% in 2015. Growth in the region continued to be driven by domestic demand, particularly private consumption, which benefitted from the support to buying power provided by the low level of inflation, the continuation of very accommodating monetary conditions and the gradual improvement in the job market, despite the presence of significant gaps, in terms of employment conditions, amongst the main Member States; investments confirmed the trend towards recovery, but in any event remained at levels still nearly 10% lower than the levels seen in early 2008; exports continued to post flat performance, in line with the weak global trade scenario. In terms of the geographical breakdown, the recovery continued in all of the area’s major economies, although with varying intensities: while Spain posted great performance (GDP +3.2% in 2016, in line with the figure for 2015) and Germany also accelerated (+1.7% from 1.5% in 2015), more modest performance was seen in the French (+1.3%, in line with the previous year) and Italian (+0.9%, from 0.7% in 2015) economies. With reference to **Italy**, growth in 2016 was supported primarily by domestic demand components, in particular by private consumption, which however showed a trend towards moderation in the course of the year, in line with the climate of weakening consumer confidence; investments in machinery and transport equipment provided confirmations of recovery; the recovery of investments in constructions was more uncertain, as, after the stagnation recorded in the first three months of the year, they declined on a quarterly basis in the second and third quarters; average net exports in the first nine months of the year made an almost null contribution to quarterly GDP growth. In the final months of the year, data were positive in terms of production activities (industrial production up 1.3% in October and 3.2% in November), accompanied by the improvement in the climate of operator confidence. As regards **consumer prices**, the gradual downsizing of the negative contribution of the energy component was at the basis of the gradual rise in the inflation rate, which in the Eurozone went from an annual minimum level of -0.2%, reached in April, to 1.1% in December; core inflation, i.e., calculated net of volatile components, did not however show any signs of recovery. The annual average inflation rate was 0.2% (from 0% in 2015) in the Eurozone and 0% (0.1% in 2015) in Italy. Within a context characterised by low inflation and a moderate recovery, the European Central Bank maintained a highly accommodating monetary policy in the course of 2016: at its meeting on 10 March, the Bank reduced the interest rate on deposits by 10 bps from -0.20% to -0.30%, the interest rate on the main refinancing operations by 5 bps from 0.05% to 0% and the interest rate on marginal refinancing operations from 0.30% to 0.25%; it also increased the amount of securities purchased every month as part of its quantitative easing plan from € 60 to 80 billion, including amongst the eligible financial assets non-financial corporate bonds and extending the time horizon of the purchases to March 2017, and announced four new targeted longer-term refinancing operations meant to stimulate the provision of credit. In subsequent months, monetary policy management focused on the implementation of the stimulus measures announced in March; the ECB reaffirmed more than once its willingness to take further actions, if necessary, using the instruments available within the scope of its mandate, and confirmed its intention to maintain policy rates at the current level or at a lower level for an extended period of time and well beyond the bond buying time horizon. At its 8 December meeting, the Central Bank announced important news concerning the management of the quantitative easing plan after March 2017: as of April, purchases will continue at a pace of € 60 billion per month until December 2017, or beyond if necessary; if, in the meantime, the reference macroeconomic scenario worsens, the ECB will intervene by increasing the volume and/or duration of the programme, in line with its intention to maintain a highly expansionary monetary policy. Furthermore, in order to make the purchase process easier, the ECB modified the following plan parameters: the interval of the remaining maturity established for purchases of public debt securities was expanded, lowering the minimum threshold from two years to one year; purchases of bonds with yields lower than the interest rate on deposits are allowed to the extent to which this may be necessary.

In Asia, **Japan** grew by a modest 0.9% in 2016, based on estimates of the International Monetary Fund (after 1.2% seen in 2015), also thanks to the support in the final part of the year of the new economic stimulus package including 7.5 trillion yen in public expenditure, and 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 improving but are struggling to generate sustainable recovery in regards to the investment cycle. With regard to consumer prices, the change in the index after fresh food is removed (BoJ Central Bank figures) remained below zero on average in 2016, affected for a significant part of the year by the unfavourable comparison with the previous year of energy prices expressed in yen and the gradual moderation in the trend of components more correlated with economic performance. In 2016, the BoJ confirmed its exceptionally accommodating orientation introduced in April 2013: at its January meeting the Bank opted, as part of the bond buying and monetary base expansion programme to the tune of 80 trillion yen per year, for the adoption of negative interest rates on part of the deposits of financial institutions at the Central Bank, and at its September meeting introduced a yield rate curve control target, with the explicit intent of stably surpassing the inflation target of 2%.

In the **emerging economies**, despite widely varying macroeconomic conditions, 2016 saw a generalised improvement in growth rates, in some cases expressed by signs of recovery from profound recessions. In **China**, Gross Domestic Product rose in 2016 by 6.7% (from 6.9% in 2015), with the critical support of economic policy interventions, which attenuated the ongoing deceleration as part of the phase of transitioning towards a more sustainable growth model. Inflation has started on an upward trend, although it remained below the government target of 3% (+2.0% average change in the consumer price index 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 taken to withdraw and replace high-value bank notes. Inflation stabilised at around the values of the previous year (5.0% in 2016 from +4.9%) and the Central Bank lowered the cost of money by 50 basis points, announcing, at its December meeting, that upcoming monetary policy decisions will depend on the actual impact of the demonetisation programme. In **Russia**, the pace of decline in Gross Domestic Product attenuated gradually, after the 3.7% decline in 2015. With inflation dropping 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 in the course of the year. In **Brazil**, for which the IMF estimates that 2016 closed with a 3.5% decline in Gross Domestic Product, after -3.8% in the previous year, the administration led by the new President Temer submitted several significant structural reforms to Congress for approval. The considerable downturn in inflation, which reached 6.3% in December, allowed the Central Bank to initiate an accommodating monetary policy cycle, which led to a cumulative cut of 125 basis points in the cost of money between October 2016 and January 2017.

The financial markets

At the end of 2016, US long-term rates of return, which were only slightly higher than the levels seen at the end of 2015, were characterised by significant changes in the course of the year: high risk aversion by investors, due to renewed concerns about a brusque deceleration of the Chinese economy first and the possible implications of the 23 June Brexit referendum later on, in conjunction with the expectation of a cautious normalisation of the cost of money by the US Federal Reserve, initially drove rates down, towards historical lows below 1.4%, reached in July. A net growth trend then started around the time of the US presidential elections, which resulted in the unexpected victory of the Republican candidate and the ensuing expectations aroused in the markets of a new path for US economic policy, more fiscally expansive and less gradual on the monetary front.

Within the shared international context, there was a similar evolution in Eurozone government bond yields, although it was quite uneven within the Area, where expectations of further monetary stimulus measures by the European Central Bank contributed to driving the German ten-year bond rate into negative territory, although it then resumed growth in the second half of the year, however without returning to the values seen at the start of 2016, resulting in an annual average of 0.14% compared with 0.54% in 2015; uncertainties surrounding the constitutional referendum sharpened the phase of growth in ten-year Italian treasury notes (BTPs), but did not neutralise the previous decline, for an average value that reached 1.46% in 2016, below 1.7% recorded in the previous year.

In 2016, the stock markets saw growth of approximately 5.3% (MSCI World). At the start of the year, a brusque price correction arose from concerns regarding the loss of intensity of economic growth in the United States and instability in sectors linked to raw materials due to the continuing weakness in commodity prices. After the decline in prices in the opening weeks of the year, a positive trend took hold, which was supported by signs of consolidation of the global economy and a more expansionary orientation of the central banks compared to what had been announced previously. Price growth was accompanied by a recovery in raw material prices. In the last part of the year, the unexpected result of the United States elections provided the stock markets with a positive impulse due to the expectations generated in investors by the new administration, of a more expansionary fiscal policy for the benefit of business. The euro appreciated by roughly 1% in actual nominal terms in 2016, with movements taking place for the most part in the first nine months of the year, followed by a weakening trend, which was particularly notable in comparisons with the US dollar (roughly 5.5% between the end of October and December), triggered by expectations of increasing divergence between the Fed’s and the ECB’s monetary policies in the aftermath of the US elections.

Italian banking system

In the first 11 months of 2016, the lending activity of the Italian banking system showed signs of recovery, benefitting from the moderate improvement in economic activity and the relaxation of conditions applied by banks. Credit spreads have narrowed; in the first 11 months of 2016, the market rate reduction and competitive pressures on the pricing of loans to customers were only in part offset by the reduction in the cost of funding, particularly institutional. Growth in the level of impaired items halted towards the end of the third quarter and flows of new transfers to non-performing status declined, laying the foundations for a reduction in credit risk. In the first three quarters of 2016, Italian bank profitability remained modest in any event: the increase in coverage on impaired loans, contributions to crisis resolution funds and regulatory amendments to make the financial system more stable and resistant to crises in the future contributed, within a context still characterised by exceptionally low interest rates and uncertainties in the financial markets, to maintaining Italian bank profitability levels quite low.

Italian bank loans to resident private customers came to € 1,410 billion in November 2016, with an annual drop of 0.4%. 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, size class and creditworthiness. Loans to households instead continued along the path of growth started in 2015, reaching € 624 billion at the end of November, up 0.7% year-on-year. However, if adjusted for securitisations and disposals, system statistics show an annual growth trend of 0.5% in loans in November, with positive trends for the component of loans to businesses (up 0.3%) as well as loans to households (up 0.8%).

In 2016, the credit quality deterioration process came to an end. For the first time after 7 years of increases, as of September the annual growth rate of gross non-performing loans became negative (-0.7%); in November, gross non-performing loans stood at € 199 billion, with a year-on-year decline of 1%, accounting for 10.5% of total gross loans (stable compared to November 2015), and a ratio between net non-performing loans and loans of 4.8% (from 4.9% at the end of 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, a 0.4% decline on an annual basis. This decrease was entirely caused by the reduction in the bond component, which closed the year at € 541 billion, a drop of 10%, against an increase in total deposits of 3.3% to € 1,608 billion; therefore, the bank funding mix continues to shift from bonds reaching maturity to deposits and more liquid forms of funding such as repurchase agreements.

With regard to the income statement, listed banking groups closed the first nine months of the year with modest profitability which was downsized compared to the same period of the prior year, as a result of an overall decline in revenue from ordinary operations (net interest income -5.6%, net fees -4.9%), an increase in operating expenses explained mainly by contributions to bank crisis management funds (+6.1%) and the increase in net adjustments on loans (+24% year-on-year) in order to raise coverage rates in preparation for future extraordinary non-performing loan sale transactions. Strengthening of capital for Italian banks continued again 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 the further strengthening of the already good, and in some cases excellent, liquidity situation for the Italian banking system, although with some exceptions that will be described below. This condition was favoured by the continuation of the extended Quantitative Easing securities purchasing programme (hereafter QE) launched by the ECB in March 2015, which involved government securities, asset backed securities and covered bonds as well as corporate securities. The implementation of the QE programme contributed to generating very favourable institutional funding access conditions through Covered Bonds or Asset Backed Securities, which were combined with the 4-year loan at particularly favourable conditions that many Italian banks made use of in significant amounts, that was offered by the ECB through the Targeted Long Term Refinancing Operations (T-LTRO). Looking at the Italian banking system, despite the general condition of abundant liquidity, some situations of stress remain, limited to certain specific banks (the most significant of which are Monte dei Paschi di Siena, Veneto Banca, Banca Popolare di Vicenza and Carige). These Banks have experienced, and are continuing to experience, situations of liquidity scarcity, with regulatory indicators (LCR) in certain cases lower than one to one. The situation of uncertainty which accompanied the evolution of the complex Banca Monte dei Paschi recovery process contributed to keeping the spread high on the subordinated debt of Italian banks, particularly for medium and small-sized banks.

Despite these systemic tensions, the cost of customer funding still fell during the year, although to a limited extent, given the absolute level of rates. The unsecured interbank market continued, as in previous years, to record exchanges concentrated for shorter maturity dates (mostly overnight) and for smaller amounts.

As indicated above, the ECB continued with its stimulus actions. In 2016, the ECB Governing Council further extended the duration of the buying programme (until December 2017), although it reduced the monthly amounts to € 60 billion.

III. Significant events during the year, structure of the Banca Sella Group and evolution of the structures

Significant events during the year

Corporate transactions and transactions on equity investments

In September 2016 the agreement was finalised for the strategic acquisition of Visa Europe by Visa Inc., aimed at creating a single Company that operates both on the US and European market. The sale for valuable consideration to Visa Inc. of the equity investment held in Visa Europe entailed a cash consideration and the assignment of Visa Inc. shares for a total, in favour of all Visa Europe shareholders, of roughly € 5 billion upon completion of the transaction; an additional earn-out of up to € 4.7 billion was converted into cash with payment extended over a three-year period. Based on this information, as a principal member, Banca Sella received cash of € 34.1 million for the sale of its share in Visa Europe, as well as Visa Inc. "class C" shares with a value net of the lock-up clause of € 10.2 million and a discounted fixed-maturity receivable for an amount of € 2.6 million.

On 30 June, an insurance partnership agreement was signed by the Banca Sella Group and HDI Assicurazioni, a company belonging to the German Talanx group, the third largest insurer in Germany, which operates in more than 150 countries and whose parent company Talanx AG is listed on the Frankfurt Stock Exchange. On the basis of this agreement, HDI Assicurazioni purchased the entire stake held by the Banca Sella Group in C.B.A. Vita, and therefore also that of its subsidiary Sella Life Ltd, and the entire stake (equal to 49%) held in InChiaro Assicurazioni Spa. The agreement reached also calls for a long-term commercial partnership between the Banca Sella Group and HDI Assicurazioni, regarding the non-life and life segments, with the goal of providing our Customers with an increasingly high-quality insurance offering. The sale of the equity investments in the insurance group resulted in the recognition of a € 27 million capital gain.

On 24 June 2016, the deed of sale of Selvimm Due SA (subsidiary 90% held by Banca Sella Holding and 10% held by Banque Martin Maurel), owner of the building located at Corso Elvezia 4 in Lugano and the former registered office of Sella Bank AG, was signed. The sale was made for the total price of CHF 28.3 million, and resulted in a capital gain of approximately € 2.3 million. The purchaser was the real estate company B.B.K. Immo S.A.

In October, in execution of the Board of Directors resolution of 22 July 2016, Banca Sella Holding subscribed part of the share capital increase of Talent Garden S.p.A.. Talent Garden S.r.l., with registered office in Brescia, has developed a business model since 2011 based on offering shared production and working spaces under the "Talent Garden" brand. After the Company's transformation into a joint-stock company and an initial share capital increase to € 150,000 carried out by the current Shareholders, Talent Garden approved a share capital increase, which was completed on 31 December 2016. Banca Sella Holding therefore now owns 3,125 shares equal to a stake of 1.389%.

On 1 November, as set forth in the 2016 plans within the 2015-2017 Strategic Plan, a corporate action was carried out in which Banca Sella transferred to Easy Nolo the Hype technological platform and the Commercial Coordination of the Agent Network. This business unit contribution took place with the subscription by Banca Sella of a (reserved) capital increase approved by Easy Nolo. To complete this transaction, Easy Nolo approved a share capital increase for a total of € 4.9 million, consisting of the issue of 140,566 new shares with a nominal value of € 1 each, at the unit price of € 34.63 (nominal value + share premium). Before the above-mentioned transaction, 99.79% of the Easy Nolo shares were held by Banca Sella Holding and 0.21% by minority shareholders. As noted, the share capital increase entailed the issue of 140,566 new shares with a nominal value of € 140.6 thousand and a share premium of € 4.7 million, subscribed in full by Banca Sella through the contribution in kind of the business unit in question. Subsequent to the contribution, Banca Sella therefore holds a 6.89% stake in Easy Nolo.

In order to extend the support of SellaLab to the entire Group, as of 1 November, Banca Sella transferred it to Banca Sella Holding through the contribution of the business unit. Banca Sella transferred assets of roughly € 418 thousand and liabilities of around € 40 thousand; Banca Sella Holding paid for the difference of € 378 thousand in cash.

For both transactions, these amounts were not recognised in the separate income statement for the year pursuant to IFRS 3 as the transaction was carried out under joint control.

On 21 October 2016, Banca Sella Holding (on its own behalf and as representative of Banca Sella, Banca Patrimoni Sella & C., Consel and Biella Leasing) and the Group Union Delegation signed the Agreement for access to the extraordinary benefits of the "Solidarity fund for professional retraining and requalification, for the support of employment and the income of credit personnel" in which 69 employees participated; following the acceptance of all participation applications, a total provision equal to the expenses to be incurred, quantified at € 9.9 million, was recognised; the terminations of the parties concerned will take place in 2017.

Appointments and roles

In May, the Shareholders' Meeting of Pri Banks, the National Association of Private Banks, elected Pietro Sella as its new Chairman for the next three years. Since 2013, he held the position of Deputy Chairman; Camillo Venesio became Chief Executive Officer of Banca del Piemonte. Pri Banks is the Association established in 1954 that brings together Italian private banks. It currently has 31 member Banks.

In September, Pietro Sella was appointed Chairman of Endeavor Italia, the newly established non-profit organisation and the Italian affiliate of the global non-profit Endeavor Global, headquartered in New York and already present in 25 countries. Endeavor aims to promote economic growth, entrepreneurship and business innovation throughout the country through its global network, by selecting and supporting entrepreneurs and businesses in the "scale-up" phase, i.e., businesses that have completed their start-up phase and which have the potential to complete a growth acceleration phase.

Inspections

On Monday 6 June, as part of its ordinary supervisory activities, the Bank of Italy initiated a thematic inspection of Banca Sella to examine the organisational/procedural structure adopted by the Bank to meet requirements on the Remuneration of credit lines and overdrafts pursuant to art. 117 bis of Legislative Decree 385/1993 (Consolidated Banking Act) and Ministerial Decree 644/2012". The inspection was completed on 1 July 2016 with several areas for improvement noted, regarding which the Bank responded to the Inspection Report and therefore took action. Certain application profiles amongst those that arose could be clarified further by the Supervisory Authority in its upcoming specific notification to intermediaries, which the Bank will take into due account.

On 28 October 2016, the Bank of Italy began an inspection on the transparency of banking and financial transactions and services at several Banca Sella branches, specifically: 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) and Florence (H5); this activity also continued in 2017 at the Collegno branch (L8). The same inspection took place at Consel's Turin branch, and was completed on 4 November 2016. As this report was being prepared, the relative reports had not yet been received.

Sales agreements

In July 2016, the "Biella in transition" agreement was entered into by Banca Sella, Unione Industriale Biellese and Confidi Systema with the goal of favouring access to credit by businesses that want to invest to develop their activities in order to boost competitiveness. With this agreement, the Group is aiming to confirm its support to local businesses that hope to improve their competitive abilities, especially in the current environment in which markets are becoming increasingly global and there is a strong drive towards technological innovation. Indeed, the financing established in the agreement focuses particularly on investments for internationalisation, business development and the optimisation of business processes if supported by new digital technologies, research and development and training to develop new skills.

In September, Banca Sella supported Soleto S.p.A. in the issue and placement of a € 5 million minibond issued by the company to support its growth projects. Soleto S.p.A. is specialised in the creation of cutting-edge technological solutions for the segments of telecommunications, transport and energy distribution as well as other “multi-utility” technological infrastructures. The company’s minibonds have been listed on the Italian Stock Exchange’s ExtraMot Pro market since 27 September. In this transaction, Banca Sella acted as arranger, placing the bond and supporting the issuer in the various phases of the issue process, while the advisory service for the structuring of the issue and the definition of its various aspects was provided by Sella Corporate Finance. Chiomenti Studio Legale acted as the legal advisor to Banca Sella.

Also in September, the new Innovfin campaign began with the objective of offering loans to target businesses with a first demand and unconditional guarantee of the EIF (European Investment Fund). The guarantor is the European Investment Fund (EIF), with financial resources made available by the European Union. This new opportunity makes it possible to boost the loyalty and profitability of Customers based on the new loans that may be disbursed thanks to consulting on an innovative product.

In October, Banca Sella and SACE (Cassa Depositi e Prestiti Group) entered into an agreement that provides the Bank’s corporate customers with € 50 million to support innovation and growth projects abroad. This partnership is developed as part of the “2i programme for business - innovation and internationalisation” developed by Cassa Depositi e Prestiti.

On 21 November 2016, Sella Gestioni launched “LifeGate sustainable investments”, the first “impact investing” mutual investment fund listed on the Italian stock exchange. This listing allows for broad availability and accessibility to investors, guaranteeing the utmost efficiency and cost transparency.

Geographical reorganisation

In line with the Banca Sella Strategic Plan, in early September the new Private centre was opened in Rome’s EUR district, which joins the Advisory centre in Florence opened at the start of the year. The work was completed for the new office of the second Bologna branch. In the meantime, the geographical presence was streamlined in some markets by closing 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. This streamlining was aimed at freeing up professionals to strengthen other area branches, increasing overall efficiency and providing better and more professional service to Customers. The service model’s increasing evolution towards proactive advisory services requires an increase and a focus of time dedicated and initiatives for contact with and seeking out Customers.

On 14 September, Banca Patrimoni Sella & C., the Banca Sella Group’s bank specialised in asset management and administration, reinforced its network of financial advisors in Padua with the new office in the Palazzo Colonne building at Via San Francesco 34. The new Padua office represents a significant further piece of the puzzle for strengthening our presence in the Triveneto area. The Padua operating team consists of 15 private bankers. The new office joins the office of financial advisors already present in Padua in the Palazzo Tendenza building. Banca Patrimoni Sella & C. is also present in the Triveneto area in Udine, Treviso, Mestre and Verona, where a new branch will begin operating in 2017.

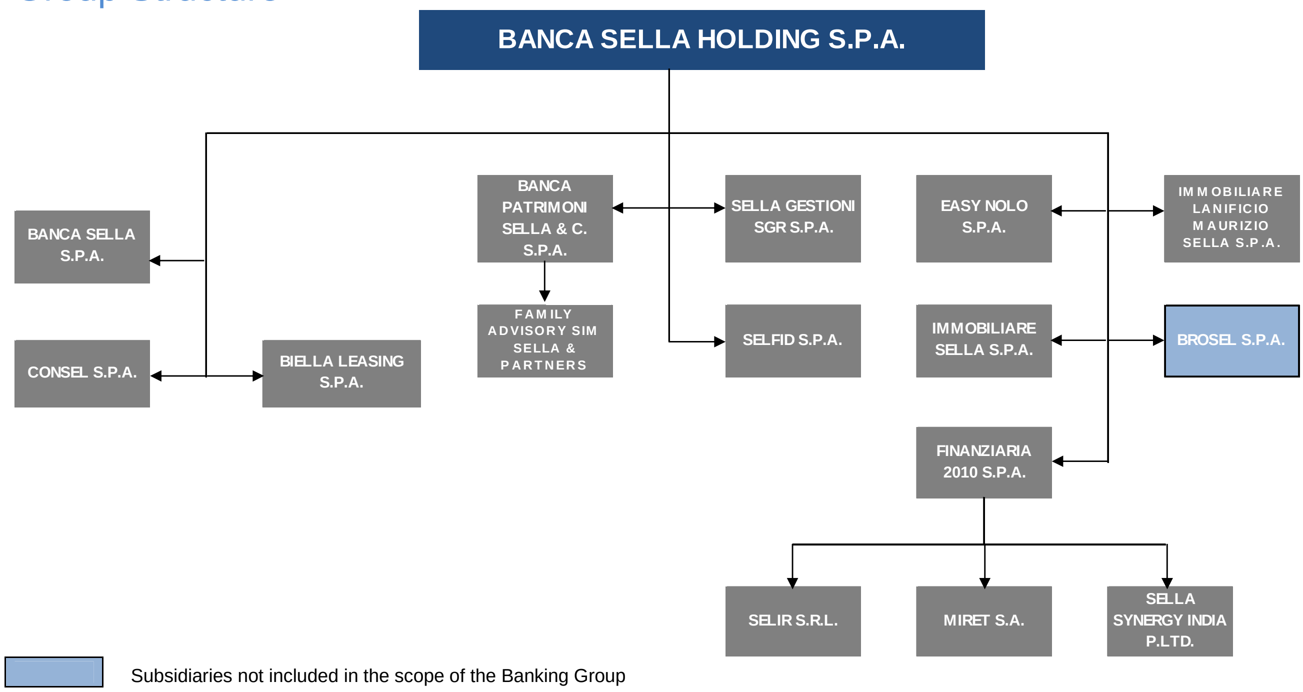
Other aspects

As expected at the time of the Banca Sella Holding share capital increase reserved for employees, pensioners and stable collaborators, the shareholders that subscribed the shares and maintained continuous ownership of them for three years until 30 September 2016 were granted a free Special Share for every twenty Special Shares subscribed.

Banca Sella subscribed medium/long-term funds made available by the European Central Bank with the two TLTRO programmes. In particular, it paid off the loans obtained within the first Programme (€ 268 million) early and simultaneously obtained new loans of € 335 million in the first round of the second TLTRO programme (settled in June 2016) under more favourable rate conditions.

Please also note that in July 2016, Banca Sella completed the update of the maturing EMTN (Euro Medium Term Note) programme.

Group Structure



Other fully consolidated companies:	SELLA CAPITAL MANAGEMENT SGR S.p.A. in liquidation
	MARS 2600 S.r.l. (special purpose vehicle for Group securitisation transactions).
	MONVISO 2014 S.r.l. (special purpose vehicle for Group securitisation transactions).
Investee companies consolidated at Net Equity:	MARTIN MAUREL SELLA BANQUE PRIVEE MONACO S.A.M.
	HI-MTF SIM S.p.A.
	S.C.P. VDP 1
	ENERSEL S.P.A.
	DPIXEL S.r.l

The Banca Sella Group consists of 19 companies (of which 1 in liquidation and two special purpose securitisation vehicles) working in many different geographical areas with a vast range of products and services.

Within the Group, Banca Sella Holding handles three different functions in carrying out its activities.

The first is that of Parent Company, which gathers together within a single entity the activities of management, coordination and control, defining strategic orientations and guidelines for Group development. This activity meets the need set forth by sector regulations as well as company law, to guarantee the functioning of the Banking Group through "sound and prudent management" as well as to exercise strategic control over the evolution of the different areas of activity in which the Group operates and the risks correlated with the activities carried out.

The second is that of exercising management control aimed at ensuring that the economic, financial and equity balance conditions of individual companies and of the Group as a whole are maintained.

The third relates to Finance, that is own-account trading operations, managing company-owned securities portfolios and corporate finance.

The second function includes the activity of "provider of services" to other Group companies, in which Banca Sella Holding manages various services at a central level and provides them to subsidiaries, including:

- Financial instruments trading;
- Access to financial markets;
- Centralised Group treasury (including management of relations and credit lines of Banking Counterparties).

In November 2016, the Parent Company acquired SellaLab from Banca Sella, an initiative to support start-ups and SMEs which has the objective of bringing (useful/effective) innovation to the Banca Sella Group and, more generally, creating and supporting local economic development by supporting them in the digital transformation process.

The main Group companies included in the consolidation area can be divided as follows, on the basis of their business segment:

- Commercial Bank:
    - Banca Sella, the sole Italian banking network of the Group which mainly operates in retail activities;
- Large customers and asset management:
    - Banca Patrimoni Sella & C.: a bank whose business is focused on securities asset management, investment advice and increasing its customers' total assets, and which also plays the role of provider of private banking tools, services and products to the entire Group;
    - Selfid: a company whose purpose is to carry on a so-called "static" fiduciary business;
    - Sella Gestioni: a company operating in the managed savings sector (in the segment of collective management) and in the sector of individual management and complementary pensions;
    - Family Advisory SIM S.p.A. - Sella & Partners: a securities broking company, this is a multi-family office providing a concrete response for families and businesses;
- Leasing
    - Biella Leasing: a company operating in the financial leasing segment;
- Consumer credit
    - Consel: a company which works in the consumer credit sector, providing customers with a wide range of products focused on credit;
- Banking Services
    - Selir: a Romanian company which operates in the sector of the design and development of software products and in the provision of administrative services exclusively for the Group's banks, Easy Nolo and Consel;
    - Chennai Branch, "permanent establishment abroad" of Banca Sella, operating in the design and development of IT products for Group companies;
    - Easy Nolo: a company operating in the world of electronic payment systems;
- Other sectors of activity
    - Brosel: a company active in the insurance broking and advice sector;
    - Miret S.A.: a common-law company operating under Luxembourg law, dealing exclusively with administrative activities deriving from transferred management of Sella Bank Luxembourg S.A.;
    - Immobiliare Sella and Immobiliare Lanificio Maurizio Sella: the Group's real estate companies;
    - Finanziaria 2010: the Group's holding company;
    - Sella Synergy India: Indian company, which on 15 February 2010 sold its information activities to Chennai Branch, "permanent establishment abroad" of Banca Sella; the company is active but no longer operative;
    - Sella Capital Management: in liquidation.

A brief description is provided below of the investee companies consolidated at Net Equity:

- HI-MTF sim spa: organises and manages Hi-Mtf, a Multilateral Trading Facility: a market for trading financial instruments, in which the Direct Participants convey the orders received from customers by applying the proposals of Market Makers;

- o Martin Maurel Sella Banque Privee: bank with registered office in the Principality of Monaco, with the corporate mission of developing private banking and asset management activities;
- o S.C.P. VDP 1: holding company that holds control over the company VDP2, which in turn owns the property where Martin Maurel Sella Banque Privee has its registered office;
- o Enersel S.p.A. company for the production of electricity in favour of the Group;
- o DPixel S.r.l. is a venture capital advisor specialised in corporate innovation, acceleration and startup investment.

Evolution of the Group structures and of equity investments

In 2016, several initiatives were completed that modified the perimeter of the Banca Sella Group: after the final rationalisation operations regarding its corporate structure, implemented to better structure offerings of products and services, the Banca Sella Group consists of 17 companies, of which one in liquidation in addition to 2 special purpose vehicles for securitisations.

Changes in the scope of consolidation

In 2016, the controlling interests held in the companies Selvimm Due S.p.A. and C.B.A. Vita S.p.A. were sold in their entirety (and as a result the investees Sella Life Ltd. and InChiaro Assicurazioni S.p.A.).

The structure of the Banca Sella Group at 31 December 2016, together with an indication of the main equity relationships, is shown in the Group chart provided at the beginning of this annual report. For more information on the shareholdings and availability of votes in the ordinary shareholders' meeting, please refer to Part A of the Explanatory Notes – A1 General part.

Fully consolidated companies

In relation to fully consolidated companies, in 2016 the following changes were recorded to the percentage stakes of the Group:

Change in equity interests

Company	From	To	Operation
Banca Sella S.p.A.	78.720%	78.732%	Purchases
Consel S.p.A.	67.432%	100.000%	Purchases
C.B.A. Vita S.p.A.	100.000%	0.000%	Disposal
Sella Life LTD	100.000%	0.000%	Disposal
Selvimm Due S.A.	90.000%	0.000%	Disposal
Easy Nolo S.p.A.	89.789%	99.891%	Share capital increase and purchases

Companies consolidated at net equity

Please take note of the following regarding companies consolidated at Net Equity:

- the company Symbid Italia S.p.A., in which a 29.940% stake was held, was liquidated;
- the disposal of the entire equity investment held in InChiaro Assicurazioni S.p.A., equal to 49.000% of the company's share capital, following the sale of its direct investing company C.B.A. Vita S.p.A..

IV. Governance

Report on corporate governance and ownership structure

Banca Sella Holding is the parent company of the Banking Group named “Banca Sella Group”. The ownership structure which, right from the start (1886) has always characterised the Company, has, also, determined the governance structure, facilitating the maintenance over time of the values and principles at the base of a prudent way of doing business as a bank, oriented to stability and sustainability of development in the long term, based on knowing how to work in the Customer’s interest, taking care to cautiously assume and manage risk and pursuing a high level of self-financing.

Share capital (article *5* of the Articles of Association), fully underwritten and paid up, was € 107,113,603.00, represented by 214,227,206 shares with a nominal value of €0.50 (zero point fifty euro) each, divided into two categories of Shares pursuant to article 2348 of the Civil Code, consisting of:

- 209,976,000 Ordinary Shares;
- 4,251,206 Special Shares.

The Ordinary Shares and the Special Shares grant the same rights, both equity and administrative, as established by the law and the Articles of Association, with the exception of the different rights which, pursuant to article 2348 of the Civil Code, characterise the Special Shares.

Each shares gives the right to a vote, with the exception of the limitations foreseen in article 12 of the Articles of Association.

On the basis of article 8.1 of the Articles of Association, shareholders of Ordinary Shares have the right of pre-emption in the event of disposal of the full or bare ownership of Ordinary Shares, of rights of option or assignment or fractional bonds or usufruct on the same. Ordinary Shares may be disposed of, with effect on the Company, to subjects other than the blood descendants in direct line of the disposer, than Group companies and than owners of Ordinary Shares, if they have not been offered in advance as an option to the latter with accretion among them.

Special Shares:

- can only be held by “Employees”, “Pensioners”, “Stable Collaborators” or “Ordinary Shareholders”, as defined by article 7 of the Articles of Association;
- they are subject to the Possession limits envisaged in article 7 of the Articles of Association, it not being allowed – if not to the company in regard to treasury shares, within the limits envisaged under the law, as well as for Ordinary Shareholders – to purchase and hold special shares in amount greater than 0.25% of the total number of Shares into which the share capital is divided;
- they are subject to the circulation limits pursuant to article 8.2 of the Articles of Association, that is Special Shares can be transferred only to “Employees”, “Pensioners”, “Stable Collaborators” or “Ordinary Shareholders”, after ascertainment of said status by the Board of Directors;
- they are subject to buyout and enjoy the sales right regulated by article 8.3 of the Articles of Association in the case that the quality of “Employees”, “Pensioners”, “Stable Collaborators” or “Ordinary Shareholders” is lost;
- the are subject to the voting limit pursuant to article 12 of the Articles of Association, the voting right of the Special Shares is limited to a maximum number of votes for each holder equal to 0.01% of the total number of shares into which the Share Capital is divided;
- they are subject to the representation limits pursuant to article 13 of the Articles of Association, that is the owners of Special Shares cannot represent themselves for the purposes of participating and voting in the Ordinary and Extraordinary Shareholders’ Meetings.

No securities have been issued conferring special rights of control or special powers.

At the date of approval of the Financial Statements there are no further restrictions on exercising voting rights and there are no shareholders' agreements.

The Board of Directors has not received delegated powers from the shareholders' meeting to carry out share capital increases under the terms of article 2443 of the Civil Code, nor can it issue equity instruments.

The shareholders' meeting has not resolved authorisations to purchase treasury shares under the terms of article 2357 and subsequent of the Civil Code.

Banca Sella Holding is not subject to the direction and coordination of any other legal entities.

Exercising good corporate governance requires a corporate structure that best achieves the necessary relationship of correspondence between the ownership structure and the governance structure, the presence of which constitutes a fundamental factor for the company's success.

The traditional administration system, which includes direct appointment of the body with strategic supervisory responsibilities and the body that provides control functions by the Shareholders' Meeting, giving life to a particularly strong bond between the shareholding structure and the representatives on the corporate bodies (which also include, as foreseen in article 19 of the Articles of Association, independent directors). The situation created by the high level of homogeneity within the shareholding structure makes the bodies' work particularly effective, as this quality means it is more simple to obtain consensus in Shareholders' Meetings, given that it is in alignment with decisions most favourable to achieving the corporate interest. The Board of Directors has appointed a Chief Executive Officer, with managerial functions, defining the method by which these powers can be exercised, and the frequency that reports must be provided on the exercising of the powers attributed.

As regards administration and accounting activities connected with the preparation of the separate and consolidated financial statements, the Group adopted specific company processes, aimed at supervising the correct preparation of financial statements, as provided for in the legislative, regulatory, civil and fiscal rules. The Compliance and Internal Audit services of the Holding company ensure the conformity and adequacy of these processes, within the scope of their activity, as described in the following section. V. Internal Controls.

In conformity with the provisions of section 123 bis, subparagraph 2, point b) of Legislative Decree 58/98, the information on the main features of the internal control bodies covering existing risk management systems concerning the accounting and financial information process is reported below. Detailed information on the individual risks (credit, market, liquidity and operational) is provided in the notes, part E – Information on risks and related hedging policies.

V. Internal controls

The organisational framework of the "Internal Audit System" of the Banca Sella Group divides audits into three levels, in accordance with the recommendations of the Supervisory Authority:

- first-level controls (or line controls) aim at ensuring the correct performance of operations and are carried out by the same operational units or included within software support procedures. In addition to line control systems, the Group has also strengthened its first level controls by creating control focused structures;
- second level controls (risk management controls) have the objective of helping to define risk measurement methods, verifying compliance with the limits assigned to various operating functions and monitoring compliance with regulations. These are assigned to structures that are outside of production, specifically Compliance, Risk Management and Anti-Money Laundering;

- finally, third level controls are aimed at identifying anomalous behaviour, violations of procedures and regulations and assessing the functionality of the overall Internal Control System; these are the specific responsibility of Internal Audit.

The corporate second and third level control functions all feature shared principles based on the Banca Sella Group Code of Ethics and Values, as well as a combination of best practices for the sector.

The Banca Sella Group internal control system has strategic importance: a culture of control and healthy and prudent risk management are of significant importance in the corporate system of values and does not only involve the company control departments, but the entire corporate structure.

The essential principles that guide the corporate control departments are independence, separation, objectivity, autonomy, integrity, privacy and competence.

These principles are outlined in the Internal Control System Regulations for the Banca Sella Group, within which the parent company's Board of Directors has defined the guidelines for the Internal Control System, guaranteeing constant compliance with the principles indicated in title IV, Chapter 3 of Circular 285 and compliance, by the company control departments, with the requirements foreseen therein. More specifically, these regulations, which are circulated to all relevant structures, define the tasks and responsibilities assigned to the various control bodies and functions, the flows of information between the various bodies/functions and with corporate bodies, as well as methods of coordination and cooperation.

Again in application of the provisions issued by the Bank of Italy in Circular 285 and subsequent updates, the primary responsibility for the implementation and operation of the control system and for healthy and prudential risk management falls to the corporate bodies of the companies within the Group (body with strategic supervision responsibilities, body with management responsibilities, body with control responsibilities), each based on their respective responsibilities, and also in line with the Group's strategies and policy in regards to controls.

The operation of the internal control system is also under the purview of the supervisory bodies pursuant to Legislative Decree 231/01, as established in the various companies and the parent company Risk Committee, as well as mechanisms with specific responsibilities in terms of control, such as the Risk Committee, Control Committee, Credit Risk Control Committee, ALM Committee and the Operational Risk Assumption Committee:

- the **Risk Committee** provides support to the parent company Board of Directors in regards to risks and internal control systems and provides consulting, investigation and proposal services. It consists of three independent directors appointed by the parent company Board of Directors. They hold these roles until otherwise decided by the same Board of Directors. The Board also appoints the Chairman from among the three members;
- the **Control Committee** analyses at Parent Company level the evolution of the Operational, Compliance, Money-Laundering and Reputational risk profiles, so as to continuously favour and support solutions that boost the efficiency of the first and second level control system, also taking into account the organisational structures and responsibilities of the Group in force over time and the impact on all risks;
- The **Credit Risk Control Committee** discusses trends and forecasts for macroeconomic variables 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) and subsequent updates. 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;
- the **ALM Committee** has the goal of periodically monitoring exposures determined by the breakdown of the assets and liabilities of Group Companies and the Group in order to:
    - check for compliance with the risk assumption limits assigned by the competent bodies;

  - prepare forecasts on possible future scenarios and identify the most appropriate solutions over time;

- The **Operational Risk Assumption Committee** was established to ensure that operational risk is assumed in line with the risk appetite profiles in place approved by the Parent Company's Board of Directors. The Committee intervenes if the overall residual operational, compliance or money-laundering risk level is assessed as significant, evaluates the adequacy of the relative mitigating actions and decides on the assumption of risk, in addition to approving the adequacy of plans for the resolution of anomalies and providing an opinion to accompany the proposed resolution of the Parent Company's Board of Directors.

First-level controls

In the context of first-level or line controls, work is focused on:

- automation of manual controls;
- inserting of new controls deriving from comprehensive analysis of processes and risks;
- reinforcing central monitoring of the outcome of peripheral controls.

Second-level controls

The Risk Management and Anti-Money Laundering functions within Banca Sella Holding were merged, at the end of 2015, into a single Risk Management and Anti-Money Laundering entity, whose manager reports directly to the Chief Executive Officer.

The Risk Management function is responsible for identifying, measuring and controlling financial and non-financial risks and their relationship to capital, in line with the regulations in effect and the risk appetite defined by the body with strategic supervision responsibilities.

Its responsibilities include:

- defining governance policies through before the fact assessment of potential risks based on quantitative and qualitative measurement approaches;
- defining risk management policies;
- guaranteeing periodic monitoring of the risk profile;
- continuously implementing methods and tools to quantitatively and qualitatively measure risk exposure;
- favouring the spread of a risk culture;
- coordinating the Risk Management functions within all Group companies in order to adopt homogeneous risk measurement and control methods;
- contributing to increasing the professional skills and assessing the performance of Risk Managers within Group companies.

The main activities performed during 2016 by Banca Sella Holding's Risk Management service include:

- development and maintenance of the "Control Cycle" organisational process, which governs the treatment of anomalous events and the immediate removal of the same, as well as the effects and causes which generated them;
- continuation of the activity of assigning the operational risk rating to the business processes mapped with an "end-to-end" approach;
- careful evaluation of the risks associated with new processes and services and those deriving from entry into new operating and market segments;
- evolutionary maintenance of credit risk measurement processes and procedures, including:

  - 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 reporting on the cost of credit for all Group companies, aimed at analysing the variables that affect the final figure on a monthly basis;
  - methodological refinement of collective write-downs, in compliance with the IAS;
  - procedures to check the admissibility requirements of credit-risk mitigation techniques;
- execution of second level controls on credit risk, pursuant to Circular 285 (formerly the 15th update to Bank of Italy Circular 263/2006);
- contribution to the definition of the Capital Management Plan;
- cooperation in defining the Risk Appetite Framework (RAF) and establishing risk objectives and operating limits;
- constant monitoring of the risk effectively taken on and its compliance with risk objectives, as well as with operating limits;
- updating of risk control and management policies;
- formulation of preventive opinions regarding the compliance of the most significant operations with the RAF;
- The assessment of the Group's capital adequacy, both in current and prospective terms, in relation to the risks assumed and assumable and company strategies, formalised in the drafting of the ICAAP report, sent to the Bank of Italy;
- improvements in managing and controlling Pillar II risks identified under the Basel 3 regulations and subject to measurement/assessment as part of the ICAAP, including in particular constant refinement of the indicators adopted to monitor liquidity risk, with an eye to alignment with the new standards proposed in Basel 3;
- continuous strengthening of the monitoring of market risks;
- revision of the proprietary counterparty risk monitoring and measurement procedure;
- preparation and publication of public disclosures ("Third Pillar") on the website in the Investor Relations section, in compliance with regulatory provisions laid out in circular 285/2013 and subsequent updates and the CRR; monitoring regulatory evolutions within the applicable area.

During 2016, the **Risk Management** function carried out an independent assessment of the Banca Sella Group's capital adequacy, both in current and prospective terms, in relation to the risks assumed and assumable and company strategies, formalised in the drafting of the ICAAP report, sent to the Bank of Italy.

The company bodies of the Parent Company govern the entire ICAAP process and, in compliance with the Supervisory regulations, organise its updating, in order to ensure that it continues to meet the operational characteristics and context in which the Group works.

The ICAAP is implemented at the consolidated level, is based on appropriate corporate risk management systems, and presupposes adequate mechanisms of corporate governance, an organisational structure with well-defined lines of responsibility, and effective internal control systems.

The **Risk Management** function is also responsible for monitoring the service levels of all the Group's operational structures.

The "Cruscotto dei Livelli di Servizio" (Service Level Dashboard) is an appraisal instrument to assess service levels, to allow grouping indicators according to the organisation chart of the Banca Sella Group. The dashboard also provides an overview of the impact on the service levels of critical anomalies which have occurred in a certain department/company.

The service-level monitoring process is closely connected to the anomaly and follow-up management processes. In fact, within the Group Control Cycle process, an analysis of the impact on service levels is requested for each anomaly detected in the "Anomaly Reporting" platform.

The 2016 dashboard has been adapted to keep pace with the changes in the organisation as they have come into effect during the period. The Service Level Dashboard report with the related comments is prepared during the meeting of the Board of Directors of the Parent Company, is published every month on the corporate Intranet and is available to all users for consultation.

As 31 December 2016 the Group Dashboard showed a total annual average service level of 99.966%.

There is an **Anti-Money Laundering** unit within every Group company. The parent company's Anti-Money Laundering unit coordinates the efforts of all the other anti-money laundering units within the Group.

Second-level control activities carried out during 2016 involved mainly:

- conformance visits to some of the Group companies concerning the application of due diligence during the customer acceptance phase;
- ex-ante risk assessment on new products or processes before their entry into production;
- production, control and monthly transmission of statistical data (SARA notifications) to the UIF regarding the records contained in the shared IT archiving system;
- monitoring the processing of unexpected positions highlighted by the special GIANOS procedure within the deadlines envisaged in internal regulations.

The **Compliance** unit is responsible for monitoring the risk of non-conformity with norms (compliance risk) and has a duty to verify that internal procedures are in keeping with the objective of preventing the infringement of both obligatory rules (laws and regulations) and internal rules (Articles of Association, codes of conduct, self-regulation codes). It governs a cross-sector multi-functional process that involves numerous aspects of company life. In fact, carrying out compliance tasks, which include a large number of activities already performed by other departments, involves responsibilities distributed within the company, diverse skills and may also require communicating with external parties, including the Supervisory Authorities.

The compliance process is necessary in order to:

- supervise the risks of non-compliance deriving from the introduction of new relevant regulations or amendments to existing ones;
- transform the new regulatory context into opportunities and benefits for customers and for the company;
- carry out effective and efficient organisational and cultural adaptation.

The stages into which the Banca Sella Group compliance process is divided are:

- knowledge of the regulations;
- alert activities;
- gap analysis;
- organisational planning, successive changes, and full release of the same;
- adaptation control (with respect to deadlines);
- efficacy and adequacy control.

In greater detail, the application of the compliance process provides for the responsibilities described below, under its scope of competence:

- to continuously identify applicable regulations and measure/assess their impact, in terms of compliance risk, for company processes and procedures;
- to ensure that the processes, procedures, products and services offered comply with the external and self-regulatory provisions;
- including through direct inspections carried out in the context of the annual plan or through extraordinary inspections requested by Top Management, to verify that the regulations have been adopted by the departments affected by the procedure, processes and internal regulations, as well as verifying the effectiveness of the organisational solutions (structures, processes, and procedures, including both operational and commercial ones) that are suggested to prevent compliance risk;
- to provide advisory assessment to the Top Management on the regulatory compliance of innovative projects and on the prevention and management of conflicts of interest;
- to supply advice and assistance to significant subjects appointed to perform services, in order to ensure fulfilment of the obligations laid down in the legislation;
- to verify the coherence of the bonus system (in particular personnel retribution and incentives) with the objectives of compliance with the regulations;
- to evaluate the compliance risk underlying strategic decisions taken;
- to agree on courses and training seminars with Human Resources on compliance matters, both of a general nature and on specific subjects, in order to ensure the promotion and diffusion of a culture of legality and compliance and to prevent compliance risk;
- at least once a year, it presents the Company Bodies with the report on activities, in accordance with that established by sector regulations;
- to draw up regular reports on instances of non-compliance detected.

In Banca Sella Holding, the BSG Compliance department is operational. It is permanent, independent and an integral part of the Internal Audit System, and its staff report to the Chief Executive Officer of the Parent Company. In addition, the Banca Sella Group Companies for which there is a specific regulatory obligation have established a Compliance Department and/or appointed a Compliance Manager.

In addition to the responsibilities described above, the Parent Company's Compliance Department has the responsibility for supervising application of the compliance process in the Banca Sella Group and for proposing guidelines at the Group level in terms of managing compliance risk.

Third-level controls

Internal Audit within Banca Sella Holding, the company's third level control function, consists of three offices: General Auditing, Investment Services Auditing and ICT Auditing. These offices, guided and coordinated by the Internal Audit Manager, operate with the objective of assessing the functioning and adequacy of the overall system of internal controls and providing notification of potential risks identified during their work, proposing corrective actions and verifying the effectiveness of controls consequently introduced to mitigate the same.

Internal Auditing reports structurally to the Board of Directors of the Parent Company and, when the Board is not meeting, to its Risk Committee.

The Service Manager is also responsible for coordinating the third level control functions found in other Group companies, with the aim of implementing a homogeneous structure for third level control activities and sharing the relative results, while respecting the autonomy of the individual functions.

In 2016 it worked to:

- ensure appropriate planning and execution of activities, in line with the various external requirements (norms/regulations, or requested by the Supervisory Bodies) and external ones, using a risk-based perspective;
- ensure monitoring of implementation of the corrective actions by the inspected bodies (follow up);
- guarantee the efficacy of the informational and reporting flows to the Board of Directors, Board of Statutory Auditors, the Risk Committee, and Top Management, as well as the second-level control departments;
- strengthen the workforce quality standard and improve and expand the range of professional skills available within its services with the purpose of better responding to needs for action.

More specifically, the inspections performed by the Internal Audit Department during the year had the purpose of:

- checking the compliance with internal regulations, supervisory regulations and laws (from both a formal and a substantial point of view), the effects on capital and income and the risks associated with the business;
- performing process analyses to evaluate risk areas, the efficiency and effectiveness of audits, the operation and adequacy of organisational processes, their efficiency and suitability for the type of business of the structure/company; ensuring that line and risk controls are carried out in an optimal and thorough manner;
- highlighting the existence of "residual" risks", reporting on their "level of seriousness", and formulating requests and suggestions for corrective actions to resolve or mitigate the shortcomings detected.

Solely for statistical/quantitative purposes, Banca Sella Holding's Internal Audit carried out the following actions in 2014-2016:

	2016	2015	2014
Interventions on Processes and Organisational Units	27	32	31

Supervision and audit committee Lgs. Degree 231/01

At the proposal of the Shareholder Banca Sella Holding S.p.A., the Shareholders' Meeting unanimously resolved on 29 April 2014 to assign the Board of Statutory Auditors the function of Supervisory Body as of 1 July 2014, pursuant to article 6, paragraph 4 of Legislative Decree 231/2001. The body with control functions (Board of Statutory Auditors), in line with what is set forth in Title V - Chapter 7 of circular 263/2006 of the Bank of Italy (New regulations for the prudential supervision of banks), generally carries out the functions of the Supervisory Body - established pursuant to Legislative Decree 231/2001, regarding corporate liability - which monitors the functioning and observance of organisational and management models that the bank creates in order to prevent crimes falling under the purview of said legislative decree.

Other aspects

The operational risks to which Miret S.A. is exposed – related to relationships not transferred on 01 July 2010 to the banking company Banque BPP S.A. (now Banque de Patrimoines Privés S.A.) following the spin-off - are exclusively those due to events entirely attributable to management from the now distant 2001–2003, to which an end was put with the dismissal of the management in office and its immediate replacement in November 2003. This subject was already reported on in the financial statements for previous years.

Compared to what appears in the report to the 2015 financial statements, now we intend to provide only a description of the risks relating to disputes not yet resolved, therefore the risks relating to the disputes that arose with reference to the relations of Miret S.A. (at the time Sella Bank Luxembourg S.A.) with a number of funds incorporated under the laws of the BVI (British Virgin Islands) and with their management and/or sub-management companies or with subjects directly or indirectly related to the former or latter.

In reference to the risks mentioned above, note that on 17 October 2013 a transaction was signed between Miret S.A. and the management and sub-management companies for the three BVI-law funds, the related economic beneficiaries and the stated final economic beneficiary of the three BVI-law funds. This agreement, regularly carried out by Miret S.A. on 21 and 24 October 2013, led to the elimination of the litigation put forward by the management and/or sub-management companies or the subjects directly or indirectly connected to the first and second subjects. In February 2015, the stated final economic beneficiary of the three BVI-law funds sent Miret S.A. and Banca Sella Holding S.p.A., the latter in its dual capacity as the parent company of Miret S.A. and a signatory of the transaction, and in any case, jointly and severally, a writ of summons for the amount of € 800 million. The assessments made by the defence attorneys hired and an independent attorney do not indicate any sort of liability for Miret S.A. and/or Banca Sella Holding S.p.A. that could lead to a negative judgement for the claims brought and the abnormal legal initiative is considered inadmissible in relation to the transaction entered into, unfounded in terms of the merits of the charges made and put forward in complete bad faith. Subsequent writs confirm this initial assessment. The final economic beneficiary of the three BVI-law funds, making the same claims as in the civil summons, served Miret S.A., Banca Sella Holding S.p.A., the current CEO and the former Chairman of Miret S.A. with an act regarding the lodging of criminal proceedings in November 2016. The assessments of the defence attorneys hired agree that the plaintiff’s claims are completely groundless and lacking all evidence.

In light of the continuation of the disputes which were not resolved, it was held prudent to not make any quantitative changes to the risk estimate made in the 2015 financial statements.

Please also note that in the case lodged before the Court of Lecce by several minority shareholders of Banca Sella Sud Arditi Galati, a company that has now merged into Banca Sella, to obtain confirmation of the legitimate exercise of the right of withdrawal by the plaintiffs, the Bank appealed the judgement in the first instance, as it disagreed with the decision of the Court hearing the case.

The Lecce Court of Appeals deemed that the prerequisites for declaring the inadmissibility of the appeal were not met and adjourned the proceedings for the specification of findings to November 2015, which were subsequently postponed to September 2016. At the hearing on 28 September 2016, the Court of Appeals withheld judgement in the case with the assignment of legal terms for the filing - which later took place - of the statements of claims and replies.

Pending the judgement on appeal and as a settlement agreement has not yet been reached by the parties, the Board of Directors deems it impossible, for multiple reasons, to be able to execute the judgement while also believing that the only possible path would be to file a petition with the competent Turin Companies Court, asking the Judge to take the necessary measures to eliminate the difficulties in executing the judgement of the Court of Lecce. The appeals judge ruled against the petition filed.

VI. Outlook

The external scenario

The world economy should show a slight acceleration in its growth during 2017.

With regard to the United States, the fiscal policy measures that the country's new Republican president has declared he supports appear to be destined to translate, although with a broad and considerable degree of uncertainty, into a stimulus for growth, however such so as to support the economy only to a limited extent in 2017, taking into due account the timing characterising the US budget law-making process and the potential negative effects associated with higher long-term rates and a stronger dollar. The direction that Donald Trump's America will take with regard to international trade dealings also represents a factor of particular uncertainty.

The Eurozone is expected to continue on a path of moderate growth, supported by the continuation of very accommodating monetary conditions, the slightly expansionary orientation of fiscal policy and the expected recovery in foreign demand. However, risk factors remain which impact growth prospects in the region, such as the necessary budget adjustments in the various sectors of the economy, the presence of elements of fragility in the panorama of emerging economies, geopolitical uncertainty and the consequences of the result of the 23 June referendum on whether the United Kingdom would remain in the European Union. In Italy, the phase of economic recovery that began in 2013 should continue, with the support of the same factors as those cited for the Eurozone.

Emerging countries should see GDP growth rates accelerate slightly, although still registering levels higher than those of the advanced economies. Nonetheless, rates will vary in accordance with the prospects of the individual economies.

On the consumer prices front, it is expected that the largest advanced economies will see an acceleration of inflation from the low levels reached in 2016, supported primarily by the recovery of oil prices and the resulting discontinuation of the negative contribution from the energy component. The ECB will confirm an orientation of expansionary monetary policy, maintaining policy rates at current levels and continuing with its bond buying programme established as part of its quantitative easing plan, at the pace of € 80 billion per month until March and subsequently € 60 billion. The Federal Reserve should continue gradually with its cycle of official rate hikes, in accordance with the timing defined on the basis of the macroeconomic scenario that will take shape under the new Republican administration. Any undesired reductions in the unemployment rate to below the equilibrium level could make a more speedy adjustment of monetary conditions necessary, in order to guarantee the fulfilment of the dual mandate of the Central Bank.

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 Regulator's attention towards the efficient and reliable management by banks of the reduction in impaired loans is even more evident in Italy, given the high degree of problem loans accumulated in the financial statements of Italian banks during the years of the recession; disposals of bad loans, in part already announced by certain banks, will continue to lead to an extraordinary increase in adjustments, however resulting in probable benefits for the cost of credit in the coming years.

The continuation of interest rates at extremely low levels will presumably also keep net interest income down, inducing banks to favour growth in revenues from services, by diversifying activities other than lending. Given the continuing pressure on revenues again in 2017, attention will continue to be focused on business model innovation, improving the efficiency of operational structures and cost containment.

The domestic scenario

The 4 Strategic transformations

In 2016, the Banca Sella Group continued to implement its Strategic Plan, supporting the good results obtained in terms of capital strengthening and overall commercial growth. During the year, in order to pursue substantial improvement in the four core targets (CET1, Cost To Income, RoE, Texas Ratio), overall Plan implementation has been reorganised in accordance with four strategic transformations:

- New Sales Model;
- Managerial Model;
- Efficiency;
- Innovation.

The **New Sales Model** was developed in line with the previous years with an initiative aimed at improving the integrated Customer relationship model, including with the support of the most modern digital technologies. This initiative primarily aims to transform sales activities increasingly into Customer Advisory activities, supporting this change with “Portfolio segmentation” (the attribution to each Customer of a dedicated salesperson) and with the revision of physical presence throughout the country. Indeed, the year 2016 saw the unification of operating points and the opening of dedicated advisory centres. In relation to this new model, in the last quarter of 2016 a pilot project was also launched aimed at centralising the accounts of several retail Customers within the registered office, which made it possible to identify significant actions for optimisation and increasing the efficiency of the positive value added process, to be extended to all branches to guarantee Customer service quality. In addition, remote sales activities have also been launched. Lastly, good results were achieved in terms of increasing transactions carried out autonomously by Customers, the number of dedicated salespeople and as a result the number of Customers included in portfolios.

The **Managerial Model**, execution of which actually began in 2016, aims to further develop and improve the management and leadership skills of people in roles of responsibility, acting in particular in the following areas:

- delegations and assumption of responsibility;
- the capacity to decide or propose decisions in an autonomous, complete and circumstantiated manner;
- the capacity of managers to be entrepreneurs who guide change in the role of coaches;
- communication and engagement capacities.

In the area of **Efficiency**, the top objective was and will continue to be the revision and improvement of the organisational structure and processes, from which additional recoveries of resources and in general further considerable savings are expected, as already witnessed in 2016. In 2016, the objectives of the initiative were revised in order to dramatically improve the ratio between operating expenses and revenues, to reach a cost to income ratio target of lower than 65% in the next three years. The main areas on which the project will focus are:

- regional reorganisation, as laid out in the New Sales Model initiative;
- sizing, delayering and revision of governance and business processes;
- cost management process review;
- real estate streamlining.

The plan for the **innovation** of the Banca Sella Group is developed along three lines and aims to take advantage of the opportunities offered by each:

- New customers (and new ways of serving them): customer relationships are revolutionised by new technologies, provoking different needs and behaviours in customers, as well as new business models for corporate customers. Of these, the sharing economy takes on particular relevance, as well as the birth of effective new “counterparties” capable of effective transactions thanks to the

IoT. In addition, with data aggregation and data portability set forth in PSD2 and GDPR, customer relationships will be placed at risk and radically modified.

- The Group aims to position itself as a reference bank for innovation and therefore the hi-tech bank par excellence, using technology to improve customer service and to support its role of trusted advisor to customers. The integrated relationship is the chosen model in which digital connections are the source of an increase in value with respect to the centrality of the relationship of personal trust;
- New businesses (and new business models): new technologies, interconnections and the IoT give rise to new markets, new businesses and new models for existing business. This area is occupied primarily by Fintech startups born as platforms for direct intermediation, representing new forms of access to credit for operators and new investment asset classes;
- The Group intends to position itself as the reference enabler of the new fintech segment, offering customers the opportunities presented by the new circuit without losing control over a relationship of trust. It will also be important to invest in testing and to ensure the excellence of new business models in areas of innovation close to the core business (Credit, Banking, Payments, Advisory, Trading);
- New processes (and new organisation): in all intermediation activities, irrespective of the channel, technological evolution turns the capacity to manage technology and processes, the effective use of information and risk management, as well as the application of the “sound and prudent” management summarised by our values and regulatory compliance, into sources of competitive advantage. The challenge for a banking group lies in the prompt adoption of technologies that allow for evolutionary improvements. Another important challenge is attracting talent and adopting new ways of working;
- In terms of positioning, the group believes that excellence in the governance of its IT platform and the continuous innovation process, data management, the use of artificial intelligence and the development of advanced models for risk management are the prerequisite to continue to do business in line with its values, while also retaining the ability to attract the best talent.

VII. Capital Management Policies

Regulatory capital

With its communication released on 24 November 2015, the Bank of Italy, upon completing the periodic prudential review process (SREP), indicated the additional specific capital requirements with respect to the minimum capital amounts indicated in the current regulations, in proportion to risk exposure.

The Group therefore must adopt capital ratios at the consolidated level, including 2.5% as a capital conservation reserve in the amounts as follows:

- common equity tier 1 ratio (CET1 ratio) of 7%, binding in the amount of 5.2% (of which 4.5% for minimum regulatory requirements and 0.7% for additional requirements determined following the SREP); this ratio is at 12.23% for the Group at 31 December 2016;
- Tier 1 ratio of 8.5%, binding in the amount of 6.9% (of which 6% for minimum regulatory requirements and 0.9% for additional requirements determined following the SREP); this ratio is at 12.37% for the Group;
- total capital ratio of 10.5%, binding in the amount of 9.2% (of which 8% for minimum regulatory requirements and 1.2% for additional requirements determined following the SREP); this ratio is at 14.16% for the Group.

These capital ratios correspond to the Overall Capital Requirement (OCR) ratios as defined by the EBA/GL/2014/13 Guidelines and are the sum of binding measures, corresponding to the Total SREP Capital Requirement (TSCR) ratio, as defined in the mentioned EBA Guidelines, and the capital conservation buffer currently in force.

With its communication released on 18 January 2017, the Bank of Italy, upon completing the periodic supervisory review and evaluation process (SREP), reported the launch of the procedure to establish additional specific capital requirements with respect to the minimum capital amounts indicated in the current regulations, in proportion to risk exposure that the Group will be required to apply starting from the first report on own funds subsequent to the date of issue of the final measure. More details on the ongoing procedure are provided in Section F of the Notes.

The capital ratios achieved by the Group at the end of 2016 (CET1 ratio at 12.23%, Tier 1 ratio at 12.37% and Total Capital ratio at 14.16%) all easily met the requirements; nonetheless, the maintenance of high capitalisation levels remains amongst the topics of strategic relevance on which the group will focus in the next three years. This is even more important considering that the reference supervisory framework has not yet been fully defined.

Indeed, while there are measures already planned such as the transitional provisions set forth based on the grandfathering conditions and others recently issued such as the introduction of IFRS 9, the impacts of which can be estimated with a certain degree of reliability, there are others with effects that are more difficult to quantify.

Although the current political orientation seems to be leaning towards pursuing an improvement in the consistency of the supervisory system without significantly increasing the average requirement level, it cannot be ruled out that further requests for capital strengthening may be made in the next three years.

Therefore, within this context, the Group’s annual targets were structured so as to provide for a consistent buffer to meet any higher capital requirements ahead of time, in order to safeguard the level of capitalisation reached at the end of 2016.

Consolidated capital strengthening will take place especially internally through self-financing, while recourse to extraordinary transactions will be less important than in past years and will primarily regard the disposal of non-strategic assets (the closing of the transaction for the disposal of the equity investment in Compagnie Financiere Martin Maurel took place in January 2017).

The improvement of profitability to support capital will be pursued particularly through a careful capital allocation policy aiming to promote activities capable of achieving adequate risk adjusted profit margins.

IX. Being a going concern, strategy and profitability for the Group

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 Group 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.

In the Bank’s capital and financial structure and in the operating performance there are no elements or signs which may lead to uncertainty on the going concern assumption.

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.

X. Income Data

Reclassified income statement (euro millions)

Item	31/12/2016	31/12/2015	% change over 31/12/2015
10. Interest and similar income	308,713.5	345,328.1	-10.6%
20. Interest and similar expense	(68,548.8)	(92,685.0)	-26.0%
70. Dividends and similar income	1,575.1	1,316.9	19.6%
NET INTEREST AND DIVIDENDS	**241,739.8**	**253,960.0**	**-4.8%**
40. Fee income	348,251.6	342,912.8	1.6%
50. Fee expenses	(102,264.6)	(114,576.5)	-10.8%
80. Net gains/(losses) on trading activities	20,244.3	27,290.2	-25.8%
90. Net gains/(losses) on hedging activities	(863.5)	(267.3)	223.0%
100. Income (losses) from sale or repurchase of:			
a) receivables	(906.2)	(17,080.5)	-94.7%
b) financial assets available for sale	8,799.4	25,944.9	-66.1%
d) financial liabilities	48.1	(237.1)	-120.3%
NET REVENUES FROM SERVICES	**273,309.1**	**263,986.5**	**3.5%**
NET BANKING INCOME	**515,048.9**	**517,946.4**	**-0.6%**
180. Administrative expenses:			
a) Personnel expenses	(236,902.0)	(230,421.8)	2.8%
IRAP on net personnel and seconded personnel expenses (1)	(784.9)	(904.1)	-13.2%
Total personnel and IRAP expenses	**(237,686.8)**	**(231,325.9)**	**2.8%**
b) Other administrative expenses	(196,699.4)	(191,208.8)	2.9%
Recovery of stamp duty and other taxes (1)	54,836.8	51,948.7	5.6%
Total administrative expenses and recovery of taxes	**(141,862.6)**	**(139,260.1)**	**1.9%**
200. Net value adjustments on tangible assets	(16,152.8)	(16,561.0)	-2.5%
210. Net value adjustments on intangible assets	(17,175.4)	(14,897.8)	15.3%
220. Other operating expenses/income (after deducting “Recovery of stamp duty and other taxes”)	22,472.8	25,805.8	-12.9%
Operating expenses	**(390,404.9)**	**(376,239.0)**	**3.8%**
OPERATING PROFIT/LOSS	**124,644.0**	**141,707.4**	**-12.0%**
190. Net provisions for risks and charges	(12,431.6)	(3,770.6)	229.7%
130. Net value adjustments for impairment of:			
a) receivables	(82,029.8)	(128,967.2)	-36.4%
b) financial assets available for sale	(8,013.5)	(5,069.4)	58.1%
d) other financial transactions	(1,081.4)	(244.5)	342.2%
240. Income (losses) from equity investments	1,166.7	942.1	23.8%
260. Value adjustments on goodwill	(223.7)	(441.6)	-49.3%
270. Income (losses) from the disposal of investments	27,968.4	(130.5)	-21525.6%
Reclassifications from non-recurring effects (1)			
100. Income (losses) from sale or repurchase of:			
b) financial assets available for sale	50,198.3	24,736.4	102.9%
PROFIT FROM CONTINUING OPERATIONS BEFORE TAXES	**100,197.4**	**28,762.1**	**248.4%**
290. Income taxes for the period on continuing operations (after deducting “IRAP on net personnel and seconded personnel expenses”)	(7,895.8)	(6,815.8)	15.9%
PROFIT FROM CONTINUING OPERATIONS NET OF TAXES	**92,301.6**	**21,946.3**	**320.6%**
310. Profit (loss) on asset disposal groups held for sale after tax	1,688.3	9,681.0	-82.6%
PROFIT (LOSS) FOR THE YEAR	**93,989.9**	**31,627.3**	**197.2%**
330. Profit (loss) for the period pertaining to minority interests	**14,426.8**	**3,124.5**	**361.7%**
340. Profit (loss) for the period pertaining to parent company	**79,563.1**	**28,502.9**	**179.1%**

1) The items in question were reclassified on the basis of more appropriate recognition criteria to represent the content of the items, based on standards of management homogeneity. The reclassifications are explained in the section below “Income statement classification criteria”.

To ensure a uniform comparison, the data in the “31/12/2015” column were reclassified in the financial statements at 31 December 2015 with respect to the items associated with the equity investment in the company C.B.A. Vita. In this statement, as the sale took place at 30 June 2016, they were included in the item “Profit (loss) on asset disposal groups held for sale after tax” to ensure that the comparison would be meaningful.

Income Statement Reclassification Criteria

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

Reclassifications involved:

- item 70. “dividends and similar income”, which was classified in net interest income;
- IRAP on the costs for personnel which is separated from the item “Income taxes for the period on continuing operations” and classified in personnel expenses;
- the item “recovery of stamp duty and other taxes”, which is separated from item 190. “other operating income/expenses,” and included in item 150 b) “other administrative expenses”;
- item 100. “income from sale or repurchase of financial assets available for sale”, from which the component relating to minority interests was separated and placed below the operating profit/loss.

Profitability

The Group ended the 2016 financial year with profit of € 94 million, of which € 79.6 million pertaining to the Parent company and € 14.4 million to minority interests. The R.O.E. was 9.8%, while it was 3.3% at 31 December 2015, marking a significant improvement. The R.O.A. also went from 0.2% in 2015 to 0.7% in 2016.

The main factors which determined the performance in the period in question (set out in the analysis of the Reclassified Income Statement) were:

- a decline (-4.8%) in net interest income: caused by the continuing decline in the average rate on loans, even with higher volumes (net of repurchase agreements receivable) than in 2015, not offset by the further downward trend in the cost of commercial funding; a good return was obtained on securities portfolios, due to the higher return achieved with respect to financing costs, especially with reference to the portfolio of financial assets held for trading;
- growth in net revenues from services (+3.5%): the good performance of net fees, up 7.7% compared to 2015 thanks to electronic payment systems and accessory fees on loans, was more than offset by the decline in income from financial assets, which was particularly positive in 2015 due to the more favourable market scenario and following the positive contribution obtained from the sale of part of the securities present in the portfolio of assets held for trading. Indeed, net of the negative impact recorded in 2015 following the sale of a portfolio of impaired loans of the company Consel, net revenues from services would have decreased by 2.8%;
- the increase in operating expenses (+3.8%): partially due to growth in contributions to the guarantee and resolution funds to deal with banking crises, for the ordinary share referring to the DGS (Deposit Guarantee Scheme), which in 2015 impacted only one half of the year, and the ordinary and extraordinary shares for the SRF (Single Resolution Fund), which were higher than in 2015. Net of such contributions, operating expenses rose by 2.5%, particularly due to the increase in personnel expenses;
- the significant improvement of impairment losses on loans (-36.4%): the continuation of the positive downward trend in new transfers to the impaired loans category and the improvement in the external environment helped to decrease impairment losses, even taking into consideration the continuous update of valuation parameters;
- the presence of significant non-recurring extraordinary events (€ 50.2 million), as described in more detail below in the comments on income from the sale of financial assets;
- the increase in provisions for risks and charges of € 8.6 million, due primarily to the provision recognised for the voluntary retirement agreement.

A brief description of the individual performance of the main Group companies is provided below.

The parent company **Banca Sella Holding** achieved profit of € 6.6 million, relating primarily to income from the sale of equity investments as well as an addition to the transfer price of ICBPI in 2015 following the above-mentioned Visa transaction.

Net banking income, down 14% compared to 31 December 2015, was negatively impacted by the decline in net fees from third-party trading of financial instruments and the placement of securities and fees relating to correspondent bank services, due to the market environment characterised by the continuation of negative rates, which impacted the majority of the year, and customer conduct, resulting in less than brilliant performance in the traditional and online trading sectors.

In the last 2 months of the year volumes recovered, even in the presence of socio-political events, and revenue from trading rose thanks in particular to operations on foreign stock markets.

Correspondent bank performance was impacted by the particularly negative trends of lower volumes on Investment Fund and SICAV products, penalised by often weak price performance, with the ensuing impacts on the fee component.

Operating expenses rose due to the contribution to the resolution fund (Single Resolution Fund – SRF), where the economic impact was higher than in 2015, and due to the increase in the ordinary component of personnel expenses following the increase of 38 employees due to the hiring of particularly significant managerial figures and the movement from Banca Sella to Banca Sella Holding of personnel, and the relative activities, following the implementation of several streamlining measures.

Banca Sella closed the year with profit of € 58.5 million, considerable growth compared to the end of 2015 (€ 6 million), thanks to the sharp improvement in impairment losses on loans and the contribution of two extraordinary events: the acquisition by Visa Inc. of the shares of Visa Europe, which for Banca Sella entailed a capital gain of € 46.9 million, and the sale of C.B.A. Vita, the Group's insurance company, which contributed profit of € 0.5 million. Also net of extraordinary events, Banca Sella's profit improved from € 6 million to € 15 million.

As 31 December 2016 net interest income amounted to € 152.1 million (-9.7% compared with the same period of the previous year). The drop was significantly influenced by market rate trends: in regards to income, lower interest income was recorded, mainly in regards to loans to customers, in the presence of stable average volumes and average interest payable rates contracting. Said lower interest income was partially compensated for by a reduction in interest expense (-26.3%), due to the continuing downward trend in the cost of funding, despite higher direct deposit volumes.

Please note that net fees performed well, +9.9%, due to net fees on loans granted to Customers, fees for the financial insurance service and also fees for the acquiring service (thanks to lower interchange fee costs, following the entry into force of the MIF regulation in December 2015, as well as the growth in transaction volumes). This growth more than offset the negative performance of the Investment services segment, down compared to the previous year mainly as a result of financial market volatility in the first half of the year.

Overall, net revenues from services came to € 200.3 million at the end of 2016 (up 1.1% compared to the same period of the previous year). The good performance of the fee segment, along with stable trading, offset the lower contribution of income from sales: in 2015, the result was primarily influenced by capital gains realised on the sale of securities available for sale, of more than € 17 million, which were not replicated in 2016 (final figure equal to roughly € 2 million). In addition, the year 2016 was negatively impacted (€ -1.2 million) by the sale of € 81 million in loans (mortgages, end of life and bankruptcies), of which roughly € -1.0 million deriving from the revision of valuations in the course of the year due to the update of appraisals on the real estate used to back the loans, and around € -0.3 million for the effective spread between the last valuation and the sale price generated by the disposal of mortgage loans.

The disposal of these loans is the result of a due diligence activity conducted for a few months, which led to a restricted selection of positions with real estate deemed of particular interest for subsequent real estate development by the buyers.

The rise in the personnel expenses component (+2.2%, including the relative IRAP), was substantially due to variable remuneration, as a result of the better results achieved during the year and a slight increase in the Bank's average headcount. Within this context, it is also necessary to consider the provision of € 9.4 million recognised for the voluntary retirement plan for 65 employees which will be implemented in 2017. Administrative expenses rose due to the contributions to guarantee funds (around € 13.8 million), net of which they would have declined by around 0.9%.

Net value adjustments on loans and advances amounted to € 56 million, down by 43.3% compared to € 98.7 million at 31 December 2015. Although loan valuation parameters continued to be kept constantly updated, in 2016 the positive trend that began in the last months of 2015 continued, entailing a reduction in new impaired loans and as a result lower impairment losses; the decline in flows of new impaired loans concerned all impairment statuses. At 31 December 2016, the "Net value adjustments to loans/Cash loans (net of repurchase agreements receivable)" indicator came to 0.8%, a significant improvement over 1.5% at 31 December 2015.

Banca Patrimoni Sella & C., a bank operating in the private banking sector, obtained a result of € 7.2 million, confirming and continuing the trend of good profitability seen in the previous year (€ 9 million). The business results and performance for 2016 appeared to be robust and comforting, with net interest income and net fees up, despite the extremely challenging market conditions and an uncertain macroeconomic scenario. Net banking income was down due to lower income from the sale of portfolios of financial assets available for sale compared to what was earned in 2015.

The Bank continued to invest in growing volumes and consequently margins associated with the business and achieved good performance for customer assets. Operating expenses were higher than in 2015 primarily as a result of higher personnel expenses, due essentially to the increase in headcount, contributions to the resolution and guarantee funds (SRF and DGS) and higher amortisation and depreciation, while other administrative expenses were rather stable.

Biella Leasing, which works in the leasing sector, ended financial year 2016 with a profit of € 6.2 million, compared to the loss of around € 4.1 million in 2015.

In terms of volumes, the company saw satisfactory growth with respect to the previous year, both in terms of numbers of new loans (+21.6%) and amounts financed (+23.7%).

Net interest income recorded a significant increase of roughly 12%: interest expense benefitted from the decline in interest rates, the reduction in the spreads applied in the second half of 2015 to the new infragroup loans, and greater recourse to facilitated funding (EIB, CDP). This reduction offsets the slight contraction in interest income, where the decrease in the interest rates and the reduction of spreads applied to the new contracts entered into was offset by increasing volumes.

Consel, which specialises in consumer loans, saw a profit of € 2.1 million, against a loss of € 3.1 million in 2015. From the commercial perspective, the company recorded total growth in volumes disbursed of 11% compared to 2015, bringing the total amount disbursed to a total of € 462.7 million, confirming the orientation towards products with a longer duration and of a higher amount (personal loans via the banking channel and loans on wage assignments).

In terms of profitability, the decline in interest income can be essentially ascribed to the drop in average exposures as well as the average rate on them, due to the decrease in rates recorded in the reference markets and the company's decision to privilege products with low credit risk. Lower interest income was partially mitigated by the reduction in interest expense favoured by the reduction in the total average cost of funding and the reduction in average debt.

Both operating expenses and the impact from credit risk reflect better performance than in the previous year. In particular, administrative expenses decreased by € 4.8 million (-14.9% compared to 2015); this result was achieved due to the decline of € 1.3 million in personnel expenses (-9.3%) and a reduction of € 3.5 million in other administrative expenses (-19.2%).

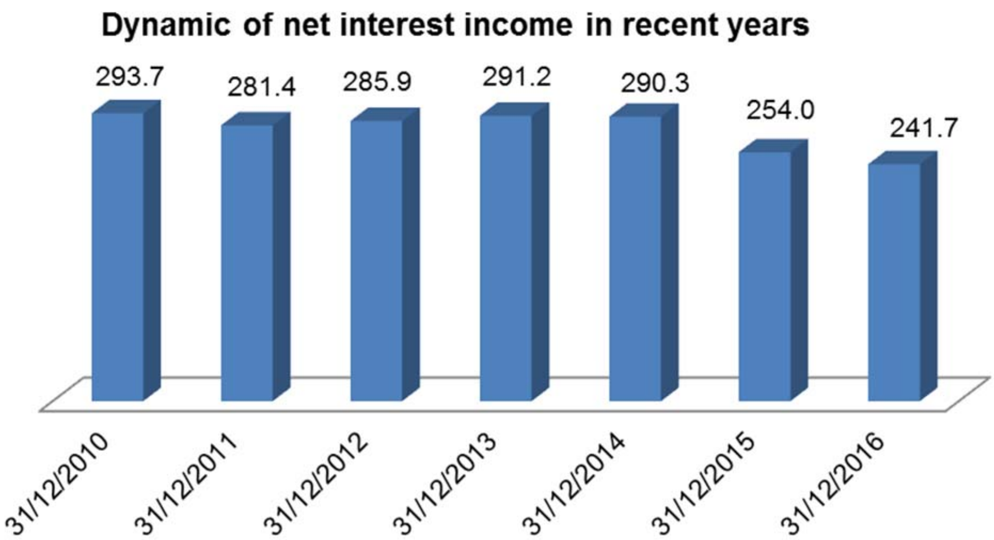
Net value adjustments for impairment of loans, added to income/losses from sales, decreased significantly compared to 2015, from € 24.8 million to € 17 million (-31.7%). The cost of credit for the period (ratio between value adjustments on loans added to income/losses from the sale of loans and total loans to customers) was equal to 2% (2.9% at 31 December 2015).

The company's total coverage went from 3.8% at 31 December 2015 to 5.6% at 31 December 2016, due to the increase in the degree of coverage of impaired loans, which rose from 63.2% to 81.4%.

The profits of **Sella Gestioni**, a company active in the asset management and supplementary pensions sectors, came to around € 1.9 million, with respect to the profits of € 1.8 million seen in the same period of last year. This result was positively influenced, in the amount of € 1.1 million, by income from the sale of the minority stake in C.B.A. Vita in June 2016. The company's stock at year-end was 2.5% lower than at the end of December 2015. The business was penalised by negative trends in net deposits in 2016, with the relative impact on the fee component.

Net interest and dividends

Net interest income at 31 December 2016 came to € 241.7 million, down by 4.8% compared to € 254 million at 31 December 2015.



Interest income came to € 308.7 million, a decline compared to € 345.3 million at the end of 2015, and reflects the continuation of the downward trend for average rates on loans, even though volumes rose. Interest expense, which came to € 68.5 million, also showed a downward trend compared to € 92.7 million in the previous year, characterised by a reduction in terms of the cost of funding, also in this case in the presence of significant growth in volumes. The item "Dividends and similar income" came to € 1.6 million, compared to € 1.3 million in the comparative period.

As a result, at 31 December 2016, net interest income over net banking income declined from 49% at the end of 2015 to 46.9%.

Net interest income and dividends (euro thousands)

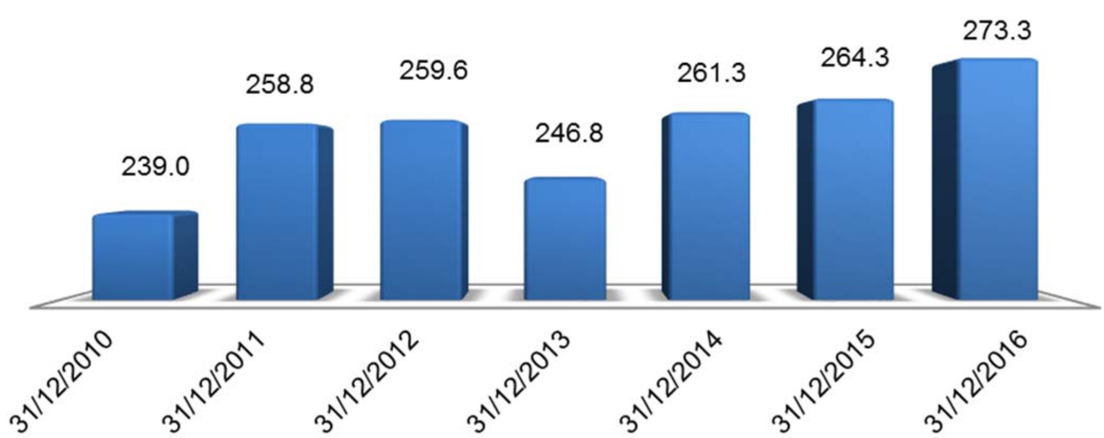
Item	31/12/2016	31/12/2015	Change absolute	Change %
Net interest with customers	245,586.0	261,259.7	(15,673.7)	-6.0%
- interest income	264,627.0	298,813.8	(34,186.9)	-11.4%
- interest expense	(19,041.0)	(37,554.2)	18,513.2	-49.3%
Interest income on financial assets	36,295.1	37,005.2	(710.1)	-1.9%
Interest expense on securities	(16,171.2)	(19,016.7)	2,845.5	-15.0%
Net interbank interest	(949.1)	(2,813.8)	1,864.7	-66.3%
- interest income	1,566.2	906.6	659.7	72.8%
- interest expense	(2,515.3)	(3,720.3)	1,205.0	-32.4%
Hedging differences	(22,576.7)	(22,840.5)	263.8	-1.2%
Other net interest	(2,019.3)	(950.9)	(1,068.4)	112.4%
Total net interest	**240,164.8**	**252,643.1**	**(12,478.3)**	**-4.9%**
Dividends and other income	1,575.1	1,316.9	258.2	19.6%
Net interest income and dividends of banking group	**241,739.9**	**253,960.0**	**(12,220.1)**	**-4.8%**

Net revenues from services

The total aggregate net revenues from services amounted to € 273.3 million, an improvement with respect to the same period of the previous year, in which it was € 264 million (+3.5%). This result is due to:

- on the positive side, the good performance of payment systems and accessory fees on loans. Please note in particular the positive contribution of electronic payment systems thanks to the effect generated by the MIF (Multilateral Interchange Fees) regulation that entered into force in December 2015, which generated lower interchange fee costs, while fee income for e-commerce and POSs showed good stability;
- on the negative side, lower contributions relating to the income from financial assets (in the first half of 2015, they were particularly positive with respect to the market environment seen in the first half of 2016) and trading activities, traditional and online, with the continuation of low, in some cases even negative, interest rates. In addition, the good result from 2015 was characterised by capital gains obtained from the sale of part of the portfolio of assets available for sale in the first half of the year. Within indirect funding, the funds, life insurance and correspondent bank segments were penalised by the negative performance of the stock market price effect witnessed in 2016, with the relative impact on the fee component.

Trend of net revenues from services (euro millions)



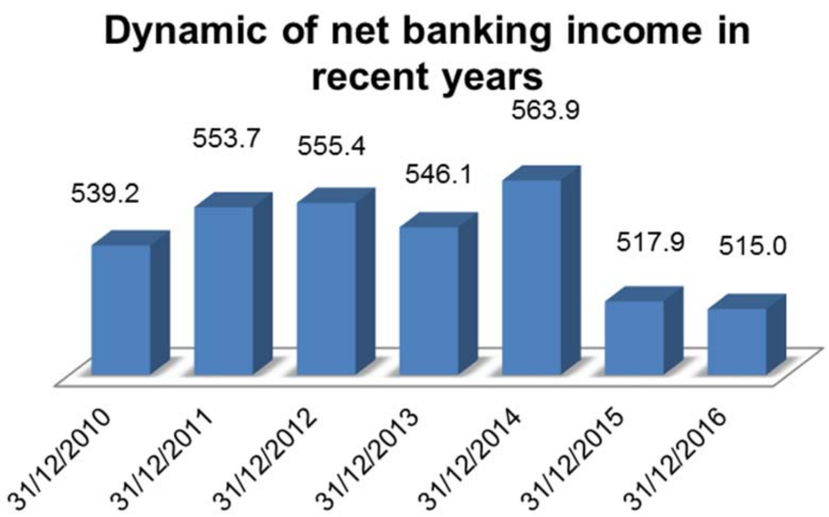
The table below summarises the components of fee and commission income and expense:

Net fees (euro thousands)

Item	31/12/2016	Proportion (%) of total	31/12/2015	Proportion (%) of total	Change absolute	Change %
Banking and commercial business	**78,681.0**	**32.0%**	**63,706.6**	**27.9%**	**14,974.3**	**23.5%**
- guarantees	3,675.8	1.5%	3,244.1	1.4%	**431.7**	13.3%
- collection and payment services	75,005.1	30.5%	60,462.5	26.5%	**14,542.7**	24.1%
Asset management, broking and advisory service	**93,108.2**	**37.9%**	**91,286.9**	**40.0%**	**1,821.3**	**2.0%**
- indirect customers broking and placement of securities	69,128.8	28.1%	75,020.8	32.9%	(5,892.0)	-7.9%
- currency trading	1,400.8	0.6%	1,832.8	0.8%	(432.0)	-23.6%
- other fees on asset asset management, broking and advisory services	22,578.5	9.2%	14,433.4	6.3%	8,145.2	56.4%
Other net fees	**74,197.9**	**30.2%**	**73,342.8**	**32.1%**	**855.1**	**1.2%**
Total net fees pertaining to the banking group	**245,987.1**	**100.0%**	**228,336.3**	**100.0%**	**17,650.7**	**7.7%**

Net banking income

As a consequence of the results of net interest income and net revenues from services, consolidated net banking income came to € 515 million at the end of the year, substantially in line with € 517.9 million at 31 December 2015.



Operating expenses

The total amount of operating expenses amounted to € 390.4 million, up 3.8% with respect to the same period of 2015, when it was € 376.2 million.

The personnel expenses component (including the relative IRAP) amounts to € 237.7 million, while at 31 December 2015, the item totalled € 231.3 million. This value was influenced by growth in the ordinary remuneration component due to contractual pay raises, promotions, seniority-based increases and higher costs during the year due to hirings in 2015.

Personnel expenses (euro thousands)

Item	31/12/2016	Proportion (%) of total	31/12/2015	Proportion (%) of total	Changes	
					absolute	%
Employees	231,614.7	97.5%	223,525.4	96.6%	8,089.3	3.6%
Directors	4,078.6	1.7%	4,253.5	1.8%	(174.9)	-4.1%
Statutory Auditors	635.8	0.3%	674.3	0.3%	(38.5)	-5.7%
Other	572.9	0.2%	1,968.6	0.9%	(1,395.7)	-70.9%
TOTAL PERSONNEL EXPENSES	**236,902.0**	**99.7%**	**230,421.8**	**99.6%**	**6,480.2**	**2.8%**
IRAP on net personnel and seconded personnel expenses	784.9	0.3%	904.1	0.4%	(119.3)	-13.2%
PERSONNEL EXPENSES INCLUDING ASSOCIATED IRAP	**237,686.8**	**100.0%**	**231,325.9**	**100.0%**	**6,361.0**	**2.8%**

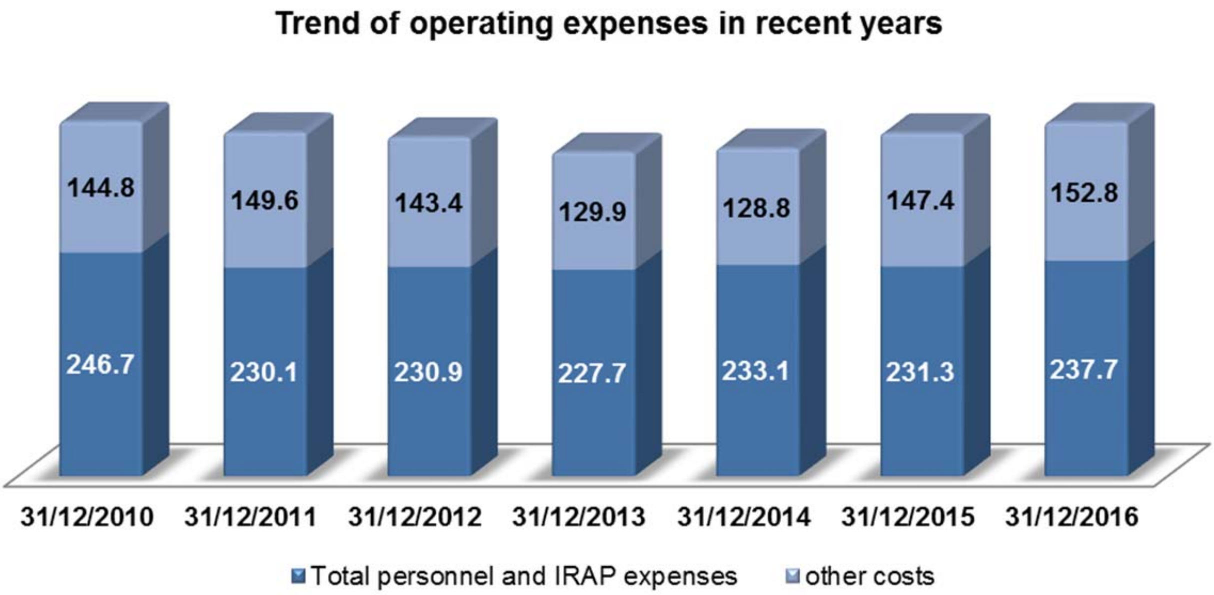
Administrative expenses net of the recovery of indirect taxes and other taxes, equal to € 141.9 million, rose by 1.9%, within which contributions to the guarantee and resolution funds had a significant impact.

Indeed, Legislative Decrees no. 180 and 181 took effect on 16 November 2015, which implemented in Italian legislation Directive 2014/59/EU (Banking Resolution and Recovery Directive, “BRRD”), creating a framework to restore and resolve credit institutions and investment companies and providing for the establishment of the National Resolution Fund managed by the Bank of Italy and the Deposit Guarantee Scheme managed by the Interbank Fund for the Protection of Deposits. This directive requires the payment of ex-ante contributions in order to establish a readily available fund to deal with bank resolutions. The contributions paid in each year are included in administrative expenses in the income statement and are broken down between the SRF (Single Resolution Fund) and the DGS (Deposit Guarantee Scheme).

These contributions, totalling € 17.7 million, are therefore broken down into € 10.1 million for the SRF (€ 3.4 million for the ordinary contribution and € 6.7 million for the extraordinary contribution), € 4.7 million for the DGS and € 2.9 million relating to a contribution to the IFPD (Interbank Fund for the Protection of Deposits). This last contribution refers to an event booked in the income statement in 2014, when the Fund made a request to support Banca Tercas and which in April 2016 was adjusted following an MEF (Ministry of the Economy and Finance) decision. This entailed the return of the amount paid in 2014 (equal to € 2.9 million in the item “Recovery of stamp duty and other taxes”) and the simultaneous disbursement of an analogous amount recognised in “Other administrative expenses”.

Other operating expenses are represented by write-downs on tangible and intangible fixed assets, which came to € 33.3 million, up from 31.1 million at 31 December 2015.

Other operating income, after deducting the recovery of indirect taxes and other taxes, came to € 22.5 million, down with respect to 31 December 2015, when the amount was € 25.8 million.



Provisions, value adjustments net of recoveries, income (losses) from sale / repurchase of financial liabilities

Net provisions for risks and charges

New provisions for risks and charges totalled € 12.4 million, compared to € 3.8 million in the previous period. This growth was due, for € 9.9 million, to provisions for the voluntary retirement fund for personnel, net of which provisions for other risks were down.

Value adjustments on financial assets available for sale totalled € 8 million. At 31 December 2016, as regards minority interests, the value of the equity investment in Veneto Banca was aligned with the price of the share capital increase carried out by the Company, writing it down with effects in the income statement by roughly € 1 million, the equity investment in Digital Magics was written down by € 66 thousand with effects in the income statement, the investment in Cassa di Risparmio di Bolzano was written down by € 0.6 million with effects in the income statement, the value of the equity investment in Finpiemonte Partecipazioni was aligned with the shareholders' equity value, writing it down with effects in the income statement by € 81 thousand and lastly the value of the equity investment in Symbid Corp was written off entirely with effects in the income statement, in the amount of € 43 thousand.

The Fondo Atlante was written down taking into account the impairment loss on the fund’s underlying assets (Banca Popolare di Vicenza and Veneto Banca). A total write-down of roughly € 3.5 million was recognised in the income statement, of which € 2.6 million relating to the payments made until 31 December 2016 and € 0.9 million relating to the commitment for the payment which was then made in favour of the Fund on 3 January 2017.

Income from sale / repurchase of financial assets/liabilities

The result at 31 December 2016 was influenced in the amount of € 50.2 million by two extraordinary events. The acquisition by Visa Inc. of the shares of Visa Europe which, for Banca Sella, as principal member, entailed a capital gain of € 46.9 million and the recognition in the income statement of € 3.3 million as an addition to the price of the transaction completed last year when Banca Sella Holding sold part of its equity investment in ICBPI to Mercury Italy Srl. Indeed, the disposal contract called for an earn-out in favour of the Selling Banks if ICBPI received Visa income through the subsidiary Cartasì in the 5 years subsequent to the disposal (condition fulfilled in June 2016 when the Visa Europe – Visa Inc. transaction was completed).

Value adjustments on goodwill

This item incorporates the write-down on the goodwill of the company Selfid of € 224 thousand, as the plan presented to the Board of Directors for approval highlighted a decline in profitability outlooks with respect to the previous year.

In 2015 the item included the effects of the write-down on goodwill related to the Camastra and Naro branches acquired in 2001 by Banca Sella, from the former BCC Unione di Camastra e Naro.

For further information on impairment tests on goodwill, please refer to the Notes to the Accounts, part B – Information on the Balance Sheet – Assets.

Income (losses) from equity investments and income from assets held for sale

On 24 June 2016, the deed of sale of Selvimm Due SA (subsidiary 90% held by Banca Sella Holding and 10% held by Banque Martin Maurel), owner of the building located at Corso Elvezia 4 in Lugano and the former registered office of Sella Bank AG, was signed. The sale was made for the total price of CHF 28.3 million with reference to the financial statements at 31 December 2015, and resulted in a capital gain of approximately € 2.3 million. The purchaser was the real estate company B.B.K. Immo S.A.

On 30 June, HDI Assicurazioni purchased the entire stake held by Banca Sella Holding, Banca Sella and Sella Gestioni in C.B.A. Vita, and therefore also that of its subsidiary Sella Life Ltd, and the entire stake (equal to 49%) held in InChiaro Assicurazioni Spa. At consolidated level, this transaction entailed income from equity investments totalling around € 27 million, € 4.9 million of which relating to an extraordinary dividend. Within the same transaction, Banca Sella Holding provided HDI Assicurazioni with a subordinated loan of approximately € 27.3 million.

Income taxes

Income tax amounts to € 7.9 million, compared to 6.8 million the previous year, with a 15.8% increase.

Income taxes for the year on current operations are net of IRAP related to personnel expenses, which were reclassified, increasing this component (which was calculated taking into account the amendments introduced in Law 190 of 23/12/2014 regarding the deductibility of IRAP for expenses sustained in relation to employees with permanent contracts). The tax rate, net of the components indicated above, fell from 23.7% of the previous year to 7.9% in financial year 2016. The reduction in the tax rate is due to the different impact of dividends and capital gains from disposals of investments on the before tax results, as they had the requirements set out in articles 89, paragraph 2 and 87 of Presidential Decree 917/86, as a result of which reduced taxation applies.

Consolidated comprehensive income

	Items (euro thousands)	31/12/2016	31/12/2015
10.	**Profit (loss) for period**	**93,990**	**31,627**
	Other income components net of taxes without reversal to income statement		
40.	Defined benefit plans	(2,033)	1,546
	Other income components net of taxes with reversal to income statement		
80.	Foreign exchange gains (losses)	(217)	783
100.	Financial assets available for sale	(15,796)	31,756
110.	Non-current assets held for sale	-	1,151
120.	Share of valuation reserves in relation to investments evaluated via the equity method	(651)	(1)
130.	**Total of other income components after tax**	**(18,697)**	**35,235**
140.	**Comprehensive income (Items 10 +130)**	**75,293**	**66,862**
150.	Comprehensive consolidated income pertaining to third-parties	5,600	9,659
160.	**Comprehensive consolidated income pertaining to the Parent Company**	**69,693**	**57,203**

The change in comprehensive income referring to item 100 can be ascribed to the acquisition of Visa Europe by Visa Inc. Indeed, at the end of 2015 a valuation reserve was recognised against the fair value measurement of the equity investment held for around € 38.6 million. In 2016, the sale of the equity investment was finalised with the realisation of a net capital gain of roughly € 43.7 million and the resulting reversal of the valuation reserve to the income statement. In addition, following the merger of the French investee with Rothschild & Co at the start of 2017, the equity investments of Banca Sella Holding and the subsidiary Finanziaria 2010 in Compagnie Financiere Martin Maurel were revalued in the amount of € 6.3 million and € 20.9 million, respectively.

The change relating to item 120 can be ascribed to the sale of the insurance companies C.B.A. Vita and Sella Life. In 2015, as the companies were valued at equity, they generated valuation reserves, which were reversed in 2016 following the sale.

XI. Balance sheet data

Reclassified balance sheet (euro thousands)

Assets	31/12/2016	31/12/2015	% change over 31/12/2015
Financial assets (1)	2,633,322.3	3,017,885.8	-12.7%
Due from banks	299,662.6	303,955.5	-1.4%
Cash loans, exclusive of repurchase agreements receivable (2)	7,802,138.6	7,686,109.3	1.5%
Repurchase agreements receivable	103,381.3	347,432.4	-70.2%
Equity investments	12,169.9	11,482.2	6.0%
Tangible and intangible fixed assets (3)	288,711.1	295,207.9	-2.2%
Tax assets	269,244.5	288,615.5	-6.7%
Non-current assets and asset groups held for sale	-	1,517,183.6	-100.0%
Other assets (4)	1,889,745.4	500,200.4	277.8%
TOTAL ASSETS	**13,298,375.6**	**13,968,072.7**	**-4.8%**
Liabilities and Shareholders' equity	**31/12/2016**	**31/12/2015**	**% change over 31/12/2015**
Due to banks	604,395.6	639,300.5	-5.5%
Direct deposits, exclusive of repurchase agreements payable (5)	10,969,997.0	10,164,719.2	7.9%
Repurchase agreements payable	12,278.1	17,800.5	-31.0%
Total direct deposits	10,982,275.1	10,182,519.8	7.9%
Financial liabilities (6)	127,325.4	38,003.9	235.0%
Tax liabilities	30,196.5	38,924.6	-22.4%
Other liabilities (7)	378,154.6	428,468.7	-11.7%
Provisions for specific purposes (8)	92,518.4	82,091.3	12.7%
Liabilities associated to groups of assets held for sale	-	1,516,254.5	-100.0%
Shareholders' equity (9)	1,083,510.1	1,042,509.4	3.9%
- pertaining to the Group	894,967.9	831,673.0	7.6%
- pertaining to minority interests	188,542.2	210,836.5	-10.6%
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**13,298,375.6**	**13,968,072.7**	**-4.8%**

(1) Given by the sum of the following balance sheet asset items: 20 "Financial assets held for trading", 30 "Financial assets at fair value" 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: 120 "Tangible assets" and 130 "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 macrohedging" and 160 "Other assets";
(5) Given by the sum of the following balance sheet liability items: 20 "Due to customers" and 30 "Securities in issue";
(6) Given by the sum of the following balance sheet liability items: 40 "Financial liabilities held for trading" and 50 "Financial liabilities carried at fair value";
(7) Given by the sum of the following balance sheet liability items: 60 "Hedging derivatives" and 100 "Other liabilities";
(8) Given by the sum of the following balance sheet liability items: 110 "Employee severance indemnities" and 120 "Provisions for risks and charges";
(9) Given by the sum of the following balance sheet liability items: 140 "Valuation reserves", 170 "Reserves", 180 "Share premiums", 190 "Capital" and 210 "Equity pertaining to third-parties," and 220 "Profit for the period".

In 2016 total assets decreased by 4.8%, reaching € 13,298.4 million, compared with € 13,968.1 million recorded at the end of 2015.

Brokering with customers saw loans, net of repurchase agreements, of € 7,802.1 million, a slight increase (+1.5%) with respect to € 7,686.1 million in the previous year. An analysis of this item, with reference to mortgages, shows a recovery in demand (+4.9%), with new applications more than offsetting maturing mortgages; the financial leasing activity of Biella Leasing was also positive (+3.1%).

The ratio between cash loans and direct deposits (net of repurchase agreements payable) went from 75.6% in 2015 to 71.1% in 2016, improving the already excellent liquidity level that has always been an important indicator of financial stability for the Group.

On the other hand, in regards to funding, total administered assets continued to grow, in particular for insurance income.

Shareholder's equity, inclusive of valuation reserves, increased, settling at € 1,083.5 million (188.5 of which pertaining to minority interests), a strengthening of 3.9% with respect to the end of the previous year, in which it was € 1,042.5 million.

Finance, markets and interbank activities

The Group's activities on the interbank market resulted in an overall net debtor position at the end of 2016 for € 304.7 million, in contrast to the net position of € 335.3 million at the end of 2015. We can note that the trend in these items is in line with the previous year while remaining at extremely low levels compared with total assets.

Net interbank position (euro thousands)

	31/12/2016	31/12/2015
Due from banks	299,663	303,956
Due to banks	604,396	639,301
Net interbank position	**(304,733)**	**(335,345)**

Due from banks

At 31 December 2016 loans to banks totalled € 299.7 million, slightly lower than in 2015.

Analysing in detail the Group companies which contributed to the composition of the item, it is evident that most of the amounts due from banks (75.1% of the total) pertain to the Parent Company Banca Sella Holding.

Due from banks (euro thousands)

Item	31/12/2016	Proportion (%) of total	31/12/2015	Proportion (%) of total	Changes	
					absolute	%
Due from central banks	**106,669.0**	**35.6%**	**104,413.6**	**34.4%**	2,255	3.6%
Statutory reserve	106,555.3	35.6%	104,413.6	34.4%	2,142	3.5%
Other amounts due from central banks	113.7	0.0%	-	0.0%	114	0.0%
Due from banks	**192,993.7**	64.4%	**199,541.9**	**65.7%**	(6,548)	-1.9%
Current accounts and demand deposits	61,600.7	20.6%	85,808.2	28.2%	(24,208)	-27.2%
Term deposits	6,512.2	2.2%	4,354.6	1.4%	2,158	51.7%
Repurchase agreements	20,256.8	6.8%	8,031.6	2.6%	12,225	155.8%
Other loans and advances	104,624.0	34.9%	91,420.3	30.1%	13,204	16.1%
Debt securities	-	0.0%	9,927.1	3.3%	(9,927)	-100.0%
Total	**299,662.6**	**100.0%**	**303,955.5**	**100.0%**	**(4,293)**	**0.0%**
Details for Group companies						
Banca Patrimoni Sella & C.	25,572.2	8.5%	8,339.8	2.7%	17,232	206.6%
Banca Sella	30,215.6	10.1%	58,406.4	19.2%	(28,191)	-48.3%
Banca Sella Holding	225,007.1	75.1%	211,040.9	69.4%	13,966	6.6%
Biella Leasing	-	0.0%	672.9	0.2%	(673)	-100.0%
Other Group companies	18,867.7	6.3%	25,495.5	8.4%	(6,628)	-26.0%
Total	**299,662.6**	**100.0%**	**303,955.5**	**100.0%**	**(4,293)**	**39.0%**

Due to banks

As 31 December 2016, amounts due to banks totalled € 604.4 million, down by 5.5% compared with the previous year, in which they amounted to € 639.3 million.

Analysing in detail the Group companies which contributed to the composition of the item, it is also evident that most of the amounts due to banks (60.9% of the total) pertain to the Parent Company Banca Sella Holding, in which the treasury functions are centralised.

Due to banks (euro thousands)

Item	31/12/2016	Proportion (%) of total	31/12/2015	Proportion (%) of total	Changes	
					Absolute	%
Due to central banks	**349,280.6**	**57.8%**	**280,470.2**	**43.9%**	**68,810.4**	**24.5%**
Due to banks	**255,115.0**	**42.2%**	**358,830.4**	**56.1%**	**(103,715.4)**	**-28.9%**
Current accounts and demand deposits	101,832.9	16.9%	145,923.6	22.8%	**(44,090.7)**	-30.2%
Term deposits	9,489.1	1.6%	26,129.0	4.1%	**(16,639.9)**	-63.7%
Loans	139,938.9	23.2%	185,446.8	29.0%	**(45,507.8)**	-24.5%
Other payables	3,854.0	0.6%	1,331.0	0.2%	**2,523.0**	189.6%
Total	**604,395.6**	**100.0%**	**639,300.5**	**100.0%**	**(34,905.0)**	**-5.5%**
Details for Group companies						
Banca Patrimoni Sella & C.	44,357.9	7.3%	51,168.8	8.0%	**(6,810.8)**	-13.3%
Banca Sella	57,313.0	9.5%	58,395.9	9.1%	**(1,082.9)**	-1.9%
Banca Sella Holding	368,116.1	60.9%	296,192.9	46.3%	**71,923.1**	24.3%
Biella Leasing	107,089.7	17.7%	152,180.5	23.8%	**(45,090.8)**	-29.6%
Other Group companies	27,518.8	4.6%	81,362.4	12.7%	**(53,843.6)**	-66.2%
Total	**604,395.6**	**100.0%**	**639,300.5**	**100.0%**	**(34,905.0)**	**-86.7%**

Financial assets

The total financial assets of the Group at 31 December 2016, which came out at € 2,633.3 million, were down (12.7%) compared with the previous year, in which they were € 3,017.9 million.

Considering the figure net of financial liabilities, the aggregate decreased with respect to financial year 2015 by 15.9%.

Financial assets/liabilities of the Group (euro thousands)

Item	31/12/2016	Proportion (%) of total	31/12/2015	Proportion (%) of total	Changes	
					absolute	%
Financial assets						
Financial assets held for trading	432,534.4	16.4%	377,709.9	12.5%	54,824.5	14.5%
Financial assets available for sale	2,200,787.9	83.6%	2,640,175.9	87.5%	(439,388.0)	-16.6%
Total financial assets	**2,633,322.3**	**100.0%**	**3,017,885.8**	**100.0%**	**(384,563.5)**	**-12.7%**
Financial liabilities						
Financial liabilities held for trading	(127,325.4)	100.0%	(38,003.9)	100.0%	(89,321.5)	235.0%
Total financial liabilities	**(127,325.4)**	**100.0%**	**(38,003.9)**	**100.0%**	**(89,321.5)**	**235.0%**
TOTAL NET FINANCIAL ASSETS AND LIABILITIES OF THE GROUP	**2,505,996.8**		**2,979,881.9**		**(473,885.1)**	**-15.9%**

Financial assets/liabilities held for trading

The total at 31 December 2016 of financial assets held for trading (net of financial liabilities) was down by 10.2% compared with the previous year, amounting to € 305.2 million, against € 339.7 million recorded in 2015.

Financial assets/liabilities held for trading (euro thousands)

Item	31/12/2016	Proportion (%) of total	31/12/2015	Proportion (%) of total	Changes	
					absolute	%
Cash assets/liabilities	**302,107.2**	**99.0%**	**339,945.6**	**100.1%**	**(37,838.4)**	**-11.1%**
Debt securities	389,463.1	127.6%	337,899.3	99.5%	51,563.8	15.3%
Equities	2,499.3	0.8%	4,600.3	1.4%	(2,101.0)	-45.7%
UCITS units	16,922.6	5.5%	16,590.4	4.9%	332.2	2.0%
Other	(106,777.7)	-35.0%	(19,144.4)	-5.6%	(87,633.3)	457.8%
Derivative instruments	**3,101.7**	**1.0%**	**(239.6)**	**-0.1%**	**3,341.3**	**-1394.6%**
- of which financial derivatives	3,101.7	1.0%	(239.6)	-0.1%	3,341.3	-1394.6%
- of which credit derivatives	-	0.0%	-	0.0%	-	0.0%
TOTAL NET FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING	**305,208.9**	**100.0%**	**339,706.0**	**100.0%**	**(34,497.1)**	**-10.2%**
Detail of trading assets for the main Group companies						
Banca Patrimoni Sella & C. S.p.A.	3,554.3	0.8%	4,206.2	1.1%	(651.9)	-26.2%
Banca Sella S.p.A.	16,473.3	3.8%	29,397.3	7.8%	(12,924.0)	-51.1%
Banca Sella Holding S.p.A.	399,188.7	92.3%	331,143.8	87.7%	68,044.9	5.3%
Sella Gestioni SGR S.p.A.	10,803.6	2.5%	10,443.1	2.8%	360.5	-9.7%
Other Group companies	2,514.5	0.6%	2,519.4	0.7%	(4.9)	-12.9%
Total trading assets	**432,534.4**	**100.0%**	**377,709.9**	**100.0%**	**54824.5**	**14.5%**

The presence of financial instruments for trading above all refers to the Parent Company Banca Sella Holding (for € 399.2 million) which performs the treasury service for the whole Group and also handles market-making on government securities. Technical exposures, included under financial liabilities held for trading, went from € 19.1 million at 31 December 2015 to € 106.8 million at 31 December 2016.

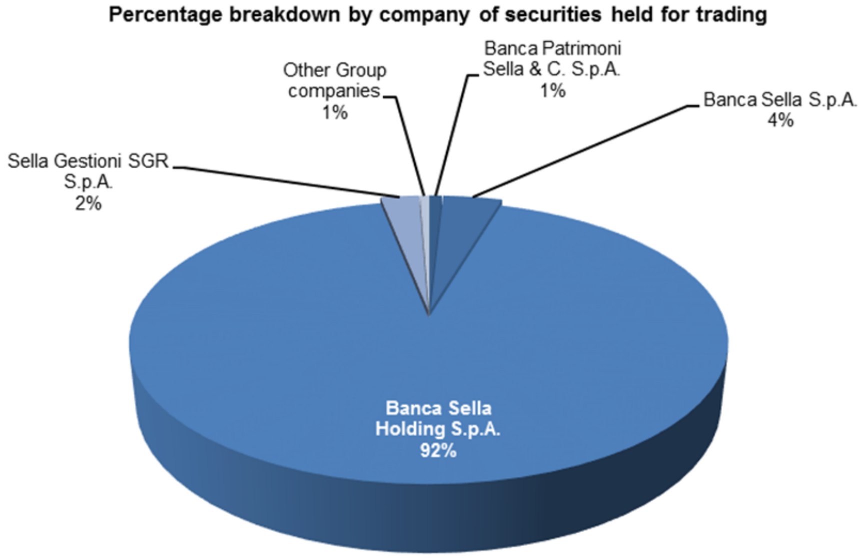
The strategy of investment diversification was maintained, paying particular attention to the quality of bonds of banking, financial and corporate issuers in the portfolio.

At the end of the year, the main investment categories were:

- European Union and US government securities: 57.7%;
- bonds of banking, corporate and financial issuers: 34.9%;
- bonds of the Banca Sella Group: 2.6%;
- securities of supranational and government agency issuers: 2.5%;
- equities and funds: 2.3%.

The bonds of banking, corporate and financial issuers included in this category are for the most part short-term: roughly 61% will be repaid by the end of 2017 and around 20% by the end of 2018.

The graph below shows how trading securities are mainly held by the Parent Company Banca Sella Holding (for 92%) and Banca Sella (for 4%).



Financial assets available for sale

Financial assets available for sale amounted to € 2,200.8 million at the end of the year, compared to 2,640.2 million at 31 December 2015, showing a 16.6% decrease, attributable mainly to the fact that Italian government bonds that reached maturity in the fourth quarter were not renewed. The main changes are the result of a policy of greater diversification; indeed, investments in government securities decreased (€ -173.3 million) and those in banking and corporate bonds rose (€ +51.2 million). The objective for 2017 is to renew investments in order to increase the profitability of the portfolio and pursue a strategy of greater diversification of financial assets, paying particular attention to the quality of bonds of banking, financial and corporate issuers in the portfolio.

At the end of 2016, this portfolio consisted mainly of Italian government securities and banking and corporate bonds with high credit ratings; during the year, the stock portion was increased slightly through the purchase of units of certain specialised SICAVs, and 3 closed-end funds were introduced for investment primarily in debt instruments issued by Italian SMEs. The asset class with the largest change was BTPs, which posted an annual decline of roughly € -195 million, while exposure to other classes of securities rose by a total of € 28.1 million: € +18.7 million for treasury certificates, € +2 million for banking bonds and € +7.4 million for corporate bonds.

Analysing the breakdown of the aggregate, it can be seen that most of it consists of debt securities, which account for € 2,095.4 million, equal to 95.2% of the total. In 2015, they accounted for 96.8%.

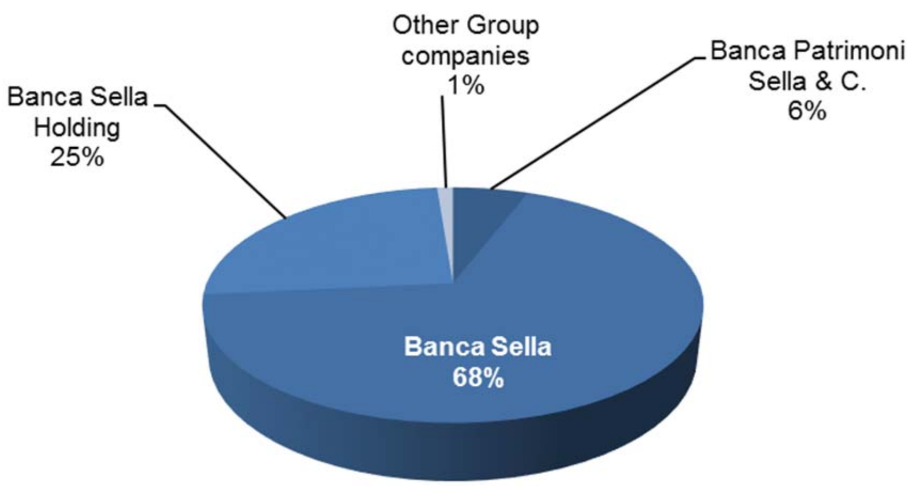
With respect to the voluntary scheme and the IFPD communication of 20 January 2017, following the intervention in the Cassa di Risparmio di Cesena share capital and the periodic update of the fair value measurements of the financial assets acquired, a write-down of € 0.7 million was recognised. The value of the economic capital of Cassa di Risparmio di Cesena was defined by applying the Dividend Discount Model methodology. On the basis of the amount of its contribution to the voluntary scheme, the Group Banks adjusted the carrying amount of Cassa di Risparmio di Cesena, equal to roughly € 2.9 million.

Financial assets available for sale (euro thousands)

Item	31/12/2016	Proportion (%) of total	31/12/2015	Proportion (%) of total	Changes	
					Absolute	%
Debt securities	2,095,426.1	95.2%	2,555,329.1	96.8%	(459,903)	-18.0%
Equities	80,207.0	3.6%	75,689.8	2.9%	4,517	6.0%
UCITS units	19,643.6	0.9%	7,043.7	0.3%	12,600	178.9%
Loans	5,511.2	0.3%	2,113.3	0.1%	3,398	160.8%
Total securities available for sale	**2,200,787.9**	**100.0%**	**2,640,175.9**	**100.0%**	**(439,388)**	**-16.6%**
Details for main Group companies						
Banca Patrimoni Sella & C.	127,805.8	5.8%	277,133.6	10.5%	(149,328)	-53.9%
Banca Sella	1,489,386.9	67.7%	1,687,930.9	63.9%	(198,544)	-11.8%
Banca Sella Holding	556,809.7	25.3%	668,232.3	25.3%	(111,423)	-16.7%
Other Group companies	26,785.5	1.2%	6,879.1	0.3%	19,906	289.4%
Total	**2,200,787.9**	**100.0%**	**2,640,175.9**	**100.0%**	**(439,388)**	**-16.6%**

The chart below shows that the portfolio of financial assets held for sale is held mostly (67.7% of the total) by Banca Sella, followed by Banca Sella Holding (with 25.3% of the total) and Banca Patrimoni Sella & C. (5.8% of the total).

Percentage breakdown by company of financial assets available for sale



Trading in the markets

The Parent Company's trading activity in the markets, on own account and on behalf of third parties (inclusive of online trading), had the following market shares in 2016 (compared to those achieved in 2015):

Trading activity

	2016	2015
MTA (stock exchange)	1.09%	1.25%
ETF Plus (exchange traded funds)	2.46%	2.26%
SeDeX (securitised derivatives exchange)	5.64%	4.66%
Domestic MOT (domestic bonds exchange)	9.25%	9.10%
EuroMOT (European bonds exchange)	12.02%	11.03%
ExtraMOT	10.80%	8.91%
IDEM – FTSE MIB Future (Italian derivatives market)	1.04%	1.23%
IDEM – MINI/Future (Italian derivatives market)	5.35%	5.11%
IDEM – FTSE MIB Option (Italian derivatives market)	2.75%	3.18%

(Source: Assosim data)

Compared to last year, market shares were down in 2016 in the MTA equity exchange and the IDEM market in relation to Futures in the FTSE MIB index and options in the FTSE MIB; on the other hand, they were up in the SeDeX and ETFPlus segments, in the IDEM market for MiniFutures in the FTSE MIB index and in the Domestic MOT, ExtraMOT and EuroMOT bond segments.

Trading of financial instruments on own account and treasury activities

In 2016, trading on own account made a positive contribution to the income statement. The Group maintained its status as primary dealer on the government securities exchange (MTS), with a market share of 3.4% (2.5% in 2015).

Trading on own account in the MOT (bonds exchange) recorded a market share of 13.1% in the course of the year, up compared to 12.5% in 2015; the market share also rose in the EuroMOT and ExtraMOT segments, reaching 31.6% (24% in 2015) and 10.8% (8.9% in 2015), respectively. All bond trading desks achieved positive income results, although they were slightly lower than those of the previous year. Trading took place on the markets noted above as well as on the EuroMTS, Hi-MTF, EuroTLX, Brokertec, Tradeweb, Bondvision and MarketAxess trading platforms.

The Equity and Derivatives desk had positive income results although they were down slightly with respect to the previous year.

Trends of total volumes traded on own account in 2016 in the stock markets and in equity derivatives differed by segment. Market shares totalled 7.8% (6.4% in 2015) in the SeDeX segment, 1% (1.2% in 2015) in the ETFPlus and null in the MTA. In relation to trading on derivative instruments listed on the IDEM, the market share relating to Futures on the FTSE MIB index (Financial Times Stock Exchange-Milan stock exchange index) totalled 0.6% (0.64% in 2015); the share relating to Minifutures in the FTSE MIB index amounted to 4.4% (3.8% in 2015).

In relation to the IDEM market, the Equity and Derivatives desk maintained its role as market maker on minifutures in the FTSE MIB stock exchange index, and took on the same role for futures in the FTSE MIB index starting on 8 February 2016. Trading in derivatives concentrated on instruments listed on the IDEM as well as the Eurex.

Transactions in spot and forward foreign exchange markets, carried out to meet customer needs, show a prevalence of hedging transactions in the spot market, with volumes reaching around € 3.5 billion, exceeding those of 2015.

With regard to the treasury, transactions in the interbank market of “unsecured” deposits remained at low levels, especially if compared with pre-financial crisis numbers, but were slightly higher than in 2015. The continuation of a certain atmosphere of distrust amongst banks, combined with the high degree of liquidity and the efficiency of the secured markets, justifies the continued situation of low volumes in the non-collateralised markets (total volumes with bank counterparties outside the Group, excluding the Central Bank, carried out in the e-MID and OTC markets equal to roughly € 2.5 billion). Repurchase agreements in the interbank market were on the other hand down slightly with respect to 2015, with total nominal volumes traded in the course of 2016 equal to roughly € 218 billion (the majority in repurchase transactions maturing in one day or in any event not beyond the month). This is also consistent with greater recourse to Central Bank overnight deposits than in 2015.

The liquidity of the Bank and of the entire Banca Sella Group in 2016 continued to be abundant and was further reinforced. The policy for managing the liquidity position has indeed always been inspired by criteria of extreme prudence, especially within contexts of high turbulence in the financial markets, such as those seen in recent years.

During the year, aside from enabling the mentioned efficient liquidity management, the Group’s Integrated Treasury coordinated the governance of rate and exchange risks at consolidated level.

Corporate finance

In 2016, Banca Sella Holding’s M&A (mergers & acquisitions) and corporate finance advisory activities (carried out under the Sella Corporate Finance name) posted revenue of € 0.3 million, a slight dip compared to the previous year (€ 0.5 million). Services provided in favour of customers recommended by the Banca Sella Corporate Finance service increased further, and in the second half of the year a minibond issue was carried out in collaboration with Banca Sella.

In addition, considerable support was also provided to the Banca Sella Group in several significant strategic transactions (“corporate development”).

Securities trading on behalf of third parties - traditional trading

The Group’s net banking income for trading in securities on behalf of third parties closed 2016 with a final result just above € 16 million, down by roughly 6.5% compared to 2015 (equal to around € 17.1 million).

While the result in the first half of the year was substantially aligned with the budget (indeed, at the end of June net banking income totalled around € 9 million, the same as the budget values), in the second half trading in the markets declined sharply, resulting in a drop in volumes and the associated trading revenue within the Group as well.

Some of the unforeseen factors that certainly contributed to this negative result were:

- the result of the UK referendum at the end of June, which will lead to Brexit, i.e., the United Kingdom’s exit from the European Union;
- the victory of Donald Trump in the US elections in November;
- the defeat of the Italian government in the constitutional referendum in early December, with the subsequent formation of a new government.

These unexpected factors, combined with increasing global geopolitical tensions and conditions in the international, and particularly the Italian, financial system (such as the failure of Banca Monte dei Paschi’s share capital increase in the final part of the year) led, in the second half of the year, to rising uncertainties in the financial markets, which continued to favour the already high liquid component of portfolios, thus increasing the available funds in customer current accounts, pending more favourable investment conditions. This market uncertainty also triggered increased risk aversion, as well as declines in the stock markets (particularly Italian markets).

On the other hand, throughout the year revenue continued to drop in the bond segments, due to interest rates, especially on the short and medium term parts of the curve, which constantly remained at negative levels or close to zero, also due to the ECB's continuation of QE, while on the long-term part, there was a first attempt at a trend reversal in the last part of the year, partially due to the increase in the BTP-Bund spread, as well as the initial signs of a recovery in inflation.

The decline compared to 2015 was caused by the continuing shift of portfolios towards asset management products, particularly funds or insurance (especially products with a greater focus on pension and social security features), to the detriment of investments in securities. This marks the continuation of a trend that has also been confirmed at system level where, in the course of 2016, the share of household financial assets invested in securities continued to decline (both short and medium and long term), offset by an increase in the share invested in mutual funds, asset management and insurance products (source: Prometeia).

This scenario/trend is expected to continue in the next 2-3 years (consistent with forecasts of the main analysis/research institutions), thus bringing Italy closer to what has already taken place in other European countries, as a result of which the following is expected:

- maintenance of the share held in liquid assets, despite the exceptionally high levels reached. This share will presumably begin to decrease only in 2018, in light of expectations of a gradual increase in interest rates;
- further growth in the share invested in funds and in general in asset management products. Within this segment, funds could however be impacted by market uncertainty, while the share invested in insurance products will continue to grow at a good pace, favoured by increasing awareness by workers of their pension situation due to the pension system reform and the progressive aging of the population;
- a stabilisation of investments in equities;
- a further decline in the percentage relating to investments in securities, particularly public and banking.

As regards placement activities, as set forth in the Treasury's 2017 Guidelines, there will be two BPT ITALY issues, presumably simultaneous with the maturity dates of securities issued in 2013, particularly to allow retail customers to reinvest liquidity arising upon maturity. In relation to share placements, the privatisation of Ferrovie dello Stato is expected to take place in 2017, although, in line with the trend already seen with Poste Italiane in 2015, a net decline is expected in placement fees paid to placement intermediaries. Placement services will also be provided in relation to the "minibonds" introduced by the "Save Italy" law decree, as well as placements of shares on the Italian Stock Exchange's AIM market, which may also be intended for retail customers and no longer reserved exclusively to professional clients.

Lastly, as the year 2016 saw several issues of supranational issuers carried out in foreign currency which, aided by the high liquidity present in customer accounts along with the low number of alternative proposals, were met with moderate interest from customers, in particular for the first ones carried out during the year, it can be assumed that analogous products will continue to be successful in 2017 as well, especially if new elements are introduced (such as new currencies of denomination) that will enable customers to diversify their investment portfolios.

The year 2017 will also be highly impacted by new regulations; MiFID 2 and Mifir (Directive 2014/65/EU and Regulation (EU) No. 600/2014, issued in the final version on 15 May 2014, respectively) will bring with them new regulatory compliance requirements for the business linked to financial brokerage, along with significant sector innovations (e.g., introduction of new types of execution venues).

Complexities relating to the new transparency regime, transaction reporting activities, algorithmic trading, rules relating to direct electronic access by institutional clients, the introduction of new execution venues such as OTFs (organised trading facilities) meant to attract the transactions that are currently carried out OTC and the likely creation of new SIs (Systematic Internalisers) and new MTFs (Multilateral Trading Facilities) that Mifid2 will introduce over the next three years, the ESMA Guidelines on complex instruments and the new Consob Directives and Communications that will be issued and published over time, will entail adequate investments and additional costs for intermediaries already in 2017, as well as in subsequent years, with a resulting reduction in net margins.

Within a scenario characterised by rising regulatory restrictions, the supervisory authorities continue to pay close attention to intermediary and investor conduct. The numerous requests for data and information by the supervisory authorities, particularly within the scope of Market Abuse regulations, could result in an increasing work load in the coming three years.

In 2017, it will therefore be necessary to continue to innovate and increase efficiency to reach pre-established objectives, investing time and resources to seek out new customers, to implement new models (such as remote advisory services, which could expand the customer base compared to that existing today) and to introduce new products and/or new markets (such as market and MTF segments through which financial instruments will be directly issued; the new execution venues that will arise as a result of Mifid2 such as the Bloomberg MTF, the IG Market MTF and the MarketAxess MTF; the Sedex segment in which certificates denominated in currencies other than the euro will be traded; Chi-x for equities; the Hi-MTF Order driven Bond segment).

The innovation and efficiency initiatives noted above, along with the continuous monitoring of the competition and constant oversight of fair prices and average fees, will be the drivers to reach the pre-established results and will make it possible to continue to guarantee excellent service, in order to meet any type of customer requirement in terms of new markets as well as new products to be offered, moreover while exploiting the potential offered by the ongoing customer portfolio segmentation process.

Online trading

The trend of revenue deriving from Banca Sella's online financial instrument trading service (online trading) was influenced in 2016 by financial market performance, marked by instability as well as domestic and international socio-political events.

Within this context, the trading of Banca Sella customers, with roughly 2.3 million orders executed in the market, was down slightly with respect to the previous year, and generated trading revenue down by 11%. Business performance was also influenced by a very slight decrease in average fees, which was required to deal with aggressive pricing policies applied by competitors. The online trading service was developed primarily in the following areas:

- evolution of the offer;
- carrying out commercial initiatives aimed at acquiring new customers.

With reference to offer developments, numerous new features were introduced in 2016, such as: Derivative Intraday Margining IPO (allows for intraday trading with reduced margins), option trading on the CME (Chicago Mercantile Exchange), Trading Marker (the innovative function that makes it possible to receive immediate reports regarding the existence of trading opportunities when pre-set conditions are met), Advanced Trading Book (new book configuration that allows for fast, professional trading for heavy short-term traders), CFDs (contracts for difference) on the DAX, Oil and Bund expressed in "micro" lots (for those who want to trade while committing very limited amounts). With respect to mobile trading, the SellaXTrading app has been developed for smartphones, available for Android and iOS operating systems.

In 2016, a large-scale online campaign was carried out to promote the Trader Account, and training events were organised locally and online on different online trading topics.

Payment systems

With respect to the Banca Sella Point of Sale (POS) service, positive trends were recorded in payment card acquiring, characterised by growth in the transactions carried out with debit cards on the domestic circuit (+6.5% compared to the previous year) and with credit cards (+10.7% compared to the previous year). These improvements bear witness to the general population’s increasing propensity to use electronic payment methods.

Overall, volumes were up compared to the previous year, also thanks to good commercial activities resulting in entering into agreements with new merchants, carried out by the branch network as well as the network of agents affiliated with Banca Sella. Thanks to the increases in volumes, good stability in average fees and the change of scenario introduced by European Regulation 2015/751 on Multilateral Interchange Fees, overall profitability has risen considerably (+59.2% compared to the previous year).

The e-commerce sector grew 9.3% compared to the previous year. Similar to what occurred with regard to the POS acquiring service, profitability was up 90.1% compared to the previous year.

Activities relating to the debit and credit cards issued by Banca Sella improved in terms of the amount spent with debit cards on the domestic circuit (+5.7% compared to the previous year) and the amount spent with debit cards on international circuits (+15.8% compared to the previous year). The amount spent with credit cards increased by 5.2% with respect to the previous year in the consumer segment and by 6.8% in the business segment. Reflecting the scenario introduced by European Regulation 2015/751, profitability declined by 12% compared to the previous year.

Banking business with customers - collection

At the end of the year total deposits – consisting of all the assets administered on behalf of customers – amounted to € 33,174.3 million, up 3.2% compared with the previous year. Both the direct and indirect component had positive results.

Total deposits (euro thousands)

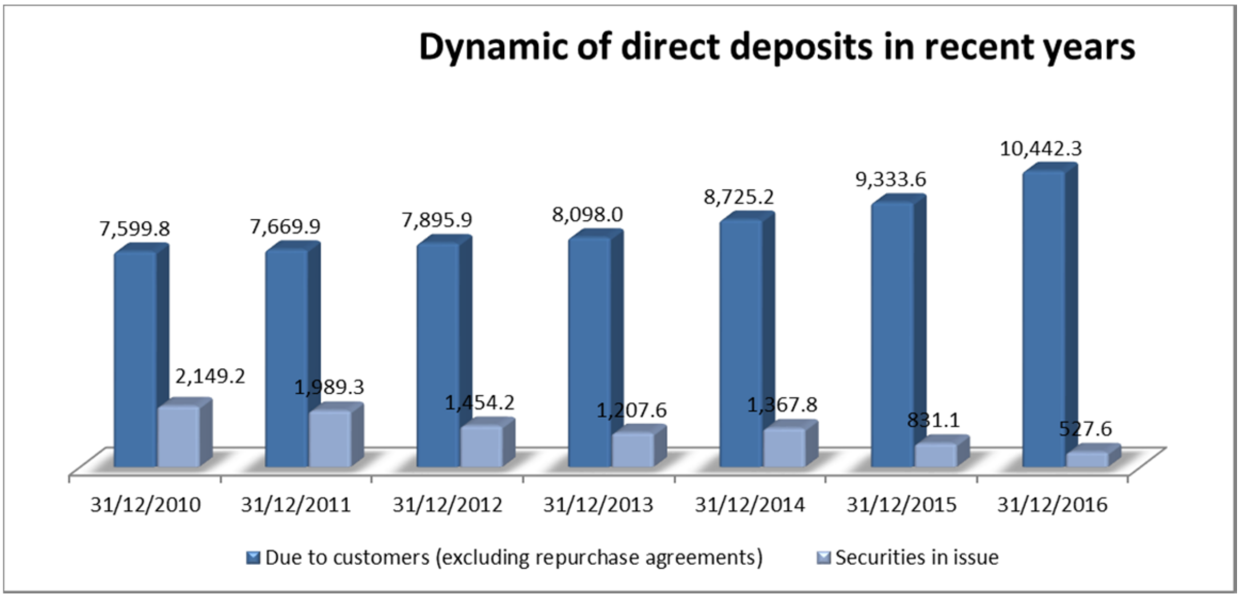
Item	31/12/2016	Proportion (%) of total	31/12/2015	Proportion (%) of total	Changes absolute	Changes %
Direct deposits from banks	65,135.2	0.2%	79,651.4	0.2%	(14,516.2)	-18.2%
Direct deposits (exclusive of repurchase agreements)	10,969,997.0	33.1%	10,164,719.2	31.6%	805,277.8	7.9%
Repurchase agreements payable	12,278.1	0.0%	17,800.6	0.1%	(5,522.5)	-31.0%
Indirect deposits	22,126,895.7	66.7%	21,869,373.8	68.1%	257,521.9	1.2%
Total deposits	**33,174,306.0**	**100.0%**	**32,131,545.0**	**100.0%**	**1,042,761.0**	**3.2%**

Direct deposits

The breakdown of direct deposits (€ 10,970 million exclusive of repurchase agreements) shows growth in amounts due to customers (€ 10,442.3 million), recording an increase of € 1,108.7 million (+11.9%) compared with 2015. The most significant change within the aggregate was that related to current accounts and demand deposits, which were up by € 1,209.9 million. A 36.5% decrease was seen in securities in issue, due to the fact that securities which matured during the year were not replaced with new issues.

Direct deposits (euro thousands)

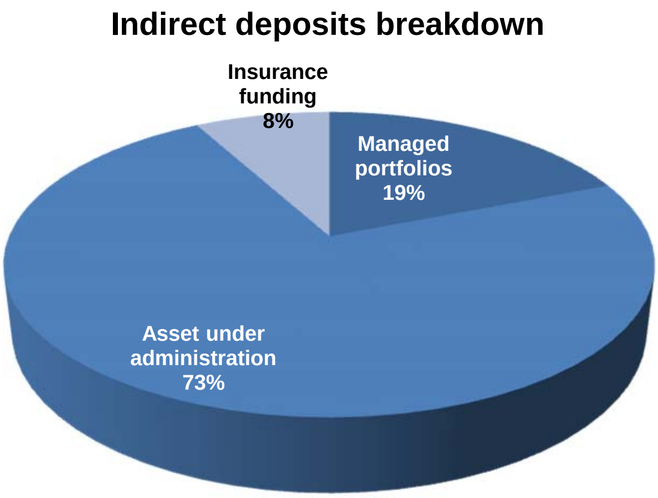
Item	31/12/2016	Proportion (%) of total	31/12/2015	Proportion (%) of total	Changes absolute	Changes %
Due to customers (excluding repurchase agreements)	10,442,349.7	95.1%	9,333,618.5	91.7%	1,108,731.2	11.9%
- Current accounts and demand deposits	9,399,506.7	85.6%	8,189,568.3	80.4%	1,209,938.4	14.8%
- Term deposits	744,935.6	6.8%	908,676.7	8.9%	(163,741.1)	-18.0%
- Other loans and advances	168,065.0	1.5%	114,901.3	1.1%	53,163.7	46.3%
- Other	129,842.4	1.2%	120,472.2	1.2%	9,370.3	7.8%
Securities in issue	527,647.3	4.8%	831,100.8	8.2%	(303,453.5)	-36.5%
TOTAL DIRECT DEPOSITS	**10,969,997.0**	**99.9%**	**10,164,719.2**	**99.8%**	**805,277.7**	**7.9%**
Repurchase agreements payable	12,278.1	0.1%	17,800.5	0.2%	(5,522.4)	-31.0%
TOTAL DIRECT DEPOSITS (INCLUDING REPURCHASE AGREEMENTS)	**10,982,275.1**	**100.0%**	**10,182,519.8**	**100.0%**	**799,755.3**	**7.9%**



Indirect deposits

Indirect funding is understood as the sum of the items "Asset Management" and "Other third party securities held in deposit" at the current market value, in addition to the component relating to income from insurance activities. The aggregate at market value at 31 December 2016 was therefore € 22,126.9 million, an increase of 1.2% on an annual basis.

The growth of 8.9% in nominal indirect deposits, as reported in the summary data, is instead justified by "technical" reasons as, in 2015, the income of C.B.A. Vita and Sella Life was considered intragroup, because they were Group companies at the time. As at 31 December 2016, the insurance companies left the Group but they continued to maintain part of their income deposited in Group banks, which was therefore no longer considered infragroup.



The table below highlights the trends of these components in 2016. Managed portfolios, amounting to € 4,140.1 million, saw a decline with respect to 2015 (-5.2%), while the component related to insurance funding, at € 1,826.7 million, increased by 36.2% with respect to the previous year. The performance of assets under administration was in line with 2015.

Indirect deposits (euro thousands)

Item	31/12/2016	Proportion (%) of total	31/12/2015	Proportion (%) of total	Changes	
					absolute	%
Managed portfolios	4,140,068.7	22.6%	4,366,875.3	26.0%	(226,806.6)	-5.2%
Assets under administration	16,160,161.4	88.3%	16,161,768.1	96.1%	(1,606.7)	0.0%
Insurance funding	1,826,665.6	10.0%	1,340,730.4	8.0%	485,935.2	36.2%
Total indirect deposits	**22,126,895.7**	**120.8%**	**21,869,373.8**	**130.0%**	**257,521.9**	**1.2%**

Private banking, investment consulting services, funds and SICAVs

The Banca Sella Group's private banking service is specialised in offering financial services to private customers, consisting of families of entrepreneurs and professionals with significant assets to be protected and appreciated over time based on needs, expectations, time horizon and risk profile. The reference values of the private banking service, in line with those of the Group, are inspired by loyalty, transparency and the pursuit and protection of customer interests. The Group's reputation and image are an undeniable strength.

In 2016, the stock markets closed in positive territory (Msci World index up by more than 10 percentage points when expressed in euro), despite considerable fluctuations in trends and uneven performance at geographical level. The US stock indexes, with performance between 10% and 15% in local currency, did much better than the European markets, which remained unchanged overall on an annual basis. In Japan, the main indexes were marginally positive when expressed in local currency. As a whole, the emerging markets closed the year ahead of developed markets (Msci Emerging Markets up by approximately 15% when expressed in euro). Lastly, despite the good recovery in December, the Italian stock exchange underperformed again in 2016, closing the year at -10%.

In Italy, private banking is characterised by business models which call for specialised banks as well as specialised divisions in the private banking service within commercial banks. Commercial policies may by different with respect to certain aspects.

In analysing the private banking industry, for years the AIPB (the Italian Private Banking Association) has sought to outline its confines through research activities in order to study its evolution over time. On a quarterly basis, AIPB member banks report the total amount of their financial assets to the association, updating the "market served" entry. As at 30 September 2016, this amount totalled € 691 billion.

The Group's choice

The strategy adopted by the Banca Sella Group a few years ago, which has been confirmed over time, is that of adopting both business models. The specialised bank is Banca Patrimoni Sella & C., and the division is represented by the specialised service offered by Banca Sella private banking. This strategy was chosen due to the group's historical commitment to serving customers wherever they prefer with the financial instruments that best meet their different requirements.

Aside from having its own sales network, Banca Patrimoni Sella & C. is responsible for handling asset management for the group.

The range of financial instruments, products and services offered is broad and well-structured, and also covers the more advanced end of the range, providing the services required to professionally deal with aspects linked to generational transfer and succession. The asset management component accounts for a considerable share of customer investment portfolios. With respect to mutual investment funds and SICAVs, in addition to offering the products of Sella Gestioni, the Group's asset management company, the range has been enriched by distribution agreements with the main international asset management companies.

The sales policies adopted follow a portfolio, and not individual product, approach. The relationship manager's understanding of customer needs and characteristics translates into identifying financial advice that allows customers to take the best measures to reach their objectives, which take priority over those of the Group.

The numbers

The total financial assets of the Private Banking sector of the Group as of 31 December 2016 amounted to approximately € 17,400 million, with an increase of around € 2 billion with respect to 31 December 2015. Total net deposits rose by € 616 million in 2016.

There were more than 500 private bankers and financial advisors. These are competent professionals who take the time to listen to customers and are capable of earning their trust and retaining them over time, even through moments of market adversity or volatility.

The Group Private Banker's/Financial Advisor's profound knowledge of the private client gained throughout the relationship helps to guide customer investment choices even within environments that are not always favourable. 56.8% of the asset mix of the customers of Banca Patrimoni Sella & C. at the end of 2016 was represented by Individual Portfolio Management and Mutual Investment Funds; for Banca Sella Private Banking it was 32%. In 2016, the insurance component grew to 7.4% for Banca Sella Private Banking and 6.9% for Banca Patrimoni Sella & C.

At 31 December 2016, deposits under advisory for Family Advisory Sim Sella & Partners, the Family Office 85% held by Banca Patrimoni Sella & C. and 15% by the management of the same company, amounted to roughly € 1,100 million.

Analysing the two components of the net banking income, Trading services, foreign exchange TOL and asset management services, the figure at 31 December 2016 amounted to € 39.5 million for the former and € 70 million for asset management items.

The total gross profitability of the Banca Sella Group's indirect deposits was 0.79%.

The tables below show the volumes of the Banca Sella Group at 31 December 2016 invested in UCITS (under administration and management), asset management and insurance products:

	Banca Sella	Banca Patrimoni Sella & C. (*)	volumes of Banca Sella customers (**)	Total
Own UCITS under administration	1,362,000,000	249,000,000	-153,000,000	**1,458,000,000**
Third-party UCITS under administration	2,013,000,000	2,219,000,000	-486,000,000	**3,746,000,000**
Total	**3,375,000,000**	**2,468,000,000**	**-639,000,000**	**5,204,000,000**

(*) including volumes of Banca Sella customers working with Banca Patrimoni Sella & C. Financial Advisors
(**) working with Banca Patrimoni Sella & C. Financial Advisors

	Banca Sella	Banca Patrimoni Sella & C. (*)	volumes of Banca Sella customers (**)	Total
Own UCITS under management	51,000,000	39,000,000	-6,000,000	**84,000,000**
Third-party UCITS under management	640,000,000	1,376,000,000	-165,000,000	**1,851,000,000**
Total	**691,000,000**	**1,415,000,000**	**-171,000,000**	**1,935,000,000**

(*) including volumes of Banca Sella customers working with Banca Patrimoni Sella & C. Financial Advisors
(**) working with Banca Patrimoni Sella & C. Financial Advisors

	Asset Management	volumes of Banca Sella customers (**)	Total
Banca Sella	1,573,000,000	-	**1,573,000,000**
Banca Patrimoni Sella & C.	3,400,000,000	-357,000,000	**3,043,000,000**
Total	**4,973,000,000**	**-357,000,000**	**4,616,000,000**

(**) working with Banca Patrimoni Sella & C. Financial Advisors

	Insurance products	volumes of Banca Sella customers (**)	Total
Banca Sella	1,369,000,000		**1,369,000,000**
Banca Patrimoni Sella & C.	674,000,000	-67,000,000	**607,000,000**
Total	**2,043,000,000**	**-67,000,000**	**1,976,000,000**

(**) working with Banca Patrimoni Sella & C. Financial Advisors

Sella Gestioni S.G.R.

The Company, which is based in Milan, has operated in the managed savings sector, in the segment of collective management since 1983 and since 1999 it also operates in the social security sector.

At the end of 2016, the Company managed 12 mutual funds operating under Italian law, a mutual fund operating under Italian specialising in investment in parts of other UCITS, consisting of 6 segments, a pension fund divided into 5 segments, as well as a SICAV operating under Luxembourg law and one Monaco-based fund. For the placing of its products the Company works with banks and security brokerage companies both within and beyond the Banca Sella Group.

At 31 December 2016 total assets managed (net of duplications) amounted to € 1,884.5 million, a decrease of 2.5% compared with the figure at the end of 2015.

As regards collective management, including the pension fund, at year end the assets were invested as follows: 72.5% in bond funds, 12.1% in balanced and flexible funds and 15.4% in equity funds.

The year in question ended with net income of € 1.928 million compared to the income of € 1.831 million recorded in 2015. The 2016 profit was positively influenced by the contribution of income from the sale of the equity investment in C.B.A. Vita.

Net commissions came to € 7.587 million, a 13.1% decrease with respect to the figure at the end of 2015, including the contribution from incentive commissions, which totalled € 63 thousand in 2016, compared to € 830 thousand in 2015. Other net fees were lower than the figure at 2015 by 4.8%, due to the decline in average assets managed as a result primarily of the negative fund and SICAV income during the period.

Operating income came to € 7.6 million with a 15.5% decrease with respect to the 2015 figure, mainly due to what is outlined in the previous section and lower profit from the own portfolio.

Overheads, amounting to € 6.5 million, decreased by 1.3% compared with the previous financial year. This decrease was caused primarily by lower variable compensation in correlation with the lower net profit.

The Company’s workforce, including seconded staff, went down from 47.26 full time equivalents of the end of 2015 to 44.50 full time equivalents of the end of 2016.

For 2017, the plans are to pursue a growth objective of volumes and quality of products managed, in a context that is increasingly attentive to limiting costs.

Selfid

The Company, based in Biella, carries on a “static” fiduciary business (as provided for in Law 1966/39). Again in 2016 the main activity of Selfid was the fiduciary custody of financial assets and insurance products, and the assumption of fiduciary appointments for the custody of equity interests and shares of companies.

The number of fiduciary appointments at 31 December 2016 totalled 528. Assets administrated went from € 1,306 million in 2015 to € 1,222 million in 2016.

Fee income amounted to € 1 million, up on the € 0.9 million of the previous year. The item “Costs for services” came to € 0.8 million, up with respect to 2015. Selfid ended the year with profits of € 133 thousand, compared with profits of € 94 thousand recorded in 2015.

Lending in the Banca Sella Group

At the end of FY 2016, cash loans to ordinary customers, exclusive of repurchase agreements receivable, came to € 7,802.1 million (€ 7,686.1 as at 31 December 2015) with a positive change of 1.5% on last year.

Within an environment characterised by a generalised recovery on annual basis in loan applications, the Group continued to maintain 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. Lending to businesses continued, provided by all Group companies that disburse credit in all its various technical forms (Banca Sella, Biella Leasing, the Group’s leasing company, Consel, the Group’s consumer loan company, and Banca Patrimoni Sella & C.).

In Banca Sella, at the end of FY 2016, cash loans to ordinary customers came to € 6,985.6 million, up by € 251.1 million on last year. Unsecured loans totalled € 214.9 million (€ 207.2 million at 31 December 2015). During the course of 2016, the concrete collaboration with Regional Bodies, Category Associations and Loan Consortia continued and the funds made available by the EIB and the national Deposits and Loans Institute were also made use of. In addition, an agreement was entered into with the EIF for the issue of guarantees for investments in the field of innovation (INNOVFIN guarantee).

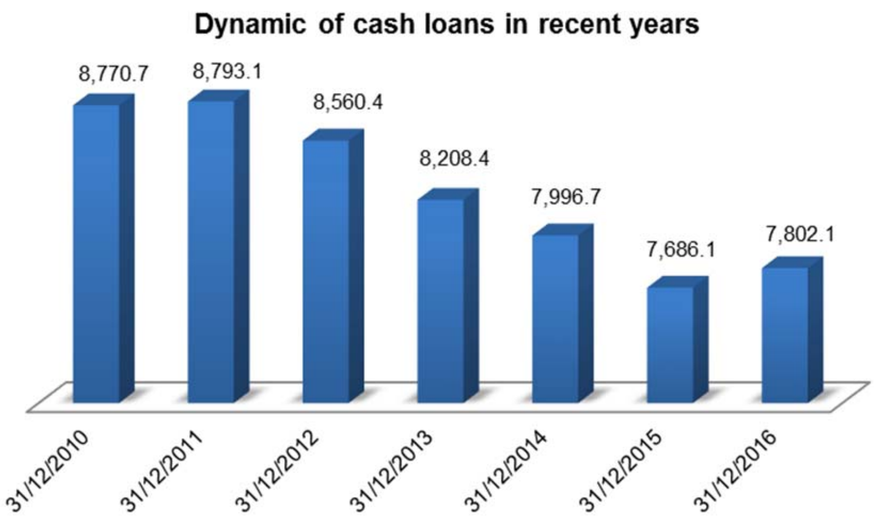
In addition, in 2016 Banca Sella began to deal with indirect lending as well. Indirect Lending refers to all forms of lending to natural persons or legal entities conveyed by a party that does not take on credit risk and provided by a third-party institution which does take on that risk. In brokering the loans of its Customers, the Bank is not remunerated by interest, but rather by fees paid by the party providing the funds and assuming the risk, or fees paid by the loan applicant, for the consulting provided. The offer to customers in 2016 remained limited for the time being, in the form of introductions, to a partnership with Factorit.

With respect to Consel, disbursement flows rose by 11% in terms of volumes, while the number of transactions declined by 27.2% in 2016. This apparent contrast confirms the decision to revise the production process with a business mix more oriented towards products with longer durations and of higher amounts, such as loans on wage assignments and personal loans through the banking channel.

Analysing the individual segments in detail, the loans on wage/pension assignments sector posted triple-digit growth in terms of volumes (+266.8% compared to 2015); this rise is in part linked to the activity of acquiring receivables without recourse.

Volumes relating to personal loans were also up, by 68.2%, essentially as a result of the consolidation of the increase in volumes brokered by the banking channel, as mentioned above. Volumes generated by the car/motorcycle segment (-0.9% on an annual basis), which is increasingly concentrated and dominated by captive companies, were down slightly. There was a more considerable contraction in credit cards, down 16% compared to the same period of 2015, also due to the termination of the partnership with Genertel. Other special-purpose loans were down slightly (-4.9%).

During the year 2016 Biella Leasing signed 4,908 contracts for a total amount of € 303.7 million. This figure is up with respect to last year (4,037 contracts for a value of € 245.5 million). The vehicles and capital goods segments, having reached 276 million, represent 90% of the entire amount of loans provided during the year. At the end of 2016 the Company started a new operating lease business, which makes the asset available to the user, transferring the relative obsolescence risks to the lessor for the entire duration of the contract. This model, different from finance leases, does not provide the user with the possibility of exercising a redemption option. The transaction type is therefore similar to a rental.

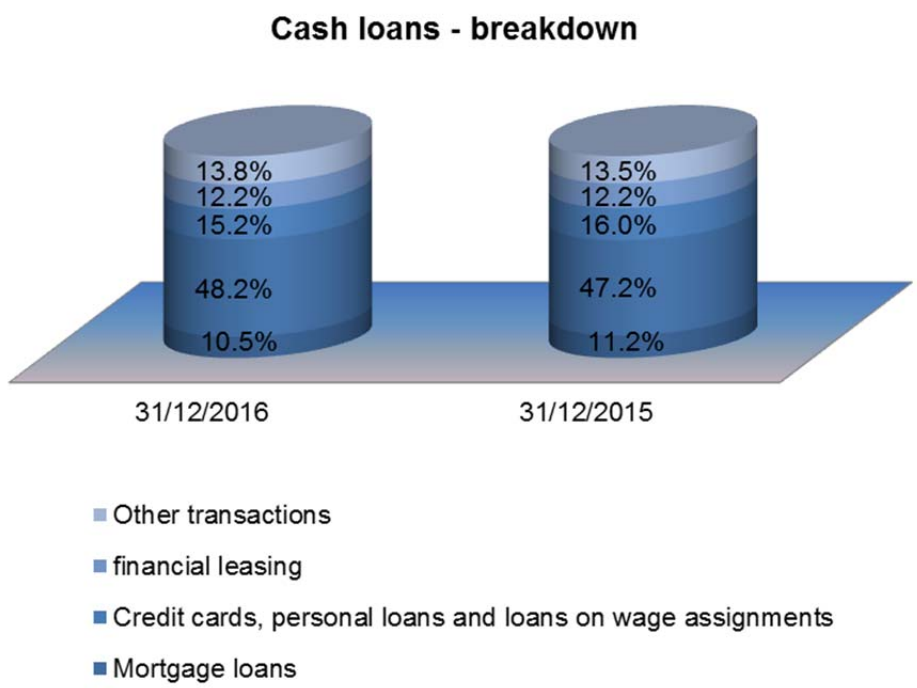


Analysing the composition of loans to customers (see the table below) we note that the amount of impaired assets fell with respect to the previous year (-9.9%), following the improvement in credit quality and the assignment without recourse of a portion of said portfolio by Banca Sella.

Cash loans (euro thousands)

Item	31/12/2016	Proportion (%) of total	31/12/2015	Proportion (%) of total	Changes	
					absolute	%
Loans to customers (excluding repurchase agreements)	**7,802,138.6**	**98.7%**	**7,686,109.3**	**95.7%**	**116,029.3**	**1.5%**
Performing	7,217,041.6	91.3%	7,036,686.0	87.6%	180,355.6	2.6%
- Current accounts	758,654.2	9.6%	787,994.0	9.8%	-29,339.8	-3.7%
- Mortgage loans	3,479,545.0	44.0%	3,318,685.0	41.3%	160,860.0	4.9%
- Credit cards, personal loans and loans on wage assignments	1,098,183.1	13.9%	1,123,192.3	14.0%	-25,009.2	-2.2%
- Financial leasing	883,956.3	11.2%	857,198.8	10.7%	26,757.5	3.1%
- Other transactions	996,622.9	12.6%	949,495.8	11.8%	47,127.2	5.0%
- Debt securities	80.1	0.0%	120.1	0.0%	-40.0	-33.3%
Non-performing assets	585,096.9	7.4%	649,423.3	8.1%	-64,326.3	-9.9%
TOTAL CASH LOANS (EXCLUDING REPURCHASE AGREEMENTS)	**7,802,138.6**	**98.7%**	**7,686,109.3**	**95.7%**	**116,029.3**	**1.5%**
Repurchase agreements	103,381.3	1.3%	347,432.4	4.3%	-244,051.1	-70.2%
TOTAL CASH LOANS	**7,905,519.9**	**100.0%**	**8,033,541.7**	**100.0%**	**-128,021.8**	**-1.6%**
Details for Group companies						
Banca Sella Holding	188,875.3	2.4%	432,478.6	5.4%	-243,603.3	-56.3%
Biella Leasing	960,222.7	12.2%	936,270.7	11.7%	23,952.0	2.6%
Consel	846,183.1	10.7%	864,292.0	10.8%	-18,108.9	-2.1%
Banca Patrimoni Sella & C.	314,599.9	4.0%	300,398.8	3.7%	14,201.1	4.7%
Banca Sella	5,591,046.3	70.7%	5,494,641.7	68.4%	96,404.6	1.8%
Other Group companies	4,592.6	0.1%	5,460.0	0.1%	-867.4	-15.9%
Total for Group companies	**7,905,519.9**	**100.0%**	**8,033,541.7**	**100.0%**	**-128,021.8**	**-1.6%**

The table below shows the breakdown of performing loans, excluding impaired assets.



Credit quality

The year 2016 was characterised by an overall improvement in credit quality, with net adjustments for impairment of loans amounting to € 82 million, compared to € 129 million in 2015, marking a decline of 36.4%.

In particular, there was a reduction in new flows of impaired loans, which led to a decline in write-downs.

In any event, the careful assessment of impaired loans continued, leading the coverage level to rise from 47.7% in 2015 to 51.1% in 2016.

The NPL ratio indicator, i.e., gross impaired assets over gross loans and advances, improved from 14.9% in 2015 to 14.2% in 2016.

The most evident improvement was seen in particular for Banca Sella, also following the assignment of portfolios (end of life and bankruptcy proceedings) which entailed a reduction in the NPL ratio from 14.8% to 13.7%. Nonetheless, the overall coverage of Banca Sella's impaired loans reached 50.06%, compared to 47.80% at the end of 2015.

For Biella Leasing, gross impaired loans amounted to € 113 million (down 7.4% compared to the end of last year) and represent 11.1% of total gross loans. Their degree of coverage is 46.7%, up by 4.5 percentage points on last year.

For Consel, total write-downs rose by € 15.9 million in 2016 compared to 2015, due to the joint effect of two closely related but opposing factors: on one hand, there was a release of approximately € 4.9 million in provisions regarding adjustments on the performing portfolio due to a structural improvement in that segment's asset quality. Indeed, in 2016 there was a settling and generational adjustment of the risk on loans for all product types, due to write-down and lending policies which improved credit quality as well as coverage which was higher on average than in 2015. On the other hand, the increase in provisions for impairment of around € 20.8 million was due exclusively to the coverage required for loans labelled as new non-performing loans in the course of the year.

The Group's Texas Ratio (ratio between gross impaired assets and tangible equity, understood as the sum of equity and value adjustments on impaired assets, and net of intangible assets - item 130 of the balance sheet assets) improved further, reaching 74.3% at the end of 2016 (80.3% in 2015), a highly significant result at system level.

Credit quality (euro thousands)

Item	31/12/2016	Proportion (%) of total	31/12/2015	Proportion (%) of total	Changes absolute	Changes %
Due from customers	**7,905,439.8**	**100.00%**	**8,033,421.6**	**100.00%**	**(127,981.8)**	**-1.59%**
Non-impaired loans	7,320,422.9	92.60%	7,384,118.4	91.92%	(63,695.5)	-0.86%
Impaired loans	585,096.9	7.40%	649,423.3	8.08%	(64,326.3)	-9.91%
of which net bad loans	332,270.2	*4.20%*	339,110.4	*4.22%*	*(6,840.2)*	*-2.02%*
of which unlikely to pay	239,539.7	*3.03%*	289,204.7	*3.60%*	*(49,665.0)*	*-17.17%*
of which expired impaired	13,287.0	*0.17%*	21,108.2	*0.26%*	*(7,821.2)*	*-37.05%*

Bad loans

Net bad loans totalled € 332.3 million at the end of the year (including securitisation volumes), down 2.02% on an annual basis (in 2015, there was growth of 8.97% compared to 2014), making up 4.20% of cash loans (4.22% in 2015).

In the period in question, the flow of new gross bad loans totalled € 130.8 million, down by 50.38% compared with the previous year. This decline was caused by the significant improvement in credit quality.

Collections on non-performing positions amounted to € 45.7 million, in line with 2015 (-0.7%). During the year, 4 without recourse assignments were carried out, with the following characteristics:

Banca Sella:

- assignment of a portfolio of mortgage loans with a gross balance of € 12.2 million, consisting of a small lot of selected positions, with underlying guarantees consisting of real estate that is difficult to dispose of and with a high risk of a decrease in value upon foreclosure;
- assignment of a portfolio of loans defined as “end of life” with a gross balance of € 41.9 million;
- assignment of a bankruptcy portfolio of approximately € 128 million in collectable receivables, booked in the amount of roughly € 27.3 million.

Biella Leasing:

- assignment of an end of life portfolio for a gross amount of € 4.2 million.

The overall impact in the income statement was € 906 thousand.

Completing the above transactions also reduced dispute management cases by more than 4,500, benefitting the efficiency and effectiveness of debt collection activities.

In December 2016, the coverage ratio referred to bad loans was 61.7%, whilst at the end of last year it was 60.3%, marking an increase of 1.4 points.

Therefore, the coverage of bad loans was consolidated, with adequate credit risk management in this category.

Unlikely to pay loans

Unlikely to pay loans totalled € 240 million at the end of the year (net cash exposures inclusive of securitisations), down by 17.2% compared to 2015 (€ 289 million).

In December 2016, the coverage ratio referred to unlikely to pay loans was 22.56%, whilst at the end of last year it was 19.81%, marking an increase of 2.75 points.

Although this level of coverage is lower than that of a sample of peers (27.3%), it is justified by the lower rate of permanence of loans in this category (also seen in the ratio to total loans of 3.03%, which is half of the average figure surveyed amongst peers), the higher rate of return to performing status and the presence of mortgage guarantees for 55% of the gross amount of unlikely to pay positions.

Valuations of unlikely to pay loans are carried out to determine the real possibility of returning to performing status and, if this is doubtful, to quantify the possible loss after collection initiatives, as a general rule considering capitalisation, income capacity, financial balance, the prospects of the applicable segment, managerial and entrepreneurial capacity, the regularity of managing counterparty bank relations and also considering any existing guarantees.

Past-due loans

Past-due and overdue loans totalled € 13.3 million at the end of the year (net cash exposures inclusive of securitisations), down by 37.05% compared to 2015.

Past-due and overdue loans include 56 positions, with a total exposure of € 2.5 million, which benefit from a mortgage security.

In December 2016, the coverage ratio referred to past-due loans was 26.20%, up compared to last year, when it was 20.66%, reaching the highest levels seen system-wide.

Biella Leasing

This Company, with registered office in Biella, has worked for thirty-six years in the finance lease business and maintains a local presence with seven branches. Biella Leasing also relies on credit agents and brokers that provide the Company with a widespread presence throughout the country.

The business is based on the acquisition by Biella Leasing of movable or immovable assets of any nature whatsoever from third-party suppliers, which are granted for use to the user for a pre-set period of time, entailing payment of a periodic fee. This type of loan allows the user to choose the supplier and the type of asset that meet its needs and, at the end of the agreement, by exercising the option right, to become the owner of the asset for the payment of an agreed price.

Biella Leasing offers different types of products depending on the nature of the assets:

- vehicle and heavy vehicle leases;
- capital goods leases;
- real estate leases, for properties already built and being built;
- recreational watercraft leases;
- renewable energy leases.

At the end of 2016 the Company started a new operating lease business, which makes the asset available to the user, transferring the relative obsolescence risks to the lessor for the entire duration of the contract. This model, different from finance leases, does not provide the user with the possibility of exercising a redemption option. The transaction type is therefore similar to a rental.

During the year the Company signed 4,908 contracts for a total amount of € 303.7 million. This figure is up with respect to the last year (4,037 contracts for a value of € 245.5 million).

The market share on newly-signed contracts was 1.5%, an increase compared with 31 December 2015, when it was 1.4%.

The vehicles and capital goods segments, having reached 276 million, represent 90% of the entire amount of loans provided during the year.

Net leasing income, amounting to € 26.2 million, increased when compared with 2015, when it was 23.1 million. Structural costs, inclusive of personnel expenses and other overheads, amounted to a total of € 8.8 million at 31 December 2016, an increase compared with the previous year, in which they were € 7.7 million. On 31 December 2016 the staff, including employees and seconded personnel from other companies of the Group, was made up of 75 people (with respect to 72 in 2015).

Gross impaired loans amounted to € 113 million (down 7.4% compared to the end of last year) and represent 11.1% of total gross loans. Their degree of coverage is 46.7%, up by 4.5 percentage points on last year.

The impact of net bad loans on loans was 2.8%, down with respect to 3.2% at the end of 2015. The cost of credit on an annual basis was 0.9%.

The Company ended the year with a net profit of € 6.1 million.

Consel

The Company, which has its operational office in Turin, works in the household credit sector, providing its customers with a wide range of credit-based products, in particular loans used to purchase goods and services, personal loans, financing for hire purchase, credit cards, instalment lines and salary and pension-backed loans.

Consel carries on its business through an operating structure consisting of 212 employees, 7 managed branches, 28 master agents with sales mandates and 15 specialists and more than 3,500 partner sales points located throughout Italy.

In 2016, the Company rolled out a market repositioning strategy hinging on increasing service quality, meant to guarantee a positive experience and satisfaction to customers and partners alike. The Company started important commercial initiatives, supporting investments in technology to deal with increasing volumes and the expansion of the distribution network.

Some activities already launched in 2015 also continued, intended to improve credit quality and reorganise the distribution network by privileging the network of single-firm agents capable of offering the necessary widespread distribution of products to end customers.

From this perspective, significant attention continues to be focused on providing the distribution network with a broad offering of competitive, high quality and targeted products that meet the needs of a market increasingly prone to using digital technologies.

New products offered in combination with loans and new accessory products were one of the many activities developed during the year through several partnerships with leading insurance and other partners. Amongst the insurance products, CPI (Credit Protection Insurance), sold through telemarketing and in combination with a loan, experienced a year of extensive renewal, including to adjust to the guidelines laid out by the Supervisory Bodies. The accessory products include Gap, which provides protection of vehicle value over time, and Identinet, meant to protect customers' credit reputation.

Over the last months of the year, the new insurance coverage INpiùSalute was also activated, involving the consolidation of the partnership with a leading insurance group in the sector.

New land vehicles insurance coverage, INpiùAuto, is expected to be launched in the initial months of 2017, in collaboration with Europ Assistance of the Generali Italia Group.

In 2016, Consel renewed its communications image by introducing a distinctive spokesperson, "Capitan Closer", always close to the needs of households and ready to provide support and new solutions to customers.

The cornerstone of renewal activities in 2016 was also investment in the IT sector, with the launch of several services such as the graphometric signature and the digital signature. These new services make it possible to streamline distribution processes while guaranteeing that the security requirements laid out by law are met, and rationalise bureaucratic obligations while favouring a door-to-door distribution model and reducing case management timing; to promote paperless processes, the dematerialisation of many phases of the process of signing loan applications, particularly available for mobile use by agents, acts as a guarantee of the integrity and non-modifiability of documents.

Ongoing attention continues to be focused on the insurance channel, which is constantly overseen to offer financing products allowing for the payment in instalments of insurance policies of private individuals as well as businesses through the agency network of several Insurance Companies.

During the year, personal loan and salary and pension backed loan cross-selling initiatives with Banca Sella intensified. Forecasts point to the development and increase of new opportunities for synergy in the digital realm as well.

As regards salary-backed loans, partnerships continued to reinforce the acquisition of receivables without recourse. In the same business line, the Company has signed the Memorandum of Understanding with the aim of applying the self-regulation code to favour increasingly transparent sales methods.

The year just completed also saw the issue of the new MyConsel private customer area, with completely overhauled functions and graphic design, which now can also be used from mobile devices. Likewise, significant improvements have been made in loan application forms, always with a view to favouring multi-channel offerings and improving engagement from individual touch points. The Company has approached the world of social media by creating Twitter and LinkedIn profiles. In addition, some videos were created and posted on YouTube in a move towards updated, digitally oriented communications.

Thanks to the slow but progressive improvement in the general economic framework, the focus dedicated to distribution channel selection, the rigorous process of entering into partnership agreements and the constant and ongoing reduction in the flow of impaired loans favoured a recovery in profitability and credit quality in the course of 2016, while the market share was substantially in line with that already surveyed in 2015.

Disbursement flows rose by +11% in terms of volumes, while the number of transactions declined by 27.2% in 2016.

This apparent contrast confirms the decision to revise the production process with a business mix more oriented towards products with longer durations and of higher amounts, such as loans on wage assignments and personal loans through the banking channel.

Analysing the individual segments in detail, the loans on wage/pension assignments sector posted triple-digit growth in terms of volumes (+266.8% compared to 2015); this rise is in part linked to the activity of acquiring receivables without recourse. Volumes relating to personal loans were also up, by 68.2%, essentially as a result of the consolidation of the increase in volumes brokered by the banking channel, as mentioned above. Volumes generated by the car/motorcycle segment (-0.9% on an annual basis), which is increasingly concentrated and dominated by captive companies, were down slightly. There was a more considerable contraction in credit cards, down 16% compared to the same period of 2015, also due to the termination of the partnership with Genertel. Other special-purpose loans were down slightly (-4.9%).

XII. Sales model

Evolution of the sales model

Commercial activities are highly impacted by the development of technologies and the resulting changes in Customer behaviour.

The Banca Sella Group was ahead of the rest in adopting innovative relationship methods, and over the years has refined an effective relationship model in which traditional local contact works alongside advanced remote and mobile relationship digital solutions (evolved multi-channelling). Today, these solutions are considered some of the best in the system in terms of the breadth and quality of services offered. A positive Online Banking experience has also been developed, and its operating structure has been skilfully integrated within ordinary Commercial Bank activities.

As part of Commercial Bank activities, 3 years ago the organisational steps were taken to adopt a Customer relationship model based on dedicated salespeople (portfolio segmentation model), which has provided extensive advantages in terms of Customer satisfaction.

The sales network has evolved in line with the needs of the Customer and with what has been observed following the adoption of portfolio segmentation, and it is broken down based on two complementary policies: alongside the evolution of Online Banking, in continuity with the past, the New Sales Model entailed a profound revision of the organisation of physical branches already in the course of 2016 and, at the same time, the creation of a mass market Customer management and development centre which utilises remote channels and predictive and prescriptive business analytics models.

The Group’s sales model is therefore that of Integrated Relationships, based on the simultaneous and integrated availability of an excellent digital service in support of a network of dedicated, high quality Sales Advisors.

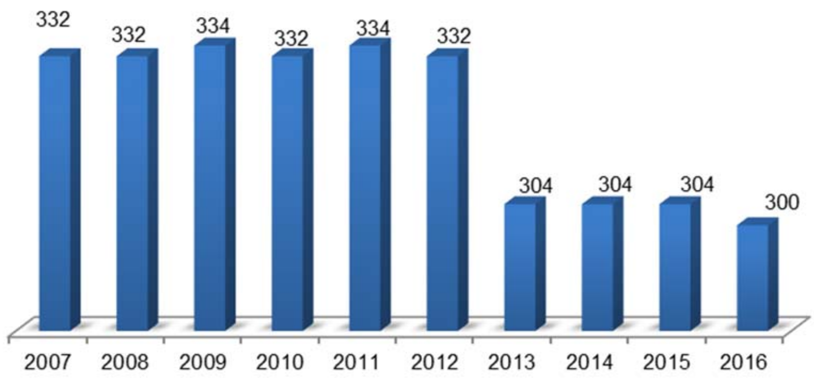
This service works alongside the Online Banking model which currently provides top-of-the-line digital services for Integrated Relationships, and in the future it will be adopted as the only relationship method for Retail Customers.

In addition, in the area of Private Banking, the Banca Sella Group has successfully implemented the model based on dedicated quality consulting for more than 15 years, in which the Customer is assigned to and supported by a dedicated salesperson/banker. Top-of-the-line digital services are also provided along with this relationship method.

Biella Leasing, which provides finance lease services primarily to corporate customers, particularly SMEs, relies on affiliated agents and credit brokers, Group banks and Companies and affiliated banks and financial intermediaries. The main distribution channel continues to be that of Agents and credit brokers, with a strong drive towards integration within the Group’s commercial bank.

Consel, a company operating in consumer credit, relies on direct branches, financial agents and more than 3,500 affiliated points of sale. During the year, cross-selling initiatives with Banca Sella intensified with the dual objective of creating new management opportunities and sharing commercial relationships. The collaboration with Banca Sella in the online segment strengthened through specific collaborations for the placement of personal loans through this channel.

Evolution of the number of branches of the Group in the last 10 years



As a result of what is described above, the Banca Sella network area (which accounts for 96.4% of total Group branches), while maintaining stability and management continuity, made changes to the territories into which branches are classified, carrying out several strategic actions, and operating at different levels:

- modification of the geographical areas of the Territories in which the branches are organised, through the restructuring of the underlying districts;
- opening of two Advisory Centres in Florence and in Rome EUR, spaces dedicated to quality consulting and high-level relationships, in which customers, in particular Private and Corporate customers, can find useful responses to meet their business and personal needs;
- 4 new Private offices in Biella, Palermo, Aosta and Chiavari, spaces dedicated to investment consulting, where Customers can meet with their advisors.

In order to activate the investment plan noted above and to support the New Sales Model, to create structured branches throughout the country employing highly specialised professionals, the local presence of branches and points of sale was simultaneously strategically streamlined.

These interventions were formalised with 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 Marche (Civitanova Marche and Pagliare del Tronto), 1 in Lazio (Roma Via Gallia) and 3 in Sicily (Camastra, Catania via Vittorio Veneto and Roccamena). The other changes relate to transfers of existing branches.

Also in 2016, the adoption of territorial organisation based on “unified” branches continued (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.

Banca Patrimoni Sella & C. maintains a local presence through a structure consisting of employed relationship managers and financial advisors authorised to make off-site sales (“mixed” model) operating at 17 financial advisor offices, 12 branches, of which nine new openings in 2016, one in Padua in March 2016 and one in Cuneo in November 2016 and organised into 3 territorial areas. Towards the end of 2016, the sales structure was also reorganised with a new branch organisational structure grouped into three macro areas, compared to the five previous macro areas, with the aim of simplifying processes, improving overall coordination and optimising synergies within the activities carried out.

The Network, along with the other sales channels of the Banca Sella Group, is highly customer oriented, offering a broad and complete range of quality products and services, particularly with reference to asset services (asset management, multi-manager UCITS, assets under administration, financial insurance).

Group bank branches

Company	Branches at 31/12/2016	Proportion (%) of total 2016	Branches at 31/12/2015	Proportion (%) of total 2015
Banks in Italy				
Banca Patrimoni Sella & C. S.p.A.	12	4.0%	10	3.3%
Banca Sella S.p.A.	287	95.7%	293	96.4%
Banca Sella Holding S.p.A.	1	0.3%	1	0.3%
Total branches in Italy	**300**	**100.0%**	**304**	**100.0%**
Total Group branches	**300**	**100.0%**	**304**	**100.0%**
Geographical distribution of branches				
North West (Piedmont, Aosta Valley, Lombardy, Liguria)	174	58.0%	172	56.6%
North East (Veneto, Trentino, Emilia Romagna, Friuli)	27	9.0%	28	17.6%
Centre (Tuscany, Lazio, Molise, Abruzzo, Marche)	33	11.0%	36	11.8%
South and Islands (Campania, Apulia, Sicily, Sardinia)	66	22.0%	68	22.4%
Total branches	**300**	**100.0%**	**304**	**100.0%**

Banca Sella holds the concentration of almost all the branches, as the Group's only network bank. In fact the proportion of the total stands at 95.7%; the remaining 4.3% is divided between Banca Patrimoni Sella & C. which, with 12 branches, presides in the territory over the private banking component and the financial advisers network, and the Parent Company Banca Sella Holding present with the head office.

Financial advisors authorised to make off-site sales

The sales network of Banca Patrimoni Sella & C. includes 359 financial advisors authorised to make off-site sales (former financial promoters) who are not employees, 3 more than the 356 in the previous year, who promote and place financial products and investment services in synergy with the Banca Sella Group's other commercial channels.

The non-employee financial advisors authorised to make off-site sales (former financial promoters) mentioned above are all registered with the Single Registry of Financial Advisors held by the Supervisory Body and the "APF" (Registry of Financial Advisors) and professionally provide their activities off site. Some of them also provide their services through 12 branches and 21 financial advisor offices through Banca Patrimoni Sella & C., located throughout Italy.

The non-employee financial consultants authorised to make off-site sales (former Financial promoters) who are also registered with the RUI (Single Register of Insurance and Reinsurance Brokers), in Section E, also place financial insurance products, pure insurance products and social security products, as Bank "collaborators".

Payment systems agents

As of 31 December 2016, the sales network of the Banca Sella Group also included 51 Payment Systems Agents holding double mandates: agency mandates issued by the company Easy Nolo to promote the products/services typical of this company (e.g. POS hire, fidelity cards and the hiring of the Gestpay platform) and the Banca Sella Acquiring service, located throughout Italy for intermediation of cash flows related to the acceptance of cards using international circuits.

Other channels

The Group's commercial business is carried on also:

- in the consumer credit sector, through 7 branches run by the Consel company and more than 3,500 partner sales points active in 2016 all over Italy;
- in the financial leasing sector through 8 branches of the company Biella Leasing, as well as the Biella headquarters;
- in the managed savings and investment consulting sector with Sella Gestioni Sgr and Family Advisory Sim;
- in insurance brokering with Brosel.

Banca Patrimoni Sella & C.

The sharp focus on customer relationships and the maintenance of high trustworthiness and quality in support activities for private bankers have always been and will continue to be a priority for Banca Patrimoni Sella & C..

The capacity to generate good performance within asset management and consulting services was excellent during the year, thanks to services capable of satisfying our customers by understanding, identifying and meeting their needs, in the various phases of their personal and family life.

In the context of this overall vision, there are key features that identify the business approach can be summarised as follows:

- offering an asset consulting service that makes it possible to identify and satisfy the long-term financial needs of customers, also through fee only pricing;
- in the managed savings sector, with particular reference to asset management services, careful and rapid updating of the array of products, with particular attention paid to changes in the market and new requests coming from customers;
- in the context of open architecture in the world of UCITS, maintaining and developing agreements with the best partners on the market;
- with any eye to protecting customer assets, selecting and making agreements with reliable partners to offer financial/insurance products and services;
- organising events and meetings with customers throughout Italy;
- continuously developing the sales network, also through the aggregation of professionals with proven experience and seniority;
- offering technologically advanced services to private customers and to relationship managers, aimed at taking better advantage of investment service offerings (internet services, pocket banking, digital signature, web collaboration).

A broad range of services is offered to customers, including in particular:

- managed savings, both through the in-house asset management vehicle and through placement of UCITS with multimanager administration;
- consulting services for administered savings financial instruments, with the goal of maximising returns while taking on risk proportional to the customer's objectives, through adequate portfolio diversification;
- traditional accessory banking services, including current accounts, credit (as an accessory component with respect to core business), traditional and electronic payment systems, internet banking, telephone banking and online trading;
- insurance and social security services, through capitalisation, unit linked and multi-segment products, developed by both Group companies and external third parties;
- receipt, transmission and execution of orders given by customers, both private and institutional;
- direct services to institutional customers.

In addition, the activities performed throughout Italy by the Institutional and Large Customers Office and the performance achieved by asset management have made it possible to create a positive image for the Bank in the market. The Bank has therefore become a provider of investment services for other intermediaries, in terms of both asset management and advisory (for administered assets and financial insurance), through suitable contracts.

In the new business model, the marketing strategies provided fundamental strategic support to the achievement of budget targets. During the year, activities continued to be carried out to consolidate the image of Banca Patrimoni Sella & C. through communications activities as well as through the performance of institutional initiatives meant to boost brand awareness.

Banca Sella: The sales markets

In the projects included in the 2015-2017 strategic plan, in addition to the adoption of a New Sales and service model, different customer segmentation has been established. Therefore, in 2016 private customers were broken down between:

- Households and private individuals: customers with overall assets at the Bank up to € 100 thousand;
- Affluent: customers with overall assets at the Bank equal to at least € 100 thousand and up to € 300 thousand;
- Private: customers with overall assets at the Bank exceeding € 300 thousand.

In July 2016, the Private and Affluent Market was created from the merger of the Affluent Market and the Private Market with a view to renewing and strengthening the focus on a customer target which is strategic for the Bank and characterised in large part by shared requirements and objectives and an analogous service model. The target customers served are mainly freelance professionals, entrepreneurs, families and pensioners. The relevant roles are affluent sales professionals and dedicated affluent sales professionals (increasing role, acting as the point of reference for target customers with respect to the new scope described above).

During the year, Households and Private Individuals Market data showed growth in direct (+8.7%) as well as indirect (+4.2%) deposits, in new disbursements of loans (mortgages: +30.4% compared to the previous year; disbursements of direct and indirect personal loans: +35.4% again compared to the previous year) and in customer development (+2.1% growth in customers, +2.2% growth in the performing category).

Net banking income less risks improved compared to last year (+1.1%) also thanks to lower expenses for losses on loans (-48.5%). Net interest income was down (-13%) as a result of the significant drop in the margin on deposits, also following the elimination of the component represented by the premium on deposits (-75.3%); tensions in net interest income were therefore only partially offset by the higher margin on loans (+7.8%). Therefore, revenue from services was down (-2.8%), also due to the lower contribution of electronic payment systems (-15%) and the banking component (-1.8%). On the other hand, revenue from trading relating to the TOL component was up (+14.8%) as well as revenue from bancassurance (+9.9%), also due to the focus on the insurance offering deriving from the Network's "2016 Insurance Contest" initiative.

Private individual customers continued to demonstrate increasing propensity towards using electronic channels (+3.96% increase on an annual basis in autonomous transactions), which the Households and Private Individuals Market leveraged with commercial initiatives and campaigns in accordance with an Integrated Relationship approach, through the engagement of various channels for approaching Customers: Branches, Website, S.A.S. and Social Media. Market activities (overall) in 2016 included the promotion of integrated relationships with segment customers using all channels (traditional and online) to enable the customer to freely decide on contact timing, places and methods. The range of products and services designed for target customers was updated and developed on an ongoing basis and provided in collaboration with the Group Companies (Sella Gestioni, Banca Patrimoni Sella & C., Selfid), and in the course of the year with the new partnership with HDI (Talanx Group), to complement the range of insurance products of C.B.A. VITA, InChiaro and InChiaro Life. Careful due diligence on third-party asset management companies is also confirmed, guaranteeing a broad range of Funds and SICAVs selected from amongst the most important international managers for the creation of efficient portfolios, to better face the complexities of the financial markets.

The Small Business Market serves and develops Customers in the segment of artisans, shop owners, freelance professionals and companies predominantly of medium/small size. The Small Business Sales Professionals (dedicated and not) work on the basis of the principles of the service model, defined within the context of the New Sales 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 professionals, the branches, and all the other commercial roles.

On 10 July 2016, a change took place in Market Management, resulting in a new Market Head as well as an updated team.

In 2016, the number of dedicated small business sales professionals (with a Customer portfolio and activities mainly focussed on their own portfolio and acquisition of new Customers) increased, reaching almost 115 individuals and with prospects for another significant rise in 2017-2019.

Marketing and Electronic Channels

In 2016, the Marketing office of Banca Sella Holding coordinated multiple initiatives promoted and carried out over the year by the Marketing offices of the Group Companies. All marketing activities are developed by the respective offices of the Group Companies while following the guidelines defined by the Group in the “2015-2017 Strategic Plan” to reach established strategic and commercial objectives, in full compliance with the principles, values and continuous drive towards innovation which have always distinguished the Banca Sella Group.

In particular, the Banca Sella Holding Marketing Office worked throughout the year in accordance with the areas of responsibility intended to increase the value of Group brand notoriety, also and especially through actions meant to increase the volume and value of the customer base. In that sense, actions were undertaken to streamline the brand system and the competitive positioning of the Company and, in conjunction with the offices of the subsidiaries, marketing strategies have been defined and implemented to achieve pre-established Group value, volume and customer satisfaction and retention targets.

The Group’s sponsorships of events were also rationalised consistent with its positioning, while maintaining efforts and support unchanged in the communities in which Group Companies are located.

XIII. Fintech and New Business

Widespread connectivity, mobility, cloud computing and user friendly technology have caused an evolution in Customer access to banking services, new models of interpersonal relationships and, as a result, increasing service and process digitalisation and relationship multi-channelling.

As a result of this evolution in digital services, to prevent disintermediation within the innovation cycle in the world of startups, and to manage growth in volumes within the Group’s Core Banking system, in 2016 it was necessary to establish the Fintech and New Business area, which acts as a commercial driver, within the broader context of Open Banking (along with interfaces meant to enable controlled access to the Group IT system by third parties, such as Startups and Businesses) and Light Banking (payment and e-money solutions offered by purely digital operators and not banks).

The main engines of the new area are the company Easy Nolo and SellaLab: indeed, as of 1 November a corporate action was carried out in which Banca Sella transferred to Easy Nolo the Hype technological platform and the Commercial Coordination of the Agent Network, while also acquiring a 6.89% stake in Easy Nolo. Furthermore, in order to extend the support of SellaLab to the entire Group, as of 1 November, Banca Sella transferred it to Banca Sella Holding.

SellaLab

SellaLab is an initiative to support start-ups and SMEs which has the objective of bringing (useful/effective) innovation to the Banca Sella Group and, more generally, creating and supporting local economic development by supporting them in the digital transformation process. SellaLab aims to create a network of knowledge and ideas, in order to contribute to the development of the Group and its human capital.

In working towards these objectives, the service aims at constructing a strong network of relationships, consisting of incubators, accelerators, venture capitalists, start-ups, entrepreneurs, universities and research centres. The value proposition that mainly involves mentoring, networking and banking services, is reinforced in the local area with co-working space. The presence of SellaLab in selected Italian cities (with SELLALAB Digital Campus) is based on the strategy of supporting growth in the social fabric and in local enterprises and, as a result, creating a new way of doing banking: a presence that supports the Group network. The sustainability of this expansion lies in the value that SellaLab contributes to the network and companies.

The growth and management of every community is promoted in synergy with the Group network and with significant players present in every territory. In this role, the strategic objectives of SellaLab are oriented towards contributing to local development while being identified as the reference player for our customers' innovative projects, actively supporting the networks in the development and growth of Banca Sella Group customers and contributing to its image as an innovative and helpful partner.

SellaLab also carries out research, development and innovation activities to support the business areas and companies of the Banca Sella Group to help them to rapidly take advantage of emerging innovations and opportunities for development, as well as idea accelerators. In this role, SellaLab (by creating an open and interoperable ecosystem consisting of Fintech players and services, which collaborate with the objective of innovating the world of banking and finance and outlining their future foundations) aims to form an important Open Fintech hub (Fintech District) in Italy, promoting and investing in a significant Fintech ecosystem within the Italian landscape (with international connections), promoting the IT bank (affirming Platfr.io and the banking gateway of the Banca Sella Group) within the innovation ecosystem to give life to new customer technological and digital business models, and lastly affirming BSG as the reference player for fintech startups.

In 2016, as part of the activities of SellaLab, 730 business plans were reviewed and there were 28 businesses generating revenue, for a total of 107 jobs created. SellaLab launched three internal projects (Split Payment, Platfr.io and SupplyChain Finance). Within the scope of digital literacy, SellaLab contributed to 102 events, half of which it directly organised, managed and promoted (#digitaldrink, #Academy); in the others, it played an active role as speaker or partner. The number of contacts rose overall to 3,227, resulting in 1,130 activations of new Group product/services.

In terms of connection with the world of capital, SellaLab assessed 94 requests related to loans for innovative start-ups and supported the direct investment process for start-ups and funds.

Also in 2016, the first fintech startup incubation programme was launched, which involved 4 startups (of which three Italian and one foreign).

Easy Nolo

This company, based in Biella, operates in the field of electronic payment systems and specialises in the sector of e-commerce payment gateways, POS terminals and VAS that help to support and optimise merchant businesses; in addition, it recently began working on the creation of mobile solutions for consumer customers. Its business includes: developing software for payment acceptance systems on national and international circuits; hiring out, connecting and maintaining POS terminals for businesses and institutional customers; creating and managing value-added services that can be provided via POS terminals; specialised consulting regarding standard and innovative payment acceptance solutions; dedicated structure for the development and coordination of the sales network, focusing on electronic payment systems and the relative VAS; software development for mobile e-money management apps designed for consumer customers.

The value of production amounted to € 12.5 million, an increase of 11% compared with the previous year. Production costs amounted to € 9.2 million, up by 29% compared with the previous year. Consequently, the difference between production costs and revenues, amounting to € 3.3 million, shows a reduction over last year, of approximately € 0.7 million.

The Company ended the year with a net profit of € 2.3 million, compared to € 2.8 million last year.

During the year, the contribution by Banca Sella of the Hype business unit through a share capital increase was completed; this transaction reinforces the sales offerings and positioning of Easy Nolo.

The offer is focused on a smartphone application called Hype, which allows a series of functions and innovative banking and payment tools to be used in real time. By way of example, these include Emoney, instant P2P money transfer, personal financial assistant, commercial deal offering and use, one-click web payments and in-store payments (p2b).

In 2017, the goal will be to consolidate and grow the POS and e-commerce business as well as develop the Hype platform and make it increasingly successful.

Hype

The HYPE brand identifies an Ecosystem of digital banking and payment services created for the consumer market, in which the number of consumers in the customer base is one of the keys for triggering growth in the adoption of services dedicated to merchants.

In 2016, the HYPE digital services platform for Businesses was developed, accompanied by a specific offer of payment services intended for physical merchants who will therefore have, in the context of the acquiring service, the ability to accept payments using the HYPE application. In June, a pilot project was launched to test the smartphone payment service functioning model in the city of Biella. The service pilot project will also continue in 2017 with a focus on other cities (like Turin, Milan and Salerno) and in parallel, sales and marketing activities will be rolled out for HYPE for Business services throughout the country, first for merchants that already use the Group’s collection and payment services and simultaneously with new merchant customers, by leveraging service innovation.

As concerns the consumer market, the acquisition of new customers continued in accordance with the positioning already set up in 2015, through marketing and communications activities, primarily online, alongside several test initiatives in different areas intended to promote the brand in addition to payment and “light banking” solutions.

Furthermore, in 2016 a partnership model based on co-branding with the online sales portal YOOX was tested, involving offering benefits to customers for purchases made using HYPE. This partnership model will also continue in the course of 2017 with other brands with which specific use cases have been identified based on the use of HYPE: this strategy is intended to further expand the capacity to acquire consumer customers, which are, as noted above, at the basis of the functioning of the payment system and the ecosystem of digital services designed for individuals as well as merchants.

As of 1 November 2016, Banca Sella contributed the HYPE business unit to Easy Nolo S.p.A. in order to streamline and increase the efficiency of the HYPE service in direct contact with customers and reinforce payment service technological platforms. Thanks to the support of Easy Nolo, a company which specifically handles payment technology within the Banca Sella Group, HYPE will be able to evolve and improve even more rapidly and efficiently, by generating synergies with the rest of the offer.

Sella Ventures

The Banca Sella Group's activities in the realm of venture capital have developed over time since the 2000s, primarily through investments in venture capital funds (Jupiter), advisory and mentorship activities through the more recent initiatives of SellaLab since 2013 and direct investments in startups.

To take advantage of the opportunities offered by this sector and implement venture capital investment activities, at the end of 2015 it was necessary to change the organisational structure by creating a service dedicated to these activities. Thus, Sella Ventures was born, a new service within the Banca Sella Holding Finance Department with € 30 million in capital to be invested in new ventures.

In 2016, the Banca Sella Group is one of the most active banks within the Italian venture capital panorama.

The investment activities of Sella Ventures, in close correlation with SellaLab and the Fintech Open District, aim to:

- offer a privileged perspective on new markets and technologies through the identification and analysis by a dedicated team of new investment opportunities;
- identify new strategic directions while attempting to anticipate new market trends;
- guarantee a financial return on investment by operating in adjacent sectors (through funds and direct investments) or different sectors (through funds) with respect to that in which the Group carries on business;
- create an alternative investment offer.

XIV. Human Resources

Human resources management and development

GROUP STAFF STRUCTURE

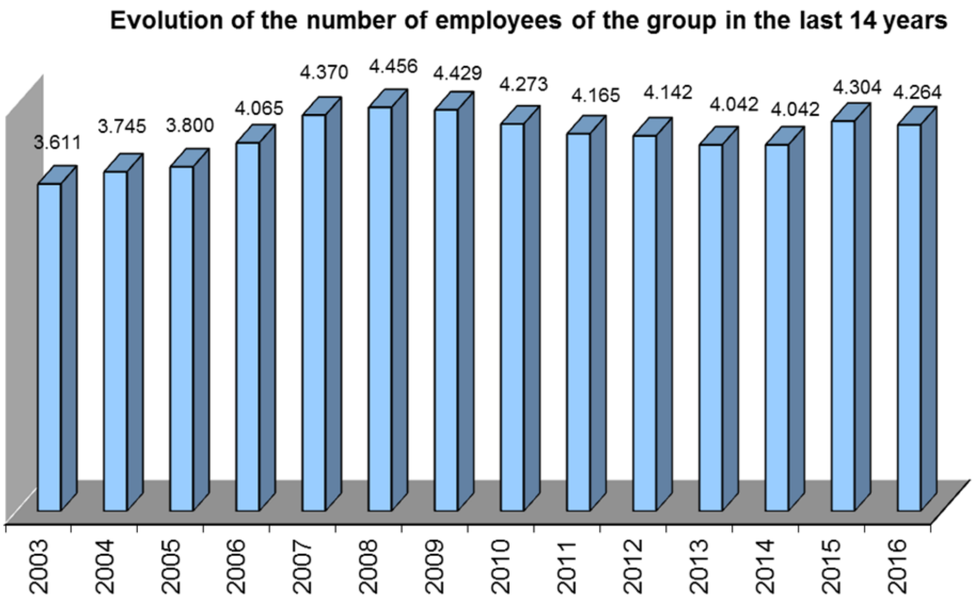
Company	Employees at 31/12/2016	Proportion (%) of total 2016	Employees at 31/12/2015	Proportion (%) of total 2015	Changes	
					absolute	%
Parent Company						
Banca Sella Holding S.p.A.	265	6.2%	236	5.5%	29	12.3%
Banca Sella Group banking group						
Banca Patrimoni Sella & C. S.p.A.	243	5.7%	222	5.2%	21	9.5%
Banca Sella S.p.A.	2,718	63.7%	2,750	63.9%	(32)	-1.2%
Chennai Branch - Banca Sella	239	5.6%	239	5.6%	-	0.0%
Biella Leasing S.p.A.	68	1.6%	65	1.5%	3	4.6%
Consel S.p.A.	212	5.0%	244	5.7%	(32)	-13.1%
Easy Nolo S.p.A.	30	0.7%	1	0.0%	29	2900.0%
Family Advisory SIM S.p.A.	6	0.1%	4	0.1%	2	50.0%
Selir S.r.l.	411	9.6%	440	10.2%	(29)	-6.6%
Miret S.A	2	0.0%	2	0.0%	-	0.0%
Sella Gestioni SGR S.p.A.	48	1.1%	50	1.2%	(2)	-4.0%
Total Banca Sella Group banking group	**4,242**	**99.5%**	**4,253**	**98.8%**	**(11)**	**-0.3%**
Average total Banca Sella Group banking group	**4,248**		**4,185**		**189**	**4.6%**
Brosel S.p.A.	22	0.5%	20	0.5%	2	10.0%
C.B.A. Vita S.p.A. (sold in 2016)	-	0.0%	25	0.6%	(25)	-100.0%
Sella Life Ltd. (sold in 2016)	-	0.0%	6	0.1%	(6)	-100.0%
Total Banca Sella Group civil-law group	**4,264**	**100.0%**	**4,304**	**100.0%**	**(40)**	**-0.9%**
Average total Banca Sella Group civil-law group	**4,284**		**4,233**		**182**	**4.4%**

As 31 December 2016 the Banca Sella Group's staff totalled 4,264 employees, a decrease of 40 with respect to the figure at the end of 2015. The personnel relating to the banking group alone (hence excluding the companies relating to other businesses) shows a number of employees at the end of the year of 4,242, a decrease of 11 from 2015. The staff increased exclusively in Banca Patrimoni Sella & C. (+21); other changes relate to infragroup business transactions.

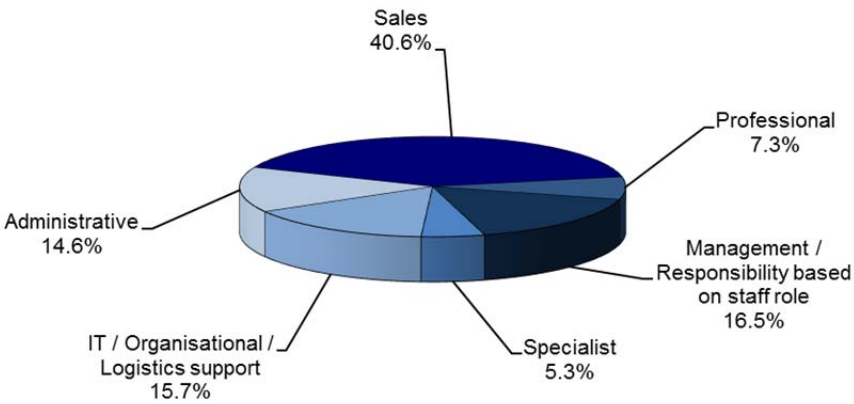
The table contains a breakdown of staff by company, with the corresponding percentage of the total workforce. 2016 saw some special corporate operations; therefore the changes in the number of employees related to the previous year can be attributed to them as well as to natural turn-over. In June 2016 the insurance group represented by the companies C.B.A. Vita and Sella Life was sold, while in November 2016 Banca Sella transferred the Hype business unit to Easy Nolo and the SellaLab business unit to Banca Sella Holding.

Analysing these data, we can see that the company with the highest proportion of the total number of staff is Banca Sella, the Group's main commercial bank (with 63.7% of the total excluding the Indian branch).

The Group's foreign companies (Selir in Romania, Miret in Luxembourg) together account for 9.7% of the total. If the figures for Chennai Branch, Banca Sella's Indian permanent establishment, are added, the percentage of the total rises to 15.3%.



At the end of 2016, the average age of the Group's employees is approximately 40.25, with women representing 50.2% of the total workforce. The average age increased slightly with respect to the previous year, when the average age was 39.83, while previously women represented 50.5% of the total. The chart below provides a detailed breakdown of staff by professional category.



Training

Again in 2016, as in the previous year, the Banca Sella Group identified people and their professionalism as one of the fundamental factors in continuing its story of success and services to customers in the current macroeconomic scenario. In this context, the activities of the Company University continued. This is a structure dedicated to training with the purpose of:

- disseminating corporate values and culture;
- developing managerial and specialist skills;
- supporting research and innovation.

In relation to the content of training activities, besides the traditional areas (regulations, operations, behaviour, technical and commercial) the main projects in 2016 involved:

- for the sales networks, a process aimed at reinforcing not only technical skills, but also the capacity to listen to customer needs, communication skills and the development of advisory and commercial abilities;
- the launch of a long-term course of managerial skill development for all managers, meant to strengthen those skills in keeping with the managerial model;
- improvement of English language mastery for managers and professionals, due to the increasing need to understand documentation in English for continuous professional education requirements, as well as for regulatory and procedural compliance with EU and Banking Union provisions;
- a training course meant to update and increase knowledge about banking transparency for personnel in contact with customers, by means of:
  - an e-learning course that incorporates general concepts of regulations and rules for the proper oversight of relationships between intermediaries and customers in light of the new elements introduced in transparency provisions by Bank of Italy measure of 15 July 2015, particularly with reference to specific obligations laid out for payment services and the oversight of the relationship between lender and consumer in the pre- and post-contractual lending phases;
  - virtual classrooms for in-depth training with experts;
- for newly hired employees, the classroom training courses foreseen for the orientation process continued;
- insurance training resulted in 1,667 qualified personnel at 31 December 2016 (up 5% compared to the previous year).

In relation to the development of individual skills, during the year personalised individual courses were launched involving participation in intercompany courses to favour growth through dialogue and the development of professional networks.

Overall, in the Group as a whole about 200 thousand hours of training were provided (up 17% compared to last year), of which about 61 thousand hours in the form of e-learning. The total amount of training was greater than that in the previous year (+17%), while the division between corporate and external courses represents the policy begun in previous years to encourage greater use of teachers internal to the Group to support the spread of corporate culture and values, and the use of external instructors for specialised issues or to create openings for comparison and networking with the outside world. Training activities involved around 90% of staff and cost around € 1.1 million (up slightly with respect to the previous year).

As regards e-learning instruments, in 2016 the number of hours taught in virtual classrooms rose slightly over the previous year (approximately 20 thousand hours, equal to 10% of the total hours delivered), as this method combines the advantages of synchronous learning with the organisational and logistical advantages of remote learning. It was used in particular to provide short training courses regularly, with the aim of encouraging the alignment, orientation and supervision of conduct.

Other information

For more information on relations with human resources, on equal opportunities, on agreements and initiatives for employees, on their involvement and on events organised for them, see the annual Report on social responsibility.

XV. Information technology and Research and development activities

Information technology

During the year 2016, the Information Technology department provided Facility Management, Application Management and full outsourcing services to all three Banks and all Companies in the Group.

The Facility Management service is provided by the Group's Operating Mechanism, located within Banca Sella, through the infrastructure positioned within the two Data Centres owned by the Group; the infrastructure managed is primarily Open, without the presence of a Mainframe. Some of the distinctive factors are listed below:

- the percentage of use of virtualised solutions within the Private Cloud reached penetration of 79% and more than 1,500 servers were managed in total;
- the disk space managed is equal to 1.9 petabytes;
- the total work stations managed has exceeded 8,000, with a sharp rise in mobile devices (laptops and tablets), which now amount to roughly 24% of the total;
- the infrastructure functions primarily in "active-active" mode between the two Data Centres, which are therefore both active and operating;
- at data level, operations are carried out with synchronous replication, and therefore with an RPO (Recovery Point Objective) of zero (the highest possible service level).

The Disaster Recovery testing carried out in November involved all systems of the Group Companies functioning in a single processing site for one week in relation to the infrastructures of the two Group companies based on AS400 and for one weekend for the Multibank IT system. The tests were carried out in accordance with the plan without any operating anomalies.

Some of the distinctive factors of the Multibank IT System provided by the Group's Operating Mechanism are:

- Native multibank (logical and/or physical);
- Online 24/7;
- Based on open technologies;
- Service oriented (exposure to SOA services internally and API externally).

The Multibank system is currently in use at all three Group banks to manage their specific features and at an electronic money institution invested in by the Group; the service provided manages more than 2 million accounting movements every day, with high guaranteed service levels, and is quantified at around 1.4 million function points.

The applications that constitute the Multibank system are one of the Group's main distinctive competitive advantages and as such they are primarily proprietary. The share of applications acquired externally and integrated within the system comes to around 20% of the total; application development is also managed mainly by internal resources with personnel located in Italy, at the Company Selir in Galati, Romania, and at Banca Sella's Indian branch in Chennai.

IT personnel dedicated to Group Facility Management and the management and evolution of the Multibank IT System numbers roughly 530 resources, in addition to external consultants, increasing the availability of resources by roughly 11%. Limited recourse to external suppliers, in specialised areas and in any event to a significantly lesser extent than the market average, constitutes a further distinctive feature of the Group; 80% of resources are dedicated to the implementation of the yearly project plan.

Attention to continuous innovation in the Multibank IT system is also evident in the considerable infrastructure as well as application development investments: in the last three years, the average IT investment was equal to an average of 24 million; in 2016 it came to 30 million due to the total IT overhaul carried out on the geographical network infrastructures.

Being able to count on internal resources, proprietary software and a firm grasp on technological infrastructure and IT system governance, within the current challenging context of digital evolution, allow the Group to provide an excellent, innovative service to its customers inside and outside the Group.

Some of the main activities carried out as part of the project plan are described below, while avoiding repeating information already provided in the vertical business sections:

- in the context of the evolution of Data Centre infrastructure and technological infrastructure related to individual productivity, the following were carried out:
  - updating of the IT infrastructure that hosts the multibank IT system and central storage which houses the transactional databases in order to continuously maintain high service levels and ensure that the IT system remains reliable;
  - updating of the Group's DataWareHouse software version, for the same reason as that described above;
  - renewal of the IT instruments used in workstations, with the replacement of more than nine hundred PCs and laptops to improve technical features, with a resulting positive impact on individual employee productivity;
  - the design of the new geographical interconnection network, which will improve the quality of the connection of all central offices, branches and geographical offices;
  - updating of the video communications suite to improve its performance and make it available to all employees to increase communications efficiency and timeliness;
  - renewal of the central infrastructure of AS/400 servers, specific to several vertical business applications.

- In the context of the Application and Architecture Development:
  - the first banking services displayed on the internet were developed and released in order to be directly integrated within customer IT systems (API);
  - during the year, some innovative projects were developed to take advantage of the digital disruption imposed by the external environment, including:
    - a tool to support the prompt identification of infrastructural issues based on big data technologies;
    - a cash-in device control solution was developed internally to manage cash on hand using modern technologies, guaranteeing greater reliability and the possibility for further evolutions;
    - technological instruments were implemented to increase the productivity of development teams, providing them with greater autonomy in managing the system configurations required to carry out their activities, in keeping with security restrictions;
  - the platform that manages the security of user authentication and authorisation procedures for the use of IT applications was revised and updated;
  - to further improve the quality of IT applications and services, the group of Solution Architects was expanded: these are staff members selected within the development areas dedicated to supporting the design of IT solutions that make use of more modern technologies;
  - all activities necessary to ensure compliance with regulatory changes issued during the year were completed;
  - a new OnBoarding procedure was released for the online subscription of products/services;
  - applications were created to transition from SMSs to push notifications for sending notices to customers, such as those relating to the "SMSMemoShop" service;

- the Hype “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 dedicated to online trading for smartphones were created, and those already designed for tablets were updated. These applications have also been equipped with innovative software for the technical analysis of financial instruments;
- in terms of graphometric signatures/ecosignatures, numerous evolutions were implemented to foster the adoption and use of these signing methods, as well as to support the continuous simplification of the underlying processes.

- In terms of the IT organisational structure and ICT governance:
  - IT processes and the relative internal regulations were revised and aligned with international sector standards, first and foremost ITIL (Information Technology Infrastructure Library), to make them more efficient and bring them into line with best practices;
  - Agile development techniques were introduced to further boost the efficiency of the development process by focusing on ensuring that IT services meet business requirements;
  - the coverage domain of automatic procedures that measure data quality was extended;
  - the annual IT training plan was mainly focused on increasing skills in relation to architectural development objectives, technological innovation and increasing the efficiency of internal IT system processes;
  - the corporate Change Management Data Base (CMDB) was constantly updated and extended, including additional information useful to complete the Knowledge Base.

At Innovation level, Scouting and internal Pilot activities were carried out during the year in the following areas, in order to intensively expand their use in the various applications and operating environments:

- RPA (Robotic Process Automation) - scouting was conducted on available solutions in this area, and the potential for the use of these solutions to improve internal efficiency, reduce human error in processing and in the management of processing peaks were analysed, and adoption within operations was planned for the first half of the new year;
- Machine Learning and Artificial Intelligence - scouting activities were conducted on Open solutions present in this area and testing was completed on some algorithms available on the cloud rather than commercial tools; the first operating usage scenarios were identified in terms of image verification, Text to Speech and the creation of Chatbots;
- Big Data - studies were completed for the selection of the platform to be used at Group level, and the first operational use cases were released; the Reference Architecture was defined for the use within applications of the IT System.

Areas selected for new scouting activities launched in the last part of the year related to Devops, OpenStack and the experimentation of Automatic Coding Generation related techniques.

Selir S.R.L.

The Company, whose head office is in Galati (Romania), works in IT Design and Development, providing Administrative Services, Call Centres and Loans for all the Group’s banks, Easy Nolo, Consel, Biella Leasing and, as of 2012, also for Unione Fiduciaria (an external company).

In 2016, net banking income, amounting to approximately € 6.2 million, recorded a +0.7% increase on 2015 (when it amounted to € 6.2 million).

Net revenues from services in 2016 (€ 6.3 million) saw a +1.2% increase over 2015, following the growth in turnover linked to Software Development (+7.7%) and activities carried out by the Contact Centre (+8%); turnover linked to Back Office Administrative Services (-6.2%) and Loans (-5.3%) was down compared to the previous year. Operating costs amounted to € 5.2 million, up by +5% on the previous year. Within the item there was an increase in staff costs, which came to € 4 million (+10% over 2015); administrative expenses (-1%) and depreciation expenses (-35%) were down compared to the previous year. The Company ended the year with a net profit of € 0.9 million, a decrease of € 156 thousand over the previous year.

ABI Work groups

During the year, Group companies took part in the work of the Technical Committees and the Work Groups set up by the A.B.I. (Italian Banking Association).

Among these it is worth noting:

- the “Single Supervisory Mechanism” Committee;
- the “Technical Payment Services and Regulations Committee”;
- the “Technical Institutional Communication Committee”;
- the working groups within the Payment Systems sector: “Commercial Revenues”, “Accounts Comparison” and “Payments”;
- the work groups within the Tax sector: “Direct taxes”, “Indirect taxes”, “Financial taxes”, “FATCA” and “Bank investigations”;
- the work groups within the Credit sector: “Consumer loans”, “Land credit and mortgage loans” and “Insurance policies”;
- the working groups “Liquidity LCR and BTS”, “Market risks” and “Banking book interest rate risk” (IRRBB);
- the working group “Internal communication”;
- the work group “Technical Study for Security”;
- the working group “Cash management”;
- the working group “Workplace health and safety”;
- the working group “Banking law”;
- the working group “Consumer Bank”;
- the working group “Finance Compliance”;
- the working groups “Debt Capital Markets” and “Equity Capital Markets”;
- the working group “Trading and Markets”;
- the working group “Privacy protection”;
- within the ABILAB (Centre for Research and Development of Technologies for Banks, established in 2002 following an initiative of the Italian Banks Associations – ABI - with the purpose of creating a meeting point between banks and ICT Partners and carrying out research and development on innovative technologies for the management of processes, channels and bank security), the observatories: “IT architecture observatory”, “Bank Contact Centre observatory”, “Information Governance Observatory” and “Internal Help Desks observatory”.

XVI. Significant events after year end

On 18 January 2017, the Bank of Italy announced that it had launched the procedure (which will be completed within 90 days) relating to the establishment if an additional capital requirement, thus determining the capital that the Group will need to hold in addition to the regulatory minimum, in relation to its overall risk exposure and pursuant to regulations currently in force. For further details, please refer to the Own funds and bank capital adequacy ratios section.

On Tuesday 7 February 2017, as part of its ordinary supervisory activities, the Bank of Italy launched an inspection pursuant to Articles 54 and 68 of Italian Legislative Decree 385/93 on the entire Group to assess its governance and control and operational and IT risk management systems and the analysis of the effectiveness and reliability of the IT/accounting system. The inspection is still under way.

Please note that with respect to the summons served in April 2016 by Cassa Depositi e Prestiti spa ("CDP") for around € 18.4 million in relation to a loan granted by CDP in favour of a municipalised company with an account held at Banca Sella and the Bank's alleged obligation to pay the remaining debt of the municipalised company on the basis of the Bank payment delegation signed as treasurer of CDP, a judgement in favour of the Bank was issued in acceptance of the procedural objection filed by the Bank. Subsequently, in March 2017, CDP served a new summons with the same content and in the same amount as the previous one.

Also in light of investigations conducted with external legal experts, Banca Sella believes that it has significant and important grounds for mounting an effective defence.

XVII. Statement of reconciliation between shareholders' equity and profit of the parent company and consolidated shareholders' equity and profit pertaining to the group

Statement of reconciliation between shareholders' equity and profit of the parent company and consolidated shareholders' equity and profit pertaining to the group

(in thousands of Euro)	**Profit for the year 31 December 2016**	**Shareholders' equity at 31 December 2016**
Balances as per financial statements of the parent company Banca Sella Holding	**6,611**	**653,313**
Treasury shares deducted	-	-
Equity pertaining to group of companies consolidated with line-by-line and net equity methods	-	236,724
Profit/(loss) for the period of consolidated investee companies, net of proportion pertaining to minority interests	66,180	66,180
Profit/(loss) for the period of investee companies measured with net equity method pertaining to the Group	763	763
Elimination of intra group dividends collected in the period	(9,358)	-
Consolidation adjustments:	-	-
Reversal of write-downs of consolidated investee companies	693	78,384
Valuation of goodwill	3,268	(47,760)
Reversal of gains on sales made between group companies	-	(72,956)
Other adjustments	11,406	(19,680)
Balances as per consolidated financial statements	**79,563**	**894,968**

The difference between the equity recognised in the individual financial statements and that in the consolidated financial statements is a result of the application of the criteria and methods described in part A, "Accounting policies", of the Notes to the consolidated financial statements. They comply with the provisions of the law and tend to represent the situation and the results of the Group as if it were a single corporate entity.

Biella, 14 March 2017

In the name and on behalf of the Board
The Chairman of the Board of Directors

Maurizio Sella

Schedules from the Consolidated Financial Statements

at 31 December 2016

Consolidated Balance Sheet

CONSOLIDATED BALANCE SHEET ASSETS

Assets	31/12/2016	31/12/2015	Difference %
10. Cash and cash equivalents	1,542,050	130,889	1078.14%
20. Financial assets held for trading	432,534	377,710	14.51%
40. Financial assets available for sale	2,200,788	2,640,176	-16.64%
60. Due from banks	299,663	303,956	-1.41%
70. Due from customers	7,905,520	8,033,542	-1.59%
80. Hedging derivatives	5,927	10,282	-42.36%
90. Value adjustment of financial assets subject to macrohedging (+/-)	118,699	123,141	-3.61%
100. Equity investments	12,170	11,482	5.99%
120. Tangible assets	203,057	209,812	-3.22%
130. Intangible assets	85,654	85,395	0.30%
of which:			0.00%
- goodwill	34,236	38,457	-10.98%
140. Tax assets	269,244	288,615	-6.71%
a) current	81,193	99,130	-18.09%
b) deferred	188,051	189,485	-0.76%
of which Law 214/2011	160,094	167,962	-4.68%
150. Non-current assets and asset groups held for sale	-	1,517,184	-100.00%
160. Other assets	223,069	235,889	-5.43%
Total assets	**13,298,375**	**13,968,073**	**-4.79%**

CONSOLIDATED BALANCE SHEET LIABILITIES

Liabilities and shareholders' equity	31/12/2016	31/12/2015	Difference %
10. Due to banks	604,396	639,301	-5.46%
20. Due to customers	10,454,628	9,351,419	11.80%
30. Securities in issue	527,647	831,101	-36.51%
40. Financial liabilities held for trading	127,325	38,004	235.03%
60. Hedging derivatives	122,344	128,513	-4.80%
80. Tax liabilities	30,197	38,925	-22.42%
a) current	17,755	23,958	-25.89%
b) deferred	12,442	14,967	-16.87%
90. Liabilities associated to assets held for sale	-	1,516,254	-100.00%
100. Other liabilities	255,810	299,956	-14.72%
110. Provision for severance indemnities	41,528	39,281	5.72%
120. Provisions for risks and charges:	50,990	42,810	19.11%
b) other provisions	50,990	42,810	19.11%
140. Valuation reserves	30,616	46,416	-34.04%
170. Reserves	572,124	544,189	5.13%
180. Share premiums	105,551	105,551	0.00%
190. Capital	107,114	107,014	0.09%
210. Equity pertaining to third-parties (+/-)	188,542	210,836	-10.57%
220. Profit (loss) for the year (+/-)	79,563	28,503	179.14%
Total liabilities and Shareholders' Equity	**13,298,375**	**13,968,073**	**-4.79%**

Consolidated Income Statement

CONSOLIDATED INCOME STATEMENT

Item	31/12/2016	31/12/2015	Difference %
10. Interest and similar income	308,714	345,328	-10.60%
20. Interest and similar expense	(68,549)	(92,685)	-26.04%
30. Net interest income	**240,165**	**252,643**	**-4.94%**
40. Fee income	348,252	342,913	1.56%
50. Fee expenses	(102,265)	(114,577)	-10.75%
60. Net fees	**245,987**	**228,336**	**7.73%**
70. Dividends and similar income	1,575	1,317	19.59%
80. Net gains/(losses) on trading activities	20,244	27,290	-25.82%
90. Net gains/(losses) on hedging activities	(863)	(267)	223.22%
100. Income (losses) from sale or repurchase of:	58,140	33,363	74.26%
a) receivables	(906)	(17,081)	-94.70%
b) financial assets available for sale	58,998	50,681	16.41%
d) financial liabilities	48	(237)	-120.25%
120. Net banking income	**565,248**	**542,682**	**4.16%**
130. Net value adjustments for impairment of:	(91,124)	(134,281)	-32.14%
a) receivables	(82,030)	(128,967)	-36.39%
b) financial assets available for sale	(8,013)	(5,069)	58.08%
d) other financial transactions	(1,081)	(245)	341.22%
140. Net financial operating gains (losses)	**474,124**	**408,401**	**16.09%**
180. Administrative expenses:	(433,601)	(421,631)	2.84%
a) Personnel expenses	(236,902)	(230,422)	2.81%
b) Other administrative expenses	(196,699)	(191,209)	2.87%
190. Net provisions for risks and charges	(12,432)	(3,771)	229.67%
200. Net value adjustments on tangible assets	(16,153)	(16,561)	-2.46%
210. Net value adjustments on intangible assets	(17,175)	(14,898)	15.28%
220. Other operating expenses/income	77,309	77,757	-0.58%
230. Operating expenses	**(402,052)**	**(379,104)**	**6.05%**
240. Income (losses) from equity investments	1,167	942	23.89%
260. Value adjustments on goodwill	(224)	(442)	-49.32%
270. Income (losses) from the disposal of investments	27,968	(131)	100.00%
280. Profit (loss) on current operations before tax	**100,983**	**29,666**	**240.40%**
290. Income taxes for the period on continuing operations	(8,681)	(7,720)	12.45%
300. Profit (loss) on continuing operations after tax	**92,302**	**21,946**	**320.59%**
310. Profit (loss) on asset disposal groups held for sale after tax	1,688	9,681	-82.56%
320. Profit (loss) for the period	**93,990**	**31,627**	**197.18%**
330. Profit (loss) for the period pertaining to minority interests	14,427	3,124	361.81%
340. Profit (loss) for the period pertaining to parent company	**79,563**	**28,503**	**179.14%**

Comprehensive income

	Item	31/12/2016	31/12/2015
10.	**Profit (loss) for period**	**93,990**	**31,627**
	Other income components net of taxes without reversal to income statement		
40.	Defined benefit plans	(2,033)	1,546
	Other income components net of taxes with reversal to income statement		
80.	Foreign exchange gains (losses)	(217)	783
100.	Financial assets available for sale	(15,796)	31,756
110.	Non-current assets held for sale	-	1,151
120.	Share of valuation reserves in relation to investments evaluated via the equity method	(651)	(1)
130.	**Total of other income components after tax**	**(18,697)**	**35,235**
140.	**Comprehensive income (Items 10 +130)**	**75,293**	**66,862**
150.	Comprehensive consolidated income pertaining to third-parties	5,600	9,659
160.	**Comprehensive consolidated income pertaining to the Parent Company**	**69,693**	**57,203**

Statement of changes in Consolidated Shareholders' Equity as 31 December 2015

Statement of changes in Consolidated Shareholders' Equity at 31 December 2015 *(in thousands of Euro)*

	Balance at 31/12/2014	Changes to opening balance	Balance at 01/01/2015	Allocation of previous year's profit: Group reserves	Allocation of previous year's profit: Dividends and other allocations	Changes in the period: Changes in reserves	Operations on shareholders' equity: Issue of new shares	Operations on shareholders' equity: Purchase of treasury shares	Operations on shareholders' equity: Distribution of extraordinary dividends	Operations on shareholders' equity: Change in equity instruments	Operations on shareholders' equity: Derivatives on treasury shares	Operations on shareholders' equity: Stock options	Changes in shareholdings	Profit for the year at 31/12/2015	Group shareholders' equity at 31/12/2015	Minority interest shareholders' equity at 31/12/2015
Share capital:																
a) ordinary shares	146,755	-	146,755	-	-	-	49,880	-	-	-	-	-	-	-	**107,014**	**89,621**
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**	**-**
Share premiums	148,944	-	148,944	-	-	-	51,532	-	-	-	-	-	-	-	**105,551**	**94,925**
Reserves:													-			
a) from profits	480,988	-	480,988	65,014	-	-	11,914	-	-	-	-	-	-	-	**544,189**	**13,727**
b) other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**	**-**
Valuation reserves	20,620	-	20,620	-	-	-	-	-	-	-	-	-	-	35,235	**46,416**	**9,439**
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**	**-**
Treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**	**-**
Profit (loss) for the period	69,868	-	69,868	(65,014)	(4,854)	-	-	-	-	-	-	-	-	31,627	**28,503**	**3,124**
Group shareholders' equity	773,971	-	773,971	-	(3,537)	4,037	-	-	-	-	-	-	-	57,202	**831,673**	
Minority interest shareholders' equity	93,204	-	93,204	-	(1,317)	(4,037)	113,326	-	-	-	-	-	-	9,660		**210,836**

Statement of changes in Consolidated Shareholders' Equity at 31 December 2016

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY AT 31 DECEMBER 2016 *(in thousands of Euro)*

	Balance at 31/12/2015	Changes to opening balance	Balance at 01/01/2016	Allocation of previous year's profit: Reserves	Allocation of previous year's profit: Dividends and other allocations	Changes in the period: Changes in reserves	Operations on shareholders' equity: Issue of new shares	Operations on shareholders' equity: Purchase of treasury shares	Operations on shareholders' equity: Distribution of extraordinary dividends	Operations on shareholders' equity: Change in equity instruments	Operations on shareholders' equity: Derivatives on treasury shares	Operations on shareholders' equity: Stock options	Changes in shareholdings	Profit for the year at 31/12/2016	Group shareholders' equity at 31/12/2016	Minority interest shareholders' equity at 31/12/2016
Share capital:																
a) ordinary shares	196,635	-	196,635	-	-	(3,206)	100	-	-	-	-	-	(7,612)	-	**107,114**	**78,803**
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**	**-**
Share premiums	200,476	-	200,476	-	-	-	-	-	-	-	-	-	(15,624)	-	**105,551**	**79,301**
Reserves:																
a) from profits	557,916	-	557,916	25,601	-	283	(100)	-	-	-	-	-	4,540	-	**572,124**	**16,116**
b) other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**	**-**
Valuation reserves	55,855	-	55,855	-	-	(6,647)	-	-	-	-	-	-	-	(18,697)	**30,616**	**(105)**
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**	**-**
Treasury shares	-	-	-	-	-	-	-	-	-	-	-	-		-	**-**	**-**
Profit (loss) for the period	31,627	-	31,627	(25,601)	(6,026)	-	-	-	-	-	-	-		93,990	**79,563**	**14,427**
Group shareholders' equity	831,673	-	831,673		(4,269)	(5,981)	-	-	-	-	-	-	3,852	69,693	**894,968**	
Minority interest shareholders' equity	210,836	-	210,836		(1,757)	(3,589)	-	-	-	-	-	-	(22,548)	5,600		**188,542**

Consolidated cash flow statement – direct method

A. OPERATING ACTIVITIES	31/12/2016	31/12/2015
1. Operations	**152,745**	**153,732**
Interest income collected (+)	336,725	358,633
Interest expense paid (-)	(68,549)	(92,685)
Dividends and similar income	1,575	1,317
Net fees (+/-)	245,987	228,336
Personnel expenses	(236,659)	(230,138)
Other costs (-)	(196,699)	(191,209)
Other revenues (+)	77,358	77,517
Taxes and duties (-)	(8,681)	(7,720)
Costs/revenues for asset groups held for sale and net of the tax effect (+/-)	1,688	9,681
2. Liquidity generated (absorbed) by financial assets	**507,474**	**124,014**
Financial assets held for trading	(34,580)	19,706
Financial assets carried at fair value	-	29,227
Financial assets available for sale	444,306	(511,252)
Due from customers	49,527	(92,875)
Due from banks	4,293	833,710
Other assets	43,928	(154,502)
3. Liquidity generated (absorbed) by financial liabilities	**754,649**	**(349,446)**
Due to banks	(34,905)	(539,038)
Due to customers	1,103,209	588,949
Securities in issue	(303,453)	(530,487)
Financial liabilities held for trading	89,322	(57,491)
Financial liabilities carried at fair value	-	18,409
Other liabilities	(99,524)	170,212
Net cash provided (used) by operating activities	**1,414,868**	**(71,700)**
B. INVESTMENT ACTIVITIES	**31/12/2016**	**31/12/2015**
1. Liquidity generated by:	**56,880**	**888**
Sales of equity investments	25	-
Dividends collected on equity investments	454	13
Sales/redemptions of financial assets held to maturity	-	-
Sales of tangible assets	51,080	331
Sales of intangible assets	4,392	544
Sales of subsidiaries and company divisions	929	-
2. Liquidity (absorbed) by:	**(54,559)**	**(37,792)**
Purchases of equity investments	-	(77)
Purchases of financial assets held to maturity	-	-
Purchases of property and equipment	(32,523)	(16,602)
Purchases of intangible assets	(22,036)	(21,113)
Sales of subsidiaries and company divisions	-	-
Net cash provided (used) by investing activities	**2,321**	**(36,904)**
C. FUNDING ACTIVITIES	**31/12/2016**	**31/12/2015**
Issue/purchase of treasury shares	-	-
Issue/purchase of equity instruments	-	113,325
Distribution of dividends and other purposes	(6,027)	(4,854)
Net cash provided (used) by financing activities	**(6,027)**	**108,471**
NET CASH PROVIDED (USED) IN THE PERIOD	**1,411,162**	**(133)**
RECONCILIATION	**31/12/2016**	**31/12/2015**
Cash and cash equivalents at start of year	**130,889**	**131,022**
Total net cash provided (used) in the period	1,411,161	(133)
Cash and cash equivalents at end of year	**1,542,050**	**130,889**

Notes to the Consolidated Financial Statements

Part A – Accounting Policies

A.1 – General section

Section 1 – Declaration of compliance with international accounting standards

These consolidated financial statements were 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 is 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 and the ABI.

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

Section 2 – General drafting principles

The consolidated financial statements consist of the Balance Sheet, the Income Statement, the Statement of Changes in Shareholders' Equity, the Cash Flow Statement, and the present 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 consolidated financial statements have been drawn up clearly and give a true and fair picture of the assets and liabilities, financial position and earnings in 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 applied by the Group for the first time as of 1 January 2016:

- Amendments to **IAS 19** "***Defined Benefit Plans: Employee Contributions***" (published on 21 November 2013): relating to the recognition in the financial statements of contributions made by employees or third parties to defined benefit plans. The adoption of these amendments had no effects on the consolidated financial statements as severance indemnity is a defined contribution plan;
- Amendments to **IFRS 11** *"**Accounting for acquisitions of interests in joint operations**"* (published on 6 May 2014): relating to accounting for acquisitions of interests in joint operations the activities of which constitute a business. The adoption of these amendments had no effects on the consolidated financial statements, as they do not include this type of interest;

- Amendments to **IAS 16** and **IAS 41 "Bearer Plants"** (published on 30 June 2014): relating to bearer plants, that is fruit bearing trees that have annual harvests (for example: grapevines, hazelnut trees), which must be recognised in compliance with IAS 16 (rather than IAS 41). The adoption of these amendments had no effects on the consolidated financial statements, as they do not include this type of product;
- Amendments to **IAS 16** and **IAS 38 "Clarification of acceptable methods of depreciation and amortisation"** (published on 12 May 2014): according to which a depreciation/amortisation criteria based on revenue is generally considered inappropriate, in that revenues generated by an asset that includes the use of the asset subject to amortisation/depreciation generally reflect factors other than the sole consumption of the economic benefits of the asset itself, a requirement that is, instead, required for amortisation/depreciation. The adoption of this amendment had no effects on the consolidated financial statements, as they do not include this type of amortisation/depreciation;
- Amendment to **IAS 1 "*Disclosure Initiative*"** (published on 18 December 2014): the objective of the amendments is to provide clarifications on disclosure elements that may be perceived as impediments to a clear and intelligible preparation of the financial statements. The adoption of this amendment had no effects on the consolidated financial statements, as there are no elements perceived as impediments;
- Amendments to **IFRS 10**, **IFRS 12** and **IAS 28** "***Investment Entities: Applying the Consolidation Exception***" (published on 18 December 2014), containing amendments relating to topics that emerged following the application of the consolidation exception granted to investment entities. in the consolidated financial statements, as there are no investment entities.

Lastly, as part of the annual improvements process, 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* and *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 supplement pre-existing standards. The adoption of these amendments had no effects on the consolidated financial statements.

IFRS accounting standards and amendments and IFRIC interpretations endorsed by the European Union, but yet 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 is meant to replace 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* and SIC 31 – *Revenues-Barter Transactions Involving Advertising Services*. The standard establishes a new revenue recognition model, which will apply to all contracts entered into with customers with the exception of those subject to other IAS/IFRSs, such as leases, insurance contracts and financial instruments. The main steps for accounting for revenue in accordance with the new model are:
    - identify the contract with the customer;
    - identify the contract's performance obligations;
    - determine the price;
    - allocate the price to the contract's performance obligations;
    - the criteria for recognition of revenue when the entity satisfies each performance obligation.

  The standard applies as of 1 January 2018, but early application is allowed. The amendments to IFRS 15, *Clarifications to IFRS 15* **–** *Revenue from Contracts with Customers*, published by the IASB on 12 April 2016, on the other hand have not yet been endorsed by the European Union. The directors do not expect the application of IFRS 15 to have a significant impact on the revenue recognised in the financial statements and the relative disclosure provided. However, it is not possible to provide a reasonable 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 incorporates the results of the IASB project for the replacement of IAS 39.

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

Specifically, the new standard:

- Introduces significant changes in financial asset classification and measurement rules, which will be based on the intent of contractual cash flow management (the "business model") and on the contractual characteristics of the financial instruments (the SPPI, or "Solely Payment of Principal and Interest", approach). These rules will entail different methods for classifying and measuring financial instruments compared to IAS 39;
- It introduces a new impairment accounting model based on an expected approach, compared to the current incurred-type model set forth in IAS 39, based on the concept of lifetime expected loss which will lead to an anticipation of losses on financial instruments that will be included within the scope of application of the new standard and more generally a structural increase in value adjustments;
- It impacts hedge accounting by rewriting the rules for the designation and management of accounting hedges and aims to guarantee greater alignment between risk management objectives and the ensuing representation in the financial statements.

Due to the entry into force of IFRS 9, there will also be a revision of prudential rules for the calculation of capital absorption on expected credit losses. The terms of this revision are not yet known.

In the course of 2016, the Bank launched specific projects to analyse the impacts of the accounting standard and guide the process of adjustment to the new accounting standard that will replace IAS 39 currently in force: in particular, to achieve regulatory compliance starting from the date of entry into force of the standard, the project includes 3 working areas:

- Models working area:
- Operating working area;
- Implementation working area.

For each of the first two working areas, an assessment phase has been defined in preparation for the phase of defining the methodology and functional requirements (design phase) for the purpose of implementation.

The third working area is responsible for implementing the planning agreed upon and the relative activities. On the basis of the outcome of the design phase, the Bank will assess 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 Bank's reference departments and with the active engagement of the Board of Directors and the Top Management.

At 31 December 2016, the project was in the methodology definition phase (design); in particular, for outstanding credit exposures accounted for at amortised cost:

- the contractual clauses were analysed to identify those that do not reflect the passing of time, credit risk or other remuneration components and therefore provoke a significant change in cash flows;
- in the presence of floating rate remuneration, the nature of the re-fixing frequency will be compared with the frequency of its determination according to the amortisation plan. A provisional materiality threshold will be defined to verify the significance of this temporal misalignment;
- the initial characteristics have been identified which point to a business model for the management of those financial assets meant to collect the contractual flows arising from these exposures.

With respect to debt securities already in the portfolio measured at amortised cost or classified as financial assets available for sale currently in the portfolio:

- the contractual clauses were analysed to identify those that do not reflect the passing of time, credit risk or other remuneration components and provoke a significant change in cash flows;
- in general and on a preliminary basis business models were identified for the management of those financial assets meant to collect contractual cash flows and also collect all sums arising from the sale of such instruments.

Based on the analyses carried out to date, the Bank does not expect to measure significant amounts of financial assets which are currently measured at amortised cost at fair value through profit and loss, as the relative contractual flows cannot be considered remunerative only of principal and interest.

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

- the stage assignment process was defined on the basis of the analysis of the significant worsening of the internally assigned rating compared to the origination date, moreover without defining a low credit risk threshold, as well as through the adoption of other position risk indicators;
- the determination of expected loss at 12 months for exposures classified in stage 1 and lifetime expected loss for exposures classified in stages 2 and 3 has been planned; both metrics cited include forward-looking elements in the relative calculation, or the inclusion of expectations on the future trends of macroeconomic variables deemed relevant in the estimate of risk parameters;
- the calculation of lifetime expected loss for positions classified in stage 2 presupposes the calculation of the expected loss referring to the entire residual lifetime of the credit position.

The project is expected to be completed in the second half of 2017.

In light of the possible evolutions of the methodological decisions currently defined, including on the basis of the most recent theoretical and practical orientations, the Bank is unable to provide a sufficiently reliable estimate of the impacts deriving from the application of the standard in these financial statements.

However, based on the analyses conducted to date, it is reasonable to expect:

- a significant increase in the level of provisioning on credit exposures classified in stage 2, which should represent a portion of the portfolio amounting to between 5% and 15% of the exposure;
- a provisioning level substantially in line with that currently adopted for stage 1 and stage 3 credit exposures;
- an increase in the provisioning level on financial assets consisting of securities classified under financial assets available for sale, currently not subject to value adjustments;
- an increase in the variability of loss estimates based on transfers of exposures between stage 1 and stage 2 and the inclusion within estimates of scenarios making reference to information used to forecast future conditions ("forward looking");
- an insignificant number of financial instruments subject to reclassification under Financial assets carried at fair value through profit and loss;
- no significant impact as regards financial instruments for which an accounting hedging relationship was designated.

Section 3 – Scope and methods of consolidation

The Consolidated Financial Statements are the financial statements for the group, presented in the form of a single economic entity. This comprise the Balance Sheet and Income Statement of the parent company and of its directly and indirectly controlled companies.

In preparing the Consolidated Financial Statements, the draft financial statements for 2016 of the parent company and those of the other fully consolidated Group companies were used. These latter, when necessary, were appropriately reclassified and adjusted for proper representation in the bank balance sheet schedules and to ensure uniformity of use for the IAS/IFRS.

The assets and liabilities, income and expenses of consolidated companies denominated in currencies other than the euro are converted according to the following rules:

- balance sheet assets and liabilities are translated at the exchange rate obtaining at the balance sheet date;
- revenues and costs in the Income Statement are translated at the average exchange rate for the year.

All exchange differences arising from the translation are recognised in a specific and separate shareholders' equity reserve. The above reserve is eliminated at the moment of any sale of the equity interest, and the amounts are added to or subtracted from the Income Statement at the same time. Pursuant to IFRS 10, the parent company Banca Sella Holding consolidates companies on the basis of the control principle, as defined in the cited IFRS. In particular, control by the parent company is determined when the following three conditions are simultaneously met (paragraph 7, IFRS 10):

(a) exercising power over the investee;

(b) holding of rights or exposure to variable returns, deriving from the relationship with the investee;

(c) the capacity to assert power held over the investee to affect the amount of these returns.

For the purposes of exercising power, it is necessary to consider whether valid rights are held (e.g. voting rights, potential voting rights, or one or more contractual agreements) that grant the current capacity to direct significant activities, that is activities that significantly affect the returns achieved by the investee.

A right or exposure to variable returns exists when the returns deriving from the relationships with the investee are susceptible to variation in relation to the economic performance of the same. The capacity to assert power to affect returns exists when there is a practical capacity to unilaterally carry out the significant activities. For this reason, a series of elements are considered, including the following which, if considered together with one's rights, can indicate that these rights are sufficient to grant power over the investee:

(a) the possibility, without having the contractual right, to appoint or approve key management personnel within the investee that have the ability to carry out significant activities;

(b) the possibility, without having the contractual right, to instruct the investee to undertake significant operations to the benefit of the parent company or to prohibit any change;

(c) the possibility to direct the selection process for members of the governing body of the investee or to obtain proxies from other holders of voting rights;

(d) key management personnel within the investee consists of related parties of the parent company (for example, the chief executive officer of the investee and the chief executive officer of the parent company are the same person);

(e) the governing body of the investee consists for the most part of related parties of the parent company.

1. Exclusive equity interests in subsidiaries

1. Exclusive equity interests in subsidiaries

Name of company	Registered Office	Type of relationship	Shareholding relationship investor	Shareholding relationship stake %	Voting rights %
A. Companies					
A.1 Line by line consolidation					
1 BANCA SELLA HOLDING S.p.A.	Biella	1			
2 BANCA SELLA S.p.A.	Biella	1	A.1 1	78.731%	87.334%
3 BANCA PATRIMONI SELLA & C. S.p.A.	Turin	1	A.1 1	74.380%	-
4 MIRET S.A.	Luxembourg	1	A.1 15	76.333%	-
			A.1 1	23.667%	-
5 BIELLA LEASING S.p.A.	Biella	1	A.1 1	99.860%	-
6 CONSEL S.p.A.	Turin	1	A.1 1	100.000%	-
7 SELLA GESTIONI SGR S.p.A.	Milan	1	A.1 1	95.168%	-
			A.1 3	0.898%	-
8 SELLA CAPITAL MANAGEMENT SGR S.p.A. *in liquidation*	Milan	1	A.1 1	97.008%	-
			A.1 3	2.500%	-
9 EASY NOLO S.p.A.	Biella	1	A.1 1	93.003%	-
			A.1 2	6.889%	
10 SELFID S.p.A.	Biella	1	A.1 1	92.500%	-
11 BROSEL S.p.A.	Biella	1	A.1 1	97.400%	-
12 SELIR S.r.l.	Romania	1	A.1 15	99.902%	-
13 SELLA SYNERGY INDIA P.Ltd.	India	1	A.1 15	99.999%	-
		1	A.1 1	0.0001%	-
14 IMMOBILIARE SELLA S.p.A.	Biella	1	A.1 1	100.000%	-
15 FINANZIARIA 2010 S.p.A.	Milan	1	A.1 1	100.000%	-
16 IMMOBILIARE LANIFICIO MAURIZIO SELLA S.p.A.	Biella	1	A.1 1	100.000%	-
17 FAMILY ADVISORY SIM S.p.A.- SELLA & PARTNERS	Turin	1	A.1 3	85.000%	-
18 MARS 2600 S.r.l.(1)	Treviso	4	A.1 1	10.000%	-
19 MONVISO 2014 S.r.l.(1)	Milan	4	A.1 6	0.000%	-

(1) The companies are the special purpose vehicles for the Group's securitisation transactions.
Key
Type of relationship:
1= majority of voting rights in shareholders' ordinary meetings
4= other forms of control

2. Significant assumptions and assessments to determine the scope of consolidation

Companies are considered controlled when, directly or indirectly, another company possesses more than half of voting rights unless, in exceptional cases, it can be clearly demonstrated that this possession does not constitute control, or when, having voting rights of less than half, the conditions foreseen under paragraph 7 of IFRS 10 are met, as illustrated above in the section “Scope and methods of consolidation”.

Subsidiaries are consolidated using the line by line method. Full consolidation consists of acquiring the Balance Sheet and Income Statement aggregates of the controlled companies “line by line”. After attributing to minority interests, under a separate item, the portions pertaining to them of shareholders’ equity and profit, the value of the equity interest is derecognised, offsetting the residual value of the subsidiary’s equity. The differences resulting from this operation, if positive, are recognised on the first consolidation date – after any allocation to the assets or liabilities of the subsidiary – as goodwill under item 130. “Intangible assets” in the Consolidated Balance Sheet Assets section. Assets, liabilities, income and expenses between completely consolidated companies are eliminated completely.

The profits or losses of a subsidiary acquired during the period are included in the Consolidated Financial Statements starting from the date of its acquisition. On the contrary, the profits or losses of a subsidiary sold are included in the Consolidated Financial Statements up to the date on which control ceased. The difference between the selling price and the book value at the disposal date (including any exchange differences recognised each time in shareholders’ equity at the moment of consolidation), is recognised in item 270. “Income (losses) from the disposal of investments” in the Consolidated Income Statement, unless the subsidiary has already been recognised under item 150. “Non-current assets and asset groups held for sale” in section 15 of assets. In this case, the difference is indicated in item 310 “Profit (loss) on asset disposal groups held for sale after tax” of the Consolidated Income Statement.

Associates means companies over which a company has considerable influence (the set of so-called “associated companies”), that is companies over which it exercises the power to determine the financial and management policies without however controlling or having joint control over them, and which are neither a subsidiary nor a jointly controlled investee company.

This type of company is measured using the equity method.

Significant influence is presumed to be held when the investing company holds, directly or indirectly, at least 20% of the voting rights. On the other hand, if the investing company holds, directly or indirectly, less than 20%, it is supposed that the investing company does not have significant influence, unless this influence can be clearly demonstrated through one or more of the following circumstances:

- representation on the Board of Directors, or the equivalent body, of the investee;
- participation in the decision-making process, including participation in decisions regarding dividends or other types of profit distribution;
- the occurrence of significant operations between the investee and the investing company;
- exchanging of key management personnel;
- provision of essential technical information.

The net equity method entails initial recognition of the equity interest at cost and its subsequent adjustment on the basis of the percentage stake in the shareholders’ equity of the investee company. Differences between the value of the equity investment and the shareholders' equity of the investee are dealt with in the same way as line-by-line consolidation differences.

In the measurement of the equity proportion any potential voting rights are not considered. The relevant proportion of profits or losses for the period of the investee company is recognised under the specific item 240. “Income (losses) from equity investments” in the Consolidated Income Statement.

Any distribution of dividends reduces the book value of the investment.

The relevant portion of the change in valuation reserves for the investee is recognised under item 140. "Valuation reserves" in the Liabilities section of the Consolidated Balance Sheet.

3. Exclusive equity interests in subsidiaries with significant minority interests

3.1 Minority interest, voting rights of third parties and dividends paid to third parties

Name of company	% Minority interest	% Voting rights of third parties	Dividends paid to third parties
BANCA SELLA S.p.A.	21.2687%	12.6661%	767
BANCA PATRIMONI SELLA & C. S.p.A.	25.6204%	25.6204%	923

3.2 Investments with significant minority interest: accounting information

part.1

Company name	Total assets	Cash and cash equivalents	Financial assets	Tangible and intangible assets	Financial liabilities	Shareholders' Equity	Net interest income
BANCA SELLA S.p.A.	11,259,198	126,567	10,703,491	97,260	10,245,858	789,554	151,877
BANCA PATRIMONI SELLA & C. S.p.A.	1,473,992	493	1,383,462	30,879	1,359,202	75,479	8,676

3.2 Investments with significant minority interest: accounting information

part.2

Company name	Net banking income	Operating expenses	Profit (loss) on continuing operations before tax	Profit (loss) on continuing operations after tax	Operating profit (loss) (1)	Total of other income components after tax (2)	Comprehensive income (3) = (1)+(2)
BANCA SELLA S.p.A.	399,865	277,475	63,326	58,537	58,537	-40,144	18,393
BANCA PATRIMONI SELLA & C. S.p.A.	51,518	40,382	10,695	7,172	7,172	-1,030	6,142

4. Significant restrictions

At 31 December 2016, there are no significant restrictions within the Group as indicated under IFRS 12, paragraph 13.

5. Other information

Note that Brosel S.p.A., part of the Banca Sella Group, closed its financial year on 30 November 2016, in that the activities of this subsidiary are heavily influenced by seasonal factors and it was therefore held that ending the financial year on this date better represents the equity, economic and financial situation of the company.

Section 4 – Events subsequent to the balance sheet date

There are no subsequent events to be reported.

Section 5 – Other issues

Please note that following the disposal of the insurance business unit on 30 June 2016, it is no longer necessary to provide details of the items opened between the “Banking Group” and the “Insurance Companies” in the notes. After the Group restructuring, it was deemed appropriate to include the companies Brosel and Sella Capital Management under “Other Companies”. Considering the minimal impact of the cited companies with respect to the Group’s total values, the accounts opened between the “Banking Group” and “Other Companies” will therefore not be presented. Specific indications will be provided in the notes only if the amounts are significant.

The consolidated financial statements were audited by Deloitte & Touche S.p.A., in compliance with the resolution made by the shareholders’ meeting.

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 applies (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. For further details, please refer to paragraph A.3 of this section.

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. For further details, please refer to paragraph A.3 of this section.

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, with recognition in the Income Statement of the value corresponding to the amortised cost, 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.

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, write-backs 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 write-back may not in any case exceed the amortised cost that the instrument would have had in the absence of the previous write-downs.

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 – Financial assets carried at fair value

Classification criteria

The Group has classified in this item, which includes financial assets held for trading and, in the life insurance field, investments on behalf of policy-holders who assume the risk and the investments deriving from management of pension funds. In addition, this item includes derivative contracts which had a positive value at the end of the financial year.

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.

Assessment criteria

At the moment of initial recognition financial assets held for trading are recognised at cost, understood as the fair value of the instrument. After initial recognition the financial assets held for trading are carried at fair value, with any changes in value booked to the income statement.

In determining the fair value of financial instruments quoted on an active market, market listings are used. In the lack of an active market, estimation methods and assessment models identified in the Fair Value Policy and detailed below are used. 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.

4 – 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 financial assets available for sale. 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 respect to parties deemed solvent that have no relevant anomalies or exposures past due for more than 90 days, without prejudice to the materiality thresholds in force over time;
- non-performing exposures: exposures with respect to parties for which one or both of the following conditions are met:
  - the company deems it unlikely that, without recourse to actions such as the enforcement of guarantees, the debtor will fully meet its credit obligations with respect to the company or other Group companies to which it is exposed and irrespective of the existence of any amount past due or the number of days overdue;
  - the debtor is overdue for more than 90 days on a significant credit obligation (or which exceeds the materiality thresholds in force over time) within the Group;

  or exposures written down or when there is evident proof of impairment following one or more loss events taking place after the initial granting of the loan and that such loss event (or events) has influenced future estimated cash flows of the financial asset, or the group of financial assets that may be reliably estimated.

Within the previous definition, non-performing exposures are in turn broken down into:

- **Past Due**: cash exposures past due and/or overdue for at least 90 consecutive days, taking into account offsetting with any margins available 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 higher amount of the average of past-due and/or overdue amounts of the entire exposure surveyed on a daily basis in the previous quarter and the past-due and/or overdue amount of the entire exposure referring to the reference reporting date.

- **Unlikely to pay:** cash and off-balance sheet exposures (loans, securities, derivatives) for which in the subjective opinion of the lender it is unlikely that, without recourse to actions such as the enforcement of guarantees, the debtor will fully meet (in terms of principal and/or interest) its credit obligations irrespective of the presence of guarantees and any amounts past due and not paid, consistent with an approach of the utmost timeliness of the classification and management of borrower customers for which there is a decline in credit quality. Exposures in the name of debtors that have proposed debt restructuring pursuant to Arts. 67 and 182 of the Bankruptcy Law or which have submitted a request for an agreement with creditors pursuant to Art. 161 of the Bankruptcy Law or settlement agreements on a going concern basis pursuant to Art. 186 bis of the Bankruptcy Law must be classified as unlikely to pay until the evolution of the request is known, unless they are already classified as bad loans or meet subjective requirements for being classified as bad loans.
  If the settlement agreement on a going concern basis is performed with the disposal/contribution of the operating business to third parties, the exposure is reclassified as performing. This possibility is precluded if the business is disposed of or transferred to a company belonging to the same economic group as the debtor.
  Another element that must necessarily entail the classification of exposures as unlikely to pay is classification as a non-performing receivable by at least one other Banca Sella Group company.
  Within the unlikely to pay category, and without prejudice to the uniform nature of the classification category, unlikely to pay positions are distinguished based on revocations regarding exposures with respect to parties that are having difficulty meeting their obligations and those for which the lender has revoked credit lines and demanded the full repayment of its receivable.

- **Bad loans:** cash and off-balance sheet exposures (loans, securities, derivatives) with respect to a party in a state of insolvency (even not confirmed in the courts) or in substantially equivalent situations, irrespective of any loss forecasts formulated by the lender.

Exposures classified as performing or non-performing, as described above, may be subject to **forbearance measures** (forborne) granted by the creditor to its debtors to enable them to overcome difficulties in the fulfilment of their financial commitments which have already arisen or which are imminent. **The fundamental element of a forbearance measure is the debtor's difficulty;** therefore, it is regardless of the presence of past-due amounts and/or the classification of exposures as impaired. Due to the foregoing, performing exposures subject to forbearance measures are called "forborne performing" and non-performing exposures subject to forbearance measures are called "forborne non-performing". The debtor's difficulties may be confirmed 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, write-downs/write-backs 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 non-performing, 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 loans 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;

- forfeit adjustments for exposures of less than € 25,000 – past-due and/or deteriorated loans in excess of thresholds granted. The forfeit 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 positions 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.

All positions are measured analytically at the time of making the decision to classify to 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 event with a frequency of no more than one year.

Value adjustments are proposed by the Credit Areas and Services and validated by Bank Management or by the delegated mechanisms/collegial bodies.

The process of measuring unlikely to pay exposures in the Group Banks is differentiated depending on whether the amount utilised is lower or higher than € 10,000 and, for this last category, if it is the first month of inclusion in this category or not.

Although not compulsory, value adjustments calculated on a forfeit basis as specified below can be made in the following cases:

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 upon approval by the Board of Directors

b. Positions with uses of more than € 10 thousand new entries: average during the last 3 years of adjustments made to non-revoked unlikely to pay positions with uses in excess of € 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 in 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 adjustments apply, considering the general condition of the customer in terms of credit rating and considering the real possibility of restoring the relationship to a performing status, after solving the anomalies that resulted in its classification to unlikely to pay.

The evaluation of unlikely to pay positions that have been revoked and bad loans must consider the plurality of elements present for the same customer, on the basis of the financial/income capacities of the principal debtor and the guarantors and the collateral securing the loan.

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

- Mortgage loans
- Loans with other privileged 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 the guarantees and actions to be activated.

The valuation times are:

- Valuation at the moment of default with transfer to revoked unlikely to pay;
- Valuation at the moment of classification of the loans as non-performing;
- 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 process to revise methods, some 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 consortia on first demand;
- Estimates of costs connected to discounting for negative cash flows envisaged for real estate enforcement procedures;
- Estimate of recovery on unsecured loans with a balance < € 50,000, classified as 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 unlikely to pay amounts not revoked 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 deposits for transfers without recourse for non-performing loans;
- Average discounting times for real estate enforcement proceedings and settlements, broken down by geographic area;
- Average discounting times for subsidiary consortia guarantees;
- Timing for the discounting of loans classified as non-revoked unlikely to pay;
- Average timing for the discounting of loans classified as revoked unlikely to pay;

- Valuation at the moment of default with transfer to revoked unlikely to pay;
- Valuation at the moment of classification of the loans as non-performing;
- 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.

Related to LGD, the Bank has provided itself with a Workout Loss Given Default estimate model, 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. Value adjustments determined collectively are recognised in the Income Statement. At every annual or interim balance sheet date any additional write-downs or write-backs are recalculated in a differential manner with reference to the entire portfolio of performing loans.

Derecognition criteria

Loans sold 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.

5 – 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 hedging:

- The percentage is reviewed every year on the basis of the latest historic series by the end of February of each year;
- 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.

In the specific case, the Banca Sella Group has put in place only fair value hedges.

Recognition criteria

At the level of the Consolidated Financial Statements, only instruments that involve a counterparty outside the Group can be designated as hedging instruments. All results attributed to internal transactions enacted between different Group entities are eliminated.

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 and retrospectively, 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.

6 – Equity investments

Classification criteria

This items includes interests held in affiliated companies, which are recognised on the basis of the net equity method. Companies are considered affiliates if they are not controlled but significant influence is exercised over them. It is assumed that the company exercises significant influence in all cases in which it holds 20% or more of voting rights and, irrespective of the stake held, if it has the power to take part in the operational and financial decisions of the investee companies.

Recognition criteria

Initial recognition of such financial assets takes place on the settlement date. At the moment of initial recognition financial assets classified in this category are recognised at cost.

Assessment criteria

If there is evidence that the value of an equity investment may have suffered impairment, the recoverable value of this equity investment is estimated, taking into account the present value of the future cash flows that the equity investment may generate, including the value on final disposal of the investment. If the recovery value is less than the book value, the difference between them is recognised in the Income

Statement. If the reasons for the impairment cease following an event that occurs after recognition of the loss, write-backs are recognised in the Income Statement.

Derecognition criteria

Financial assets are derecognised when the contractual rights to the financial flows deriving from the such assets expire or when the financial asset is sold, transferring substantially all of the risks and benefits associated with it.

7 – Tangible assets

Classification criteria

Tangible assets includes technical systems, furniture and fittings and equipment of all kinds and buildings (including land). 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 fixed 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

Tangible fixed assets items, including properties not for business purposes, 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, with the exception of land, whether purchased separately or incorporated in the value of buildings, as it has an unlimited useful life. If its value is incorporated into the value of the building, in accordance with the components approach it is considered an asset separable from the building; the value of the land is separated from the value of the building on the basis of valuation by independent experts only for buildings possessed “from roof to ground”.

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 write-back is made, which may not exceed the value that the asset would have had, net of the depreciation calculated, if the previous write-downs 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.

8 – 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 only when the positive difference between the fair value of the asset items purchased and the purchase cost of the equity interest (including ancillary expenses) 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 after preparation of the three-year plan, a check is made for the 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 value in use. 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 adjustments 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 and when future economic benefits are not expected.

9 – Non-current assets, asset groups held for sale and liabilities associated with assets held for sale

Classification criteria

Non-current assets and asset/liability groups held for sale are classified under these items.

More specifically, paragraph 7 of IFRS 5 specifies that in order to be allocated to the item specified, the asset must be available for immediate sale in its current condition, subject to conditions applicable to the standard use and custom for the sale of said assets. The sale must also be highly probable.

In relation to this latter aspect, the next paragraph of IFRS 5 indicates that for the sale to be highly probable, the following conditions must be met:

- the appropriate level of Management must be committed to a plan to sell the asset and an active programme to locate a buyer and complete the plan must have been initiated;
- the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value;
- the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification, save specific exceptions;
- the actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

Assessment criteria

In particular, these assets/liabilities are measured at the lower of their carrying value and their fair value net of selling costs. The relevant income and expenses are recognised in the Income Statement in a separate item net of the tax effect.

10 – 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 recognised in the financial statements if it is likely that they will be recovered. In this regard, please note that on 28 July 2016 the tax consolidator Banca Sella Holding Spa opted to maintain the application of the provisions on the transformation of deferred tax assets into tax credits set forth in Art. 11 of Law Decree no. 59 of 03/05/2016, converted, with amendments, by Law no. 119 of 30 June 2016, for the Companies participating in the tax consolidation. As a result, as set forth in Italian Law no. 225 of 2010, Art., paragraphs from 55 to 56-bis, the convertibility into tax credits of prepaid taxes recognised in the financial statements against write-downs and losses on loans and goodwill, in particular when the individual financial statements show a loss for the year, is maintained. This convertibility allows for 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.

11 – 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 write-downs 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. In particular the Banca Sella Group uses the “Zero curve” rate model.

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.

12 – Payables and securities in issue

Classification criteria

The items “Due to banks”, “Due to customers” and “Securities in issue” include the various forms of interbank funding and customer deposits and funding obtained through certificates of deposit and bonds in issue, net, therefore, of any amount repurchased.

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 book value of the liability and 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.

13 – 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;
- 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.

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.

14 – 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 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.

15 – Other information

Securitisations

In financial year 2000 the Company completed two securitisations with which Banca Sella S.p.A. and Biella Leasing S.p.A. sold, respectively, a portfolio of performing loans and the flows deriving from a portfolio of leasing contracts to the vehicle company Secursel S.r.l.. For both the securitisation transactions described above the company took advantage of the optional exemption provided for in IFRS 1, which permits it not to re-recognise financial assets/liabilities sold or derecognised before 1st January 2004.

On 28 February 2008, the securitisation carried out with Secursel S.r.l. in 2000 was concluded by Biella Leasing.

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. As a consequence the company Secursel was liquidated and closed in November 2011.

During 2005, 2008, 2009 and 2012 Banca Sella completed further sales of portfolio of performing loans to the special purpose vehicle Mars 2600 S.r.l. On 23 January 2014, 30 January 2014 and 23 April 2015, the operations begun in 2008, 2009 and 2005, respectively, were concluded. Banca Sella bought back the loans from the vehicle company, which provided for the early reimbursement of the securities still existing.

During 2013 Consel completed its first sale of a portfolio of performing loans to the special purpose vehicle Monviso 2013 S.r.l.

The loans involved in this latest securitisation transaction were re-recognised in the Consolidated Financial Statements because it was not possible to derecognise them in accordance with the provisions of IAS 39 and with the interpretation provided by SIC 12.

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 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 1st 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 this liability 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 amortised 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.

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

In drafting the consolidated financial statements, the Group 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 liabilities, estimates of their value;
- for deferred tax assets, estimates and assumptions on their recoverability;
- in developing insurance products and defining the basis of calculation of the supplementary reserves, demographic assumptions (linked to the prospective mortality of the insured population) and financial assumptions (deriving from the possible evolution of the financial markets).

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 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;
- The contribution 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 is 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 counterparts 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 clearing 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 Risk Adjusted Fair Value. The difference between this and the Risk Free Fair Value 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 Risk Adjusted Fair Value is the same as the Risk Free Fair Value;

- *BSG 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 Department).

For measurements related to implicit caps, while awaiting full automation of measurements by the Banca Sella Credit area and the relative Group companies, the Parent Company’s Finance Department 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 reported above.

Frequency of fair value measurement

Measurement of fair value following the rules dictated in this 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 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.

A.3 – Disclosure on transfers between financial asset portfolios

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

During the year, there were no transfers of financial assets held for trading. In 2015, the table was completed for 3 securities, two of which belonged to the company C.B.A. Vita, sold on 30 June 2016, and the third, of Banca Sella Holding, which matured during the year.

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

Types of financial instruments (1)	Original portfolio (2)	Destination portfolio (3)	Capital gains (losses) in the income statement (before tax)		Capital gains (losses) in equity (before tax)	
			31/12/2016 (4)	31/12/2015 (5)	31/12/2016 (6)	31/12/2015 (7)
A. Debt securities			**-**	**-**	**-**	**287**
	AFS	Due from banks	-	-	-	287
		Total	**-**	**-**	**-**	**287**

A.3.3 Transfer of financial assets held for trading

At 31 December 2016 and during the year, there were no transfers of financial assets held for trading.

A.3.4 Effective interest rate and forecast financial flows from reclassified assets

During the year, there were no transfers of financial assets held for trading. In 2015, the table was completed for 3 securities, two of which belonged to the company C.B.A. Vita, sold on 30 June 2016, and the third, of Banca Sella Holding, which matured during the year.

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 BSG 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 to 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 for evaluating AFS investments 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 purpose, 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 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.

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 <u>observable</u> parameters can be linked to:

Yield 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:

- <u>Rate spread</u>: 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).
- <u>Price spread</u>: 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 purpose, 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 transfers 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.

A.4.4 Other information

The Group does not manage groups of financial assets or liabilities on the basis of their 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

	31/12/2016			31/12/2015		
	L1	L2	L3	L1	L2	L3
1. Financial assets held for trading	395,929	30,410	6,195	350,705	20,854	6,151
2. Financial assets carried at fair value	-	-	-	-	-	-
3. Financial assets available for sale	2,092,634	11,185	96,969	2,541,783	20,316	78,077
4. Hedging derivatives	-	5,927	-	-	10,282	-
5. Tangible assets	-	-	-	-	-	-
6. Intangible assets	-	-	-	-	-	-
Total	**2,488,563**	**47,522**	**103,164**	**2,892,488**	**51,452**	**84,228**
1. Financial liabilities held for trading	106,777	20,548	-	19,173	18,831	-
2. Financial liabilities carried at fair value	-	-	-	-	-	-
3. Hedging derivatives	-	122,344	-	-	128,513	-
Total	**106,777**	**142,892**	**-**	**19,173**	**147,344**	**-**

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 Department).

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

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

	Banca Sella		Banca Sella Holding		Banca Patrimoni Sella & C.	
	CVA	DVA	CVA	DVA	CVA	DVA
IRS	-178,031	56,277	-	-	-	-
CAP_FLOOR	-	13,485	-	-	-	98
COLLAR	-732	-	-	-	-	-
OPT_CURRENCY OPTION	-25,072	6,854	-	-	-	-
NDF_NON DELIVERABLE FORWARD	-53,757	-	-	-	-100,281	-
OUTRIGHT	-139,824	454	-10,329	47	-	-
IMPLICIT OPTIONS ON MORTGAGES	-	521,204	-	-	-	-
Total	**-397,416**	**598,274**	**-10,329**	**47**	**-100,281**	**98**

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 balances	**6,151**	**-**	**78,078**	**-**	**-**	**-**
2. Increases	**40,940**	**-**	**71,175**	**-**	**-**	**-**
2.1. Purchases	40,604	-	39,274	-	-	-
2.2. Profits allocated to:						
2.2.1. Income Statement	273	-	-	-	-	-
- of which capital gains	269	-	-	-	-	-
2.2.2. Shareholders' Equity	X	X	31,526	-	-	-
2.3. Transfers from other levels	-	-	-	-	-	-
2.4. Other increases	63	-	375	-	-	-
3. Decreases	**40,895**	**-**	**52,286**	**-**	**-**	**-**
3.1. Sales	40,658	-	44,014	-	-	-
3.2. Repayments	-	-	-	-	-	-
3.3. Losses allocated to:						
3.3.1. Income Statement	237	-	6,911	-	-	-
- of which capital losses	234	-	137	-	-	-
3.3.2. Shareholders' Equity	X	X	1,361	-	-	-
3.4. Transfers to other levels	-	-	-	-	-	-
3.5. Other decreases	-	-	-	-	-	-
4. Closing balance	**6,196**	**-**	**96,967**	**-**	**-**	**-**

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

	Financial Liabilities Held for Trading	Financial liabilities carried at fair value	Hedging derivatives
1. Opening balances	**-**	**-**	**-**
2. Increases	-	-	-
2.1. Issues	-	-	-
2.2. Losses allocated to:			
2.2.1. Income Statement	-	-	-
- of which capital losses	-	-	-
2.2.2. Shareholders' Equity	X	X	-
2.3. Transfers from other levels	-	-	-
2.4. Other increases	-	-	-
3. Decreases	**-**	**-**	**-**
3.1. Repayments	-	-	-
3.2. Repurchases	-	-	-
3.3. Profits allocated to:			
3.3.1. Income Statement	-	-	-
- of which capital gains	-	-	-
3.3.2. Shareholders' Equity	X	X	-
3.4. Transfer to other levels	-	-	-
3.5. Other decreases	-	-	-
4. Closing balance	**-**	**-**	**-**

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

fair value	31/12/2016				31/12/2015			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Financial assets held to maturity	-	-	-	-	-	-	-	-
2. Due from banks	299,663	-	-	299,663	303,956	-	9,963	294,029
3. Due from customers	7,905,520	-	80	7,990,881	8,033,542	-	120	8,153,151
4. Tangible assets held for investment	25,055	-	-	30,117	41,701	-	-	59,079
5. Non-current assets and asset groups held for sale	-	-	-	-	1,517,184	1,370,407	18,962	-
Total	**8,230,238**	**-**	**80**	**8,320,661**	**9,896,383**	**1,370,407**	**29,045**	**8,506,259**
1. Due to banks	604,396	-	-	604,396	639,301	-	-	639,301
2. Due to customers	10,454,628	-	-	10,454,628	9,351,419	-	-	9,351,419
3. Securities in issue	527,647	-	413,444	119,951	831,101	-	495,481	333,692
4. Liabilities associated to assets held for sale	-	-	-	-	1,516,254	-	607,839	-
Total	**11,586,671**	**-**	**413,444**	**11,178,975**	**12,338,075**	**-**	**1,103,320**	**10,324,412**

Fair value on a non-recurring basis is calculated for non-short term loans using the criteria indicated in the Accounting Policies, part A.2, other information.

For amounts payable and receivable on demand or with short-term maturity, it is held that the fair value is in line with the book value.

In regards to property and equipment, the fair value is obtained through the use of external appraisals.

A.5 – Day one profit/loss disclosure

IAS 39 requires financial instruments to be initially recognised in the financial statements at fair value, which typically coincides with the price at which the purchase transaction is concluded. IFRS 7 sets forth that if the security subject to the transaction is level 3, it is possible that there may be greater discretion in the assessment of the price, as there is no fixed and specific benchmark for the fair value. In this case, the initial recognition must always be at the price at which the sale was concluded, with the subsequent valuation with respect to the fair value recognised as DOP/L. This rule is clearly applicable to categories of securities for which recognition at fair value through profit and loss is required and, making specific reference to the financial statements, to securities held for trading.

This being stated, in 2016 no amounts to be recognised as day one profit/loss were identified as part of the acquisition of securities not listed in an active market and included in the held for trading category.

Part B – Information on the Consolidated Balance Sheet

Assets

Section 1 – Cash and cash equivalents – Item 10

1.1 Cash and cash equivalents: breakdown

	31/12/2016	31/12/2015
a) Cash on hand	127,066	130,889
b) Demand deposits at Central Banks	1,414,984	-
Total	**1,542,050**	**130,889**

The amount in item b) relates to an overnight deposit of Banca Sella Holding at the Central Bank.

Section 2 – Financial assets held for trading – Item 20

2.1 Financial assets held for trading: product breakdown

Item/Value	31/12/2016			31/12/2015		
	L1	L2	L3	L1	L2	L3
A. Cash assets						
1. Debt securities	381,779	7,684	-	335,197	2,700	3
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	381,779	7,684	-	335,197	2,700	3
2. Equities	2,498	-	1	4,599	-	1
3 UCITS units	10,804	-	6,119	10,443	-	6,147
4. Loans	-	-	-	-	-	-
4.1 Repurchase agreements receivable	-	-	-	-	-	-
4.2 Others	-	-	-	-	-	-
Total A	**395,081**	**7,684**	**6,120**	**350,239**	**2,700**	**6,151**
B. Derivative instruments						
1. Financial derivatives:	848	22,726	75	466	18,154	-
1.1 for trading	848	22,686	75	466	18,090	-
1.2 linked to fair value option	-	-	-	-	-	-
1.3 other	-	40	-	-	64	-
2. Credit derivatives:	-	-	-	-	-	-
2.1 for trading	-	-	-	-	-	-
2.2 linked to fair value option	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
Total B	**848**	**22,726**	**75**	**466**	**18,154**	**-**
Total (A+B)	**395,929**	**30,410**	**6,195**	**350,705**	**20,854**	**6,151**

For more information on the methodologies used to determine the fair value, refer to Part A – Accounting policies of these Explanatory Notes.

The composition of securities held for trading above all refers to the Parent Company Banca Sella Holding (for € 399.1 million) which performs the treasury service for the whole Group. Technical exposures, included under financial liabilities held for trading, instead went from € 19.1 million at 31 December 2015 to € 106.8 million at 31 December 2016. The trend in securities held for trading was also influenced by market making activities on government securities carried out by the Parent Company Banca Sella Holding.

The strategy of investment diversification was maintained, paying particular attention to the quality of bonds of banking, financial and corporate issuers in the portfolio.

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

Item/Value		31/12/2016	31/12/2015
A. Cash assets			
1. Debt securities		**389,463**	**337,900**
a) Governments and Central Banks		236,372	161,448
b) Other public bodies		886	469
c) Banks		127,670	127,547
d) Other issuers		24,535	48,436
2. Equities		**2,499**	**4,600**
a) Banks		257	216
b) Other issuers:		2,242	4,384
- insurance companies		55	103
- financial companies		1,652	3,693
- non-financial companies		535	588
- others		-	-
3. UCIT units		**16,923**	**16,590**
4. Loans		**-**	**-**
a) Governments and Central Banks		-	-
b) Other public bodies		-	-
c) Banks		-	-
d) Other subjects		-	-
	Total A	**408,885**	**359,090**
B. Derivative instruments			
a) Banks		10,509	9,041
- Fair value		10,509	9,041
b) Customers		13,140	9,579
- Fair value		13,140	9,579
	Total B	**23,649**	**18,620**
	Total (A + B)	**432,534**	**377,710**

Below is a breakdown of UCITS units:

Financial assets held for trading: detail of the subheading UCITS

Company name	31/12/2016	31/12/2015
Share	288	578
Balanced	223	117
Monetary	1,500	-
Bonds	7,737	7,686
Other (segment)	7,175	8,209
Total UCITS shares	**16,923**	**16,590**

No equity securities were issued by subjects classified as non-performing or unlikely to pay.

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	2,084,899	10,527	-	2,535,014	20,316	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	2,084,899	10,527	-	2,535,014	20,316	-
2. Equities	2,908	-	77,300	2,680	-	73,010
2.1 Carried at fair value	2,908	-	73,158	2,680	-	51,357
2.2 Carried at cost	-	-	4,142	-	-	21,653
3. UCITS units	4,827	658	14,158	4,089	-	2,954
4. Loans	-	-	5,511	-	-	2,113
Total	**2,092,634**	**11,185**	**96,969**	**2,541,783**	**20,316**	**78,077**

For more information on the methodologies used to determine the fair value, refer to Part A – Accounting policies of these Explanatory Notes.

Analysing the breakdown of the aggregate, it can be seen that most of it consists of debt securities, which account for € 2,095.4 million, equal to 95.2% of the total. In 2015, they accounted for 96.8%.

Equity securities include minority equity interests, which at the end of the year were subjected to impairment tests, according to criteria described in Part A of the Notes to the Statements.

As at 31 March 2016, impairment losses were recognised on:

- Veneto Banca (measurement method: market multiples): the value of the equity investment was written down with effects in the income statement in the amount of € 144 thousand;
- Società Aeroporto di Cerrione (measurement method: recent market transactions): the value of the equity investment was written off with effects in the income statement in the amount of € 35 thousand.

As at 30 June 2016, impairment losses were recognised on:

- Veneto Banca (measurement method: recent market transactions): the value of the equity investment was aligned with the price of the share capital increase carried out by the Company, writing it down with effects in the income statement in the amount of € 1 million;
- Symbid Corp (measurement method: comparable transactions): the value of the equity investment was aligned with the average of the market prices in the month of June, writing it down with effects in the income statement in the amount of € 197 thousand;
- Digital Magics (measurement method: market listings): the value of the equity investment was aligned with the closing market price at 30/06/2016, writing it down with effects on the income statement of € 66 thousand.

As at 30 September 2016, a further write-down of Symbid Corp was recognised (measurement method: comparable transactions): the value of the equity investment was aligned with the average of the market prices in the month of September, writing it down with effects in the income statement in the amount of € 74 thousand.

As at 31 December 2016, impairment losses were recognised on:

- Cassa di Risparmio di Bolzano (measurement method: multiples): after valuing the equity investment on the basis of the multiples implicit in a sample of comparable companies, a write-down was recognised with effects in the income statement in the amount of € 601 thousand;
- Finpiemonte Partecipazioni (measurement method: equity): the value of the equity investment was aligned with the value of shareholders' equity, writing it down with effects on the income statement of € 81 thousand;
- Symbid Corp: the value of the equity investment was written off with effects in the income statement in the amount of € 44 thousand.

On the other hand, as at 31 December 2016, the equity reserves changed relating to:

- Compagnie Financière Martin Maurel (measurement method: recent market transactions): the positive shareholders' equity reserve recognised as at 30 June 2016 was confirmed on the basis of the price established in the planned merger transaction with Rothschild & Co., in the amount of € 26.7 million;
- Smava (measurement method: income approach): a positive shareholders' equity reserve was recognised for an amount of € 377 thousand;
- Cartalis (measurement method: mixed equity/income approach): a positive shareholders' equity reserve was recognised for an amount of € 182 thousand;
- Mission & Market Fund I LLC (measurement method: NAV): the equity investment was recognised at the value of the purchase transactions completed in February and in July; at 31/12/2016 a positive shareholders' equity reserve was recognised for an amount of € 112 thousand;
- Lumia Capital 2014 Fund (Delaware) LP (measurement method: NAV): the equity investment was recognised at the subscription value; as at 31/12/2016 a positive shareholders' equity reserve was recognised for an amount of € 101 thousand;
- SWIFT (measurement method: comparable transactions): a positive shareholders' equity reserve was recognised for an amount of € 73 thousand;
- e-MID SIM (measurement method: recent market transactions): the positive shareholders' equity reserve recognised as at 30 September 2016 was confirmed on the basis of the price established in the planned sale transaction to be carried out in 2017, in the amount of € 66 thousand;
- United Ventures One (measurement method: NAV): a positive shareholders' equity reserve was recognised on the basis of the most recent available NAV for an amount of € 24 thousand;
- Programma 101 (measurement method: NAV): the negative shareholders' equity reserve was adjusted on the basis of the most recent available NAV for an amount of € 108 thousand;
- Digital Magics (measurement method: market listings): the negative shareholders' equity reserve was adjusted on the basis of the closing market price as at 31/12/2016 for an amount of € 13 thousand;
- SI2 (measurement method: NAV): the negative shareholders' equity reserve was adjusted on the basis of the most recent available NAV for an amount of € 3 thousand;
- H-Farm (measurement method: market listings): the negative shareholders' equity reserve was adjusted on the basis of the closing market price as at 31/12/2016 for an amount of € 1 thousand.

In addition, it should be noted that in 2016 equity investments were acquired in Bemind Interactive Srl, Brandon Group Srl, Lumia Capital 2014 Fund (Delaware) LP, Mission & Market Fund I LLC, Sardex Spa and Talent Garden Spa, and a future capital increase contribution of € 23 thousand was made in favour of Primomiglio SGR Spa. On the other hand, the equity investments in SACE - Società Aeroporto di Cerrione and Visa Europe Ltd were sold in their entirety.

The item loans included the Comital Saiag S.P.A., now Cuki Group S.p.a., position for which a restructuring agreement was signed in 2009 which generated a partial conversion of the total amount owed to the Bank equal to € 9 million, as "Participatory Financial Instruments".
On the basis of the economic and financial information provided by the Comital Group, at the time of the presentation of the "2016-2018 Business Plan Update" and the consolidated financial statements of the Cuki Group as at 31 December 2015, the valuation of the participatory instrument was updated in the course of the first quarter. Considering the most recent actual data of the Company, it was deemed appropriate to write it down it in the income statement by € 200,000. In the second quarter, having learned of the disposal of loans of the investee company and the Participatory Financial Instruments in question by two leading national banks in favour of a fund specialised in non-performing loans, the valuation was updated again. The details of the transactions noted establish a value of € 1 for the PFI for the entire package held by the sellers, and therefore it was deemed appropriate to write off the entire amount of the equity investment in the income statement. The value in the financial statements as at 31 December 2016 is therefore zero.
With respect to the voluntary scheme and the IFPD communication of 20 January 2017, following the intervention in the Cassa di Risparmio di Cesena share capital and the periodic update of the fair value measurements of the financial assets acquired, a write-down of € 0.7 million was recognised. The value of the economic capital of Cassa di Risparmio di Cesena was defined by applying the Dividend Discount Model methodology. On the basis of the amount of its contribution to the voluntary scheme, Banca Sella adjusted the carrying amount of Cassa di Risparmio di Cesena, equal to roughly € 2.9 million.

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

Item/Value	31/12/2016	31/12/2015
1. Debt securities	**2,095,426**	**2,555,330**
a) Governments and Central Banks	1,764,946	2,232,409
b) Other public bodies	-	-
c) Banks	203,532	212,899
d) Other issuers	126,948	110,022
2. Equities	**80,208**	**75,690**
a) Banks	13,676	13,354
b) Other issuers:	66,532	62,336
- insurance companies	-	-
- financial companies	60,446	57,997
- non-financial companies	1,622	1,081
- others	4,464	3,258
3. UCITS units	**19,643**	**7,043**
4. Loans	**5,511**	**2,113**
a) Governments and Central Banks	-	-
b) Other public bodies	-	-
c) Banks	-	-
d) Other subjects	5,511	2,113
Total	**2,200,788**	**2,640,176**

Financial assets available for sale: detail of the subheading UCITS units

	31/12/2016	31/12/2015
Share	3,573	997
Balanced	-	-
Monetary	-	-
Bonds	8,478	3,344
Other (segment)	7,592	2,702
Total	**19,643**	**7,043**

Section 6 – Due from 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	**106,669**	**-**	**-**	**106,669**	**104,414**	**-**	**-**	**104,414**
1. Term deposits	-	X	X	X	-	X	X	X
2. Statutory reserve	106,555	X	X	X	104,414	X	X	X
3. Repurchase agreements receivable	-	X	X	X	-	X	X	X
4. Other	114	X	X	X	-	X	X	X
B. Due from banks	**192,994**	**-**	**-**	**192,994**	**199,542**	**-**	**9,963**	**189,615**
1. Loans	192,994	-	-	192,994	189,615	-	-	189,615
1.1 Current accounts and demand deposits	61,601	X	X	X	85,808	X	X	X
1.2 Term deposits	6,512	X	X	X	4,355	X	X	X
1.3. Other loans and advances:	124,881	X	X	X	99,452	X	X	X
- Repurchase agreements receivable	20,257	X	X	X	8,032	X	X	X
- Financial leasing	-	X	X	X	-	X	X	X
- Others	104,624	X	X	X	91,420	X	X	X
2. Debt securities	-	-	-	-	9,927	-	9,963	-
2.1 Structured securities	-	X	X	X	-	X	X	X
2.2 Other debt securities	-	X	X	X	9,927	X	X	X
Total	**299,663**	**-**	**-**	**299,663**	**303,956**	**-**	**9,963**	**294,029**

Key: FV= fair value BV = book value

Loans to banks mainly pertain to Banca Sella Holding (69.4%).

Analysing in detail the Group companies which contributed to the composition of the item, it is evident that most of the amounts due from banks (75.1% of the total) pertain to the Parent Company Banca Sella Holding. This item is basically unchanged. Please note that Banca Sella Holding participated in two European Central Bank TLTRO programmes and it paid off the loans obtained within the first Programme (€ 280 million) early and simultaneously obtained new loans of € 350 million in the first round of the second TLTRO programme (settled in June) under more favourable rate conditions. It then disbursed loans of € 335 million to Banca Sella (€ 268 million with the first programme) and of € 15 million to Banca Patrimoni Sella & C. (€ 12 million with the first programme).

Section 7 – Due from 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		
		Impaired						Impaired				
	Non-impaired	Acquired	Other	L1	L2	L3	Non-impaired	Acquired	Other	L1	L2	L3
Loans	**7,320,343**	**-**	**585,097**	**-**	**-**	**7,990,881**	**7,383,999**	**-**	**649,423**	**-**	**-**	**8,153,151**
1. Current accounts	758,654	-	121,055	X	X	X	787,994	-	138,086	X	X	X
2. Repurchase agreements receivable	103,381	-	-	X	X	X	347,432	-	-	X	X	X
3. Mortgage loans	3,479,545	-	300,372	X	X	X	3,318,685	-	323,613	X	X	X
4. Credit cards, personal loans and loans on wage assignments	1,094,278	-	15,613	X	X	X	1,123,192	-	22,315	X	X	X
5. Financial leasing	887,861	-	60,374	X	X	X	857,199	-	67,100	X	X	X
6. Factoring	-	-	-	X	X	X	-	-	-	X	X	X
7. Other loans and advances	996,624	-	87,683	X	X	X	949,497	-	98,309	X	X	X
Debt securities	**80**	**-**	**-**	**-**	**80**	**-**	**120**	**-**	**-**	**-**	**120**	**-**
8. Structured securities	-	-	-	X	X	X	-	-	-	X	X	X
9. Other debt securities	80	-	-	X	X	X	120	-	-	X	X	X
Total	**7,320,423**	**-**	**585,097**	**-**	**80**	**7,990,881**	**7,384,119**	**-**	**649,423**	**-**	**120**	**8,153,151**

Within an environment characterised by a generalised recovery on annual basis in loan applications, the Group continued to maintain 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. Lending to businesses continued, provided by all Group companies that disburse credit in all its various technical forms (Banca Sella, Biella Leasing, the Group's leasing company, Consel, the Group's consumer loan company, and Banca Patrimoni Sella & C.).

7.2 Loans to customers: breakdown by borrower/issuer

Type of transaction/Value	31/12/2016			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	-	-	-	-	-	-
- others	-	-	-	-	-	-
2. Loans to:	**7,320,343**	**-**	**585,097**	**7,383,999**	**-**	**649,423**
a) Governments	1,570	-	468	834	-	55
b) Other public bodies	5,545	-	3,190	9,868	-	3,230
c) Other subjects	7,313,228	-	581,439	7,373,297	-	646,138
- non-financial companies	3,650,974	-	418,958	3,469,207	-	468,725
- financial companies	230,078	-	2,280	504,464	-	2,233
- insurance	844,385	-	2	9,020	-	-
- others	2,587,791	-	160,199	3,390,606	-	175,180
Total	**7,320,423**	**-**	**585,097**	**7,384,119**	**-**	**649,423**

7.4 Loans to customers: financial leasing

Time horizons	Impaired loans	Minimum payments			Gross investment	
		Capital portion		Interest portion		
			of which guaranteed residual value			*of which unguaranteed residual value*
Within 1 year	14,678	200,054	3,348	36,400	236,454	-
Between 1 year and 5 years	31,375	468,899	20,547	74,168	543,793	-
More than 5 years	14,321	218,908	49,745	34,377	253,286	-
Total	**60,374**	**887,861**	**73,640**	**144,945**	**1,033,533**	**-**

Data relating to financial leasing pertains entirely to the banking group, more precisely to the companies Consel and Biella Leasing. Below is a general description of the most important lessor leasing contracts.
Biella Leasing's type of leasing contracts fall within the category of financial leasing: with these contracts the user asks the lessor to acquire, or to have executed, a good from a producer or supplier, for the purpose of using it after payment of periodic fees envisaged contractually and developing a fixed instalment repayment plan. The contract normally includes, in addition to the value of the asset, the amount of the leasing fees, the duration, any prepayment and, at the end of the lease, the faculty on the part of the user to become the owner of the asset used through a buyout option. In order to make the buyout option a natural continuation of the lease itself, the typical financing plan used for leasing contracts is structured in a way that makes it advantageous for the customer to use said option, therefore minimising the risk and charges related to managing a warehouse of non-bought out goods.

Section 8 – Hedging derivatives – Item 80

8.1 Hedging derivatives: breakdown by hedge type and level

	31/12/2016			31/12/2016	31/12/2015			31/12/2015
	L1	L2	L3		L1	L2	L3	
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

8.2 Hedging derivatives: breakdown by hedged portfolios and type of hedging (book value)

Transaction/Type of hedging	Fair value						Cash flows		Foreign investments
	Micro					Macro	Micro	Macro	
	interest rate risk	exchange rate risk	credit risk	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	812	x	-	x
5. Other transactions	-	-	-	-	-	x	-	x	-
Total assets	**-**	**-**	**-**	**-**	**-**	**812**	**-**	**-**	**-**
1. Financial liabilities	5,115	-	-	x	-	x	-	x	x
2. Portfolio	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 in hedged portfolios – Item 90

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

Value adjustments of hedged assets / Values	31/12/2016	31/12/2015
1. Increases	**118,699**	**123,141**
1.1 of specific portfolios:	118,699	123,141
a) receivables	118,699	123,141
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	**118,699**	**123,141**

The item all pertains to the banking groups.

Within the Group a model is adopted for hedging the interest rate risk on fixed-rate loans based on the macro-hedging of fair value. Consequently the present item includes the change in fair value relating to the loan portfolio of hedged loans.

9.2 Assets subject to macrohedging for interest rate risk

Hedged assets	31/12/2016	31/12/2015
1. Receivables	1,467,173	1,547,847
2. Financial assets available for sale	-	-
3. Portfolio	-	-
Total	**1,467,173**	**1,547,847**

The amount refers to the fair value of the loans hedged by IRSs (Interest Rate Swaps) made up of the following types:

- Mortgage loans
- Financial leasing
- Credit cards, personal loans and salary-backed loans.

Section 10 – Equity investments – Item 100

10.1 Investments: information on equity investments

Name	Registered and operational office	Type of relationship	Shareholding relationship		Voting rights %
			Investor company	Stake %	
B. Companies subject to significant influence					
MARTIN MAUREL SELLA BANQUE PRIVEE S.A.M.	Principality of Monaco	sub. to sign. influence	Finanziaria 2010 S.p.A.	44.9667%	-
DPIXEL S.R.L.	Biella	sub. to sign. influence	Banca Sella Holding S.p.A.	40.0000%	-
S.C.P. VDP1	Principality of Monaco	sub. to sign. influence	Banca Sella Holding S.p.A.	29.0000%	-
HI-MTF SIM S.P.A.	Milan	sub. to sign. influence	Banca Sella Holding S.p.A.	25.0000%	-
ENERSEL S.P.A.	Biella	sub. to sign. influence	Banca Sella Holding S.p.A.	18.2982%	-

The column related to available votes was not completed, as allowed under Circular 262/05, as updated, in that these are the same as investment percentages.

10.2 Significant shareholdings: book value, fair value and dividends received

Name	Book value	Fair value	Dividends received
B. Companies subject to significant influence			
MARTIN MAUREL SELLA BANQUE PRIVEE S.A.M.	9,688	9,688	453
DPIXEL S.R.L.	71	71	-
S.C.P. VDP1	565	565	-
HI-MTF SIM S.P.A.	1,542	1,542	-
ENERSEL S.P.A.	304	304	1
Total	**12,170**	**12,170**	**454**

10.3 Significant shareholdings: accounting information

part.1

Company name	Cash and cash equivalents	Financial assets	Non- financial assets	Financial liabilities	Non-financial liabilities	Total revenues	Net interest income
B. Companies subject to significant influence							
MARTIN MAUREL SELLA BANQUE PRIVEE S.A.M.	X	220,515	5,064	201,897	2,136	11,002	X
DPIXEL S.R.L.	X	-	472	33	277	567	X
S.C.P. VDP1	X	2	4,305	2,358	3	71	X
HI-MTF SIM S.P.A.	X	6,398	355	-	586	2,677	X

10.3 Significant shareholdings: accounting information

part.2

Company name	Adjustments and write-backs on tangible and intangible assets	Profit (loss) on continuing operations before tax	Profit (loss) on continuing operations after tax	Profit (loss) on asset disposal groups held for sale after tax	Operating profit (loss) (1)	Total of other income components after tax (2)	Comprehensive income (3) = (1)+(2)
B. Companies subject to significant influence							
MARTIN MAUREL SELLA BANQUE PRIVEE S.A.M.	X	2,260	2,260	-	2,260	-	2,260
DPIXEL S.R.L.	X	(142)	(142)	-	(142)	-	(142)
S.C.P. VDP1	X	(3)	(3)	-	(3)	-	(3)
HI-MTF SIM S.P.A.	X	136	89	-	89	-	89

Reconciliation of accounting information and the book value of investments

Name	Shareholders' Equity	Interest held	Equity attributable	Goodwill	Other items	Book value
A. Companies accounted for with equity method						
A.2 subject to significant influence						
MARTIN MAUREL SELLA BANQUE PRIVEE S.A.M.	21,546	44.97%	9,689	-	-	9,689
DPIXEL S.R.L.	178	40.00%	71	-	-	71
S.C.P. VDP1	1,947	29.00%	564	-	-	564
HI-MTF SIM S.P.A.	6,167	25.00%	1,542	-	-	1,542
ENERSEL S.P.A.	1,662	18.30%	304	-	-	304
Total	**31,500**		**12,170**	**-**	**-**	**12,170**

10.4 Non-significant equity investments: accounting information

Company name	Book value of investments	Total assets	Total liabilities	Total revenues	Profit (loss) on continuing operations after tax	Profit (loss) on asset disposal groups held for sale after tax	Operating profit (loss) (1)	Total of other income components after tax (2)	Comprehensive income (3) = (1)+(2)
B. Companies subject to significant influence									
ENERSEL S.P.A.	304	1,767	66	373	83	-	83	-	83

10.5 Equity investments: annual change

	Banking group	Insurance companies	Other companies	Total 31/12/2016	Total 31/12/2015
A. Opening balance	**11,482**	**-**	**-**	**11,482**	**15,599**
B. Increases	**787**	**-**	**-**	**787**	**1,821**
B.1 Purchases	-	-	-	-	77
B.2 Write-backs	-	-	-	-	252
B.3 Revaluations	787	-	-	787	1,492
B.4 Other changes	-	-	-	-	-
C. Decreases	**99**	**-**	**-**	**99**	**5,938**
C.1 Sales	-	-	-	-	-
C.2 Write-downs	-	-	-	-	-
C.4 Other changes	99	-	-	99	5,938
D. Closing balance	**12,170**	**-**	**-**	**12,170**	**11,482**
E. Total revaluations	**5,991**	**-**	**-**	**5,991**	**5,204**
F. Total adjustments	**373**	**-**	**-**	**373**	**322**

Section 12 – Tangible assets – Item 120

12.1 Property and equipment used in operations: breakdown of assets measured at cost

Asset/Amount	Total 31/12/2016	Total 31/12/2015
1.1 Owned assets	**178,002**	**168,111**
a) land	34,204	32,776
b) buildings	106,951	104,677
c) furniture	4,204	3,690
d) electronic equipment	17,157	11,678
e) others	15,486	15,290
1.2 Assets acquired through financial leasing	**-**	**-**
a) land	-	-
b) buildings	-	-
c) furniture	-	-
d) electronic equipment	-	-
e) others	-	-
Total	**178,002**	**168,111**

12.2 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	**25,055**	**-**	**-**	**30,117**	**41,701**	**-**	**-**	**59,079**
a) land	8,393	-	-	9,239	18,114	-	-	23,640
b) buildings	16,662	-	-	20,878	23,587	-	-	35,439
2. Assets acquired through financial leasing	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) land	-	-	-	-	-	-	-	-
b) buildings	-	-	-	-	-	-	-	-
Total	**25,055**	**-**	**-**	**30,117**	**41,701**	**-**	**-**	**59,079**

12.5 Tangible assets for business purposes: annual changes

	Land	Buildings	Furniture	Electronic equipment	Other	Total
A. Gross opening balance	**32,776**	**151,832**	**25,223**	**127,860**	**85,977**	**423,668**
A.1 Total net reductions in value	-	(47,155)	(21,533)	(116,182)	(70,687)	(255,557)
A.2 Net opening balance	**32,776**	**104,677**	**3,690**	**11,678**	**15,290**	**168,111**
B. Increases	**1,690**	**6,892**	**1,235**	**11,363**	**4,841**	**26,021**
B.1 Purchases	862	6,486	1,235	11,360	4,841	24,784
B.2 Capitalised improvement expenses	-	-	-	-	-	-
B.3 Write-backs	-	-	-	-	-	-
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	828	186	-	-	-	1,014
B.7 Other changes	-	220	-	-	-	220
C. Decreases	**262**	**4,618**	**721**	**5,884**	**4,645**	**16,130**
C.1 Sales	21	-	-	5	2	28
C.2 Depreciation	-	4,393	709	5,820	4,621	15,543
C.3 Impairment losses charged to:	-	-	1	-	-	1
- a) shareholders' equity	-	-	-	-	-	-
- b) income statement	-	-	1	-	-	1
C.4 Reductions in fair value charged to:	-	-	-	-	-	-
- a) shareholders' equity	-	-	-	-	-	-
- b) income statement	-	-	-	-	-	-
C.5 Negative exchange differences	1	4	-	-	-	5
C.6 Transfers to:	12	221	-	-	-	233
- a) tangible assets held for investment	12	221	-	-	-	233
- b) assets held for sale	-	-	-	-	-	-
C.7 Other changes	228	-	11	59	22	320
D. Net closing balance	34,204	106,951	4,204	17,157	15,486	178,002
D.1 Total net impairments	-	(51,622)	(22,115)	(119,739)	(72,752)	(266,228)
D.2 Gross closing balance	**34,204**	**158,573**	**26,319**	**136,896**	**88,238**	**444,230**
E. Carried at cost	-	-	-	-	-	-

12.6 Tangible assets held for investment: annual changes

	Total	
	Land	Buildings
A. Opening balance	**18,114**	**23,587**
B. Increases	**1,456**	**6,525**
B.1 Purchases	1,444	6,297
B.2 Capitalised improvement expenses	-	-
B.3 Increases in fair value	-	-
B.4 Write-backs	-	-
B.5 Positive exchange differences	-	-
B.6 Transfers from buildings for business purposes	12	221
B.7 Other changes	-	7
C. Decreases	**11,177**	**13,450**
C.1 Sales	-	120
C.2 Depreciation	-	609
C.3 Reductions in fair value	-	-
C.4 Impairment losses	-	-
C.5 Negative exchange differences	-	-
C.6 Transfers from other asset portfolios	828	186
a) buildings for business purposes	828	186
b) non-current assets held for sale	-	-
C.7 Other changes	10,349	12,535
D. Closing balance	**8,393**	**16,662**
E. Carried at fair value	8,529	21,509

12.7 Commitments for purchases of property and equipment (IAS 16/74.c)

	31/12/2016	31/12/2015
A. Assets for business purposes		
1.1 owned	13,130	-
- land	2,869	-
- buildings	10,261	-
- furniture	-	-
- electronic equipment	-	-
- other risks	-	-
1.2 through financial leasing	-	-
- land	-	-
- buildings	-	-
- furniture	-	-
- electronic equipment	-	-
- other risks	-	-
Total A	**13,130**	**-**
B. Assets held for investment purposes		
1.1 owned	24,382	-
- land	5,327	-
- buildings	19,055	-
1.2 through financial leasing	-	-
- land	-	-
- buildings	-	-
Total B	**24,382**	**-**
Total (A+B)	**37,512**	**-**

Section 13 – Intangible assets – Item 130

13.1 Intangible assets: breakdown by type of asset

Asset/Amount	31/12/2016		31/12/2015	
	Defined duration	Indefinite duration	Defined duration	Indefinite duration
A.1 Goodwill	x	34,236	x	38,457
A.1.1 Attributable to the group	x	33,201	x	37,396
A.1.2 Attributable to minority interests	x	1,035	x	1,061
A.2 Other intangible assets	51,417	1	46,937	1
A.2.1 Assets carried at cost:	51,417	1	46,937	1
a) Intangible assets generated internally	7,981	-	6,957	-
b) Other assets	43,436	1	39,980	1
A.2.2 Assets carried at fair value:	-	-	-	-
a) Intangible assets generated internally	-	-	-	-
b) Other assets	-	-	-	-
Total	**51,417**	**34,237**	**46,937**	**38,458**

Intangible assets mainly refer to software.

Information on impairment tests for goodwill and intangible assets with unlimited life

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 that required under 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 subjected to impairment test (CGU) and relative goodwill allocated *(euro thousands)*

Company	CGU	Goodwill allocated before write-downs for the year
Banca Sella Company	CGU A1	20,177
Banca Patrimoni Sella & C.	CGU A2	1,510
Sella Gestioni	CGU A3	7,260
Selfid	CGU A4	448
Brosel Company	CGU A5	32
Immobiliare Lanificio Maurizio Sella	CGU A6	56
HI MTF	CGU B1	127
Branches of BS Milano via Gonzaga [1]	CGU C1	542
BS branches (formerly Cram) [2]	CGU C2	3,209
BS S.Michele and Fasano branches [3]	CGU C3	1,099
Total		**34,460**

[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.

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 A1	Value in use	Dividend discount model (excess capital version)	The impairment test detected no loss in value
CGU A2	Value in use	Dividend discount model (excess capital version)	The impairment test detected no loss in value
CGU A3	Value in use	Dividend discount model (excess capital version)	The impairment test detected no loss in value
CGU A4	Value in use	Discounting of future financial flows	The impairment test showed a loss of value of € 224 thousand
CGU A5	Value in use	Discounting of future financial flows	The impairment test detected no loss in value
CGU A6	Fair value	Adjusted Equity Method	The impairment test detected no loss in value
CGU B1	Fair value	Market multiples	The impairment test detected no loss in value
CGU C1	Value in use	Dividend discount model (excess capital version)	The impairment test detected no loss in value
CGU C2	Value in use	Dividend discount model (excess capital version)	The impairment test detected no loss in value
CGU C3	Value in use	Dividend discount model (excess capital version)	The impairment test detected no loss in value

Description of the methodologies used

The ***fair value*** is defined as the price at which an asset may be exchanged between knowledgeable and independent parties, in an arm's length transaction on the market, not subject to any duress and net of the selling costs. The methods used for determining the fair value are listed below:

- **Transaction Multiples Method**: market multiples are indicators that express a ratio between the value of a company and a measurement of performance achieved by the company itself. In particular, through the comparable companies approach, the price of an unlisted company is estimated taking as a reference a sample of listed companies operating in the same segment.
- **Adjusted Equity Method**: involves considering the proportion of shareholders' equity held adjusted to:
  - the value attributed to specific intangible assets connected with the relation with customers; this value is determined by referring to the main CGU aggregates (total deposits, managed deposits, loans) and applying the multiples presumed from the market with reference to comparable transactions; the value obtained is then properly adjusted to take into account the company's high/low yields on the market itself (income adjustment);
  - possible capital gains, i.e. differences between the present values of assets and liabilities calculated with the relevant criteria and the corresponding carrying values.

The **Value in use** is defined as the present value of future cash flows expected to derive from an asset. The models used for determining the value in use are:

- DDM (dividend discount model), to discount back distributable income flows after meeting the prescribed minimum capital requirement (excess capital): it was applied to entities subject to prudential supervisory regulations;
- discounting back income flows: this was applied in all cases.

The estimate of value in use incorporates the following elements:

- estimate of future financial 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): this was calculated according to the Capital Asset Pricing Model (CAPM). The formula used is: Ke = Rf + Beta * (RM- Rf) + ARP, 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 amounts to 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.

For the purposes of determining future flows, the multi-annual plans prepared analytically for each CGU were used. Their financial and economic forecasts were defined on the basis of hypotheses in line with the assumptions of the economic and financial forecasts of the Banca Sella Group and make reference to a scenario forecast whose main indicators are provided in the table below:

Forecast scenarios for the main indicators

Eurozone	2016	2017	2018	2019
Real GDP	1.6	1.4	1.6	1.6
Consumer price index	0.2	1.3	1.6	1.8
Official rates	0.00	0.00	0.00	0.25
Short-term interest rates (3M Euribor)	-0.26	-0.30	-0.25	-0.01
Italy	**2016**	**2017**	**2018**	**2019**
Real GDP	0.9	0.7	1.1	1.2
Consumption	1.4	0.9	1.2	1.4
Consumer price index	0.0	1.0	1.3	1.6

During the three-year period, the international context should show growth aligned with the values seen in 2016. In terms of consumer prices, the moderate growth should justify the continued lack of inflationary tension in developed countries. As for Italy, growth prospects in the three-year period 2016–2019 appear below the euro area average. With reference to the financial segment, the scenario assumes a low level of money market interest, only in the last part of the three year would a modest increase in rates be seen. These multi-annual 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 each CGU for calculating the recoverable amount. The notes on the side are an integration, where necessary, to the general guidelines described above.

CGU: elements used to calculate recoverable value

CGU	Basic assumptions	Method of determination	Note
CGU A1	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 an improvement in the structural profitability of the bank deriving primarily from growth in the contribution provided by revenue from services, the completion of efficiency projects to limit costs and the decrease in the impact of credit risk
	Discount rate	Estimated using the Capital Asset Pricing Model (CAPM).	The discount rate used was 8.0%, incorporating a Beta of 1.047.
	Profitability beyond the forecast period	Constant annual growth rate at 2%	
CGU A2	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 an increase in profitability, essentially deriving from: - an improvement in revenues from services, thanks to the increase in amounts managed - the optimisation of asset profitability in relation to capital absorption - growth in efficiency through well focused IT projects
	Discount rate	Estimated using the Capital Asset Pricing Model (CAPM).	The discount rate used was 8.0%, incorporating a Beta of 1.047.
	Profitability beyond the forecast period	Constant annual growth rate at 2%	
CGU A3	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 of structural profitability, essentially deriving from an improvement in revenues from services, thanks to the projected increase in amounts
	Discount rate	Estimated using the Capital Asset Pricing Model (CAPM).	The discount rate used was 8.0%, incorporating a Beta of 1.047.
	Profitability beyond the forecast period	Constant annual growth rate at 2%	
CGU A4	Economic and balance sheet variables	Three-year plan (2017-2019) approved by the Board of Directors of the companies	The forecast data point to a decline in outlook profitability primarily relating to higher costs and investments to be made to strengthen the company's structure
	Discount rate	Estimated using the Capital Asset Pricing Model (CAPM).	The discount rate used was 8.0%, incorporating a Beta of 1.047.
	Profitability beyond the forecast period	Constant annual growth rate at 2%	
CGU A5	Economic and balance sheet variables	Three-year plan (2017-2019) approved by the Board of Directors of the companies	Forecast data foresee a gradual increase in the brokerage margin which can be achieved thanks to the plan to strengthen direct sales activities, and through greater contributions coming from notification activities carried out by the group banks.
	Discount rate	Estimated using the Capital Asset Pricing Model (CAPM).	The discount rate used was 7.75%, incorporating a Beta of 1.0.
	Profitability beyond the forecast period	Constant annual growth rate at 2%	

Continuation of table above

CGU	Basic assumptions	Method of determination	Note
CGU A6	Shareholders' Equity	Book value at 31/12/2016	The evaluation of the real estate was prepared making use of the assistance of an independent appraiser
	Value of the real estate held	The value of the real estate was estimated on the basis of a recent appraisal	
CGU B1	Shareholders' Equity	Book value at 31/12/2016	Multiples are determined using the price expressed at 31/12/16 for a sample of comparable companies as the reference
	EBITDA		
CGU C1 CGU C2 CGU C3	Economic and balance sheet variables	Three-year plan (2017-2019) approved by the Board of Directors of the company	Forecast data take into account a gradual recovery in the profitability of the retail bank business of the CGUs, mainly deriving from the improved contribution provided by revenues from services and the decline in the impact of credit risk
	Discount rate	Estimated using the Capital Asset Pricing Model (CAPM).	The discount rate used was 8.0%, incorporating a Beta of 1.047.
	Profitability beyond the forecast period	Constant annual growth 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 A1	+ 25 b.p.	2.9%	- 25 b.p.	1.4%
CGU A2	+ 25 b.p.	3.4%	- 25 b.p.	2.2%
CGU A3	+ 25 b.p.	2.7%	- 25 b.p.	2.3%
CGU A4	entity for which the impairment loss was recognised			
CGU A5	+ 25 b.p.	4.3%	- 25 b.p.	3.9%
CGU C1	+ 25 b.p.	7.2%	- 25 b.p.	6.1%
CGU C2	+ 25 b.p.	7.60%	- 25 b.p.	6.4%
CGU C3	+ 25 b.p.	6.90%	- 25 b.p.	5.8%

In addition, analyses aimed at highlighting the value limits beyond which impairment testing of the CGU in question would require recognition of impairment. To this end 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" rate
CGU A1	10.8%	-9.2%
CGU A2	19.8%	N.S. (<-25%)
CGU A3	N.S. (> 25%)	N.S. (<-25%)
CGU A4	entity for which the impairment loss was recognised	
CGU A5	8.9%	0.7%
CGU C1	14.4%	-7.4%
CGU C2	8.9%	1.0%
CGU C3	9.6%	0.0%

Conclusions

From the analysis done, it was necessary to write down the book value of goodwill related to the company Selfid (CGU A4) in the amount of € 224 thousand. The sensitivity analysis revealed no indications of reduction in value requiring registration.

13.2 Intangible assets: annual changes

	Goodwill	Other intangible assets: internally generated		Other intangible assets: other		Total
		Defined duration	Indefinite duration	Defined duration	Indefinite duration	
A. Gross opening balance	**40,383**	**15,510**	**-**	**215,381**	**1**	**271,275**
A.1 Total net reductions in value	1,926	8,553	-	175,401	-	185,880
A.2 Net opening balance	**38,457**	**6,957**	**-**	**39,980**	**1**	**85,395**
B. Increases	**-**	**3,709**	**-**	**18,326**	**-**	**22,035**
B.1 Purchases	-	3,709	-	18,326	-	22,035
B.2 Increases in internal intangible assets	X	-	-	-	-	-
B.3 Write-backs	X	-	-	-	-	-
B.4 Increases in fair value	X	-	-	-	-	-
- in shareholders' equity	X	-	-	-	-	-
- in income statement	X	-	-	-	-	-
B.5 Positive exchange differences	-	-	-	-	-	-
B.6 Other changes	-	-	-	-	-	-
C. Decreases	**4,221**	**2,685**	**-**	**14,870**	**-**	**21,776**
C.1 Sales	3,997	-	-	78	-	4,075
C.2 Write-downs	224	2,685	-	14,490	-	17,399
- amortisation	X	2,685	-	14,490	-	17,175
- write-downs	224	-	-	-	-	224
- shareholders' equity	X	-	-	-	-	-
- income statement	224	-	-	-	-	224
C.3 Reductions in fair value	-	-	-	-	-	-
- in shareholders' equity		-	-	-	-	-
- in income statement		-	-	-	-	-
C.4 Transfers to non-current assets held for sale	-	-	-	-	-	-
C.5 Negative exchange differences	-	-	-	8	-	8
C.6 Other changes	-	-	-	294	-	294
D. Net closing balance	**34,236**	**7,981**	**-**	**43,436**	**1**	**85,654**
D.1 Total net adjustments	224	11,238	-	188,947	-	200,409
E. Gross closing balance	**34,460**	**19,219**	**-**	**232,383**	**1**	**286,063**
F. Carried at cost	-	-	-	-	-	-

Section 14 – Tax assets and liabilities – Item 140 of the assets and 80 of the liabilities

Current tax assets: breakdown

	31/12/2016	31/12/2015
Prepaid taxes	60,134	74,917
Credits for withholdings	878	1,012
Assets from inclusion in tax consolidation	5,002	2,257
Tax credits	15,179	20,944
Total	**81,193**	**99,130**

Current tax liabilities: breakdown

	31/12/2016	31/12/2015
Provisions for direct taxes	17,755	23,958
Provisions for indirect taxes	-	-
Total	**17,755**	**23,958**

14.1 Prepaid tax assets: breakdown

	IRES	IRAP	OTHER	31/12/2016	31/12/2015
Losses on receivables	138,347	12,811	-	151,158	159,069
Provisions for sundry risks and liabilities	7,455	632	-	8,087	4,975
Depreciation and valuation of buildings	4,385	219	-	4,604	4,326
Sundry administrative expenses	2,103	-	-	2,103	922
Personnel expenses	1,165	-	249	1,414	818
Collective valuations of sureties issued	326	-	-	326	416
Goodwill and costs related to purchase of company branch	938	189	-	1,127	1,256
Value financial assets available for sale	27	650	-	677	542
Release of consolidated goodwill	6,579	1,334	-	7,913	7,870
Other assets	6,351	582	114	7,047	6,240
Total deferred tax assets (charged to income statement)	**167,676**	**16,417**	**363**	**184,456**	**186,434**
Depreciation and valuation of buildings	2,623	307	-	2,930	2,930
Value financial assets available for sale	494	122	-	616	30
Other assets	49	-	-	49	91
Total deferred tax assets (charged to shareholders' equity)	**3,166**	**429**	**-**	**3,595**	**3,051**

14.2 Deferred tax liabilities: breakdown

	IRES	IRAP	OTHER	31/12/2016	31/12/2015
Gain on sale of financial assets available for sale	50	43	-	93	44
Different calculation of depreciation of tangible assets	473	90	-	563	563
Different calculation of amortisation of intangible assets	-	-	-	-	38
Discounting to the present of provisions for sundry risks and liabilities	1	-	-	1	1
Discounting to the present of severance indemnities	5	-	-	5	4
Capital gain on sale of company division	1,054	-	-	1,054	2,108
Goodwill	1,131	226	-	1,357	1,205
Other liabilities	1,515	140	9	1,664	1,419
Total deferred taxes (charged to Income Statement)	**4,229**	**499**	**9**	**4,737**	**5,382**
Measurement of financial assets available for sale	4,183	2,625	-	6,808	8,688
Depreciation and valuation of buildings	747	150	-	897	897
Total deferred taxes (charged to Shareholders' Equity)	**4,930**	**2,775**	**-**	**7,705**	**9,585**

14.3 Changes in deferred tax assets (charged to income statement)

	31/12/2016	31/12/2015
1. Initial amount	**186,434**	**189,431**
2. Increases	**12,177**	**14,505**
2.1 Prepaid taxes during the year	12,161	14,505
a) relating to previous years	574	296
b) due to changes in accounting policies	-	-
c) write-backs	-	-
d) other	11,587	14,209
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	16	-
3. Decreases	**14,155**	**17,502**
3.1 Prepaid taxes cancelled during the year	11,620	5,212
a) reversals	11,284	5,144
b) write-downs for unrecoverable items	167	7
c) changes in accounting policies	-	-
d) other	169	61
3.2 Reductions in tax rates	20	102
3.3 Other decreases	2,515	12,188
a) transformation into tax receivables pursuant to Italian Law no. 214/2011	2,034	11,512
b) other	481	676
4. Final amount	**184,456**	**186,434**

14.3.1 Changes in prepaid tax pursuant to Italian Law no. 214/2011 (charged to income statement)

	Total 31/12/2016	Total 31/12/2015
1. Initial amount	**167,962**	**168,944**
2. Increases	**62**	**10,871**
3. Decreases	**7,930**	**11,853**
3.1 Reversals	5,794	82
3.2 Transformation into tax receivables	2,034	11,512
a) deriving from period losses	2,034	11,512
b) deriving from tax losses	-	-
3.3 Other decreases	102	259
4. Final amount	**160,094**	**167,962**

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 write-downs 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”.

14.4 Changes in deferred taxes (charged to income statement)

	31/12/2016	31/12/2015
1. Initial amount	**5,382**	**7,027**
2. Increases	**1,487**	**687**
2.1 Deferred taxes recognised during the year	1,487	687
a) relating to previous years	-	1
b) due to changes in accounting policies	-	-
c) others	1,487	686
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**2,132**	**2,332**
3.1 Deferred taxes cancelled during the year	2,008	1,703
a) reversals	2,008	1,703
b) due to changes in accounting policies	-	-
c) others	-	-
3.2 Reductions in tax rates	-	6
3.3 Other decreases	124	623
4. Final amount	**4,737**	**5,382**

14.5 Changes in deferred tax assets (charged to shareholders' equity)

	31/12/2016	31/12/2015
1. Initial amount	**3,051**	**19,423**
2. Increases	**608**	**21**
2.1 Prepaid taxes during the year	604	21
a) relating to previous years	-	-
b) due to changes in accounting policies	-	-
c) others	604	21
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	4	-
3. Decreases	**64**	**16,393**
3.1 Prepaid taxes cancelled during the year	55	175
a) reversals	1	17
b) write-downs for unrecoverable items	-	-
c) due to changes in accounting policies	-	-
d) other	54	158
3.2 Reductions in tax rates	1	1
3.3 Other decreases	8	16,217
4. Final amount	**3,595**	**3,051**

14.6 Changes in deferred tax liabilities (charged to shareholders' equity)

	31/12/2016	31/12/2015
1. Initial amount	**9,585**	**27,541**
2. Increases	**2,937**	**3,303**
2.1 Deferred taxes recognised during the year	2,937	3,303
a) relating to previous years	-	-
b) due to changes in accounting policies	-	-
c) others	2,937	3,303
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**4,817**	**21,259**
3.1 Deferred taxes cancelled during the year	4,817	4,816
a) reversals	4,812	4,792
b) due to changes in accounting policies	-	-
c) others	5	24
3.2 Reductions in tax rates	-	-
3.3 Other decreases	-	16,443
4. Final amount	**7,705**	**9,585**

Section 15 – Non-current assets and groups of assets held for sale – Item 150

15.1 Non-currents assets and groups of assets held for sale: breakdown by type of asset

	31/12/2016	31/12/2015
A. Single assets		
A.1 Financial assets	-	-
A.2 Equity investments	-	-
A.3 Tangible assets	-	-
A.4 Intangible assets	-	-
A.5 Other non-current assets	-	-
Total A	**-**	**-**
of which measured at cost	-	-
of which measured at fair value level 1	-	-
of which measured at fair value level 2	-	-
of which measured at fair value level 3	-	-
B. Asset groups (discontinued operations)		
B.1 Financial assets held for trading	-	22,955
B.2 Financial assets carried at fair value	-	604,454
B.3 Financial assets available for sale	-	761,960
B.4 Financial assets held to maturity	-	-
B.5 Due from banks	-	72,250
B.6 Due from customers	-	2,165
B.7 Equity investments	-	5,757
B.8 Tangible assets	-	64
B.9 Intangible assets	-	856
B.10 Other assets	-	46,723
Total B	**-**	**1,517,184**
of which measured at cost	-	127,815
of which measured at fair value level 1	-	1,370,407
of which measured at fair value level 2	-	18,962
of which measured at fair value level 3	-	-
C. Liabilities associated to single assets held for sale	**-**	**-**
C.1 Debts	-	-
C.2 Securities	-	-
C.3 Other liabilities	-	-
Total C	-	-
of which measured at cost	-	-
of which measured at fair value level 1	-	-
of which measured at fair value level 2	-	-
of which measured at fair value level 3	-	-
D. Liabilities associated to groups of assets held for sale		
D.1 Due to banks	-	-
D.2 Due to customers	-	3,672
D.3 Securities in issue	-	6,190
D.4 Financial liabilities held for trading	-	-
D.5 Financial assets carried at fair value	-	615,180
D.6 Funds	-	342
D.7 Other liabilities	-	890,870
Total D	**-**	**1,516,254**
of which measured at cost	-	908,415
of which measured at fair value level 1	-	-
of which measured at fair value level 2	-	607,839
of which measured at fair value level 3	-	-

The equity investment in 2015 refers to the company C.B.A. Vita S.p.A., which provides life, health and accident insurance to families, professionals and businesses. As set forth in IFRS 5, the assets relating to the equity investment in the company CBA Vita were reclassified to this item, as in November 2015 a sales agreement was reached with the HDI Assicurazioni Group, which will serve as an insurance partner for the next ten years. This agreement was finalised on 30 June 2016.

Section 16 – Other assets – Item 160

16.1 Other assets: breakdown

	31/12/2016	31/12/2015
Tax credits, previous years and relative interest	1,807	557
VAT credits and advances	10,343	6,956
Own current account cheques	2,063	1,870
Tax credits for withholdings	71,718	83,768
Improvements to leased third-party properties	3,086	3,031
Prepayments	19,886	17,927
Payment orders to sundry others being debited	12,551	12,736
Current account cheques drawn against third parties	26,614	29,966
Fees, commissions and other income being debited	46,293	42,354
Advances and accounts payable	7,091	5,769
Charges/invoices to be issued to customers	4,912	3,774
Remaining debt items	16,706	27,179
Total	**223,070**	**235,887**

Following the analysis of certain accounts relating to the advance of legal expenses to employees and advances for the acquisition of assets, such items were reclassified from “Fees, commissions and other income being debited” to “Advances and accounts payable”; 2015 was reclassified accordingly.

Part B – Information on the Consolidated Balance Sheet

Liabilities

Section 1 – Due to banks – Item 10

1.1 Due to banks: product breakdown

Type of transaction/Value	31/12/2016	31/12/2015
1. Due to central banks	**349,281**	**280,470**
2. Due to banks	**255,115**	**358,831**
2.1 Current accounts and demand deposits	101,833	145,924
2.2 Term deposits	9,489	26,129
2.3 Loans and advances	139,939	185,447
2.3.1 Repurchase agreements payable	-	-
2.3.2 Others	139,939	185,447
2.4 Liabilities for repurchase commitments of own equity instruments	-	-
2.5 Other payables	3,854	1,331
Total	**604,396**	**639,301**
Fair value - level 1	**-**	**-**
Fair value - level 2	**-**	**-**
Fair value - level 3	**604,396**	**639,301**
Total fair value	**604,396**	**639,301**

Amounts due to banks are all pertaining to the banking group and are almost entirely on demand, as a consequence it is held that the fair value is in line with the book value.

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	9,399,507	8,189,568
2. Term deposits	744,936	908,677
3. Loans	180,343	132,702
3.1 Repurchase agreements payable	12,278	17,801
3.2 Others	168,065	114,901
4. Liabilities for repurchase commitments of own equity instruments	-	-
5. Other payables	129,842	120,472
Total	**10,454,628**	**9,351,419**
Fair value - level 1	**-**	**-**
Fair value - level 2	**-**	**-**
Fair value - level 3	**10,454,628**	**9,351,419**
Fair value	**10,454,628**	**9,351,419**

Amounts due to customers are almost all on demand, and as a consequence it is held that the fair value is in line with the book value.

2.3 Details of item 20 "Due to customers": structured debts

	31/12/2016	31/12/2015
A. Due to customers		
A.1 Structured deposits	4,466	11,098

Structured deposits refer to dual currency time deposits stipulated by Banca Sella with customers.

Section 3 – Securities in issue – Item 30

3.1 Securities in issue: 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	527,580	-	413,444	119,884	831,034	-	495,481	333,625
1.1 structured	-	-	-	-	-	-	-	-
1.2 others	527,580	-	413,444	119,884	831,034	-	495,481	333,625
2. Other securities	67	-	-	67	67	-	-	67
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	67	-	-	67	67	-	-	67
Total	**527,647**	**-**	**413,444**	**119,951**	**831,101**	**-**	**495,481**	**333,692**

For more information on the methodologies used to determine the fair value, refer to Part A – Accounting policies of these Explanatory Notes.

3.2 Details of item 30 "Securities in issue": subordinated securities

	31/12/2016	31/12/2015
A. Securities in issue		
Securities in issue - Convertible	-	-
Securities in issue - Subordinated	313,029	355,350

3.3 Details of item 30 Securities in issue with specific hedges

	31/12/2016	31/12/2015
1. Securities subject to micro-hedging of fair value:	117,383	174,597
a) interest rate risk	117,383	174,597
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	-	-

Securities in issue subject to micro-hedging refer to Banca Sella and the reduction is mainly due to the maturity of some of these.

Section 4 – Financial liabilities held for trading – Item 40

Financial liabilities held for trading all pertain to the banking group

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	97,781	106,777	-	-	106,777	15,791	19,144	-	-	19,144
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 Others	-	-	-	-	x	-	-	-	-	x
Total A	**97,781**	**106,777**	**-**	**-**	**106,777**	**15,791**	**19,144**	**-**	**-**	**19,144**
B. Derivative instruments										
1. Financial derivatives	x	-	20,548	-	x	x	29	18,831	-	x
1.1 Held for trading	x	-	20,548	-	x	x	29	18,831	-	x
1.2 Linked to fair value option	x	-	-	-	x	x	-	-	-	x
1.3 Others	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 Others	x	-	-	-	x	x	-	-	-	x
Total B	**x**	**-**	**20,548**	**-**	**x**	**x**	**29**	**18,831**	**-**	**x**
Total (A+B)	**x**	**106,777**	**20,548**	**-**	**x**	**x**	**19,173**	**18,831**	**-**	**x**

Key

FV = fair value

FV* = fair value calculated excluding changes in value due to changes in creditworthiness of the issuer after the issue date

NV = nominal or notional value

L1 = Level 1

L2 = Level 2

L3 = Level 3

For more information on the methodologies used to determine the fair value, refer to Part A – Accounting policies of these Explanatory Notes.

Amounts due to customers consist of technical exposures of Banca Sella Holding equal to € 97.8 million, up with respect to the € 19.1 million in the previous year. The change is due to higher technical exposures at the end of the year for market making operations. They were also hedged by repurchase agreements on the same securities.

Section 6 – Hedging derivatives – Item 60

Hedging derivatives pertain exclusively to the banking group

6.1 Hedging derivatives: breakdown by hedge type and 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	**-**	**122,344**	**-**	**627,093**	**-**	**128,513**	**-**	**767,277**
1) Fair value	-	122,344	-	627,093	-	128,513	-	767,277
2) Cash flows	-	-	-	-	-	-	-	-
3) Foreign investments	-	-	-	-	-	-	-	-
B. Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
Total	**-**	**122,344**	**-**	**627,093**	**-**	**128,513**	**-**	**767,277**

Key

NV = nominal or notional value

L1 = Level 1

L2 = Level 2

L3 = Level 3

For more information on the methodologies used to determine the fair value, refer to Part A – Accounting policies of these Explanatory Notes.

6.2 Hedging derivatives: breakdown by hedged portfolios and type of hedging

Transaction/Type of hedging	Fair Value						Cash flows		Foreign investments
	Micro					Macro	Micro	Macro	
	Interest rate risk	Exchange rate risk	Credit risk	Price risk	More than one risk				
1. Financial assets available for sale	-	-	-	-	-	x	-	x	x
2. Receivables	9,702	-	-	x	-	x	-	x	x
3. Financial assets held to maturity	x	-	-	x	-	x	-	x	x
4. Portfolio	x	x	x	x	x	112,642	x	-	x
5. Other transactions	-	-	-	-	-	x	-	x	-
Total assets	**9,702**	**-**	**-**	**-**	**-**	**112,642**	**-**	**-**	**-**
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 8 – Tax liabilities – Item 80

See section 14 of the assets.

Section 9 – Liabilities associated with assets held for sale – Item 90

See section 15 of the assets.

Section 10 – Other liabilities – Item 100

10.1 Other liabilities: breakdown

Item	Total 31/12/2016	Total 31/12/2015
Amounts available to customers and banks for ongoing operations	4,199	2,727
Amounts payable to tax authorities on behalf of third parties	33,825	33,291
Items payable in transit	8,361	4,920
Payables for commitments to SRF	6,763	-
Values on trading in securities and derivatives in the course of settlement	2,009	-
Adjustments for non-cash portfolio items	6,193	3,409
Bank transfers and other payments due	82,824	144,030
Due from suppliers and fees to be charged to sundry	58,412	57,538
Debts for personnel expenses	27,683	25,588
Fees payable to statutory auditors and directors	2,425	2,346
Contributions payable to sundry agencies	9,860	9,460
Other	13,256	16,647
Total	**255,810**	**299,956**

The payable of € 6.8 million to the SRF Resolution Fund was recognised in accordance with the Bank of Italy communication of 25 January 2017 - Additional contributions to the National Resolution Fund: treatment in the financial statements and in supervisory reporting. The additional contributions to the National Resolution Fund which the Bank of Italy, pursuant to article 25 of law decree no. 237/2016, establishes are due over a long-term time span and for which it annually communicates the amount in each year, are considered liabilities to be recognised in the financial statements, pursuant to IAS 37 and IFRIC 21.

Following the analysis of several accounts relating to payables for sums to be disbursed to others for early retirement incentives and relating to other suppliers for invoices to be received, it was decided to reclassify these items from “Amounts available to customers and banks for ongoing operations” to “Debts for personnel expenses”, and from “Debts for personnel expenses” to “Due from suppliers and fees to be charged to sundry”, respectively, and 2015 was reclassified accordingly for purposes of comparison.

Section 11 – Employee severance indemnities – Item 110

11.1 Employee severance indemnities: annual changes

	31/12/2016	31/12/2015
A. Opening balance	**39,281**	**44,014**
B. Increases	**3,985**	**414**
B.1 Provisions for the year	243	273
B.2 Other changes	3,742	141
C. Decreases	**1,738**	**5,147**
C.1 Liquidations paid	1,055	2,575
C.2 Other changes	683	2,572
D. Closing balance	**41,528**	**39,281**

As required by IAS 19R, for disclosure-related purposes, a series of sensitivity analyses were conducted based on changes in the main actuarial valuation parameters, as well as the projection of future cash flows. In addition, the duration of the future cash flows linked to the liabilities subject to valuation and the breakdown of the defined benefit cost and the remeasurement of the constituent items are reported.
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;
- 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 of outflows for accrued volumes were constructed. 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 having to pay severance indemnities and, therefore, were not assessed. As regards other employees, the evaluation was carried out considering the choices made by employees at 31.12.2016 (at 30.11.2016 for Brosel) 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 pay cheques 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 of 31.12.2016 (30.11.2016 for Brosel) 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:

1. inflation: a 1.5% rate was adopted, as the average scheduled inflation scenario taken from the "2016 Economy and Finance Document Update Note".

2. 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).
3. 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) as at 30 December 2016.

Section 12 – Provisions for risks and charges – Item 120

12.1 Provisions for risks and charges: breakdown

Item/Component	31/12/2016	31/12/2015
1. Company pension funds	-	-
2. Other provisions for risks and charges	50,990	42,810
2.1 legal disputes and customer complaints	9,940	10,680
2.2 personnel expenses	12,617	2,056
2.3 operational risks	19,799	20,965
2.4 supplementary customer allowance and goodwill compensation for termination of agency relationship	5,786	4,806
2.5 other	2,848	4,303
Total	**50,990**	**42,810**

A list is provided below of the most significant contingent liabilities – deriving from disputes and litigation of a fiscal nature – which the Group has assessed as possible but not probable and with reference to which, therefore, no provisions have been set aside:

- Banca Sella Holding: payment demands with allegations relating to the methods of applying stamp duty on the daily transactions book. Periods from 2003 to 2005. Total disputed amount (including taxes, interest, fines and collection fees): approximately € 5.8 million. In April 2014, the Biella CTP filed the judgement of first instance, which was in the Bank's favour. The hearing in the second instance was already held, but the relative judgement has not yet been filed. Please note that three second instance judgements have been issued in favour of other financial intermediaries (in contrast to one unfavourable) in similar disputes. Lastly, note that two judgements were issued by the Court of Cassation in favour of other banks in analogous disputes. The assessment was supported also by favourable opinions on the Bank's conduct, expressed each time by a leading tax law office, also on the basis of the wording of Resolution no. 371/E of 2008 of the Tax Agency, and by the Italian Banking Association. It should be noted finally that the clarification provided by the Tax Agency with Resolution no. 161/E of 2007 could, in the unfortunate case of rejection of the main argument put forward by the Bank, reduce very considerably the amount of the tax demand;
- Banca Sella Holding: assessment notices with allegations on the subject of taxable base for IRES (corporation tax) and IRAP (regional business tax). Periods 2009 and 2010. Total disputed amount (including taxes, interest and fines): approximately € 1.3 million. Amounts paid provisionally while judgement is pending: approximately € 0.2 million. The findings involve, in particular, treatment of revenues for infragroup services for IRAP purposes, and treatment of negative differentials on

repurchase agreements for IRES purposes. The measurement was also supported by opinions, issued by a major tax law firm, and by Assonime, in regards to repurchase agreements, that were both in support of the Bank's actions. With respect to the topic of spreads on repurchase agreements, a judgement in favour of the Bank was handed down by the Turin CTP in December 2016;

- Banca Sella (former Banca Sella Sud Arditi Galati, merged by incorporation in 2011): assessment notice with allegations on the subject of taxable base for IRES. Period 2005. Total disputed amount (including taxes, interest and fines): approximately € 0.7 million. Amounts paid provisionally while judgement is pending: approximately € 0.2 million. Judgement of first instance favourable. Awaiting the issue of the judgement of second instance;
- Biella Leasing: assessment notices with allegations on the subject of taxable base for VAT on boat leasing operations. Periods 2003 and 2004. Total disputed amount (including taxes, interest and fines): approximately € 2.9 million. Amounts paid provisionally while judgement is pending: approximately € 0.3 million. Judgement of first and second instance favourable to the Company with reference to 2004. The first instance judgement with reference to 2003 partially in favour of the company. The assessment was supported also by an opinion expressed by a leading tax law office, favourable to the Company's conduct;
- Sella Synergy India: assessment order with findings regarding the value of the infragroup disposal of the business unit. Period 2009/2010. Total disputed amount (including taxes and interest): approximately € 2.2 million at the end of year exchange rate. Amounts paid provisionally for around € 0.5 million. Favourable judgement issued on 15 September 2016 by the Indian Administrative Court (ITAT). The assessment was supported also by an opinions expressed by a leading local professionals, favourable to the foreign Company's conduct.

12.2 Provisions for risks and charges: annual changes

	Pension funds	Legal disputes and customer complaints	Operational risks	Personnel expenses	Supplementary customer allowance and goodwill compensation for termination of agency relationship	Other
A. Opening balance	**-**	**10,680**	**20,965**	**2,056**	**4,806**	**4,303**
B. Increases	**-**	**2,976**	**161**	**11,128**	**1,233**	**932**
B.1 Provisions for the year	-	2,930	150	10,885	1,233	931
B.2 Changes due to passing of time	-	1	-	-	-	-
B.3 Changes due to fluctuations in discount rate	-	2	7	-	-	-
B.4 Other changes	-	43	4	243	-	1
- Company aggregation operations	-	-	-	-	-	-
- exchange difference (-)	-	-	4	1	-	-
- Other changes (+)	-	43	-	242	-	1
C. Decreases	**-**	**3,716**	**1,327**	**567**	**253**	**2,387**
C.1 Utilisation in the period	-	2,746	146	501	172	1,133
C.2 Changes due to fluctuations in discount rate	-	-	-	-	-	-
C.3 Other changes	-	970	1,181	66	81	1,254
- Company aggregation operations	-	-	-	-	-	-
- exchange difference (-)	-	-	-	-	-	-
- other changes (-)	-	970	1,181	66	81	1,254
D. Closing balance	**-**	**9,940**	**19,799**	**12,617**	**5,786**	**2,848**

12.4 Provisions for risks and charges: other provisions

Note that section 12.4 was not filled out as the specifics for other provisions are provided in table 12.1

Section 15 – Shareholders' equity of the Group – Items 140, 160, 170, 180, 190, 200 and 220

Assets of the Group: breakdown

	31/12/2016	31/12/2015
1. Capital	107,114	107,014
2. Share premiums	105,551	105,551
3. Reserves	572,124	544,189
4. Treasury shares	-	-
a) parent company	-	-
b) subsidiaries	-	-
5. Valuation reserves	30,616	46,416
6. Equity instruments	-	-
7. Profit (loss) for the year of the Group	79,563	28,503
Total	**894,968**	**831,673**

15.1 "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	104,988	-	104,988	104,988	-	104,988
A.2 Savings shares	-	-	-	-	-	-
A.3 Preference shares	-	-	-	-	-	-
A.4 Other shares	2,126	-	2,126	2,026	-	2,026
B. Treasury shares						
B.1 Ordinary shares	-	-	-	-	-	-
B.2 Savings shares	-	-	-	-	-	-
B.3 Preference shares	-	-	-	-	-	-
B.4 Other shares	-	-	-	-	-	-

15.2 Share capital - Number of shares of the parent company: annual changes

Item/Type	Ordinary	Other
A. Total shares at start of period	**209,976,000**	**4,051,340**
- fully paid up	209,976,000	4,051,340
- not fully paid up	-	-
A.1 Treasury shares (-)	-	-
A.2 Shares outstanding: opening	**209,976,000**	**4,051,340**
B. Increases	**-**	**199,866**
B.1 New issues	-	199,866
- for payment	-	-
- business combinations	-	-
- conversion of bonds	-	-
- exercise of warrants	-	-
- other	-	-
- free of charge	-	199,866
- for employees	-	-
- for directors	-	-
- other	-	199,866
B.2 Sale of treasury shares	-	-
B.3 Other changes	-	-
C. Decreases	**-**	**-**
C.1 Cancellation	-	-
C.2 Purchase of treasury shares	-	-
C.3 Business sale transactions	-	-
C.4 Other changes	-	-
D. Shares outstanding: closing	**209,976,000**	**4,251,206**
D.1 Treasury shares (+)	-	-
D.2 Total shares at end of period	209,976,000	4,251,206
- fully paid up	209,976,000	4,251,206
- not fully paid up	-	-

15.3 Capital: other information (in Euro)

	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	214,227,206	214,027,340
Value	107,113,603	107,013,670
Contracts in place for the sale of shares:		
Number of shares under contract	-	-
Total value	-	-

15.4 Retained earnings: other information

	31/12/2016	31/12/2015
Legal reserve	28,759	28,759
Statutory reserves	102,434	92,512
Other	440,931	422,918
Total reserves	**572,124**	**544,189**

Section 16 – Equity belonging to third parties – Item 210

Table 16.1 is not completed in that in the balance sheet there are no equity instruments within equity belonging to third parties. Below is the breakdown of equity belonging to third parties:

Equity belonging to third parties

	31/12/2016	31/12/2015
Capital	78,803	89,621
Share premiums	79,300	94,925
Reserves	16,116	13,727
Valuation reserves	(104)	9,439
Profit (loss) for the period pertaining to minority interests	14,427	3,124
Total	**188,542**	**210,836**

Other information

1. Guarantees given and commitments

Transactions	Amount 31/12/2016	Amount 31/12/2015
1) Financial guarantees issued	31,073	27,041
a) Banks	-	-
b) Customers	31,073	27,041
2) Commercial guarantees issued	174,351	184,509
a) Banks	168	384
b) Customers	174,183	184,125
3) Irrevocable commitments to disburse funds	344,990	272,912
a) Banks	45,396	17,084
i) for certain use	45,396	17,084
ii) usage uncertain	-	-
b) Customers	299,594	255,828
i) for certain use	106,294	76,033
ii) usage uncertain	193,300	179,795
4) Commitments underlying credit derivatives: protection sales	-	-
5) Assets used in guarantee of third-party obligations	21,936	22,972
6) Other commitments	-	-
Total	**572,350**	**507,434**

2. Assets pledged against own liabilities and commitments

Portfolios	Amount 31/12/2016	Amount 31/12/2015
1. Financial assets held for trading	31,199	29,848
2. Financial assets carried at fair value	-	-
3. Financial assets available for sale	487,756	316,365
4. Financial assets held to maturity	-	-
5. Due from banks	71,539	78,782
6. Due from customers	638,569	877,779
7. Tangible assets	-	-

The column relating to 2015 includes entries relating to the item due from customers to ensure a uniform comparison with 2016.

The item Financial assets held for trading consists of securities used to guarantee:

- repurchase agreements;
- advances from the Bank of Italy;
- derivative transactions.

The item Financial assets available for sale consists of securities used to guarantee:

- repurchase agreements.

Repurchase agreements

There are no specific clauses and conditions associated with this guarantee.

Issue of bank drafts

Banks authorised to issue bank drafts are required to lodge a deposit at the Bank of Italy. The minimum value of the deposit lodged is 20% of the amount of drafts in circulation. The Bank of Italy holds the deposits

lodged and checks the congruity of the amount with respect to the minimum amount in relation to the circulation of bank drafts and the release of the financial instruments deposited.
Banks with misalignments in the amount of the deposit must take appropriate corrective measures, which, depending on the situation, will consist of rectifying the reports at the first favourable occasion or increasing the deposits, to be implemented within the 5 days following the notification. If they fail to increase the deposits or infringe the regulations on their amount or composition, then the banks may be fined from € 516.46 to € 25,822.84, in accordance with Article 144, paragraph 1, of Legislative Decree 385/93.

Advances from the Bank of Italy
For advances granted by the Bank of Italy in order to finance, during the same business day, any temporal misalignments between payments and receipts, the Group banks are required to offer their assets as surety, which are registered in the specific guarantee securities deposit account opened at the Bank of Italy.
If the surety is not lodged within the deadline envisaged, and the misalignment continues, the Bank of Italy may terminate the contract. Such termination entails the immediate closure of the intraday advance account, and consequently an obligation to repay the debt in the said account and reimburse any advances granted.

Derivative transactions
The Banca Sella Group banks adhere to the guarantee system managed by the Clearing and Guarantee House, through the payment of margins. The final settlement of Contractual Positions on Derivative Financial Instruments may be carried out through differential liquidation in cash or "delivery" of the underlying asset, in accordance with the provisions of the relevant Contractual Schedule.
In the event of default or insolvency, the Clearing and Guarantee House proceeds to close the accounts of the party in default and calculates the charges incurred in this operation.

4. Breakdown of investments relating to unit-linked and index-linked policies

	Amount 31/12/2016	Amount 31/12/2015
I. Land and buildings	-	-
II. Investments in Group companies and subsidiary companies	-	-
1. Equity	-	-
2. Bonds	-	-
3. Loans	-	-
III. Stakes in mutual funds	-	-
IV. Other financial investments	-	604,390
1. Equity	-	453,725
2. Bonds and other fixed-income securities	-	131,597
3. Deposits with credit institutions	-	-
4. Other financial investments	-	19,068
V. Other assets	-	-
VI. Cash and cash equivalents	-	55,662
Total	**-**	**660,052**

5. Management and broking for customer accounts

Type of services	Amount 31/12/2016	Amount 31/12/2015
1. Orders carried out on behalf of customers	**87,751,167**	**121,521,842**
a) purchases	44,275,528	61,324,428
1. settled	44,185,585	61,224,578
2. not settled	89,943	99,850
b) sales	43,475,639	60,197,414
1. settled	43,393,282	60,126,779
2. not settled	82,357	70,635
2. Portfolio management	**4,455,425**	**4,212,869**
a) Individual	4,240,449	4,031,814
b) Collective	214,976	181,055
3. Custody and administration of securities	**31,342,791**	**33,294,167**
a) third-party securities on deposit as custodian bank (exclusive of portfolios managed)	-	-
1. securities issued by companies included within consolidation	-	-
2. other securities	-	-
b) third party securities on deposit (excluding portfolio management): other	12,088,655	11,399,581
1. securities issued by companies included within consolidation	526,014	576,355
2. other securities	11,562,641	10,823,226
c) third-party securities deposited with third parties	16,475,515	18,093,480
d) own securities deposited with third parties	2,778,621	3,801,106
4. Other transactions	**111,249,091**	**147,478,827**

The item “Other transactions” includes the volume of work of receiving and sending orders, which is divided as follows: purchases: 56.7 billion sales: 54.5 billion.

Following the alignment of the nominal value of a fund, the amount relating to the item custody and administration of securities, aggregate b) other securities and aggregate c) third-party securities deposited with third parties was adjusted compared to what was shown in the financial statements as at 31 December 2015.

The table below shows a breakdown of indirect funding for the Banca Sella Group:

Indirect deposits, breakdown

	31/12/2016	31/12/2015
a) Indirect deposits from management and broking for third parties (see previous table)		
- Portfolio management	4,455,425	4,212,869
- 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	11,562,641	10,823,226
b) Indirect deposits from insurance policies	2,090,317	1,587,668
Total indirect deposits	**18,108,383**	**16,623,763**

6. 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		14,182	-	14,182	13,093	-	1,089	2,585
2. Repurchase agreements		113,853	-	113,853	113,821	-	32	278
3. Securities lending		-	-	-	-	-	-	-
4. Other		-	-	-	-	-	-	-
Total	**31/12/2016**	**128,035**	**-**	**128,035**	**126,914**	**-**	**1,121**	**x**
Total	**31/12/2015**	**366,224**	**-**	**366,224**	**362,811**	**550**	**-**	**2,863**

7. 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		132,133	-	132,133	48,747	82,256	1,130	952
2. Repurchase agreements		-	-	-	-	-	-	-
3. Securities lending		-	-	-	-	-	-	-
4. Other transactions		-	-	-	-	-	-	-
Total	**31/12/2016**	**132,133**	**-**	**132,133**	**48,747**	**82,256**	**1,130**	**x**
Total	**31/12/2015**	**136,780**	**-**	**136,780**	**53,128**	**82,700**	**-**	**952**

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 typically 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 reasonable certainty in the estimate of the contract value, a valuation of the contract is requested from 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 to 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.).

Based on that established in 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 consolidated 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	12,634	-	3,041	15,675	9,876
2. Financial assets carried at fair value	-	-	-	-	-
3. Financial assets available for sale	20,614	7	-	20,621	27,118
4. Financial assets held to maturity	-	-	-	-	-
5. Due from banks	81	1,485	-	1,566	906
6. Due from customers	7	264,402	218	264,627	298,814
7. Hedging derivatives	x	x	4,217	4,217	7,484
8. Other assets	x	x	2,008	2,008	1,130
Total	**33,336**	**265,894**	**9,484**	**308,714**	**345,328**

Interest income came to € 308.7 million (€ 345.3 million at the end of 2015), and reflects the continuation of the downward trend for average rates on loans, even though volumes rose. Interest from the portfolio of financial assets available for sale was also down, in line with the decrease in securities held in that portfolio.

Below are details on interest accrued on bad loans, substandard loans, past-due/loans in excess of thresholds and restructured exposures:

Interest and similar income: breakdown of interest accrued on impaired loans

	31/12/2016	31/12/2015
- accrued on bad loans	432	553
- accrued on unlikely to pay positions	10,688	13,809
- accrued on loans past-due/overdue	1,091	1,708

1.3 Interest and similar income: other information

1.3.1 Interest income on financial assets in foreign currencies

	31/12/2016	31/12/2015
Interest income on financial assets in foreign currencies	3,970	2,248

1.3.2 Interest income on financial leases

	31/12/2016	31/12/2015
Interest income on financial leases	36,692	37,947

1.4 Interest liabilities and similar expenses: breakdown

Item/Technical type	Payables	Securities	Other transactions	Total 31/12/2016	Total 31/12/2015
1. Due to central banks	211	x	-	211	474
2. Due to banks	2,304	x	-	2,304	3,246
3. Due to customers	19,041	x	-	19,041	37,554
4. Securities in issue	x	16,171	-	16,171	19,017
5. Financial liabilities held for trading	460	-	1,199	1,659	773
6. Financial liabilities carried at fair value	-	-	-	-	-
7. Other liabilities and reserves	x	x	2,369	2,369	1,296
8. Hedging derivatives	x	x	26,794	26,794	30,325
Total	**22,016**	**16,171**	**30,362**	**68,549**	**92,685**

Interest expense comes to € 68.5 million and shows a downward trend in terms of the cost of funding, despite a significant rise in volumes.

1.5 Interest liabilities and similar expenses: differentials related to hedging transactions

	31/12/2016	31/12/2015
A. Positive differentials on hedging transactions	4,217	7,484
B. Negative differentials on hedging transactions	(26,794)	(30,325)
C. Balance (A-B)	**(22,577)**	**(22,841)**

1.6 Interest liabilities and similar expenses: 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	2,065	2,907

1.6.2 Interest expense on liabilities for financial leases

	31/12/2016	31/12/2015
Interest expense on financial leases	-	-

Section 2 – Commissions – Items 40 and 50

2.1 Fee income: breakdown

Type of service/Value	Total 31/12/2016	Total 31/12/2015
a) sureties issued	3,839	3,671
b) credit derivatives	-	-
c) asset management, brokerage and advisory services:	146,390	142,703
1. financial instruments trading	1,051	760
2. currency trading	1,401	1,833
3. portfolio management	58,792	59,949
3.1. individual	39,981	39,103
3.2 collective	18,811	20,846
4. custody and administration of securities	1,932	1,899
5. depositary bank	-	15
6. placement of securities	32,656	33,548
7. activities related to receiving and sending orders	25,536	28,831
8. consultancy activities	2,443	1,434
8.1 regarding investments	2,134	883
8.2 regarding financial structure	309	551
9. distribution of third party services	22,579	14,434
9.1 portfolio management	44	52
9.1.1. individual	44	52
9.1.2. collective	-	-
9.2 insurance products	22,473	13,839
9.3 other products	62	543
d) collection and payment services	118,629	117,716
e) servicing of securitisation transactions	142	194
f) services for factoring transactions	-	-
g) tax collection services	-	-
h) activities for management of multilateral trading facilities	-	-
i) current account keeping and management	21,036	23,000
j) other services	58,216	55,629
Total	**348,252**	**342,913**

The good performance of fee income was primarily due to the component of revenue linked to payment systems and accessory fees on loans. On the other hand, profit from financial and trading activities was down. Fees linked to the insurance segment performed very well.

Below is the breakdown of the subitem related to other services:

Fee income: breakdown of subitem “Other services”

	31/12/2016	31/12/2015
- credit and debit cards	11,764	12,544
- expense recovery on loans to customers	11,799	12,914
- fees and commissions on relations with credit institutions	504	479
- safe deposit box leasing	234	214
- recovery of postal, printing and similar expenses	1,860	1,885
- fees on loans to customers	25,606	21,028
Other	6,449	6,565
Total “other services”	**58,216**	**55,629**

2.2 Fee expense: breakdown

Service/Amount	Total 31/12/2016	Total 31/12/2015
a) sureties received	163	427
b) credit derivatives	-	-
c) asset management and brokerage services:	53,282	51,414
1. financial instruments trading	4,290	4,001
2. currency trading	-	-
3. portfolio management:	500	554
3.1 own	239	265
3.2 delegated by third-parties	261	289
4. custody and administration of securities	830	738
5. placement of financial instruments	962	937
6. off-site sales of financial instruments, products and services	46,700	45,184
d) collection and payment services	43,623	57,254
e) other services	5,197	5,482
Total	**102,265**	**114,577**

The item shows a decrease in fee and commission expense for guarantees received from the State. In particular, the contribution from electronic payment systems was down, thanks to the effect generated by the MIF regulation; on the other hand, commissions paid on external marketing of financial instruments, products and services instead increased, mainly associated with Banca Patrimoni Sella & C., related to financial advisor activities.

Below is the breakdown of the subitem related to other services:

Fee expense: breakdown of subitem “Other services”

	31/12/2016	31/12/2015
Relations with banks	363	614
Loans	864	807
Other	3,970	4,061
Total “Other services”	**5,197**	**5,482**

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	388	7	245	12
B. Financial assets available for sale	1,125	55	937	123
C. Financial assets carried at fair value	-	-	-	-
D. Equity investments	-	x	-	x
Total	**1,513**	**62**	**1,182**	**135**

Section 4 – Net income (losses) from 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 assets held for trading	**1,087**	**27,742**	**(3,869)**	**(16,580)**	**8,380**
1.1 Debt securities	538	27,040	(3,554)	(16,136)	7,888
1.2 Equity securities	208	671	(58)	(418)	403
1.3 UCITS units	341	5	(257)	(26)	63
1.4 Loans and advances	-	-	-	-	-
1.5 Others	-	26	-	-	26
2. Financial liabilities held for trading	**630**	**22**	**(331)**	**(99)**	**222**
2.1 Debt securities	-	-	-	-	-
2.2 Payables	630	22	(331)	(99)	222
2.3 Others	-	-	-	-	-
3. Financial assets and liabilities: exchange rate differences	**x**	**x**	**x**	**x**	**5,243**
4. Derivative instruments	**20,801**	**54,296**	**(22,320)**	**(50,342)**	**6,399**
4.1 Financial derivatives:	20,801	54,296	(22,320)	(50,342)	6,399
- On debt securities and interest rates	20,628	43,555	(21,487)	(41,962)	734
- On equity securities and stock indices	173	10,741	(833)	(8,380)	1,701
- On currencies and gold	x	x	x	x	3,964
- Others	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
Total	**22,518**	**82,060**	**(26,520)**	**(67,021)**	**20,244**

Section 5 – Result of hedging activity – 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	6,844	28,105
A.2 Hedged financial assets (fair value)	14,014	-
A.3 Hedged financial liabilities (fair value)	2,084	4,061
A.4 Cash flow hedging derivatives	-	-
A.5 Assets and liabilities in foreign currencies	-	-
Total hedging income (A)	**22,942**	**32,166**
B. Expenses from:		
B.1 Fair value hedging derivatives	5,350	4,986
B.2 Hedged financial assets (fair value)	18,455	27,447
B.3 Hedged financial liabilities (fair value)	-	-
B.4 Cash flow hedging derivatives	-	-
B.5 Assets and liabilities in foreign currencies	-	-
Total expenses for hedging activities (B)	**23,805**	**32,433**
C. Net gains/(losses) on hedging activities (A-B)	**(863)**	**(267)**

Section 6 – Profits (losses) from sales/repurchases - Item 100

6.1 Profit (loss) from sales/repurchases: breakdown

Item/Income component	Total 31/12/2016			Total 31/12/2015		
	Gains	Losses	Net income/losses	Gains	Losses	Net income/losses
Financial assets						
1. Due from banks	73	72	1	-	-	-
2. Due from customers	1,934	2,841	(907)	899	17,980	(17,081)
3. Financial assets available for sale	72,619	13,621	58,998	58,719	8,038	50,681
3.1 Debt securities	22,371	13,550	8,821	33,712	7,422	26,290
3.2 Equity securities	50,248	71	50,177	24,718	80	24,638
3.3 UCITS units	-	-	-	289	536	(247)
3.4 Loans and advances	-	-	-	-	-	-
4. Financial assets held to maturity	-	-	-	-	-	-
Total assets	**74,626**	**16,534**	**58,092**	**59,618**	**26,018**	**33,600**
Financial liabilities						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Securities in issue	1,799	1,751	48	2,341	2,578	(237)
Total liabilities	**1,799**	**1,751**	**48**	**2,341**	**2,578**	**(237)**

The result at 31 December 2016 was influenced in the amount of € 50.2 million by two extraordinary events. The acquisition by Visa Inc. of the shares of Visa Europe which, for Banca Sella, as principal member, entailed a capital gain of € 46.9 million and the recognition in the income statement of € 3.3 million as an addition to the price of the transaction completed last year when Banca Sella Holding sold part of its equity investment in ICBPI to Mercury Italy Srl. Indeed, the disposal contract called for an earn-out in favour of the Selling Banks if ICBPI received Visa income through the subsidiary Cartasì in the 5 years subsequent to the disposal (condition fulfilled in June 2016 when the Visa Europe – Visa Inc. transaction was completed).

Section 8 – Value adjustments for impairment - Item 130

8.1 Net value adjustments for impairment of loans: breakdown

Transactions/Income components	Write-downs (1)			Write-backs (2)				Total	
	Specific		Portfolio	Specific		Portfolio		31/12/2016	31/12/2015
	Write-offs	Other		A	B	A	B		
A. Due from banks									
- Loans	-	-	-	-	-	-	71	71	228
- Debt securities	-	-	-	-	-	-	-	-	-
B. Due from customers									
Impaired loans acquired									
- Loans	-	-	x	-	-	x	x	-	-
- Debt securities	-	-	x	-	-	x	x	-	-
Other receivables									
- Loans	(3,835)	(132,746)	-	16,090	35,194	-	3,196	(82,101)	(129,195)
- Debt securities	-	-	-	-	-	-	-	-	-
C. Total	**(3,835)**	**(132,746)**	**-**	**16,090**	**35,194**	**-**	**3,267**	**(82,030)**	**(128,967)**

A= from interest B= from other write-backs

Net value adjustments on loans amounted to € 82 million at the end of the year, with respect to € 129 million in 2015, a decrease of -36.4%. Write-downs mainly refer to Banca Sella and Consel.

8.2. Net write-downs due to deterioration of financial assets available for sale: breakdown

Transactions/Income components	Write-downs (1)		Write-backs (2)		Total 31/12/2016	Total 31/12/2015
	Specific		Specific			
	Write-offs	Other	To	B		
A. Debt securities	-	(304)	-	-	(304)	-
B. Equity securities	-	(3,330)	-	-	(3,330)	(5,063)
C. UCITS units	-	(2,561)	x	x	(2,561)	-
D. Lending to banks	-	-	x	-	-	-
E. Lending to customers	-	(1,818)	-	-	(1,818)	(6)
F. Total	**-**	**(8,013)**	**-**	**-**	**(8,013)**	**(5,069)**

A= from interest B= from other write-backs

Value adjustments on financial assets available for sale totalled € 8 million. At 31 December 2016, as regards minority interests, the value of the equity investment in Veneto Banca was aligned with the price of the share capital increase carried out by the Company, writing it down with effects in the income statement by roughly € 1 million, the equity investment in Digital Magics was written down by € 66 thousand with effects in the income statement, the investment in Cassa di Risparmio di Bolzano was written down by € 0.6 million with effects in the income statement, the value of the equity investment in Finpiemonte Partecipazioni was aligned with the shareholders' equity value, writing it down with effects in the income statement by € 81 thousand and lastly the value of the equity investment in Symbid Corp was written off entirely with effects in the income statement, in the amount of € 43 thousand.

The Fondo Atlante was written down taking into account the impairment loss on the fund's underlying assets (Banca Popolare di Vicenza and Veneto Banca). A total write-down of roughly € 3.5 million was recognised in the income statement, of which € 2.6 million relating to the payments made until 31/12/2016 and € 0.9 million relating to the commitment for the payment which was then made in favour of the Fund on 3 January 2017.

8.4 Net write-downs for impairment of other financial transactions: breakdown

Transactions/Income components	Write-downs (1)			Write-backs (2)				Total	
	Specific		Portfolio	Specific		Portfolio		31/12/2016	31/12/2015
	Write-offs	Other		A	B	A	B		
A. Sureties issued	-	-	-	-	-	-	329	329	(66)
B. Credit derivatives	-	-	-	-	-	-	-	-	-
C. Commitments to disburse funds	-	(928)	-	-	-	-	-	(928)	-
D. Other operations	(162)	(541)	-	-	221	-	-	(482)	(179)
E. Total	**(162)**	**(1,469)**	**-**	**-**	**221**	**-**	**329**	**(1,081)**	**(245)**

A= from interest B= from other write-backs

Section 11 – Administrative Expenses – Item 180

11.1 Personnel expenses: breakdown

Type of expense/Amount		Total 31/12/2016	Total 31/12/2015
1) Employees		231,623	223,525
a) Wages and Salaries		169,682	163,045
b) Social security contributions		40,124	39,816
c) Severance indemnities		4,797	4,094
d) Pension expenses		2,971	2,464
e) Provision for severance indemnities		243	284
f) Provision for pension fund and similar commitments:		-	-
- defined contribution		-	-
- defined benefit		-	-
g) Payments into external supplementary pension funds:		7,000	6,419
- defined contribution		7,000	6,419
- defined benefit		-	-
h) Costs deriving from share-based payment agreements		-	-
i) other employee benefits		6,806	7,403
2) Other current personnel		564	1,969
3) Directors and auditors		4,715	4,928
4) Retired personnel expenses		-	-
	Total	**236,902**	**230,422**

11.2 Average number of employees per category

		Total 31/12/2016	Total 31/12/2015
1) Employees		**4,038**	**4,071**
a) executives		94	93
b) middle managers		1,019	983
c) remaining employees		2,925	2,995
2) Other personnel		**26**	**42**
	Total	**4,064**	**4,113**

11.4 Other employee benefits

Type of expense/Amount		Total 31/12/2016	Total 31/12/2015
- early retirement incentives and provision to support income		138	109
- benefits for dependent children		111	103
- benefits in kind		2,607	2,522
- insurance expenses		2,082	2,076
- professional training courses		1,031	1,033
- travel expenses		73	192
Other		764	1,368
	Total	**6,806**	**7,403**

11.5 Other administrative expenses: breakdown

Type of service/Value	Total 31/12/2016	Total 31/12/2015
Legal and notarial expenses	7,605	8,973
IT assistance and sundry advice	5,427	6,913
Leasing of electronic machines and software licences	2,159	1,481
Sundry rentals and expenses for services provided by third parties	36,208	35,583
Computer networks and telephone	4,972	4,893
Postal	3,735	4,013
Transport expenses	3,645	4,033
Cleaning of premises	1,233	1,214
Surveillance and escort of valuables	2,824	2,919
Electricity and heating	4,348	4,623
Rent of premises	15,749	15,814
Sundry insurance policies	1,770	1,849
Classified advertisements, publicity and entertainment expenses	4,401	4,259
Membership fees	1,868	1,734
Information and inspections	2,473	2,994
Other fees payable	958	910
Other	9,708	8,198
Maintenance and repair expenses	**10,318**	**9,858**
- Real estate	450	755
- Movables	2,711	2,787
- Hardware and software	7,157	6,316
Indirect taxes and duties	**77,298**	**70,948**
- Stamp duty	49,250	50,710
- Substitute tax Pres. Dec. 601/73	1,626	1,442
- Single municipal tax (IMU)	1,902	1,736
- DGS and SRF contribution	17,707	9,962
- Other indirect taxes and duties	6,813	7,098
Total	**196,699**	**191,209**

Administrative expenses rose by 2.9%, within which contributions to the guarantee and resolution funds had a significant impact. These contributions, totalling € 17.7 million, are therefore broken down into € 10.1 million for the SRF (€ 3.4 million for the ordinary contribution and € 6.7 million for the extraordinary contribution), € 4.7 million for the DGS and € 2.9 million relating to a contribution to the IFPD (Interbank Fund for the Protection of Deposits). This last contribution refers to an event booked in the income statement in 2014, when the Fund made a request to support Banca Tercas and which in April 2016 was adjusted following an MEF (Ministry of the Economy and Finance) decision. This entailed the return of the amount paid in 2014 (equal to € 2.9 million in the item “Recovery of stamp duty and other taxes”) and the simultaneous disbursement of an analogous amount present in “Other administrative expenses”.

Below are details as requested under article 2427 of the Civil Code, paragraph 16-bis, related to fees paid to auditing firms:

Details of remuneration paid to the independent audit firm

	31/12/2016
- the legal auditing of the accounts	411
- other verification services	45
- tax advice	8
- non-audit services	286
Total	**750**

Section 12 – Net allocations to provisions for risks and charges – Item 190

12.1 Net provisions for risks and charges: breakdown

	Balances as of: 31/12/2016	Balances as of: 31/12/2015
Related to risks due to legal disputes and customer complaints	2,933	2,199
Related to operating risks	157	188
Related to staff expenses	10,885	1,370
Related to other charges	2,164	1,433
Reattributions to Income Statement relating to risks of legal disputes and customer complaints	(969)	(1,012)
Reattributions to Income Statement relating to operational risks	(1,172)	-
Reattributions to Income Statement relating to personnel expenses	(64)	(6)
Reattributions to Income Statement relating to other expenses	(1,502)	(401)
Total	**12,432**	**3,771**

On 21 October 2016, Banca Sella Holding (on its own behalf and as representative of Banca Sella, Banca Patrimoni Sella & C., Consel and Biella Leasing) and the Group Union Delegation signed the Agreement for access to the extraordinary benefits of the "Solidarity fund for professional retraining and requalification, for the support of employment and the income of credit personnel" in which 69 employees participated; following the acceptance of all participation applications, a provision equal to € 9.9 million was recognised; the terminations of the parties concerned will take place in 2017.

Section 13 – Net value adjustments on tangible assets – Item 200

13.1 Net adjustments of tangible assets: breakdown

Asset/Income component	Depreciation (a)	Impairment losses (b)	Write-backs (c)	Net income/losses (a + b + c) 31/12/2016
A. Tangible assets				
A.1 Company owned	16,152	1	-	16,153
- For business purposes	15,543	1	-	15,544
- For investment	609	-	-	609
A.2 Assets acquired through financial leasing	-	-	-	-
- For business purposes	-	-	-	-
- For investment	-	-	-	-
Total	**16,152**	**1**	**-**	**16,153**

Section 14 – Net value adjustments on intangible assets – Item 210

14.1 Net value adjustments on intangible assets: breakdown

Asset/Income component	Amortisation (a)	Impairment losses (b)	Write-backs (c)	Net income/losses (a + b + c) 31/12/2016
A. Intangible assets				
A.1 Company owned	17,175	-	-	17,175
- Generated internally by the company	2,685	-	-	2,685
- Other	14,490	-	-	14,490
A.2 Assets acquired through financial leasing	-	-	-	-
Total	**17,175**	**-**	**-**	**17,175**

Section 15 – Other operating income and expenses – Item 220

Other operating expenses/income

	31/12/2016	31/12/2015
Total other operating expenses	10,918	9,273
Total other operating income	88,227	87,030
Other operating expenses/income	**77,309**	**77,757**

15.1 Other operating expenses: breakdown

	Total 31/12/2016	Total 31/12/2015
Amortisation of expenses for improvements on third party assets	1,050	740
Losses connected to operating risk	3,386	2,349
Advances on the account of customers	3,795	15
Service renderings related to credit recovery	540	530
Restitution of Fund/SICAV incentives to customers (MIFID)	12	31
Other charges	2,135	5,608
Total	**10,918**	**9,273**

15.2 Other operating income: breakdown

	Total 31/12/2016	Total 31/12/2015
Rents and instalments receivable	1,122	1,548
Charges to third parties and refunds received:	53,622	53,468
- taxes recovered	51,970	51,948
- insurance premiums and refunds	1,652	1,520
Expenses recovered and other revenues on current accounts and deposits	7,078	9,046
Income for software services	3,174	2,489
Income on insurance brokerage activities	2,244	2,054
POS fees receivable	6,264	5,638
Expenses and service renderings advanced on behalf of customers	27	21
Expenses recovered for services rendered in relation to credit recovery	3,857	3,718
Other income	10,839	9,048
Total	**88,227**	**87,030**

Following the analysis of certain accounts relating to compensation for damages for contractual breaches from Carta Si, postal expenses charged to customers for sending credit card reminders and postal expenses charged to customers for sending POS transaction reminders and the recovery of condominium expenses from Group companies, such items were reclassified from “other income” to “recovery of other expenses”; 2015 was reclassified accordingly.

Section 16 – Income (losses) of equity investments – Item 240

16.1 Income (losses) from equity investments: breakdown

Income components/Sectors	31/12/2016	31/12/2015
1) Jointly controlled companies		
A. Income	-	-
1. Revaluations	-	-
2. Gains on sales	-	-
3. Write-backs	-	-
4. Other income	-	-
B. Expenses	-	-
1. Write-downs	-	-
2. Impairment losses	-	-
3. Losses on sales	-	-
4. Other charges	-	-
Net income/losses	-	-
2) Companies subject to significant influence		
A. Income	1,240	1,115
1. Revaluations	1,240	1,044
2. Gains on sales	-	-
3. Write-backs	-	-
4. Other income	-	71
B. Expenses	(73)	(173)
1. Write-downs	(51)	(173)
2. Impairment losses	-	-
3. Losses on sales	(22)	-
4. Other charges	-	-
Net income/losses	**1,167**	**942**
Total	**1,167**	**942**

On 24 June 2016, the deed of sale of Selvimm Due SA (subsidiary 90% held by Banca Sella Holding and 10% held by Banque Martin Maurel), owner of the building located at Corso Elvezia 4 in Lugano and the former registered office of Sella Bank AG, was signed. The sale was made for the total price of CHF 28.3 million with reference to the financial statements at 31 December 2015, and resulted in a capital gain of approximately € 2 million. The Purchaser was the Company B.B.K. Immo S.A.

Section 18 – Value adjustments on goodwill – Item 260

18.1 Value adjustments on goodwill

	31/12/2016	31/12/2015
Goodwill impairment branches	224	442
Total	**224**	**442**

This item incorporates the write-down on the goodwill of the company Selfid of € 224 thousand, as the plan presented to the Board of Directors for approval highlighted a decline in profitability outlooks with respect to the previous year.

In 2015 the item included the effects of the write-down on goodwill related to the Camastra and Naro branches acquired in 2001 by Banca Sella, from the former BCC Unione di Camastra e Naro.

Section 19 – Income (losses) from disposal of investments – Item 270

19.1 Gains/(losses) on sales of investments: breakdown

Income component/Amount	Total 31/12/2016	Total 31/12/2015
A. Properties	14	-
- Gains on sales	14	-
- Losses on sales	-	-
B. Other assets	27,954	(131)
- Gains on sales	27,956	18
- Losses on sales	(2)	(149)
Net income/losses	**27,968**	**(131)**

On 30 June, HDI Assicurazioni purchased the entire stake held by Banca Sella Holding, Banca Sella and Sella Gestioni in C.B.A. Vita, and therefore also that of its subsidiary Sella Life Ltd, and the entire stake (equal to 49%) held in InChiaro Assicurazioni Spa. At consolidated level, this transaction entailed income from equity investments totalling around € 27 million, € 4.9 million of which relating to an extraordinary dividend. Within the same transaction, Banca Sella Holding provided HDI Assicurazioni with a subordinated loan of approximately € 27.3 million.

Section 20 – Income taxes on continuing operations for the period – Item 290

20.1 Income taxes for the year on continuing operations: breakdown

Income components/Sectors	Total 31/12/2016	Total 31/12/2015
1. Current taxes (+/-)	(13,884)	(18,186)
2. Change in current taxes of previous years (+/-)	1,114	225
3. Decreases in current taxes for the year (+)	3,755	54
3. bis Reduction in current taxes for the year for tax credits pursuant to law 214/2011 (+)	1,612	11,647
4. Changes in prepaid taxes (+/-)	(1,924)	(2,493)
5. Changes in deferred taxes (+/-)	646	1,033
6. Taxes for the year	(8,681)	(7,720)

Income tax amounts to € 8.7 million, compared to € 7.7 million in the previous year, with a 15.8% increase compared to the increase in pre-tax profit of 249.1%. The tax rate, net of the components indicated above, fell from 23.7% of the previous year to 7.9% in financial year 2016. The reduction in the tax rate is due to the different impact of dividends and capital gains from disposals of investments on the before tax results, as they had the requirements set out in articles 89, paragraph 2 and 87 of Presidential Decree 917/86, making them almost entirely untaxable.

20.2 Reconciliation between theoretical tax burden and actual tax burden in the financial statements

Description	taxable amount	rate	income taxes
Pre-tax profit from current operations	101		
Nominal rate (*)	-	33.07%	33
			-
IRES adjustments	-		-
			-
Effects net of the participation exemption and dividend taxation	-	-19.66%	(20)
Non-deductible interest expense (so-called Robin Hood tax)	-	0.45%	0
Facilitation for economic growth	-	-2.09%	(2)
Other changes - Ires taxable base	-	0.37%	0
			-
			-
Adjusted rate	-	12.15%	12
Other changes - Irap taxable base	-	-3.57%	(4)
Effective rate	-	8.58%	9

Section 21 – Profit (loss) on asset disposal groups held for sale after tax – Item 310

21.1 Profit (loss) on asset/liability disposal groups held for sale after tax: breakdown

Income components/Sectors	Total 31/12/2016	Total 31/12/2015
1. Income	312,834	414,678
2. Expenses	(309,702)	(403,488)
3. Result of group evaluations of associated assets and liabilities	-	(485)
4. Realised income (losses)	56	840
5. Taxes and duties	(1,500)	(1,864)
Income (loss)	**1,688**	**9,681**

21.2 Details on income taxes related to asset/liability disposal groups held for sale

	Total 31/12/2016	Total 31/12/2015
1. Current taxes (-)	(1,272)	(2,069)
2. Changes in prepaid taxes (+/-)	(87)	330
3. Changes in deferred taxes (+/-)	(141)	(125)
4. Income tax for the year (-1+/-2+/-3)	**(1,500)**	**(1,864)**

Section 22 – Profit (losses) for the period pertaining to minority interests – Item 330

22.1 Breakdown of item 330 “Profit (loss) pertaining to minority interests”

	31/12/2016	31/12/2015
Investments in consolidated companies with significant minority interests		
1. Banca Sella S.p.A.	12,405	1,328
2. Banca Patrimoni Sella & C. S.p.A.	1,816	2,286
3. Easy Nolo S.p.A.	37	285
4. C.B.A. Vita S.p.A.	-	132
5. Sella Gestioni SGR S.p.A.	120	67
6. Consel S.p.A.	-	(1,138)
7. Family Advisory SIM S.p.A.	22	95
Other investments	27	69
Total	**14,427**	**3,124**

Section 24 – Equity per share

24.1 Average number of ordinary shares with diluted capital

	31/12/2016		31/12/2015	
	Ordinary	Other	Ordinary	Other
Profit for the period pertaining to the Parent Company *(thousands of Euro)*	79,563	79,563	28,503	28,503
Average number of shares outstanding	209,976,000	4,251,206	209,976,000	4,051,340
Basic EPS *(in euros)*	**0.04**	**0.04**	**0.01**	**0.01**

24.2 Other information

IAS 33 requires indication of both the equity per base share (base EPS), and the equity per diluted share (diluted EPS). Banca Sella Holding does not hold instruments that represent capital that could potentially dilute the base EPS, therefore the diluted EPS corresponds to the base EPS.
The base EPS was calculated by dividing the economic result attributable to holders of ordinary and special Parent Company shares (numerator) by the weighted average of ordinary and special shares (denominator) in circulation during the year.
With reference to the denominator of the indicator in question, note that the weighted average of the ordinary and special shares in circulation was equal to the total number of ordinary and special shares in circulation at 31 December 2016 (that is 214,227,206) as:

- on 1 January 2016 there were 214,027,340 ordinary and special Banca Sella Holding shares in circulation;
- during the course of 2016 Banca Sella Holding did not issue any new ordinary or preference shares following a free capital increase;
- on 31 December 2016, Banca Sella Holding did not hold any treasury shares in its portfolio.

Part D – Comprehensive Consolidated Income

Analytical statement of consolidated comprehensive income

	Item	Gross amount	Income taxes	Net amount
10.	**Operating profit (loss)**	**X**	**X**	**93,990**
	Other income components without reversal to income statement	**(2,818)**	**785**	**(2,033)**
20.	Tangible assets	-	-	-
30.	Intangible assets	-	-	-
40.	Defined benefit plans	(2,818)	785	(2,033)
50.	Non-current assets held for sale:	-	-	-
60.	Share of valuation reserves in relation to investments evaluated via the equity method	-	-	-
	Other income components with reversal to income statement	**(18,870)**	**2,206**	**- 16,664**
70.	**Foreign investment hedging:**	**-**	**-**	**-**
	a) fair value changes	-	-	-
	b) transfer to income statement	-	-	-
	c) other changes	-	-	-
80.	**Foreign exchange gains (losses):**	**(163)**	**(54)**	**(217)**
	a) fair value changes	(163)	(54)	(217)
	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:**	**(18,056)**	**2,260**	**(15,796)**
	a) fair value changes	(11,353)	569	(10,784)
	b) transfer to income statement	(6,703)	1,691	(5,012)
	- adjustments from impairment	94	(31)	63
	- realised income/losses	(6,797)	1,722	(5,075)
	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 evaluated via the equity method:**	**(651)**	**-**	**(651)**
	a) fair value changes	1	-	1
	b) transfer to income statement	(652)	-	(652)
	- adjustments from impairment	-	-	-
	- realised income/losses	(652)	-	(652)
	c) other changes	-	-	-
130.	**Total, other income components after tax**	**(21,688)**	**2,991**	**(18,697)**
140.	**Comprehensive income (Items 10 +130)**			**75,293**
150.	Comprehensive consolidated income pertaining to third-parties			5,600
160.	**Comprehensive consolidated income pertaining to the Parent Company**			**69,693**

Part E – Information on risks and related hedging policies

Introduction

Banca Sella places 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 Pillar Risks under Basel 3, 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 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 to the organisational structure of the Non-Performing Exposures service, already launched in 2014, is aimed at meeting the need to achieve effective management of non-performing loans, with the objective of harmonising and integrating actions. The Non-Performing Exposures service is responsible for non-performing loans in all the various categories, managing and assessing impaired loans.

With respect to this last aspect, the NPE service uses a structured set of non-performing loan assessment parameters on receivables classified as past-due, unlikely to pay and bad loans.

The set of non-performing loan assessment parameters calls for:

- lump-sum specific adjustments to be applied exclusively to receivables of smaller amounts for categories of past-due and unlikely to pay impaired loans without the revocation of credit lines
- analytical specific adjustments to be applied to receivables of greater amounts for categories of past-due impaired and unlikely to pay loans that have not been revoked, and analytical specific adjustments to be applied to all revoked unlikely to pay loans and bad loans.

These parameters, applied by all Group Banks through the Credit Regulations, make it possible to identify in a detailed, precise manner the elements to be evaluated to express the recoverability of loans, the methods for assessing such elements and the frequency of updating credit assessments, in order to promptly adjust the relative provisions.

The Credit Administration service verifies the consistency of these assessment parameters on an annual basis, through statistical checks on the portfolio.

This activity, monitored over time, makes it possible to refine the set of assessment parameters and allows for an adequate provisioning policy that takes into account unfavourable conditions in the external scenario, different macroeconomic situations and organisational and process-related changes.

Section 1 – Banking group risks

1.1 Credit risk

Qualitative information

General aspects

The Banca Sella Group considers the measurement and management of credit risk to be of crucial importance. 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, at the moment no operations are 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 preparing credit risk monitoring policies, particular attention is paid to maintaining an adequate risk/return profile and the assumption of risks in keeping with the risk appetite defined and approved by the competent Bodies.

Credit risk management policies

- Organisational Aspects

In the Group banks' process of credit disbursement, applications must first be assessed by a specific decision-making structure in the branch. 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).

Related to consumer credit for leasing, credit policies begin from considerations related to the goods or services to be financed and the types of distribution used by the dealer. Therefore, defining a priori the types of products or services desired or not, an initial risk selection is performed of the ensuing risk. The initial existing check related to a general mitigation of the loan disbursement process regards the process of selecting channels and customer acquisition.

Specifically, credit risk control activities are the responsibility of:

- the Parent Company's Credit Risk Reporting & Strategy Office and the Risk Management services of each individual company which define, insofar as they are responsible, the objectives and guidelines for credit development in line with the group objectives and RAF, prepare internal documentation, define the main instruments and processes and carry out trend-based and precise controls on the entire credit chain;
- The Credit Risk Control Office is responsible for verifying the effectiveness of the credit risk management process and the adequacy of the write-downs applied to impaired positions.

- Systems of management, measurement and control

The Parent Company's Credit Risk Management service has the task of developing credit risk measurement methods and supporting the creation of 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 judgement which is attributed through the use of one of the two internal rating models in use at the Group banks. One is for small business and small/medium businesses and the other for corporate and large corporate customers.

The internal rating in use at the banks of the Banca Sella Group is an automatic judgement integrated into the corporate information systems and consists of the following components which intervene to a different extent in the assessment depending on the type of counterparty (small business and small/medium-sized enterprises or corporate and large corporate):

- Financial information (accounting data);
- Qualitative information through the relationship manager's completion of a dedicated questionnaire;
- Performance information (the bank's internal data and Central Credit Register data).

In 2016, a new acceptance scoring model was developed and integrated within the lending process to support the granting of new mortgage loans to private customers. After an initial phase in which the new model will act as an informational tool to support lending decisions, a gradual evolution is planned which will make it increasingly central and integrated within all phases of the lending process.

In regards to consumer loans and credit cards issued by Consel, assessment of creditworthiness during the acceptance stage is done by automatically calculating a score for each operation, querying of the main databases available on the market, and examining performance data related to any relationships already existing with Consel. The information acquired from the CIS (Credit Information Systems), public databases and internal databases are an integral part of assessing loan requests.

In regard to salary-backed loans, given the obligatory nature of insurance to complete these transactions, the assumption criteria used and the judgement expressed in regard to the third party company by the insurance companies take on a central role in selection. Elements that characterise the salary-backed loan product, in regard to corporate policies, are the obligatory nature of an evaluation of the operations taking into consideration the total exposure of the customer and the definition of a minimum threshold of the net disbursed expressed as a percentage of the base of the operation defined on the basis of the principle that salary backed loans and delegated payments must create a concrete benefit for the customer.

With specific reference to leases associated with Biella Leasing, assessment of requests includes assessment of the counterparty's creditworthiness, which also includes rating of the balance sheet, assessment of the asset to be leased, and the presence of accessory guarantees. In 2016, an acceptance scoring model was developed for Biella Leasing customers which will be used to evaluate whether to grant loans.

Write-downs on loans are done using a statistical approach for performing loans, while for impaired loans an analytical assessment prevails, except for in Consel, which uses a statistical type approach for impaired loans as well.

Monitoring of post-acceptance credit risk is done by preparing detailed reports, shared both within the company and with the Parent Company. The Credit Risk Control Committee, established in 2015, has the objective of favouring coordinated monitoring of the credit risk profile of all the entities with credit exposure within the Banca Sella Group. The Committee discusses trends and forecasts for macroeconomic variables 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 and 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 3, 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. The Group 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 geo-sectoral meaning) and residual risk (the risk that credit risk mitigation techniques prove, after the fact, 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 business 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 default rate of the loans portfolio).

During 2016, activities continued to ensure full implementation of the 19th update to Bank of Italy circular 263/2006, included in Circular 285/2013, specifically:

- implementation of second level controls on credit risk by the Parent Company’s and the individual companies’ 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.

- 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 evaluated carefully, above all with reference to customers associated with a higher probability of default.

The guarantees typically acquired by the counterparties are those typical of the banking business, mainly: personal guarantees and counterparties in the form of property and financial instruments. The Group does not have recourse either to the use of clearing agreements related to balance-sheet and “off-balance-sheet” transactions or to the purchase of credit derivatives.

The Group 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 Network staff who deal with the guarantee acquisition process, to the Quality and Credit Control service which conducts first-level controls on the comprehensiveness and accuracy of 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 stage, the process is backed by a special software procedure which intervenes between the approval stage and the stage of disbursement of the loan and manages acquisition of the guarantees (pledges, mortgages and sureties), tying disbursement to a positive outcome of the controls envisaged.

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 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. It can be noted that the Group continued, also in 2016, to make use, when possible, of 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. In 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.

- Impaired financial assets

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 the company 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; during the year 2016, phone collection activities were also extended to soliciting instalments relating to repayment schedules for credit lines already revoked and/or bad loans

- 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.

When there do not appear to be concrete prospects to return positions to performing, the transfer to the dispute service is made, to begin foreclosures.

For 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, his or her co-workers with individually assigned powers and, for transactions of more significant amounts, to the CEO and other monocratic bodies within the scope of the powers assigned by 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 is 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 desire to pay;
- 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.

Quantitative 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, write-downs, 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	Non-impaired past due loans	Non-impaired exposures	Total
1. Financial assets available for sale		-	-	-	-	2,100,937	2,100,937
2. Financial assets held to maturity		-	-	-	-	-	-
3. Due from banks		-	-	-	-	299,663	299,663
4. Due from customers		332,270	239,540	13,287	203,423	7,117,000	7,905,520
5. Financial assets carried at fair value		-	-	-	-	-	-
6. Non-current assets held for sale		-	-	-	-	-	-
Total	**31/12/2016**	**332,270**	**239,540**	**13,287**	**203,423**	**9,517,600**	**10,306,120**
Total	**31/12/2015**	**339,110**	**291,023**	**21,108**	**260,657**	**10,948,862**	**11,860,760**

Non-impaired past-due exposures at 31/12/2016 amounted to € 122 million.
These are mainly related to mortgage exposures - roughly 74% - while the remainder derive from current accounts, subsidies and sales 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		Non-performing assets			Non-impaired assets			Total (net exposure)
		Gross exposure	Specific adjustments	Net exposure	Gross exposure	Portfolio adjustments	Net exposure	
1. Financial assets available for sale		-	-	-	2,100,937	-	2,100,937	2,100,937
2. Financial assets held to maturity		-	-	-	-	-	-	-
3. Due from banks		-	-	-	299,785	(122)	299,663	299,663
4. Due from customers		1,195,209	(610,112)	585,097	7,362,501	(42,078)	7,320,423	7,905,520
5. Financial assets carried at fair value		-	-	-	X	X	-	-
6. Non-current assets held for sale		-	-	-	-	-	-	-
Total	**31/12/2016**	**1,195,209**	**(610,112)**	**585,097**	**9,763,223**	**(42,200)**	**9,721,023**	**10,306,120**
Total	**31/12/2015**	**1,244,734**	**(593,493)**	**651,241**	**11,255,307**	**(45,788)**	**11,209,519**	**11,860,760**

Portfolio / Quality		Assets with evident low creditworthiness		Other assets
		Cumulative capital losses	Net exposure	Net exposure
1. Financial assets held for trading		-	64	413,048
2. Hedging derivatives		-	-	5,927
Total	**31/12/2016**	**-**	**64**	**418,975**
Total	**31/12/2015**	**-**	**9**	**366,793**

A.1.3 Cash exposures and off-balance sheet loans to banks: gross and net values and past-due segments

Type of exposure/amounts	Gross exposure					Specific value adjustments	Portfolio adjustments	Net exposure
	Non-performing 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	630,986	X	122	630,864
- of which: exposures subject to forbearance	X	X	X	X	-	X	-	-
TOTAL A	**-**	**-**	**-**	**-**	**630,986**	**-**	**122**	**630,864**
B. OFF BALANCE SHEET EXPOSURES								
a) Impaired	-	-	-	-	X	-	X	-
b) Non-impaired	X	X	X	X	25,835	X	1	25,834
TOTAL B	**-**	**-**	**-**	**-**	**25,835**	**-**	**1**	**25,834**
TOTAL (A+B)	**-**	**-**	**-**	**-**	**656,821**	**-**	**123**	**656,698**

A.1.6 Cash exposures and off-balance sheet loans to customers: gross and net values and past-due segments

Type of exposure/amounts	Gross exposure – Non-performing assets – Up to 3 months	Gross exposure – Non-performing assets – More than 3 months to 6 months	Gross exposure – Non-performing assets – More than 6 months to 1 year	Gross exposure – Non-performing assets – Over 1 year	Gross exposure – Non-impaired assets	Specific value adjustments	Portfolio adjustments	Net exposure
A. CASH EXPOSURES								
a) Bad loans	1,990	2,879	6,695	856,324	X	535,618	X	332,270
- of which: exposures subject to forbearance	6	257	1,574	56,405	X	26,986	X	31,256
b) Unlikely to pay	190,548	40,567	35,509	42,692	X	69,776	X	239,540
- of which: exposures subject to forbearance	117,687	27,449	25,299	22,508	X	37,978	X	154,965
c) Impaired past-due loans	2,406	6,274	2,823	6,502	X	4,718	X	13,287
- of which: exposures subject to forbearance	739	1,073	395	2,678	X	1,901	X	2,984
d) Non-impaired past-due loans	X	X	X	X	208,163	X	4,740	203,423
- of which: exposures subject to forbearance	X	X	X	X	40,597	X	2,454	38,143
e) Other non-impaired exposures	X	X	X	X	9,313,537	X	37,338	9,276,199
- of which: exposures subject to forbearance	X	X	X	X	148,692	X	5,013	143,679
TOTAL A	**194,944**	**49,720**	**45,027**	**905,518**	**9,521,700**	**610,112**	**42,078**	**10,064,719**
B. OFF BALANCE SHEET EXPOSURES	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) Impaired	9,527	-	-	-	X	-	X	9,527
b) Non-impaired	X	X	X	X	573,023	X	1,185	571,838
TOTAL B	**9,527**	**-**	**-**	**-**	**573,023**	**-**	**1,185**	**581,365**
TOTAL (A+B)	**204,471**	**49,720**	**45,027**	**905,518**	**10,094,723**	**610,112**	**43,263**	**10,646,084**

A.1.7 Banking Group - Cash exposures to customers: changes in gross impaired exposures

Description/Category	Bad loans	Unlikely to pay	Impaired past due loans
A. Initial gross exposure	**855,191**	**362,937**	**26,606**
- of which: exposures sold but not derecognised	3,088	5,666	1,159
B. Increases	**160,344**	**153,807**	**50,529**
B.1 inflows from performing exposures	7,191	128,794	47,445
B.2 transfers from other categories of impaired exposures	123,617	21,255	1,507
B.3 other increases	29,536	3,758	1,577
C. Decreases	**147,647**	**207,428**	**59,130**
C.1 outflows to performing exposures	110	59,901	18,272
C.2 write-offs	85,234	839	25
C.3 collections	45,705	21,062	3,427
C.4 realisations through sales	8,640	-	-
C.5 losses on disposal	2,963	-	-
C.6 transfers to other impaired exposures	94	114,513	31,772
C.7 other decreases	4,901	11,113	5,634
D. Final gross exposure	**867,888**	**309,316**	**18,005**
- of which: exposures sold but not derecognised	1,712	3,226	110

A.1.8 Banking Group - Cash exposures to customers: changes in total adjustments

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	**516,081**	**19,202**	**71,914**	**29,463**	**5,498**	**2,370**
- of which: exposures sold but not derecognised	852	-	206	101	13	-
B. Increases	**146,692**	**20,373**	**34,764**	**17,514**	**10,286**	**280**
B.1 write-downs	102,355	17,234	24,603	14,798	3,380	-
B.2 losses on disposal	2,963	54	-	-	-	-
B.3 transfers from other categories of impaired exposures	32,942	2,527	2,087	179	160	115
B.4 other increases	8,432	558	8,074	2,537	6,746	165
C. Decreases	**127,156**	**12,589**	**36,902**	**8,999**	**11,065**	**749**
C.1 write-backs on valuation	23,334	5,185	4,349	3,170	30	-
C.2 write-backs on collection	9,619	2,056	3,221	1,666	57	-
C.3 gains on disposal	1,583	6	-	-	-	-
C.4 write-offs	85,234	4,936	839	657	25	12
C.5 transfers to other impaired exposures	11	2	27,294	2,642	7,884	177
C.6 other decreases	7,375	404	1,199	864	3,069	560
D. Final total adjustments	**535,617**	**26,986**	**69,776**	**37,978**	**4,719**	**1,901**
- of which: exposures sold but not derecognised	457	-	59	13	17	-

A.2 Classification of exposures by external and internal ratings

A.2.1 Banking Group – 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	**93,157**	**475,345**	**2,569,669**	**288,223**	**26,462**	**97,688**	**7,179,504**	**10,730,048**
B. Derivatives	**57**	**15,637**	**2,670**	**879**	**1**	**-**	**10,332**	**29,576**
B.1 Financial derivatives	57	15,637	2,670	879	1	-	10,332	29,576
B.2 Credit derivatives	-	-	-	-	-	-	-	-
C. Sureties issued	**4,540**	**33,396**	**34,524**	**10,952**	**846**	**134**	**143,673**	**228,065**
D. Commitments to disburse funds	**1,043**	**3,943**	**4,168**	**4,139**	**1,803**	**3,870**	**329,498**	**348,464**
E. Other	**-**	**-**	**104**	**-**	**-**	**-**	**990**	**1,094**
Total	**98,797**	**528,321**	**2,611,135**	**304,193**	**29,112**	**101,692**	**7,663,997**	**11,337,247**

External rating classes are shown based on the ECAI rating maps recognised by the Bank of Italy.

The mapping reported in the table is related to the long-term ratings assigned by Fitch Ratings and by the Cerved Rating Agency, the latter used exclusively by Banca Sella to determine weighting ratios to calculate capital requirements for exposures to companies classified as capital companies.

- creditworthiness class 1 includes Fitch ratings from AAA to AA-;
- creditworthiness class 2 includes Fitch ratings from A+ to A- and Cerved ratings from A1.1 to A3.1;
- creditworthiness class 3 includes Fitch ratings from BBB+ to BBB- and Cerved ratings B1.1;
- creditworthiness class 4 includes Fitch ratings from BB+ to BB- and Cerved ratings from B1.2 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.

In the light of the composition of the credit portfolio at Group level, composed mainly of exposures towards private clientèle and small-medium Italian companies without an external rating, the distribution of the cash and off-balance sheet exposures according to external rating classes appears significant only for certain Group banks.

The table above shows the distribution of exposures by external rating classes assigned by Fitch and by Cerved to the customers of the Banca Sella Group. With reference to the exposure to Banks it should be noted that almost all counterparties with which relations are maintained have a rating higher than investment grade.

The unrated column mainly includes external unrated corporate exposures, retail companies, unrated entities and private customers.

A.2.2 Banking Group – 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	**1,221,267**	**306,279**	**501,193**	**573,187**	**340,695**	**187,760**	**92,379**	**27,497**	**8,652**	**7,436,674**	**10,695,583**
B. Derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**29,576**	**29,576**
B.1 Financial	-	-	-	-	-	-	-	-	-	29,576	29,576
B.2 Credit derivatives	-	-	-	-	-	-	-	-	-	-	-
C. Sureties issued	**39,819**	**21,717**	**23,311**	**20,939**	**16,480**	**4,112**	**3,187**	**516**	**56**	**97,928**	**228,065**
D. Commitments to disburse	**32,278**	**7,487**	**13,539**	**6,455**	**2,442**	**2,182**	**1,393**	**148**	**216**	**282,324**	**348,464**
E. Other	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,094**	**1,094**
Total	**1,293,364**	**335,483**	**538,043**	**600,581**	**359,617**	**194,054**	**96,959**	**28,161**	**8,924**	**7,847,596**	**11,302,782**

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.

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 table above shows the distribution of exposures by rating classes of the business customer companies of the Banca Sella Group. The “No rating” column includes both exposures to companies with no internal rating and exposures to customers belonging to a different segment from the “companies” segment.

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

A.3.1 Banking Group – Guaranteed credit exposure to banks

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	35,279	-	-	32,160	2,979	-	-	-
1.1. totally guaranteed	35,279	-	-	32,160	2,979	-	-	-
- of which impaired	-	-	-	-	-	-	-	-
1.2. partially guaranteed	-	-	-	-	-	-	-	-
- of which impaired	-	-	-	-	-	-	-	-
2. "Off balance sheet" guaranteed credit exposures	-	-	-	-	-	-	-	-
2.1. totally guaranteed	-	-	-	-	-	-	-	-
- of which impaired	-	-	-	-	-	-	-	-
2.2. partially guaranteed	-	-	-	-	-	-	-	-
- of which impaired	-	-	-	-	-	-	-	-

A.3.1 Banking Group - Guaranteed credit exposure to banks

p.2

	Personal guarantees (2)						Total (1)+(2)
	Credit derivatives		Guaranteed loans				
	Other derivatives						
	Banks	Other subjects	Governments and Central Banks	Other public bodies	Banks	Other subjects	
1. Guaranteed cash credit exposures	-	-	-	-	-	-	35,139
1.1. totally guaranteed	-	-	-	-	-	-	35,139
- of which impaired	-	-	-	-	-	-	-
1.2. partially guaranteed	-	-	-	-	-	-	-
- of which impaired	-	-	-	-	-	-	-
2. "Off balance sheet" guaranteed credit exposures	-	-	-	-	-	-	-
2.1. totally guaranteed	-	-	-	-	-	-	-
- of which impaired	-	-	-	-	-	-	-
2.2. partially guaranteed	-	-	-	-	-	-	-
- of which impaired	-	-	-	-	-	-	-

A.3.2 Banking Group – 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:	5,193,701	2,918,609	428,660	371,072	579,309	-	-	-
1.1. totally guaranteed	5,044,893	2,913,524	428,660	339,631	576,916	-	-	-
- of which impaired	472,716	318,691	50,612	4,197	7,670	-	-	-
1.2. partially guaranteed	148,808	5,085	-	31,441	2,393	-	-	-
- of which impaired	15,090	4,034	-	133	135	-	-	-
2. "Off balance" sheet guaranteed credit exposures:	146,049	8,942	-	21,090	10,263	-	-	-
2.1. totally guaranteed	76,698	1,169	-	12,931	7,703	-	-	-
- of which impaired	2,913	1,104	-	62	323	-	-	-
2.2. partially guaranteed	69,351	7,773	-	8,159	2,560	-	-	-
- of which impaired	298	-	-	-	-	-	-	-

A.3.2 Banking Group – Guaranteed credit exposures to customers

p.2

	Personal guarantees (2)						Total (1)+(2)
	Credit derivatives		Guaranteed loans				
	Other derivatives						
	Banks	Other subjects	Governments and Central Banks	Other public bodies	Banks	Other subjects	
1. Guaranteed cash credit exposures:	-	-	5,205	934	403	801,346	5,105,538
1.1. totally guaranteed	-	-	992	568	223	760,345	5,020,859
- of which impaired	-	-	-	191	-	86,751	468,112
1.2. partially guaranteed	-	-	4,213	366	180	41,001	84,679
- of which impaired	-	-	-	-	24	8,749	13,075
2. Off balance sheet guaranteed credit exposures:	-	-	-	-	-	92,417	132,712
2.1. totally guaranteed	-	-	-	-	-	54,119	75,922
- of which impaired	-	-	-	-	-	1,392	2,881
2.2. partially guaranteed	-	-	-	-	-	38,298	56,790
- of which impaired	-	-	-	-	-	207	207

B Distribution and concentration of credit exposures

B.1 Banking Group – Sectoral 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 value adjustments	Net exposure	Specific value adjustments	Portfolio value adjustments	Net exposure	Specific value adjustments	Portfolio value adjustments
A. Cash exposures										
A.1 Bad loans		-	-	x	-	-	x	1,109	1,748	x
- of which exposures subject to forbearance		-	-	x	-	-	x	-	-	x
A.2 Unlikely to pay		465	42	x	3,189	186	x	935	265	x
- of which exposures subject to forbearance		-	-	x	767	45	x	830	181	x
A.3 Impaired past-due loans		3	-	x	2	-	x	18	5	x
- of which exposures subject to forbearance		-	-	x	-	-	x	6	2	x
A.4 Non-impaired loans		2,002,890	x	8	6,431	x	16	293,486	x	465
- of which exposures subject to forbearance		1	x	-	-	x	-	163	x	19
Total A		**2,003,358**	**42**	**8**	**9,622**	**186**	**16**	**295,548**	**2,018**	**465**
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		85,430	x	-	4,050	x	1	37,470	x	34
Total B		**85,430**	**-**	**-**	**4,050**	**-**	**1**	**37,474**	**-**	**34**
Total (A+B)	**31/12/2016**	**2,088,788**	**42**	**8**	**13,672**	**186**	**17**	**333,022**	**2,018**	**499**
Total (A+B)	**31/12/2015**	**2,436,241**	**7**	**5**	**18,892**	**189**	**29**	**615,397**	**1,710**	**482**

B.1 Banking Group – Sectoral distribution of credit exposure of cash and “off balance sheet” to customers (book value)

p.2

Exposure/Counterparty		Insurance companies			Non-financial companies			Other subjects		
		Net exposure	Specific value adjustments	Portfolio value adjustments	Net exposure	Specific value adjustments	Portfolio value adjustments	Net exposure	Specific value adjustments	Portfolio value adjustments
A. Cash exposures										
A.1 Bad loans		-	2	x	249,468	378,488	x	81,693	155,380	x
- of which exposures subject to forbearance		-	-	x	23,594	21,179	x	7,662	5,807	x
A.2 Unlikely to pay		-	-	x	164,309	55,051	x	70,642	14,232	x
- of which exposures subject to forbearance		-	-	x	113,372	30,036	x	39,996	7,716	x
A.3 Impaired past-due loans		-	-	x	5,399	628	x	7,865	4,085	x
- of which exposures subject to forbearance		-	-	x	1,038	91	x	1,940	1,808	x
A.4 Non-impaired loans		39,466	x	1	3,733,112	x	27,861	3,404,237	x	13,727
- of which exposures subject to forbearance		-	x	-	90,435	x	4,227	91,223	x	3,221
Total A		**39,466**	**2**	**1**	**4,152,288**	**434,167**	**27,861**	**3,564,437**	**173,697**	**13,727**
B. “Off balance sheet” exposures										
B.1 Bad loans		-	-	x	807	-	x	493	-	x
B.2 Unlikely to pay		-	-	x	7,455	-	x	390	-	x
B.3 Other impaired assets		-	-	x	257	-	x	121	-	x
B.4 Non-impaired loans		1,822	x	4	303,208	x	1,094	138,764	x	52
Total B		**1,822**	**-**	**4**	**311,727**	**-**	**1,094**	**139,768**	**-**	**52**
Total (A+B)	**31/12/2016**	**41,288**	**2**	**5**	**4,464,015**	**434,167**	**28,955**	**3,704,205**	**173,697**	**13,779**
Total (A+B)	**31/12/2015**	**19,963**	**-**	**26**	**4,307,682**	**423,541**	**31,742**	**3,701,707**	**168,046**	**14,828**

B.2 Banking Group – Geographical distribution of credit exposure of cash and “off balance sheet” to customers (book value)

p.1

Exposure/Geographical area		Italy		Other European Countries		America
		Net exposure	Total write-downs	Net exposure	Total write-downs	Net exposure
A. Cash exposures						
A.1 Bad loans		331,529	534,939	635	623	5
A.2 Unlikely to pay		232,092	67,414	7,422	2,356	26
A.3 Impaired past-due loans		13,275	4,714	8	2	2
A.4 Non-impaired loans		9,322,552	41,754	120,268	192	21,135
Total A		**9,899,448**	**648,822**	**128,333**	**3,173**	**21,168**
B. “Off balance sheet” exposures						
B.1 Bad loans		1,300	-	-	-	-
B.2 Unlikely to pay		7,845	-	-	-	-
B.3 Other impaired assets		382	-	-	-	-
B.4 Non-impaired loans		548,653	1,185	1,714	-	306
Total B		**558,180**	**1,185**	**1,714**	**-**	**306**
Total A+B	**31/12/2016**	**10,457,628**	**650,006**	**130,047**	**3,173**	**21,474**
Total A+B	**31/12/2015**	**10,879,783**	**638,399**	**173,954**	**1,966**	**26,182**

B.2 Banking Group – Geographical distribution of credit exposure of cash and “off balance sheet” to customers (book value)

p.2

Exposure/Geographical area		America	Asia		Rest of the world	
		Total write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs
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	4,147	5	11,520	87
Total A		**55**	**4,149**	**6**	**11,621**	**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		-	-	-	20,071	-
Total B		**-**	**-**	**-**	**20,071**	**-**
Total A+B	**31/12/2016**	**55**	**4,149**	**6**	**31,692**	**135**
Total A+B	**31/12/2015**	**28**	**1,296**	**2**	**18,667**	**210**

B.2 Banking Group – Geographical distribution of credit exposure of cash and “off balance sheet” to customers (book value)

Exposure/Geographical area		North West Italy		North East Italy		Central Italy		Southern Italy and Islands	
		Net exposure	Total write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs
A. Cash exposures									
A.1 Bad loans		136,552	218,659	55,469	83,047	52,513	82,526	86,995	150,707
A.2 Unlikely to pay		94,269	35,585	37,358	9,224	43,783	11,353	56,682	11,252
A.3 Impaired past-due loans		5,669	1,705	850	344	2,313	862	4,443	1,803
A.4 Non-impaired loans		3,618,250	19,867	978,159	5,831	3,189,352	6,167	1,536,791	9,889
Total A		**3,854,740**	**275,816**	**1,071,836**	**98,446**	**3,287,961**	**100,908**	**1,684,911**	**173,651**
B. “Off balance sheet” exposures									
B.1 Bad loans		928	-	80	-	167	-	125	-
B.2 Unlikely to pay		1,709	-	795	-	1,255	-	4,086	-
B.3 Other impaired assets		136	-	97	-	131	-	18	-
B.4 Non-impaired loans		240,592	679	41,488	61	179,059	238	87,514	207
Total B		**243,365**	**679**	**42,460**	**61**	**180,612**	**238**	**91,743**	**207**
Total (A+B)	**31/12/2016**	**4,098,105**	**276,495**	**1,114,296**	**98,507**	**3,468,573**	**101,146**	**1,776,654**	**173,858**
Total (A+B)	**31/12/2015**	**4,045,899**	**271,614**	**1,093,454**	**95,516**	**4,003,225**	**101,450**	**1,737,205**	**169,819**

The previous table was completed given that, as required by circular 262/05, as updated, the Group mainly has relationships with subjects residing in Italy.

B.3 Banking Group – 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 write-downs	Net exposure	Total write-downs	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		456,377	4	152,349	117	5,595
Total A		**456,377**	**4**	**152,349**	**117**	**5,595**
B. Off balance sheet exposures						
B.1 Bad loans		-	-	-	-	-
B.2 Unlikely to pay		-	-	-	-	-
B.3 Other impaired assets		-	-	-	-	-
B.4 Non-impaired loans		7,699	1	10,937	-	-
Total B		**7,699**	**1**	**10,937**	**-**	**-**
Total A+B	**31/12/2016**	**464,076**	**5**	**163,286**	**117**	**5,595**
Total A+B	**31/12/2015**	**443,106**	**(1)**	**187,749**	**(189)**	**25,502**

B.3 Banking Group – 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 write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs
A. Cash exposures						
A.1 Bad loans		-	-	-	-	-
A.2 Unlikely to pay		-	-	-	-	-
A.3 Impaired past-due loans		-	-	-	-	-
A.4 Non-impaired loans		-	3,845	-	12,698	1
Total A		**-**	**3,845**	**-**	**12,698**	**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		-	-	-	7,198	-
Total B		**-**	**-**	**-**	**7,198**	**-**
Total A+B	**31/12/2016**	**-**	**3,845**	**-**	**19,896**	**1**
Total A+B	**31/12/2015**	**-**	**3,817**	**-**	**13,472**	**-**

B.3 Banking Group – 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 write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs
A. Cash exposures									
A.1 Bad loans		-	-	-	-	-	-	-	-
A.2 Unlikely to pay		-	-	-	-	-	-	-	-
A.3 Impaired past-due loans		-	-	-	-	-	-	-	-
A.4 Non-impaired loans		200,654	3	54,899	-	199,928	1	896	-
Total A		**200,654**	**3**	**54,899**	**-**	**199,928**	**1**	**896**	**-**
B. “Off balance sheet” exposures									
B.1 Bad loans		-	-	-	-	-	-	-	-
B.2 Unlikely to pay		-	-	-	-	-	-	-	-
B.3 Other impaired assets		-	-	-	-	-	-	-	-
B.4 Non-impaired loans		4,288	1	424	-	2,987	-	-	-
Total B		**4,288**	**1**	**424**	**-**	**2,987**	**-**	**-**	**-**
Total (A+B)	**31/12/2016**	**204,942**	**4**	**55,323**	**-**	**202,915**	**1**	**896**	**-**
Total (A+B)	**31/12/2015**	**190,589**	**1**	**48,281**	**-**	**203,805**	**-**	**431**	**-**

The previous table was completed given that, as required by the 3rd update to Circular 262/05, the Group mainly has relationships with subjects residing in Italy.

B.4 Large exposures

	31/12/2016
a) amount (book value)	3,905,085
b) amount (value weighted)	177,996
c) number	3

Positions related to large exposures refer to the Tesoro dello Stato, Cassa di Compensazione e Garanzia and the Bank of Italy.

C. Securitisation transactions

This section does not include securitisation transactions in which banks from the same banking group were the originators or the total liabilities issued (e.g. ABS, loans in the "warehousing" phase) by vehicle companies, or subscribed at the time of issue by one or more companies in the same banking group (e.g. parent company bank).

Beginning in financial year 2000 the Group carried out 9 securitisation transactions of a traditional kind, 7 completed by Banca Sella and 2 by Consel.

Two of these, concluded before 1 January 2006 (more precisely in 2000 and in 2005), were carried out by Banca Sella, now Banca Sella Holding, and involved performing mortgage loans. The assets associated with these transactions were conferred, on 1 January 2006, by Banca Sella Holding (formerly Sella Holding Banca) to the "new" Banca Sella.

On 4 April 2008, 8 January 2009, 9 January 2012 and 9 April 2014, Banca Sella completed four transfer transactions 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 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, 23 April 2015 and 25 November 2016, the operations begun in 2008, 2009, 2005 and 2012, respectively, 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).

Banca Sella, as the originator of the operations, subscribed the entire amount of the junior titles 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, 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 on 9 April 2014, while the securities were issued on 12 June 2014.

The portfolio, which was transferred without recourse, consisted of performing residential mortgage loans granted by Banca Sella 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 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 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 € 6.2 million. Banca Sella 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.

Consel S.p.A. securitisation of pecuniary loans – Monviso 2013

As the funding goal of the transaction was not met, Consel, as the sole subscriber of the junior securities (class J), and the sole Noteholder for the operation, in order to limit costs connected with management of the residual portfolio, to improve and optimise management of the Company's sales loans and improve operational and cost efficiency, on 20 January 2015, with the consent of Consel as the sole Junior Noteholder and after a disclosure sent to the Noteholder Representative, Monviso 2013 withdrew all the residual loans originally acquired in the context of the securitisation and, on 23 January 2015, used the income from said disposal to pay interest and repay capital on the remaining junior securities.

Consel S.p.A. securitisation of pecuniary loans – Monviso 2014

In 2014, the company completed the second securitisation, Monviso 2014. This operation involved two phases, summarised below.

Phase 1: On 23/5/2014, a framework contract was stipulated with Consel S.p.A., registered office in Via V. Bellini, no. 2, Turin, registered with the Turin Companies Register under 948365, and under 32042 in the general list kept by the Bank of Italy pursuant to article 106 of Legislative Decree no. 385 of 1/9/1993, and under 32494 in the special list kept by the Bank of Italy pursuant to article 107 of the Consolidated Banking Act, in regards to the purchasing of a block of loans, pursuant to Law 130/99, and more specifically consumer loans and personal loans, identified on the basis of specific pre-established criteria.

The purchase of the portfolio was effective for economic purposes on 22/5/2014 (measurement date) and included:

- all Capital and accrued Interest Components;
- all interest components;
- all expense components;
- all receivables due for interest on arrears, fees for early repayment, costs, indemnities and damages.

Payment of the transfer price for the initial portfolio, of € 369.8 million, was made on the date the securities were issued, using the income deriving from the relative placement.

At the same time the disposal contract was stipulated, the transferring company, on the basis of a specific assignment granted through a servicing contract, continued to administer the transferred portfolio, maintaining full and direct sales contact with customers.

Phase 2: The SPV, Monviso 2014 S.r.l. financed the payment of the purchase price for the loans, through the issue of Senior securities (class A), completed on 04/07/2014, in the amount of € 240 million and Junior securities (class J) for € 132.3 million.

Specifically, with reference to the class A (senior) securities, 2,400 certificates were issued with a nominal value of € 100,000 each, denominated as Class A Asset Backed Fixed Rate, with maturity on 23/06/2027, ISIN code: IT0005027393.

The securities, issued at par, gain interest at an annual fixed rate of 1.40%. The securities were listed on the Luxembourg Stock Market. At the time of issue, the class A securities were given a rating of “AA+(sf)” (high quality - excellent rating) by Fitch and “AA(H)” (high quality - excellent rating) by DBRS. The senior securities were placed on the market with institutional investors.

As of the reporting date (31/12/2016), the balance of senior notes was € 7.1 million

With reference to the class J (junior) securities, 1,323 certificates were issued with a nominal value of € 100,000 each, denominated as Class B Asset Backed Fixed Rate Notes, maturing on 23 April 2030, ISIN code: IT0005027609.

These securities are unrated and are not listed on any regulated market. The securities, issued at par, gain interest at an annual fixed rate of 3% plus a premium paid to the subscribers of the class J equal to available collections at every payment date, net of all expenses suffered, based on that foreseen in the contracts and the payment priority structure. The junior securities were directly subscribed by Consel S.p.A. As of the reporting date, the balance of these notes was € 132.3 million.

Revolving mechanism for the loans.

The operation contains a revolving mechanism for disposal of the loans, on the basis of which the SPV has the option (but not the obligation) to acquire additional loans from the Company for a period of twelve months from the date the securitisation begins, using the income deriving from reimbursement of the loans already acquired. The portfolio of loans acquired at the time the disposal contract was stipulated (the “Initial Loans”) and the portfolio of loans acquired subsequently, on the basis of the aforementioned revolving mechanism (the “Subsequent Loans”) constitute a single portfolio that protects the interests of those holding the securities issued in the context of the securitisation and all of the SPV’s other creditors in the context of the same securitisation.

The revolving structure allows for amortisation of the fixed costs associated with the operation over a longer period, optimising the cost of the operation.

At the end of the revolving period, the securities issued are repaid with an amortisation structure that follows that used for the underlying loans.

In the context of the disposal programme indicated in the notice of transfer published in the Official Journal of the Republic of Italy, no. 64, 31 May 2014, Consel transferred to Monviso 2014 S.r.l. without recourse, on 16 December 2014 and on 16 June 2015, two subsequent portfolios, respectively for € 92.7 and € 77 million.

Performance of the Operation

The securitised portfolio is subject to continuous monitoring: quarterly “servicing reports” and “payment & investor reports” are produced and sent to the ratings agencies, the SPV and the Calculation and Paying Agent (BNY Mellon - The Bank of New York Mellon (Luxembourg) S.A. Italian Branch).

In terms of management, the performance of the securitised loans do not show significant difference from the performance analysis used during the structuring process and sent to the ratings agencies to simulate cash flows, and hence for assignment of the AA+ ratings to the senior securities.

In addition, periodically the ratings agencies monitor the performance of the entire underlying loan portfolio in order to:

- continuously verify that the rating assigned when the operation was structured remains valid through the conclusion of the operation;
- verify that minimum servicing standards are respected.

At 31/12/2016, the portfolio (including the transfer of the two subsequent portfolios) consisted of 31,835 loans for an outstanding value of € 132.3 million. On the same date, the cumulative gross default amount was equal to zero, also as a consequence of the possibility granted to the servicer (Consel), on the basis of article 13 of the Transfer Agreement, to repurchase loans transferred for a percentage not to exceed 12% of the initial portfolio. At 31/12/2016 the servicer had repurchased € 21.9 million of non-defaulted loans (equal to 5.93% of the initial portfolio).

Quantitative information

C.1 Exposures deriving from main "own" securitisation operations divided by type of securitised assets and type of exposures

Type of securitised assets/Exposures	Cash exposures					
	Senior		Mezzanine		Junior	
	Book value	Write-downs/Write-backs	Book value	Write-downs/Write-backs	Book value	Write-downs/Write-backs
A. Subject to total cancellation in the financial statements	-	-	-	-	-	-
B. Subject to partial cancellation in the financial statements	-	-	-	-	-	-
C. Not cancelled from the financial statements						
C.1 Mars 2600 S.r.l.						
- Performing loans	112,981	-	-	-	67,700	(22)
C.2 Monviso 2013 S.r.l.						
- Consumer credit	-	-	-	-	-	-
C.3 Monviso 2014 S.r.l.						
- Consumer credit	-	-	-	-	131,089	(1,193)

C.1 Exposures deriving from main "own" securitisation operations divided by type of securitised assets and type of exposures

Type of securitised assets/Exposures	Guarantees issued					
	Senior		Mezzanine		Junior	
	Book value	Write-downs/Write-backs	Book value	Write-downs/Write-backs	Book value	Write-downs/Write-backs
A. Subject to total cancellation in the financial statements	-	-	-	-	-	-
B. Subject to partial cancellation in the financial statements	-	-	-	-	-	-
C. Not cancelled from the financial statements						
C.1 Mars 2600 S.r.l. - Performing loans	-	-	-	-	-	-
C.2 Monviso 2013 S.r.l. - Consumer credit	-	-	-	-	-	-
C.3 Monviso 2014 S.r.l. - Consumer credit	-	-	-	-	-	-

C.1 Exposures deriving from main "own" securitisation operations divided by type of securitised assets and type of exposures

Type of securitised assets/Exposures	Credit lines					
	Senior		Mezzanine		Junior	
	Book value	Write-downs/Write-backs	Book value	Write-downs/Write-backs	Book value	Write-downs/Write-backs
A. Subject to total cancellation in the financial statements	-	-	-	-	-	-
B. Subject to partial cancellation in the financial statements	-	-	-	-	-	-
C. Not cancelled from the financial statements						
C.1 Mars 2600 S.r.l. - Performing loans	-	-	-	-	-	-
C.2 Monviso 2013 S.r.l. - Consumer credit	-	-	-	-	-	-
C.3 Monviso 2014 S.r.l. - Consumer credit	-	-	-	-	-	-

C.3 Banking group - Interests in special purpose vehicles for securitisation

Company name	Registered office	Consolidation	Assets			Liabilities		
			Receivables	Debt securities	Other	Senior	Mezzanine	Junior
Mars 2600 Srl	Treviso	YES	290,668	-	26,901	225,795	-	67,700
Monviso 2014 Srl	Milan	YES	132,331	-	9,293	7,094	-	134,223

D. Disclosure of structured entities (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	HFT	16,923	-	-	16,923	16,923	-
UCITS	AFS	20,206	-	-	20,206	20,206	-

E. Sale transactions

The disclosure pursuant to this part regards all the sale transactions (including securitisation operations).

A. Financial assets sold but not fully derecognised

Qualitative information

The “Financial assets sold but not fully derecognised” refer to securitisations carried out by Banca Sella and Consel and to repurchase agreements with the counterpart Cassa Compensazione e Garanzia with underlying Italian government securities.

Quantitative information

E.1 Banking Group - 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. Equities	-	-	-	-	-	-
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 Banking Group – 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. Equities	-	-	-	x	x	x
3. UCITS	-	-	-	x	x	x
4. Loans	-	-	-	-	-	-
B. Derivative instruments						
Total 31/12/2016	**9,370**	**-**	**-**	**-**	**-**	**-**
of which impaired	-	-	-	-	-	-
Total 31/12/2015	**15,340**	**-**	**-**	**-**	**-**	**-**
of which impaired	-	-	-	-	-	-

E.1 Banking Group – 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	**-**	**-**	**-**	**420,825**	**-**	**-**	**430,195**	**634,686**
1. Debt securities	-	-	-	-	-	-	9,370	15,340
2. Equities	x	x	x	x	x	x	-	-
3. UCITS	x	x	x	x	x	x	-	-
4. Loans	-	-	-	420,825	-	-	420,825	619,346
B. Derivative instruments	**x**	**x**	**x**	**x**	**x**	**x**	**-**	**-**
Total 31/12/2016	**-**	**-**	**-**	**420,825**	**-**	**-**	**430,195**	**x**
of which impaired	-	-	-	4,887	-	-	4,887	x
Total 31/12/2015	**-**	**-**	**-**	**619,346**	**-**	**-**	x	**634,686**
of which impaired	-	-	-	8,741	-	-	x	8,741

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 Banking Group – 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**	**-**	**-**	**-**	**9,360**
a) against fully recognised assets		-	-	9,360	-	-	-	**9,360**
b) against partially recognised assets		-	-	-	-	-	-	**-**
2. Due to banks		**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) against fully recognised assets		-	-	-	-	-	-	**-**
b) against partially recognised assets		-	-	-	-	-	-	**-**
3. Securities in issue		**-**	**-**	**-**	**-**	**-**	**119,884**	**119,884**
a) against fully recognised assets		-	-	-	-	-	119,884	119,884
b) against partially recognised assets		-	-	-	-	-	-	**-**
Total	**31/12/2016**	**-**	**-**	**9,360**	**-**	**-**	**119,884**	**129,244**
Total	**31/12/2015**	**-**	**-**	**15,329**	**-**	**-**	**295,703**	**311,032**

The amounts refer to repurchase agreements associated with Banca Sella and Banca Patrimoni Sella & C. for amounts due to customers, and to securitisations carried out by Banca Sella and Consel for securities in issue.

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		Held-to-maturity financial assets (fair value)
	A	B	A	B	A	B	A
A. Cash assets	**-**	**-**	**-**	**-**	**(9,370)**	**-**	**-**
1. Debt securities	-	-	-	-	(9,370)	-	-
2. Equities	-	-	-	-	-	-	
3. UCITS	-	-	-	-	-	-	
4. Loans	-	-	-	-	-	-	-
B. Derivative instruments	**-**	**-**	-	-	-	-	-
Total Assets	**-**	**-**	**-**	**-**	**(9,370)**	**-**	**-**
C. Liabilities associated	**-**	**-**	**-**	**-**	**9,360**	**-**	**-**
1. Due to customers	-	-	-	-	9,360	-	-
2. Due to banks	-	-	-	-	-	-	-
3. Securities in issue	-	-	-	-	-	-	-
Total Liabilities	**-**	**-**	**-**	**-**	**9,360**	**-**	**-**
Net Value 31/12/2016	**-**	**-**	**-**	**-**	**(18,730)**	**-**	**-**
Net Value 31/12/2015	**-**	**-**	**-**	**-**	**11**	**-**	**-**

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	Held-to-maturity financial assets (fair value)	Loans to banks (fair value)		Loans to customers (fair value)		Total	
	B	A	B	A	B	42735	42369
A. Cash assets	**-**	**-**	**-**	**(158,648)**	**-**	**(168,018)**	**634,686**
1. Debt securities	-	-	-	-	-	(9,370)	15,340
2. Equities	x	x	x	x	x	-	-
3. UCITS	x	x	x	x	x	-	-
4. Loans	-	-	-	(158,648)	-	(158,648)	619,346
B. Derivative instruments	x	x	x	x	x	**-**	**-**
Total Assets	**-**	**-**	**-**	**(158,648)**	**-**	**(168,018)**	**634,686**
C. Liabilities associated	**-**	**-**	**-**	**119,884**	**-**	x	x
1. Due to customers	-	-	-	-	-	x	x
2. Due to banks	-	-	-	-	-	x	x
3. Securities in issue	-	-	-	119,884	-	x	x
Total Liabilities	**-**	**-**	**-**	**119,884**	**-**	**129,244**	**311,032**
Net Value 31/12/2016	**-**	**-**	**-**	**(278,532)**	**-**	**(297,262)**	x
Net Value 31/12/2015	**-**	**-**	**-**	**323,643**	**-**	x	**323,654**

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

In 2016, the Group did not have this type of asset.

F. Banking Group – models for measuring credit risk

The Group does not use internal portfolio models to measure exposure to credit risk.

1.2 Banking group - 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).

1.2.1 – 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 trading book consists primarily of bonds, equities, UCITS units and listed derivatives for hedging the positions. The book’s bond component consists mainly of limited-duration bonds issued by the Republic of Italy. Issuer risk is the primary type of portfolio 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. Interest-rate risk and price risk management processes and measurement methods

The Finance Department of the Parent Company has the objective of managing market risk and coordinating the finance activities of the Banca Sella Group (management of owned portfolios, treasury and management of minority shares), also carrying out the specialised activities within the Parent company (trading on own account). The Parent Company Banca Sella Holding is also the broker that provides access to markets for third-party trading carried on by customers of the Banca Sella Group.

The trading book market risk management process is governed by a specific company regulation approved by the Board of Directors and subject to periodic review. This regulation formalises Risk Management activities concerning market risk, defines the duties and responsibilities assigned to the various organisational units responsible for this matter and explains, inter alia, the measurement methods, exposure limits, information flows and any mitigation measures. Therefore, investment and trading activities are carried out in compliance with the regulation referred to above, and take place within a system of delegations of operational powers and within the framework of a regulation that calls for defined operating limits in terms of instruments, amounts, investment markets, type of issue and of issuer, sector and rating.

The Risk Management Service monitors exposure to market risk and verifies its consistency with the risk appetite defined by the corporate bodies within the Risk Appetite Framework and compliance with the system of limits. In line with the Risk Appetite Framework adopted by the Banca Sella Group, market risk exposure is monitored with reference:

- to current portfolios (consisting of financial instruments classified as held for trading and available for sale) held for medium/long-term investment purposes;
- to portfolios held for short-term trading purposes (consisting of financial instruments and listed hedging derivatives classified as held for trading).

Adequate information flows are regularly and promptly provided to the corporate bodies and the management functions.

For prudential purposes to measure the interest rate and price risks inherent in the regulatory trading book the Banca Sella Group applies the “standardised 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 current portfolios. The stress test procedures consist of analysing the economic results should specific negative events occur that, although extreme, are plausible (such as, for example, a deterioration in the creditworthiness of the issuers of the 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 in that in the Notes an analysis of the sensitivity to interest-rate risk is provided on the basis of internal models or other methodologies, as reported below.

2. Regulatory trading book: distribution of exposures in equity securities and equity indices by main quotation market countries

As allowed by Circular 262/2005 and subsequent updates, this table was not prepared in that in the Notes an analysis of the sensitivity to price risk is provided on the basis of internal models or other methodologies, as reported below.

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 severe market swings on the portfolios. The percentile distribution corresponding to the confidence interval set gives the VaR.

Risk Management carries out checks on VaR trends (time horizon: 10 days for trading books and 3 months for current portfolios with confidence interval: 99%) on the own portfolios and carries out sensitivity analyses to risk factors such as portfolio duration and sudden interest rate shocks. Finally, operating limits on securities investments are also continuously monitored.

The average duration of the current book is 1.51 years while the sensitivity, estimated on a parallel shift of +100 basis points of the interest rate curve, is about € 34.5 million (about 1.51% of the portfolio).

The trend in the VaR of the Banca Sella Group (confidence interval 99%, time horizon 3 months) is shown in the chart below. These values have always remained within the prudential limits set by the Parent Company.

Banca Sella Group – Current and Trading Books

Market Risks VaR (time horizon three months – confidence interval 99%)

The Risk Management service also monitors own-account trading operations.

The trend of the VaR (horizon 10 days, confidence interval 99%) of Banca Sella Holding's trading activity is shown in the table below:

VaR Decomposition - Banca Sella Holding at 31.12.2016

Trading Portfolios

Horizon 10 days, confidence interval 99%

Data as of:		31-Dec-16			30-Jun-16		
		Average VaR	Minimum VaR	Maximum VaR	Average VaR	Minimum VaR	Maximum VaR
Type of Risk							
Fixed Income	€	911,059	165,378	1,996,762	951,915	165,378	1,959,057
Corporate	€	22,531	4,987	86,283	27,846	7,520	86,283
Foreign Exchange	€	1,226	149	12,349	1,021	149	3,071
Equities	€	-	-	-	-	-	-
Equity Derivatives	€	154,247	19,434	649,026	198,826	33,340	649,026
Treasury	€	14,109	3,944	42,836	10,233	4,187	20,153
Total VaR[(b)]	€	**1,103,173**	**193,891**	**2,787,255**	**1,189,841**	**210,573**	**2,717,590**

(b) The total Value at Risk is calculated as the sum of the individual VaRs by type of underlying

1.2.2 – Interest-rate risk and price risk – Banking book

The banking book consists of all the financial instruments (assets and liabilities) not included in the trading portfolio, pursuant to section 2.1, primarily amounts due from and to banks and customers and securities not belonging to the regulatory trading book.

Qualitative information

A. General aspects, management procedures and measurement 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 deposits and loans to customers, bank portfolio fixed-rate and floating rate securities and interbank deposits (made and received), as well as derivative instruments created to mitigate exposure to interest rate risk. The Group's policy is to provide a high hedge to 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 exposure to interest rate risk on a monthly basis and verifies its consistency with the risk appetite defined by the corporate bodies within the Risk Appetite Framework and compliance with the system of limits. Adequate information flows are regularly and promptly provided to the corporate bodies and the management functions.

Banking Book interest rate risk is measured by quantifying the interest rate risk coefficient, equal to the ratio between the change in economic value of the banking book following interest rate shocks and regulatory capital.

The risk coefficient is calculated with different methodologies depending on the purpose:

- compliance test purposes: measurement based on the standard methodology specified by the Bank of Italy in annex C of Bank of Italy circular no. 285/2013. The standard methodology measures the impact of a hypothetical change in rates equal to +/- 200[2] basis points on exposure to interest rate risk. The interest rate risk coefficient thus calculated should not exceed 20%[3], the limit beyond which the Bank of Italy discusses the results with the bank and reserves the right to take the appropriate measures.

- RAF and ICAAP measurement purposes: internal methodology that calls for the use of modelling for "on demand items" and the adjustment of positions to take into account the phenomenon of prepayment. The internal measurement follows the standard methodology pursuant to the previous point, without prejudice to the representation of the risk profile generated by on demand items and the prepayment effect.

The methodology adopted for modelling on demand items (the "on demand items model"), developed internally by the Parent Company's Risk Management Service, calls for the use of an econometric model that reflects the behavioural characteristics of sight deposits in terms of persistence (stability over time) and viscosity (reactivity of the cost of sight deposits to changes in market rates).

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[2] In compliance with the restriction that rates cannot be negative, laid out in Circular no. 285/2013 Title III, chapter 1, annex C.
[3] CRD IV, Article 97, paragraph 5;

To measure the prepayment effect, the Constant Prepayment Rate (CPR) model is adopted, which measures the annual prepayment percentage of the items subject to analysis by applying the prepayment rate to the fixed-rate mortgage amortisation profiles.

For management purposes, besides the risk indicator limit set forth for the compliance test, the internal organisation has been provided with more prudential danger thresholds, which, when exceeded, lead to the assessment of operational strategies meant to mitigate that risk.

The Banca Sella Group carries out 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, and non-parallel shock situations that are structural in terms of interest rates.

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 (macro-hedges, such as mortgage loans and consumer credit, and regular leasing instalments) or bond loans issued by the Banca Sella Group, held in the banking book (micro-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. Further hedging is put in place with the aim of mitigating the interest rate risk or the exchange rate risk of simple derivatives such as domestic currency swaps, currency options, overnight interest swaps traded by customers of the Group's banks.

The Parent Company 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 Management Service, are chosen and set up on the calculation software at the moment of a request for measurement of a new derivative instrument. Every time the fair value of the financial instrument is calculated, the above parameters are promptly rechecked and updated.

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.

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 in that in the Notes an analysis of the sensitivity to interest-rate risk is provided on the basis of internal models or other methodologies, as reported below.

2. Banking book: internal models and other methods used for sensitivity analysis

As specified in the section relating to "Qualitative information", rate risk is measured using proprietary models for the processing of items in liabilities with undefined contractual due dates (on demand items) and for the measurement of the phenomenon of prepayment. 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 are hypothesised in the rate curve, respectively of +200 basis points (rise) and -40 basis points (lowering, compatible with the constraint of a non-negativity of rates.

The sensitivity analysis figures at 31/12/16 show a low risk for the 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	9.19	1,042.6	0.88%

Amounts in Euro millions

The price risk of the portfolio is attributable mainly to equity interests held for long-term investment purposes. These are positions assumed directly on the basis of resolutions authorised by the Board of Directors and operationally managed by the Finance Department of the Parent Company. Price risk for these financial instruments is managed by taking an operational approach to equity interests.

1.2.3 – 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.

The Group generally does not trade on own account in the foreign exchange markets for exchange rate risk exposure purposes. Transactions in foreign currency are for the most part connected to customer spot and forward operations. There is a limited amount of assets and liabilities denominated in foreign currency. Exchange rate risk is monitored with reference to the full financial statements.

Qualitative information

A. Exchange rate risk: general aspects, management procedures and measurement methods

Currency transactions mainly take place at the Parent Company's Finance Department, the Treasury of which carries out lending and inter-bank funding operations in foreign currency, and manages the exchange risk connected with currency imbalances. Foreign exchange risk is monitored with the "standardised method" defined by the Bank of Italy in Circular no. 285/2013.

In 2016, there were no overruns of the 2% regulatory capital limit for consolidated positions in foreign currency. As a result, there was no capital requirement against exchange rate risk.

The Risk Management Service monitors exchange risk exposure values and reports them to the Group's ALM Committee. This body, with the assistance of the Parent Company Treasury, assesses possible hedging actions, if considerable exposures towards specific currencies are identified.

B. Exchange rate risk hedging activities

The transactions conducted during the financial year can be mainly traced back to exchange rate risk hedging activities for the Group's banks and companies and for customer transactions.

Micro-hedging is instead put in place, with third parties, with the aim of mitigating the risk of simple derivatives such as domestic currency swaps, currency options and forward contracts traded by customers with the Bank.

Quantitative information

1. Distribution by currency of denomination of assets, liabilities and derivatives

Item	Currency					
	USD	CHF	AUD	GBP	JPY	OTHER CURRENCIES
A. Financial assets	**55,249**	**6,861**	**13,352**	**3,065**	**376**	**9,386**
A.1 Debt securities	16,846	-	7,529	1,225	-	2,447
A.2 Equity securities	12,344	-	-	-	-	-
A.3 Loans and advances to banks	4,776	4,029	438	446	231	4,774
A.4 Loans and advances to customers	21,283	2,832	5,385	1,394	145	2,165
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	**2,249**	**1,074**	**209**	**701**	**133**	**2,615**
C. Financial liabilities	**159,039**	**11,547**	**2,934**	**13,833**	**7,460**	**2,847**
C.1 Due to banks	9,608	13	-	-	30	43
C.2 Due to customers	149,431	11,534	2,934	13,833	7,430	2,804
C.3 Debt securities	-	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
D. Other liabilities	**22**	**-**	**-**	**4**	**-**	**2,592**
E. Financial derivatives	**112,929**	**3,570**	**(9,648)**	**10,244**	**6,935**	**(2,355)**
- Options						
+ Long positions	108,846	2,433	2,622	7,774	8,852	1,225
+ Short positions	108,928	2,460	2,590	7,788	8,871	1,212
- Other derivatives						
+ Long positions	209,582	3,755	2,350	22,088	16,780	4,433
+ Short positions	96,571	158	12,030	11,830	9,826	6,801
Total Assets	**375,926**	**14,123**	**18,533**	**33,628**	**26,141**	**17,659**
Total Liabilities	**364,560**	**14,165**	**17,554**	**33,455**	**26,157**	**13,452**
Imbalance (+/-)	**11,366**	**(42)**	**979**	**173**	**(16)**	**4,207**

2. Internal models and other methods used for sensitivity analysis

Related to foreign exchange risk, the Bank does not carry out sensitivity analyses. Please see what is indicated above.

1.2.4 – Derivative 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 the end of the 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	**396,565**	**-**	**331,785**	**-**
a) Options	82,894	-	82,487	-
b) Swaps	264,963	-	212,052	-
c) Forward	-	-	1,189	-
d) Futures	48,708	-	36,057	-
e) Other	-	-	-	-
2. Equity securities and equity indices	**4,812**	**1,583**	**3,252**	**5,720**
a) Options	378	-	3,070	-
b) Swaps	-	-	-	-
c) Forward	-	-	-	-
d) Futures	-	1,550	70	5,720
e) Other	4,434	33	112	-
3. Currencies and gold	**916,191**	**-**	**872,436**	**-**
a) Options	641,899	-	442,488	-
b) Swaps	62,776	-	65,520	-
c) Forward	211,516	-	364,428	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
4. Goods	**-**	**-**	**-**	**-**
5. Other underlying	**-**	**-**	**-**	**-**
Total	**1,317,568**	**1,583**	**1,207,473**	**5,720**

A.2 Banking portfolio: notional values at end of period and average

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	**758,979**	**-**	**968,916**	**-**
a) Options	-	-	-	-
b) Swaps	758,979	-	968,916	-
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. Goods	**-**	**-**	**-**	**-**
5. Other underlying	**-**	**-**	**-**	**-**
Total	**758,979**	**-**	**968,916**	**-**

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	**2,099,778**	**-**	**2,819,592**	**-**
a) Options	2,099,778	-	2,819,592	-
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. Goods	**-**	**-**	**-**	**-**
5. Other underlying	**-**	**-**	**-**	**-**
Total	**2,104,091**	**-**	**2,830,960**	**-**

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	**19,961**	**195**	**14,093**	**-**
a) Options	9,439	-	5,444	-
b) Interest Rate Swaps	5,157	-	5,313	-
c) Cross currency swap	-	-	117	-
d) Equity Swap	-	-	-	-
e) Forward	3,584	-	2,546	-
f) Futures	-	-	-	-
g) Other	1,781	195	673	-
B. Banking portfolio - 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	**3,494**	**-**	**4,527**	**-**
a) Options	3,494	-	4,527	-
b) Interest Rate Swaps	-	-	-	-
c) Cross currency swap	-	-	-	-
d) Equity Swap	-	-	-	-
e) Forward	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
Total	**29,382**	**195**	**28,902**	**-**

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	**17,984**	**-**	**14,586**	**-**
a) Options	9,191	-	5,339	-
b) Interest Rate Swaps	5,111	-	5,361	-
c) Cross currency swap	-	-	32	-
d) Equity Swap	-	-	-	-
e) Forward	2,542	-	2,559	-
f) Futures	-	-	-	-
g) Other	1,140	-	1,295	-
B. Banking portfolio - hedging	**122,344**	**-**	**128,513**	**-**
a) Options	-	-	-	-
b) Interest Rate Swaps	122,344	-	128,513	-
c) Cross currency swap	-	-	-	-
d) Equity Swap	-	-	-	-
e) Forward	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
C. Banking book - other derivatives	**2,564**	**-**	**4,274**	**-**
a) Options	2,564	-	4,274	-
b) Interest Rate Swaps	-	-	-	-
c) Cross currency swap	-	-	-	-
d) Equity Swap	-	-	-	-
e) Forward	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
Total	**142,892**	**-**	**147,373**	**-**

A.5 OTC financial derivatives – regulatory trading book: notional values, gross positive and negative fair value by counterparty – contracts not included under netting agreements

Contracts not covered by netting agreements	Governments and Central Banks	Other public bodies	Banks	Financial companies	Insurance companies	Non-financial companies	Other subjects
1. Debt securities and interest rates							
- notional value	-	-	50,603	11,046	-	155,908	3,961
- positive fair value	-	-	-	575	-	4,521	79
- negative fair value	-	-	-	-	-	162	6
- future exposure	-	-	-	55	-	1,098	5
2. Equity securities and equity indices							
- notional value	-	-	-	4,426	-	371	-
- positive fair value	-	-	-	388	-	287	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	34	-	139	-
3. Currencies and gold							
- notional value	130,626	-	2,685	-	-	416,568	42,463
- positive fair value	2,978	-	-	-	-	5,535	991
- negative fair value	761	-	19	-	-	6,838	408
- future exposure	1,277	-	27	-	-	2,779	455
4. Other securities							
- 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 included under netting agreements

Contracts covered by netting agreements	Governments and Central Banks	Other public bodies	Banks	Financial companies	Insurance companies	Non-financial companies	Other subjects
1. Debt securities and interest rates							
- notional value	-	-	158,854	16,193	-	-	-
- positive fair value	-	-	189	11	-	-	-
- negative fair value	-	-	4,540	609	-	-	-
2. Equity securities and equity indices							
- notional value	-	-	15	-	-	-	-
- positive fair value	-	-	52	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
3. Currencies and gold							
- notional value	-	-	323,848	-	-	-	-
- positive fair value	-	-	4,353	-	-	-	-
- negative fair value	-	-	4,640	-	-	-	-
4. Other securities							
- 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 included under netting agreements

Contracts not covered by netting agreements	Governments and Central Banks	Other public bodies	Banks	Financial companies	Insurance companies	Non-financial companies	Other subjects
1. Debt securities and interest rates							
- notional value	-	37	-	1,879	-	604,072	1,178,330
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	43	2,521
- 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 securities							
- 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 included under netting agreements

Contracts covered by netting agreements	Governments and Central Banks	Other public bodies	Banks	Financial companies	Insurance companies	Non-financial companies	Other subjects
1. Debt securities and interest rates							
- notional value	-	-	1,074,439	-	-	-	-
- positive fair value	-	-	9,381	-	-	-	-
- negative fair value	-	-	112,642	9,702	-	-	-
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 securities							
- 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		**993,338**	**178,262**	**145,967**	**1,317,567**
A.1 Financial derivatives on debt securities and interest rates		77,762	172,836	145,967	396,565
A.2 Financial derivatives on equity securities and equity indices		1,283	3,529	-	4,812
A.3 Financial derivatives on exchange rates and gold		914,293	1,897	-	916,190
A.4 Financial derivatives on other securities		-	-	-	-
B. Banking book		**228,723**	**580,370**	**2,053,978**	**2,863,071**
B.1 Financial derivatives on debt securities and interest rates		224,410	580,370	2,053,978	2,858,758
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**	**1,222,061**	**758,632**	**2,199,945**	**4,180,638**
Total	**31/12/2015**	**1,255,868**	**996,996**	**2,754,485**	**5,007,349**

B. Credit derivatives

As 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 OTC 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 subjects
1) Bilateral Financial Derivatives	**-**	**-**	**159,289**	**17,916**	**-**	**-**	**-**
- positive fair value	-	-	13,459	528	-	-	-
- negative fair value	-	-	117,046	15,087	-	-	-
- future exposure	-	-	10,406	1,197	-	-	-
- net counterparty risk	-	-	18,378	1,104	-	-	-
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	-	-	-	-	-	-	-

1.3 Liquidity Risk

Qualitative information

A. General aspects, management procedures 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 balance for 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 so as to guarantee solvency, even in stress conditions;
- conformity of liquidity risk management and monitoring processes and methods with prudential regulatory indications;
- decision-sharing and clarity on responsibilities of management, controlling and operating bodies.

The liquidity level is managed by the Banca Sella Holding Finance Department. The Finance Department guides, coordinates and controls the Banca Sella Group's financial activities, while pursuing careful risk management and a solid liquidity position. In particular, in this context the Banca Sella Holding ALM and Treasury service plays a key role by carefully managing the Group's liquidity and contributing to increasing the business's value over time in compliance with the risk parameters laid out in the Risk Appetite Framework. The ALM and Treasury service also contributes to evaluating liquidity reserves. The Group bank Treasuries are responsible for managing liquidity in keeping with the Group's strategic principles and policies.

The Banca Sella Holding Risk Management service is responsible for measuring liquidity risk, determining the liquidity position at consolidated level, in ordinary as well as stress conditions, defining risk objectives in terms of the Risk Appetite Framework, monitoring them and performing the relative reporting and warning activities. The BSH Risk Management service also evaluates the liquidity reserves. Responsibilities regarding controls and liquidity risk monitoring, verifying compliance with the limits established in line with group levels and sufficient reporting to the corporate bodies are delegated to the Group company Risk Management functions.

In addition, the liquidity position is examined and critically assessed by the Group's ALM Committee on a monthly basis. This Committee also provides appropriate operational guidelines.

The Banca Sella Group has a Contingency Funding Plan (CFP) for the management of liquidity risk in stress situations. The CFP is the plan for the management of any liquidity contingency situations, to face adverse situations in obtaining funds and to guarantee the prompt economic and financial stability of the Banca Sella Group.

Liquidity risk is measured on various time horizons: "intraday", "short term" and "structural". The Group also autonomously evaluates the degree of liquidity of the financial instruments held as a liquidity reserve.

The measurement involves a broad set of indicators focused on systemic and specific liquidity situation trends, including the LCR (Liquidity Coverage Ratio) and NSFR (Net Stable Funding Ratio) regulatory indicators.

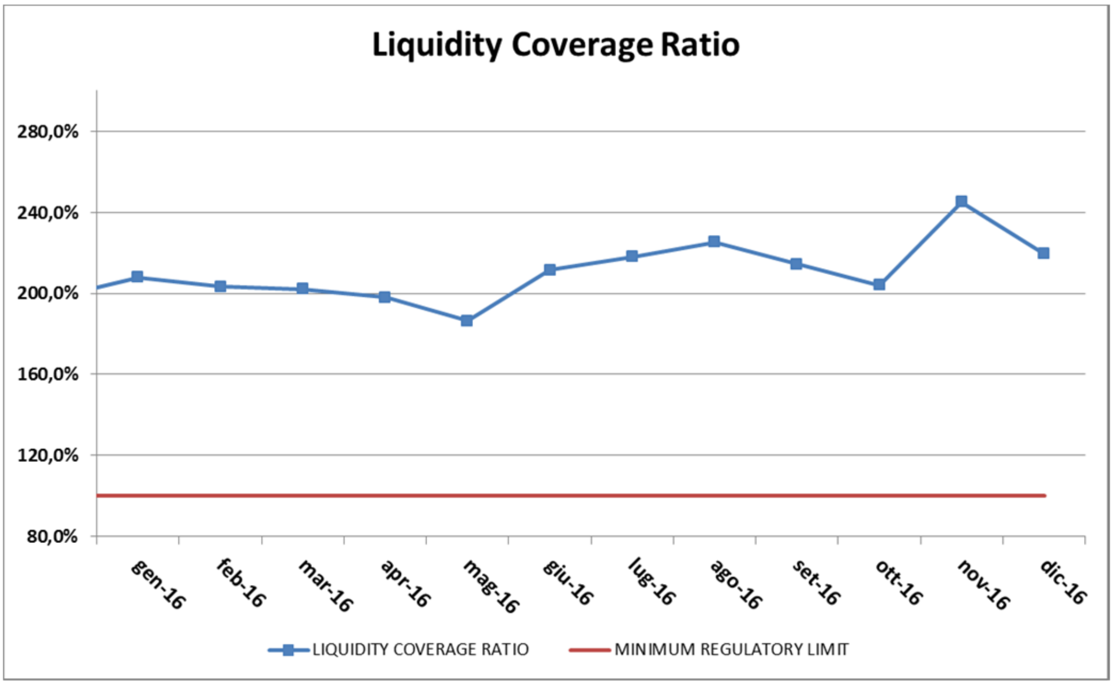
In addition to the information provided by liquidity indicators, the Risk Management service of Banca Sella Holding and the Finance Department of the Banca Sella Group are responsible for carrying out stress analyses on the liquidity reserve of the Group itself.

The approach underlying the stress analysis consists of assessing, through the use of a Maturity Ladder[4], 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 the 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 face any crises, of either systemic or specific origin.

Below is the trend of the liquidity coverage ratio (LCR) for the Banca Sella Group, which indicates the Group’s capacity to face net cash outflows over a 30 day horizon with its stock of high quality liquid assets. The minimum regulatory limit for this ratio is 100%[5].

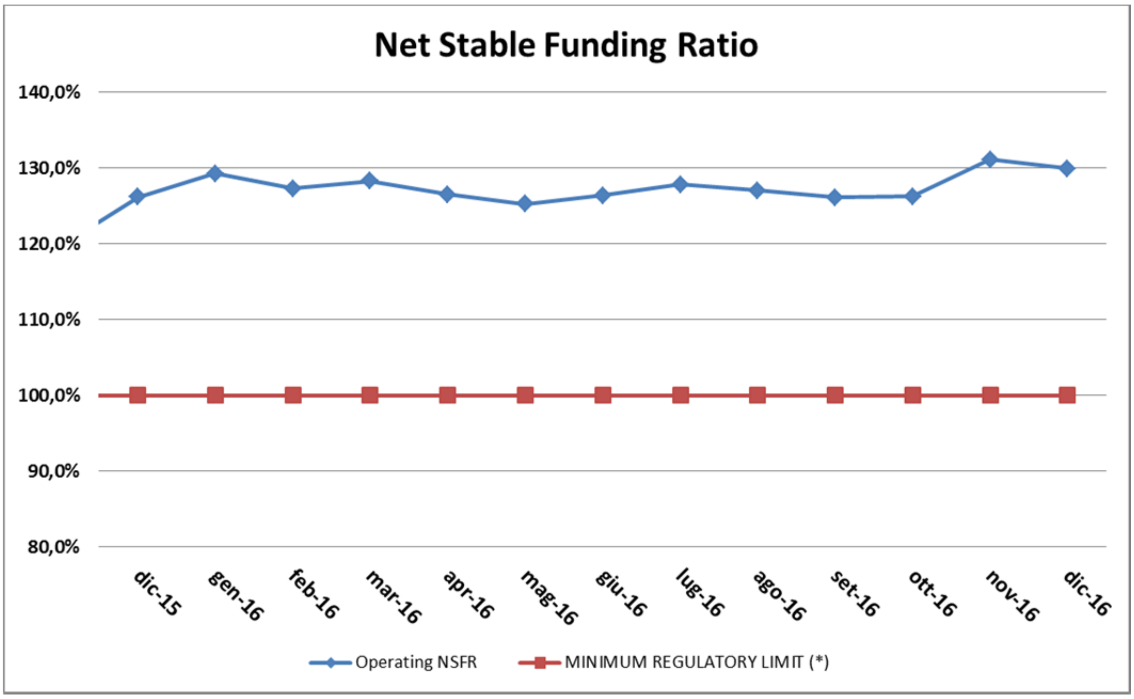


Trends in the structural liquidity indicator (NSFR) of the Banca Sella Group are shown below, calculated at operational level, which provides an indication of the Group’s ability to have an adequate level

[4] A Maturity Ladder is the projection of the net financial position over time.

[5] The 100% regulatory limit will take effect as of 1 January 2018. At present, the DELEGATED (EU) REGULATION 61/2015 is still in effect, which envisages a 3-year phase in period. As of 1 January 2016, the regulatory limit is 70%.

of stable funding in order to finance medium/long-term investments. This indicator will enter 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 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	**845,010**	**253,896**	**116,303**	**149,268**	**746,856**	**1,009,088**	**1,251,188**	**3,714,654**	**2,657,874**	**111,588**
A.1 Government securities	-	139	90	119	36,597	435,610	508,764	580,112	412,915	-
A.2 Other debt securities	525	29	2,415	8,272	16,776	31,447	69,531	247,819	65,265	4,900
A.3 UCITS units	34,465	-	-	-	-	-	-	-	-	-
A.4 Loans and advances	810,020	253,728	113,798	140,877	693,483	542,031	672,893	2,886,723	2,179,694	106,688
- Banks	54,209	68,787	1	-	-	-	5,069	-	22,800	106,688
- Customers	755,811	184,941	113,797	140,877	693,483	542,031	667,824	2,886,723	2,156,894	-
Cash liabilities	**9,513,082**	**16,650**	**26,711**	**35,986**	**130,239**	**152,822**	**213,038**	**1,260,446**	**159,655**	**-**
B.1 Deposits and current accounts	9,382,085	7,487	13,529	26,634	91,450	122,220	129,501	295,688	1,219	-
- Banks	100,882	-	-	-	-	-	-	-	-	-
- Customers	9,281,203	7,487	13,529	26,634	91,450	122,220	129,501	295,688	1,219	-
B.2 Debt securities	75	243	10,087	7,278	20,928	17,170	67,562	302,842	100,103	-
B.3 Other liabilities	130,922	8,920	3,095	2,074	17,861	13,432	15,975	661,916	58,333	-
"Off balance sheet" transactions										
C.1 Financial derivatives with equity swaps										
- Long positions	386	126,298	1,730	22,179	63,563	61,881	42,504	22,686	39,170	-
- Short positions	434	157,769	439	29,601	54,802	115,390	59,983	19,905	45,481	-
C.2 Financial derivatives without equity swaps										
- Long positions	15,461	-	-	-	-	-	-	-	-	-
- Short positions	127,661	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans receivable										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to provide funds										
- Long positions	154,845	79	34	796	26,001	5,930	1,978	23,771	69,931	-
- Short positions	162,752	1,806	-	-	48,874	13,399	56,532	-	-	-
C.5 Financial guarantees issued	-	-	9	-	-	13	25	31	190	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with equity swaps										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without equity swaps										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

1. Time distribution of financial assets and liabilities by residual contractual term 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	**26,436**	**1,909**	**803**	**1,473**	**15,291**	**2,988**	**3,080**	**22,131**	**4,056**	**-**
A.1 Government securities	-	-	-	178	9	-	14	6	239	-
A.2 Other debt securities	2,282	-	7	50	902	1,087	2,807	20,283	2,906	-
A.3 UCITS units	-	-	-	-	-	-	-	-	-	-
A.4 Loans and advances	24,154	1,909	796	1,245	14,380	1,901	259	1,842	911	-
- Banks	12,963	240	-	-	-	-	-	1,484	-	-
- Customers	11,191	1,669	796	1,245	14,380	1,901	259	358	911	-
Cash liabilities	**130,776**	**9,582**	**179**	**1,070**	**15,895**	**22,322**	**19,148**	**-**	**-**	**-**
B.1 Deposits and current accounts	127,559	9,496	179	1,070	15,895	22,322	19,148	-	-	-
- Banks	204	9,496	-	-	-	-	-	-	-	-
- Customers	127,355	-	179	1,070	15,895	22,322	19,148	-	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	3,217	86	-	-	-	-	-	-	-	-
“Off balance sheet” transactions										
C.1 Financial derivatives with equity swaps										
- Long positions	119	107,475	306	30,119	58,190	99,963	66,709	5,519	4,015	-
- Short positions	71	75,532	1,562	23,674	66,438	42,592	47,306	6,117	4,394	-
C.2 Financial derivatives without equity swaps										
- Long positions	1,346	-	-	-	-	-	-	-	-	-
- Short positions	1,140	-	-	-	-	-	-	-	-	-
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 equity swaps										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without equity swaps										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

1.4 Operational risks

Qualitative information

A. General aspects, management processes and methods for measuring operational risk

Operational 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 frauds, human errors, business interruptions, unavailability of systems, contractual non-fulfilment and natural catastrophes. Operational risk includes legal risk, but does not include strategic and reputational risks.

The Parent Company, Banca Sella Holding, performs a function of management and coordination for the control of exposure to the risks assumed by the Banca Sella Group companies in carrying on their ordinary and extraordinary business, delegating the operational aspects to the Risk Management service. This service has the responsibility to measure, monitor and manage the Group's exposure to the risks indicated under the First and Second Pillars of Basel 3, continuously improving the instruments and methods for assessing quantitative and qualitative risk exposure aspects.

The operational risk measurement, management and control systems adopted by the Banca Sella Group can be summed up in the operational 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;
- operational risk exposure assessment;
- output and tools to assist in managing operational risk.

Through the data collection activity the necessary information is collected to assess the exposure to operational 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 operational risks taking place inside the Group and the respective operating loss, in order to take remedial action. The operational risk detection instruments include:

- the computer applications for the collection of operating losses (Anomaly Detection procedure to support the "Control Cycle" process);
- operating risk loss data from external sources (DIPO – Italian Operational Loss Database, joined by the Banca Sella Group)[6];
- 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.

[6]DIPO information also allow comparing internal operating loss data and system operating loss data (DIPO – Italian Operational Loss Database).

The beforehand and after the fact organisational protections, established to mitigate and control operational risk, make it possible to monitor and limit the occurrence of operational risk events and their associated losses. In fact, effective organisational protections allow for timely identification of any inefficiencies and the establishment of appropriate mitigation strategies.

Among the main organisational supervisory items adopted by the Banca Sella Group to mitigate and control operating risk, in addition to the above-mentioned Control Cycle process, are activities of evaluating the risk of new initiatives and IT risk, activities of 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 external and/or internal to the company).

New initiatives are assessed through an ex-ante analysis of the risks that may arise from the creation of new products/services or entry into new businesses and markets. This evaluation makes it possible to assign a “risk exposure” indicator on a discrete scale of values from 1 (minimum risk) to 5 (maximum risk) and favours to the implementation of mitigating actions so that the risk assumed is aligned with the risk appetite profiles approved by the Board of Directors.

To monitor IT risk, evaluations are conducted to determine the intermediary’s ICT risk profile by looking at IT risk in relation to the Group’s organisational context. Therefore, the riskiness of each ICT resource is determined as the combination of the likelihood of occurrence of the risk scenarios identified and the impact in terms of criticality on a scale from 1 (minimum risk) to 5 (very critical risk).

In the context of company process validation, each process is “assigned” a rating of the operational 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 operational 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). In order to intercept symptoms of process vulnerability in advance and having an immediate perception of the areas most greatly exposed to risks, end to end mapping of business processes was carried out[7].

In the case of evaluations of new initiatives and of IT risks and processes with residual operational risk equal to or greater than 4, before any implementations, the Operational Risk Assumption Committee must first conduct an examination and evaluation.

In addition, the activities carried out by the Banca Sella “Network Controls” function also contribute to the mitigation of operational risk, aimed at maintaining adequate supervision over operational risk control. The activities carried out by this service consist of targeted and second-level controls over 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 operational 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 operational risk, the Risk Management service produces regular summary and detailed statements which summarise for each Group company and the Group as a whole, the degree of risk assumed in relation to:

[7]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.

- anomalous events and operating losses reported in the Audit Cycle database (highlighting the more serious anomalies);
- the outcome of line audits;
- 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.

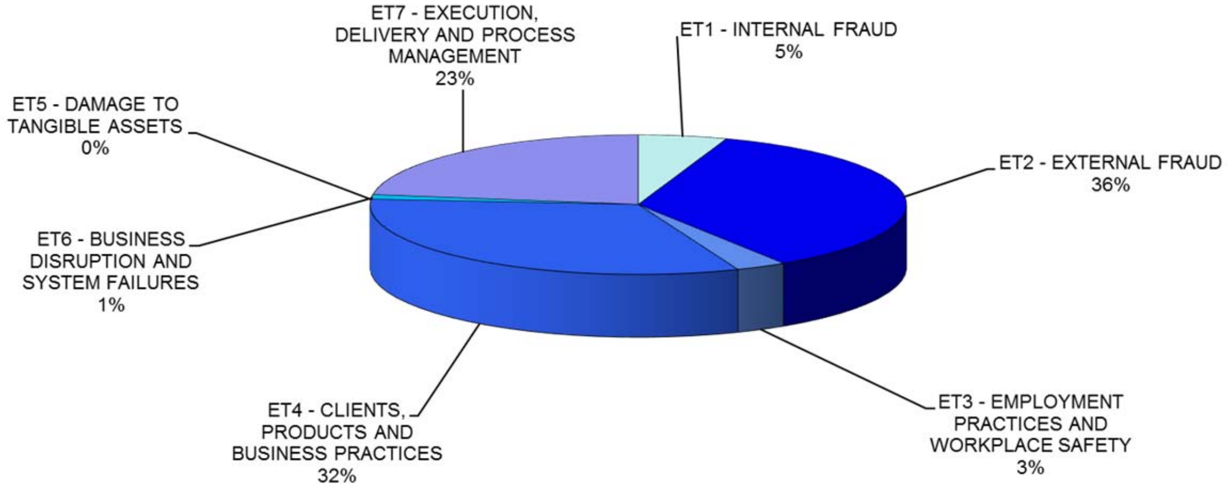
Regarding legal issues, note that the companies of the Banca Sella Group are involved in a number of legal proceedings of various types and legal proceedings originating from the ordinary performance of their activities. In as much as it is not possible to predict the final results with certainty, it 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 Banca Sella Group.

For the purposes of calculation of the capital requirement to cover exposure to operational risk, the method adopted is the Basic Indicator Approach (BIA). In the basic approach, capital requirements are calculated by applying a fixed regulatory ratio of 15% to the three-year average of the relative indicator[8].

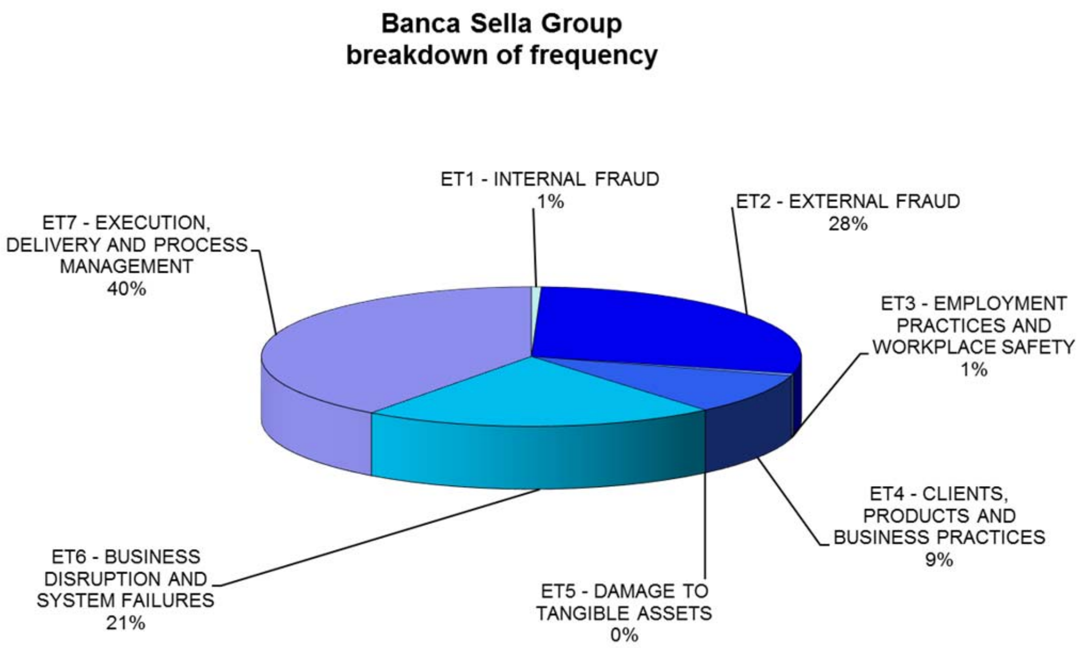
Quantitative information

The graphs below, resulting from the processing of the information contained in the Group's 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 3 and subdivided in terms of impact and frequency.

Banca Sella Group
breakdown of gross loss



[8] Article 316 - Title III - PART THREE of (EU) Regulation 575/2013 issued by the European Parliament and Council on 26 June 2013 details the elements included when calculating the relative indicator. Table 1 of this article indicates: 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 commissions/fees; 5) charges for commissions/fees; 6) profit (loss) from financial operations; 7) other operating income.


Banca Sella Group
breakdown of frequency
ET1 - INTERNAL FRAUD
1%
ET2 - EXTERNAL FRAUD
28%
ET3 - EMPLOYMENT PRACTICES AND WORKPLACE SAFETY
1%
ET4 - CLIENTS, PRODUCTS AND BUSINESS PRACTICES
9%
ET5 - DAMAGE TO TANGIBLE ASSETS
0%
ET6 - BUSINESS DISRUPTION AND SYSTEM FAILURES
21%
ET7 - EXECUTION, DELIVERY AND PROCESS MANAGEMENT
40%

Part F – Information on consolidated equity

As required by Bank of Italy Circular no. 263 of 27 December 2006, as amended, exposure to risks and the general features of systems designed to identify, measure and manage risks, the qualitative and quantitative information on the Notes to the Public at the consolidated levels is published on the Banca Sella Group website, www.gruppobancasella.it.

Section 1 – Consolidated equity

A. Qualitative information

As of 1 January 2014, the new harmonised regulations for banks and investment companies took effect, as contained in regulation 575/2013 (“CRR”) and Directive 2013/36/EU (“CRD IV”), which transfer to the European Union the standards defined by the Basel Committee for bank regulation (Basel 3).

To implement and support application of the new EU regulations, as well as to achieve comprehensive review and simplification of the bank supervisory regulations, on 17 December 2013 the Bank of Italy issued Circular 285 “Supervisory provisions for banks”, which:

i) implemented the provisions of CRD IV, for which implementation is the responsibility of the Bank of Italy pursuant to the Consolidated Banking Act;

ii) indicates the methods through which the national discretion attributed to national authorities in the EU regulations was exercised;

iii) outlines a complete, organic and rational regulatory framework, integrated with the directly applicable EU provisions, so as simplify use by operators.

In the Banca Sella Group, supervision of capital adequacy is ensured by capital management activities.

The Capital Management Plan is defined at the same time as the strategic plan and the Risk Appetite Framework (RAF) and includes an assessment of the impact of ordinary activities and definition of any extraordinary operations with an eye to meeting the capitalisation objectives (represented by the Common Equity Tier 1 ratio and the Total Capital ratio) held necessary and appropriate to give the Group current and prospective solidity and sustainability.

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 Group’s solvency ratios, at the consolidated and individual levels, constitute part of the monthly reports prepared for the Board of Directors of the Parent Company and the Group companies, for the Group’s Alignment and Trend Verification Meeting and the Group’s ALM Committee.

B. Quantitative information

B.1 Consolidated equity: breakdown by type of company

	Banking Group	Insurance companies	Other companies	Eliminations and adjustments on consolidation	Total
1. Capital	185,884	-	33	-	185,917
2. Share premiums	184,852	-	-	-	184,852
3. Reserves	585,525	-	10,984	(8,270)	588,239
4. Equity instruments	-	-	-	-	-
5. (Treasury Shares)	-	-	-	-	-
6. Valuation reserves	30,511	-	1	-	30,512
- Financial assets available for sale	38,575	-	69	-	38,644
- Foreign exchange gains (losses)	(1,447)	-	-	-	(1,447)
- Actuarial profits (losses) in relation to defined benefit pension plans	(6,662)	-	(68)	-	(6,730)
- Share of valuation reserves relating to investments carried at equity	(2)	-	-	-	(2)
- Special revaluation laws	47	-	-	-	47
7. Profit (loss) for the period	93,859	-	131	-	93,990
Total	**1,080,631**	**-**	**11,149**	**(8,270)**	**1,083,510**

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

Asset/Amount	Banking group		Insurance companies		Other companies
	Pos.	Neg.	Pos.	Neg.	Pos.
1. Debt securities	8,325	855	-	-	-
2. Equities	30,843	101	-	-	-
3. UCITS units	338	138	-	-	69
4. Loans	163	-	-	-	-
Total 31/12/2016	**39,669**	**1,094**	**-**	**-**	**69**
Total 31/12/2015	**52,895**	**43**	**-**	**-**	**-**

continued

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

Asset/Amount	Other companies	Eliminations and adjustments on consolidation		Total	
	Neg.	Pos.	Neg.	Pos.	Neg.
1. Debt securities	-	-	-	8,325	855
2. Equities	-	-	-	30,843	101
3. UCITS units	-	-	-	407	138
4. Loans	-	-	-	163	-
Total 31/12/2016	**-**	**-**	**-**	**39,738**	**1,094**
Total 31/12/2015	**-**	**-**	**-**	**52,895**	**43**

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

	Debt securities	Equities	UCITS units	Loans
1. Opening balances	**11,021**	**41,453**	**378**	**-**
2. Increases	**5,062**	**29,508**	**121**	**163**
2.1 Increases in fair value	4,081	29,470	121	163
2.2 Reversal to income statement of negative reserves	981	38	-	-
- from impairment	63	-	-	-
- following realisation	918	38	-	-
2.3 Other changes	-	-	-	-
3. Decreases	**8,613**	**40,219**	**230**	**-**
3.1 Reductions in fair value	4,182	40,215	230	-
3.2 Impairment losses	-	-	-	-
3.3 Reversal to income statement from positive reserves: following realisation	4,431	4	-	-
3.4 Other changes	-	-	-	-
4. Closing balance	**7,470**	**30,742**	**269**	**163**

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

	31/12/2016
1. Opening balances	**(4,651)**
2. Increases	-
2.1 Positive valuation component	-
2.2 New entries	-
3. Decreases	**2,079**
3.1 Negative valuation component	2,079
3.2 New exits	-
4. Closing balance	**(6,730)**

Section 2 – Own funds

2.1 Scope of application of the regulation

Based on that established in articles 11 and subsequent of EU Regulation of the European Parliament and Council no. 575/2013 of 26/06/2013, related to prudential requirements for lending institutions, which took effect on 1 January 2014, the application of these requirements on a consolidated basis must refer to the "parent company" that controls a banking group, whether it is a bank itself or a financial company.

In the light of these indications and in consideration of the corporate structure "upstream" from Banca Sella Holding, the parent company of the Banca Sella Group, calculation of regulatory capital and prudential requirements at 31 December 2015 was done with reference to M.Sella S.A.p.A. which is, based on European regulations, the financial parent company of the banking group.

As a consequence, in this section the results of this calculation are shown, referring the prudential scope of consolidation used in the Consolidated Financial Statements prepared by M.Sella S.A.p.A., as in the supervisory reports sent to the Bank of Italy and, through it, the European Central Bank.

2.2 Own bank funds

A. Qualitative information

The main characteristics of the shares calculated in the Group's **Common Equity Tier 1 – CET1** as at 31 December 2016 are listed below:

- Maurizio Sella s.a.p.a., 25,550,315 ordinary shares with a nominal value of € 0.52 (zero point fifty two) each, including share premiums, reserves and profits accrued and net of 299,284 treasury shares held for a calculable value of € 905,908,079;
- Banca Sella s.p.a., 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 € 104,700,859 related to minority interests;
- Banca Sella Holding s.p.a., 209,976,000 ordinary shares with a nominal value of € 0.50 (zero point fifty) each; 4,251,206 special shares with a nominal value of € 0.50 (zero point fifty) each, including share premiums, reserves and profits accrued for a calculable value of € 2,888,040 related to minority interests;
- Banca Patrimoni Sella & C., 28,000,000 ordinary shares with a nominal value of € 1 each, including share premiums, reserves and profits accrued for a calculable value of € 11,819,393 related to minority interests;
- Biella Leasing, 25,000,000 ordinary shares with a nominal value of € 0.80 each, including share premiums, reserves and profits accrued for a calculable value of € 68,750 related to minority interests.

The following financial instruments were calculated in the **Additional Tier 1 (AT1)** as at 31 December 2016:

- Banca Sella s.p.a., 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 € 8,926,155 related to minority interests;
- Banca Sella Holding s.p.a., 209,976,000 ordinary shares with a nominal value of € 0.50 (zero point fifty) each; 4,251,206 special shares with a nominal value of € 0.50 (zero point fifty) each, including share premiums, reserves and profits accrued for a calculable value of € 408,630 related to minority interests;
- Banca Patrimoni Sella & C., 28,000,000 ordinary shares with a nominal value of € 1 each, including share premiums, reserves and profits accrued for a calculable value of € 985,557 related to minority interests;
- Biella Leasing, 25,000,000 ordinary shares with a nominal value of € 0.80 each, including share premiums, reserves and profits accrued for a calculable value of € 9,082 related to minority interests.

The following financial instruments were calculated in the **Tier 2 (T2)** as at 31 December 2016:

- Banca Sella s.p.a., 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 € 11,859,047 related to minority interests;
- Banca Sella Holding s.p.a., 209,976,000 ordinary shares with a nominal value of € 0.50 (zero point fifty) each; 4,251,206 special shares with a nominal value of € 0.50 (zero point fifty) each, including share premiums, reserves and profits accrued for a calculable value of € 586,749 related to minority interests;
- Banca Patrimoni Sella & C., 28,000,000 ordinary shares with a nominal value of € 1 each, including share premiums, reserves and profits accrued for a calculable value of € 1,299,415 related to minority interests;
- Biella Leasing, 25,000,000 ordinary shares with a nominal value of € 0.80 each, including share premiums, reserves and profits accrued for a calculable value of € 12,109 related to minority interests;
- Subordinated instruments issued by Group companies for a total calculable amount of € 111,241,903.

No.	Issuer	Current interest rate %	Rate type	Book value at 31/12/2016	Calculability	Issue data	Prudential amortisation start date	Maturity date	Subject to repayment on a straight-line basis	Calculable balance
1	Banca Sella Holding	0.687	Variable	10,000,000	YES	21/06/07	21/06/12	21/06/17	NO	597,903
2	Banca Sella Holding	1.084	Variable	30,000,000	YES	17/12/07	27/12/12	27/12/17	NO	3,764,700
3	Banca Sella	0.79	Variable	4,300,000	YES	03/06/09	03/06/14	03/06/19	NO	1,321,365
4	Banca Sella	4.55	Fixed	1,000,000	YES	21/05/09	21/05/14	21/05/19	NO	302,775
5	Banca Sella	0.49	Variable	2,130,000	YES	15/07/09	15/07/14	15/07/19	NO	685,634
6	Banca Sella	0.49	Variable	210,000	YES	15/07/09	15/07/14	15/07/19	NO	67,598
7	Banca Sella	0.39	Variable	2,500,000	YES	31/07/09	31/07/14	31/07/19	NO	818,640
8	Banca Sella	0.39	Variable	2,500,000	YES	04/09/09	04/12/14	04/12/19	NO	928,139
9	Banca Sella	4.075	Fixed	1,000,000	YES	04/09/09	04/12/14	04/12/19	NO	371,256
10	Banca Sella	0.38	Variable	10,000,000	YES	10/09/09	10/12/14	10/12/19	NO	3,733,415
11	Banca Sella	0.38	Variable	930,000	YES	16/09/09	16/12/14	16/12/19	NO	349,147
12	Banca Sella	4.10	Fixed	2,500,000	YES	05/10/09	05/01/15	05/01/20	NO	955,949
13	Banca Sella	4.10	Fixed	5,000,000	YES	15/10/09	15/01/15	15/01/20	NO	1,929,278
14	Banca Sella	4.10	Fixed	5,000,000	YES	26/10/09	26/01/15	26/01/20	NO	1,948,397
15	Banca Sella	4.10	Fixed	2,500,000	YES	26/10/09	26/01/15	26/01/20	NO	974,199
16	Banca Sella	4.10	Fixed	10,000,000	YES	29/10/09	29/01/15	29/01/20	NO	3,907,223
17	Banca Sella	4.10	Fixed	5,000,000	YES	23/11/09	23/02/15	23/02/20	NO	1,997,064
18	Banca Sella	4.00	Fixed	5,000,000	YES	16/12/09	16/03/15	16/03/20	NO	2,034,188
19	Banca Sella	2.95	Fixed	2,500,000	YES	12/10/10	12/10/12	12/10/17	NO	247,678
20	Banca Sella	2.50	Variable	5,000,000	YES	20/10/10	20/10/12	20/10/17	NO	509,260
21	Banca Sella	3.15	Fixed	500,000	Calculable (following transitional provisions)	22/11/10	22/11/12	22/11/17	YES	283,308
22	Banca Sella	3.70	Fixed	10,000,000	YES	14/01/11	14/01/12	14/01/17	NO	48,640
23	Banca Sella	4.65	Fixed	10,000,000	Calculable (following transitional provisions)	15/03/11	15/03/16	15/03/21	YES	5,335,932
24	Banca Sella	4.30	Fixed	3,306,800	Calculable (following transitional provisions)	15/06/11	15/06/13	15/06/18	YES	1,525,964
25	Banca Sella	5.20	Fixed	600,000	Calculable (following transitional provisions)	25/10/11	25/10/12	25/10/17	YES	310,770
26	Banca Sella	5.10	Fixed	1,960,200	Calculable (following transitional provisions)	11/11/11	11/11/12	11/11/17	YES	1,073,205
27	Banca Sella	5.75	Fixed	4,000,000	Calculable (following transitional provisions)	12/12/11	12/12/12	12/12/17	YES	2,405,515
28	Banca Sella	5.60	Fixed	2,000,000	Calculable (following transitional provisions)	30/12/11	30/12/12	30/12/17	YES	1,185,332
29	Banca Sella	5.40	Fixed	8,000,000	NO	17/01/12	17/01/13	17/01/18	YES	0
30	Banca Sella	5.50	Fixed	2,000,000	NO	01/02/12	01/02/13	01/02/18	YES	0
31	Banca Sella	5.00	Fixed	6,000,000	NO	14/02/12	14/02/13	14/02/18	YES	0
32	Banca Sella	4.45	Fixed	2,000,000	NO	01/03/12	01/09/12	01/09/17	YES	0
33	Banca Sella	4.15	Fixed	2,000,000	NO	13/03/12	13/09/12	13/09/17	YES	0
34	Banca Sella	4.55	Fixed	5,000,000	YES	31/08/12	28/02/13	28/02/18	NO	736,950
35	Banca Sella	3.50	Fixed	10,000,000	YES	15/11/12	15/11/13	15/11/18	NO	2,377,705
36	Banca Sella	3.45	Fixed	5,000,000	YES	10/12/12	10/12/13	10/12/18	NO	1,232,305
37	Banca Sella	3.25	Fixed	15,000,000	YES	07/01/13	07/01/14	07/01/19	NO	3,842,914
38	Banca Sella	3.05	Fixed	2,500,000	YES	17/01/13	17/07/13	17/07/18	NO	489,272
39	Banca Sella	3.00	Fixed	5,000,000	YES	31/01/13	31/01/14	31/01/19	NO	1,322,686
40	Banca Sella	3.20	Fixed	10,000,000	YES	31/01/13	31/01/15	31/01/20	NO	3,914,176
41	Banca Sella	3.15	Fixed	15,000,000	YES	22/03/13	22/03/14	22/03/19	NO	4,228,770
42	Banca Sella	3.30	Fixed	10,000,000	YES	03/05/13	03/05/15	03/05/20	NO	4,235,141
43	Banca Sella	3.20	Fixed	15,000,000	YES	17/05/13	17/05/15	17/05/20	NO	6,425,671
44	Banca Sella	2.90	Fixed	6,000,000	NO	19/08/13	19/08/14	19/08/19	YES	0
45	Banca Sella	3.10	Fixed	5,000,000	YES	04/10/13	04/10/14	04/10/19	NO	1,750,255
46	Banca Sella	2.75	Fixed	3,000,000	NO	04/10/13	04/10/14	04/10/19	YES	0
47	Banca Sella	3.10	Fixed	5,000,000	YES	22/10/13	22/10/14	22/10/19	NO	1,781,541
48	Banca Sella	3.00	Fixed	10,000,000	YES	06/11/13	06/11/14	06/11/19	NO	3,615,225
49	Banca Sella	3.00	Fixed	7,500,000	YES	13/11/13	13/11/14	13/11/19	NO	2,729,668
50	Banca Sella	1.95	Fixed	4,541,000	YES	29/05/14	29/05/15	29/05/20	NO	1,964,197
51	Banca Sella	3.25	Fixed	5,100,000	YES	23/04/15	23/04/16	23/04/21	NO	2,790,467
52	Banca Sella	3.25	Fixed	900,000	NO	15/12/14	15/12/16	15/12/21	YES	0
53	Banca Sella	3.40	Fixed	10,200,000	YES	29/05/15	29/05/16	29/05/21	NO	5,708,579
54	Banca Sella	3.25	Fixed	3,000,000	YES	15/05/15	15/05/15	15/05/20	NO	1,283,050
55	Banca Sella	3.875	Fixed	3,500,000	YES	09/11/15	09/11/16	09/11/21	NO	2,158,359
56	Banca Sella	5.325	Variable	25,000,000	YES	27/10/15	27/10/20	27/10/25	NO	15,868,750
57	Banca Sella	5.298	Variable	5,000,000	YES	11/11/15	11/11/20	11/11/25	NO	3,173,748
Grand Total				345,678,000						111,241,903

B. Quantitative information

	Total 31/12/2016	Total 31/12/2015
A - Common Equity Tier 1 - CET1 before application of prudential filters	**978,538**	**931,038**
of which CET1 instruments subject to transitional provisions	-	-
B. CET1 prudential filters (+/-)	(1,326)	(1,112)
C. CET1 gross of elements to be deducted and the effects of the transitional regime (A +/- B)	**977,212**	**929,927**
D. Elements to be deducted from CET1	**104,890**	**108,895**
E. Transitional regime - Impact on CET1 (+/-), including minority interests subject to transitional provisions	**28,468**	**36,406**
F. Total Common Equity Tier 1 (CET 1) (C - D +/- E)	**900,790**	**857,438**
G. Additional Tier 1- AT 1, gross of elements to be deducted and the effects of the transitional regime	**17,215**	**17,218**
of which AT1 instruments subject to transitional provisions	-	-
H. Elements to be deducted from AT1	**-**	**-**
I. Transitional regime - Impact on AT1 (+/-), including instruments issued by subsidiaries and included in AT1 due to the effects of transitional provisions	**(6,886)**	**(10,331)**
L. Total Additional Tier 1 (Additional Tier 1 - AT1) (G - H +/- I)	**10,329**	**6,887**
M. Tier 2- T 2, gross of elements to be deducted and the effects of the transitional regime	**91,414**	**111,680**
of which T2 instruments subject to transitional provisions	19,094	32,105
N. Elements to be deducted from T2	**-**	**7,320**
O. Transitional regime - Impact on T2 (+/-), including instruments issued by subsidiaries and included in T2 due to the effects of transitional provisions	**40,067**	**88,679**
P. Total Tier 2 - T2 (M - N +/- O)	**131,481**	**193,039**
Q. Total own funds (F + L + P)	**1,042,600**	**1,057,363**

2.3 Capital adequacy

A. Qualitative information

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 Group'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.

With its communication released on 24 November 2015, the Bank of Italy, upon completing the periodic prudential review process (SREP), indicated the additional specific capital requirements with respect to the minimum capital amounts indicated in the current regulations, in proportion to risk exposure.

The Group therefore must adopt capital ratios at the consolidated level, including 2.5% as a capital conservation reserve in the amounts as follows:

- common equity tier 1 ratio (CET1 ratio) of 7%, binding in the amount of 5.2% (of which 4.5% for minimum regulatory requirements and 0.7% for additional requirements determined following the SREP); for the Group it is 12.23%;
- Tier 1 ratio of 8.5%, binding in the amount of 6.9% (of which 6% for minimum regulatory requirements and 0.9% for additional requirements determined following the SREP); this ratio is at 12.37% for the Group;
- total capital ratio of 10.5%, binding in the amount of 9.2% (of which 8% for minimum regulatory requirements and 1.2% for additional requirements determined following the SREP); this ratio is at 14.16% for the Group.

These capital ratios correspond to the Overall Capital Requirement (OCR) ratios as defined by the EBA/GL/2014/13 Guidelines and are the sum of binding measures, corresponding to the Total SREP Capital Requirement (TSCR) ratio, as defined in the mentioned EBA Guidelines, and the capital conservation buffer.

Please also note that the 18th update of circular no. 285 published on 4 October 2016 amended the provisions whereby the rules of the CRD IV (Directive EU/2013/36) on the capital conservation buffer, which is currently set at 2.5%, were adopted. The new provisions require banking groups to hold the CET1 necessary to satisfy the own funds requirements laid out in art. 92 CRR in addition to a capital conservation buffer equal to the overall risk exposure of the bank multiplied by the following minimum coefficients:

- 1.25% from 1 January 2017 to 31 December 2017;
- 1.875% from 1 January 2018 to 31 December 2018;
- 2.5% as of 1 January 2019.

On 18 January 2017, the Bank of Italy announced that it had launched the procedure (which will be completed within 90 days) relating to the establishment if an additional capital requirement. Therefore, as of the first report on own funds subsequent to the date on which the final measure is issued, for the Banca Sella Group the additional requirement at consolidated level determined after the SREP will change:

- CET1 ratio: from the current 0.7% to 0.25% for an overall minimum requirement of 6%;
- Tier 1 ratio: from the current 0.9% to 0.35% for an overall minimum requirement of 7.6%;
- Total Capital ratio: from the current 1.2% to 0.5% for an overall minimum requirement of 9.75%.

B. Quantitative information

2.3 Capital adequacy

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	12,618,362	11,597,927	6,180,499	6,134,661
1. Standard method	12,618,362	11,597,927	6,180,499	6,134,661
2. Methodology based on internal ratings	-	-	-	-
2.1 Basic	-	-	-	-
2.2 Advanced	-	-	-	-
3. Securitisations	-	-	-	-
B. Regulatory capital requirements				
B.1 Credit and counterparty risk			**494,487**	**490,849**
B.2 Credit evaluation adjustment risk			1,607	1,980
B.3 Regulatory risk			111	16
B.4 Market risks			9,805	14,460
1. Standard method			9,805	14,460
2. Internal models			-	-
3. Concentration risk			-	-
B.5 Operating risk			83,188	84,728
1. Basic method			83,188	84,728
2. Standard method			-	-
3. Advanced method			-	-
B.6 Other calculation elements			-	-
B.7 Total prudential requirements			589,198	592,033
C. Risk assets and capital ratios				
C.1 Risk-weighted assets			7,364,980	7,400,411
C.2 Common equity Tier 1/Risk-weighted assets (CET1 capital ratio)			12.23%	11.59%
C.3 Tier 1 capital/Risk weighted assets (Tier 1 capital ratio)			12.37%	11.68%
C.4 Total own funds/Risk-weighted assets (Total capital ratio)			14.16%	14.29%

The significant improvement in the CET 1 and Tier 1 ratios was due primarily to the capital gains realised in connection with the extraordinary disposal transactions regarding the insurance group C.B.A. Vita and the equity investment in Visa, as well as the revaluation of the value of the equity investment in Compagnie Financière Martin Maurel.

The increase in credit risk absorption is attributable primarily to the increase in the volumes of loans to customers and the portfolio of AFS corporate securities.

The Total Capital ratio declined with respect to December 2015 due to the lower eligibility for calculation of subordinated loans due to amortisation as well as the regulatory evolutions established by the grandfathering system.

Part G – Aggregation Operations Regarding Companies Or Business Lines

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 responsibilities

In accordance with IAS 24, the types of related parties significant for the Banca Sella Group, with reference to the specific organisational structure and governance, comprise:

a) subsidiaries over which the parent company directly or indirectly exercises control;
b) associated companies over which the parent company directly or indirectly exercises significant influence;
c) directors and managers with strategic responsibilities;
d) close family members of directors and managers with strategic responsibilities;
e) companies controlled by or associated with one of the subjects described in points c) and d).

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. In the light of the Group's current organisational structure, the following are included within "managers with strategic responsibilities": Board members, and members of Banca Sella Holding general management, based on the exercising of management, coordination and control functions.

Fees paid at 31 December 2016 to the above-mentioned key company personnel in the parent company are set out in the following table:

Fees paid to managers with strategic responsibilities(*) *in euro thousands*

Item	Total 31/12/2016
a) Short-term employee benefits	5,852
b) Post-employment benefits	-
c) Other long-term benefits	-
d) Severance indemnities	219
e) Share-based payments	-
Total	**6,071**

(*) including those who serve as directors

Fees paid to Directors and Statutory Auditors *in euro thousands*

Item	Total 31/12/2016
Directors	1,821
Statutory Auditors	130
Total	**1,951**

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.

Intra-group transactions were carried out following assessments of mutual benefit, in line with market terms, with the aim of creating value within the Group.

In preparing the consolidated financial statements, transactions and existing balances with intra-group related parties are eliminated.

The table below sets out the main items existing as of 31 December 2016 differentiated by the different types of related parties:

Related party transactions - balance sheet data as at 31 December 2016

Item	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	**2,547**	**156**	**-**	**4,626**	**90**
Equity instruments	-	156	-	-	32
Debt securities	-	-	-	-	-
Loans and advances	2,547	-	-	4,626	58
of which: impaired financial assets	-	-	-	-	-
Selected financial liabilities	**-**	**5,557**	**-**	**7,829**	**26,454**
Deposits	-	5,557	-	7,763	26,454
Debt securities issued	-	-	-	66	-
Nominal amount of commitments to disburse loans, financial guarantees and other commitments given	-	1,753	-	6,873	629
of which: in default	-	-	-	-	-
Commitments to disburse loans, financial guarantees and other commitments received	-	-	-	-	-
Notional amount of derivatives	-	-	-	932	-
Related parties: cumulative impairment losses, cumulative changes in fair value due to credit risk and provisions on impaired exposures	-	-	-	-	-

Related party transactions - income statement data as at 31 December 2016

Item	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
Interest income	49	28	3	80	3,068
Interest expense	-	-	-	(14)	(23)
Revenues from dividends	-	-	351	-	-
Revenues from commissions and fees	52	2	79	76	303
Expenses from commissions and fees	-	(183)	(349)	-	(950)
Profits or loss from derecognition of financial assets and liabilities not measured at fair value, recognised in the comprehensive income statement	-	-	-	-	-
Profit or (-) loss from derecognition of non-financial assets	-	-	-	-	-
Increase or decrease during the year of cumulative impairment losses, cumulative changes in fair value due to credit risk and provisions for impaired debt instruments, guarantees and commitments	-	-	-	-	-

Part I – Payment Agreements Based On Own Equity Instruments

The Banca Sella Group does not use this type of agreement.

Part L – Segment information

1 – Segment reporting – breakdown by business area

In line with that foreseen in accounting standard IFRS 8, the segment reporting has been prepared using the elements that management utilises to make their own operational and strategic decisions.

In this light, the operating assets of the Banca Sella Group reflect an organisational structure divided into 5 operating segments (internally referred to as "business lines"). To this can be added the "central structure", which guides, coordinates and controls the entire Group.

In addition to reflecting the operational responsibilities laid down through the Group's organisational structure, the operating segments constitute a combination of organisational units that have similar characteristics with reference to the types of products and services offered.

Below is a list of the operating segments, with the relative scopes of consolidation

Commercial Bank Business Line

Consisting of Banca Sella, Biella Leasing, Consel.

Finance Business Line

Consisting of the "Finance" service within Banca Sella Holding.

Services and Product Companies Business Line

Consisting of Sella Gestioni, Brosel, Selfid, Immobiliare Sella and Immobiliare Lanificio Maurizio Sella as well as certain services of Banca Sella Holding ("Trading" and "Correspondent Bank").

Private Wealth Management Business Line

Consisting of Banca Patrimoni Sella & C. and Family Advisory SIM.

Fintech and New Business Line

Consisting of Easy Nolo and the "SellaLab" service within Banca Sella Holding.

Central Structure and other services

Consisting of the organisational units that provide governance and control activities, the holding companies and companies that are no longer operational or being sold.

In addition to the Group's General Management Department, and staff and co-ordination units of the Parent Company, the central unit also includes the following companies: Selir, Finanziaria 2010, Miret, Sella Capital Management and Sella Synergy India.

Criteria for the calculation of profitability for operating segments:

The income statement of operating segments has been drawn up using the following methods:

- For companies belonging only to one operating segment, the result for the year is added in its entirety (source: company financial statements)
- For Banca Sella Holding, consisting of organisational units belonging to different operating segments, the result is appropriately allocated on the basis of the evidence obtained through management controls
- In order to guarantee the possibility of making comparisons between the two years in question, the following "pro forma" changes were made:
  - As of 2016, the scope of the "Services and Product Companies" Business Line also includes technical services and the real estate companies of the Banca Sella Group; this scope was therefore "applied" for 2015 as well
  - The disposal of the insurance group (C.B.A. Vita and Sella Life, completed in June 2016 with retroactive effect as of January 2016) was also "applied" for the year 2015: the results of the two companies were de-consolidated
- The consolidating entries are attributed to "Central Structure and other services"

The condensed income statement was reclassified following the balance sheet tables.

Below is the table on segment reporting – breakdown by business area:

Segment reporting statement – breakdown by business area (euro millions)

	Commercial Bank	Finance	Services and Product Companies	Private Wealth Management	Fintech and New Business	Central structure	Total
INCOME STATEMENT:							
NET INTEREST INCOME							
year 2016	213.3	14.6	0.7	8.7	(0.0)	2.9	240.2
year 2015	228.6	11.0	2.3	8.3	(0.0)	2.6	252.6
% change	-6.7%	33.0%	-67.9%	4.1%	-2.5%	14.6%	-4.9%
NET REVENUES FROM SERVICES							
year 2016	259.1	10.0	14.3	44.2	(0.4)	(2.1)	325.1
year 2015	194.8	38.3	19.4	46.3	(0.3)	(8.4)	290.0
% change	33.0%	-73.9%	-26.1%	-4.7%	30.2%	-75.1%	12.1%
NET BANKING INCOME							
year 2016	472.4	24.6	15.0	52.9	(0.5)	0.9	565.2
year 2015	423.3	49.2	21.6	54.7	(0.4)	(5.8)	542.7
% change	11.6%	-50.1%	-30.4%	-3.3%	26.7%	-114.9%	4.2%
TOTAL NET VALUE ADJUSTMENTS FOR IMPAIRMENT							
year 2016	(84.9)	(2.4)	0.0	(0.4)	(0.1)	(3.3)	(91.1)
year 2015	(128.6)	(4.9)	0.0	(0.7)	(0.1)	(0.1)	(134.3)
% change	-33.9%	-51.1%	-96.8%	-39.5%	93.2%	4192.1%	-32.1%
NET FINANCIAL OPERATING GAINS (LOSSES)							
year 2016	387.5	22.2	15.0	52.4	(0.6)	(2.4)	474.1
year 2015	294.7	44.4	21.6	53.9	(0.4)	(5.9)	408.4
% change	31.5%	-50.0%	-30.5%	-2.8%	35.7%	-59.2%	16.1%
OPERATING EXPENSES (1)							
year 2016	(312.6)	(10.6)	(13.7)	(41.6)	2.9	(26.5)	(402.1)
year 2015	(297.6)	(9.8)	(13.7)	(39.4)	4.5	(22.8)	(378.7)
% change	5.0%	8.1%	0.3%	5.5%	-35.1%	16.3%	6.2%
PROFIT (LOSS) ON CURRENT OPERATIONS BEFORE TAX							
year 2016	75.8	11.6	2.2	10.8	2.4	(1.6)	101.2
year 2015	(2.4)	34.6	6.3	14.5	4.1	(27.5)	29.7
% change	-3323.8%	-66.4%	-64.4%	-25.6%	-42.5%	-94.2%	241.1%
PROFIT (LOSS) FOR THE PERIOD							
year 2016	66.7	8.0	2.7	7.2	1.7	7.8	94.2
year 2015	(1.2)	28.4	4.0	9.3	2.8	(15.3)	28.0
% change	-5628.0%	-71.7%	-32.6%	-21.9%	-40.8%	-151.2%	235.9%
OTHER INFORMATION:							
TOTAL ASSETS (before eliminations)							
year 2016	13,179.5	2,855.6	150.5	1,479.1	15.4	1,562.9	
year 2015	12,821.9	3,140.2	125.4	1,099.0	11.4	207.3	
DUE FROM CUSTOMERS (before eliminations)							
year 2016	8,798.4	300.2	4.5	364.5	0.0	0.1	
year 2015	8,659.2	488.3	5.5	350.3	0.0	0.1	
DUE TO CUSTOMERS (before eliminations)							
year 2016	9,280.5	82.2	0.1	1,297.0	0.0	0.5	
year 2015	8,797.1	51.3	0.1	913.3	0.0	0.8	
SECURITIES IN ISSUE (before eliminations)							
year 2016	460.6	91.0	0.0	0.0	0.0	0.0	
year 2015	816.6	270.4	0.0	0.0	0.0	0.0	
No. FTE							
year 2016	3,124	59	96	247	44	560	4,130
year 2015	3,201	59	95	222	17	558	4,152

(1) = Include income (losses) from equity investments, value adjustments to goodwill and income (losses) from the disposal of investments

Please recall that the profit for the year also includes profit attributable to non-controlling interests, equal to 14.4 million in 2016

The 2016 result was characterised by two non-recurring events with a significant economic impact:

- Capital gain of € 46.9 million deriving from the equity investment in Visa Europe, reclassified on the line "Revenues from services" in the Commercial Bank operating segment;
- Capital gain of € 27.9 million from the disposal of the insurance group (C.B.A. Vita and Sella Life), reclassified under profits from the disposal of investments, shown in the row "Pre-tax profit from current operations" in the "Central structure" operating segment.

Segment reporting – breakdown by geographical area

The segment reporting by geographical areas required under IFRS 8 contains a condensed outline of the main operating figures for Italy, which is where most of the Group's business was carried out, and the Rest of the World (which includes the results linked to the operations of the company Selir, the Indian branch and Finanziaria 2010, characterised essentially by investments in foreign companies).

Below is the table on segment reporting – breakdown by geographical area:

Segment reporting statement – breakdown by business area (euro millions)

	Italy	Rest of the world	Total
INCOME STATEMENT:			
NET INTEREST INCOME			
year 2016	239.9	0.2	240.2
year 2015	252.2	0.4	252.6
% change	-4.9%	-38.5%	-4.9%
NET REVENUES FROM SERVICES			
year 2016	318.5	6.6	325.1
year 2015	284.4	5.6	290.0
% change	12.0%	16.2%	12.1%
NET BANKING INCOME			
year 2016	558.4	6.8	565.2
year 2015	536.6	6.0	542.7
% change	4.1%	12.6%	4.2%
TOTAL NET VALUE ADJUSTMENTS FOR IMPAIRMENT			
year 2016	(91.1)	(0.0)	(91.1)
year 2015	(134.2)	(0.0)	(134.3)
% change	-32.1%	-93.4%	-32.1%
NET FINANCIAL OPERATING GAINS (LOSSES)			
year 2016	467.3	6.8	474.1
year 2015	402.4	6.0	408.4
% change	16.1%	13.4%	16.1%
OPERATING EXPENSES (1)			
year 2016	(397.9)	(4.2)	(402.1)
year 2015	(375.6)	(3.2)	(378.7)
% change	5.9%	31.2%	6.2%
PROFIT (LOSS) ON CURRENT OPERATIONS BEFORE TAX			
year 2016	69.4	2.6	72.1
year 2015	26.9	2.8	29.7
% change	158.6%	-6.7%	142.9%
PROFIT (LOSS) FOR THE PERIOD			
year 2016	91.4	2.8	94.2
year 2015	29.1	2.5	31.6
% change	214.3%	10.0%	197.9%
OTHER INFORMATION:			
TOTAL ASSETS (before eliminations)			
year 2016	19,178.0	65.0	
year 2015	18,295.1	701.1	
DUE FROM CUSTOMERS (before eliminations)			
year 2016	9,467.7	0.1	
year 2015	9,503.3	0.1	
DUE TO CUSTOMERS (before eliminations)			
year 2016	10,659.8	0.5	
year 2015	9,761.8	0.8	
SECURITIES IN ISSUE (before eliminations)			
year 2016	551.5	-	
year 2015	1,087.0	-	
No. FTE			
year 2016	3,482	648	4,130
year 2015	3,474	678	4,152

(1) = Include income (losses) from equity investments, value adjustments to goodwill and income (losses) from the disposal of investments

Report of the board of statutory auditors

BANCA SELLA HOLDING S.p.A.

Head Office at Piazza Gaudenzio Sella 1 - Biella
Share capital € 107,113,603 fully paid up
Biella Companies Register and tax code: 01709430027
A member of the Interbank Fund for the Protection of Deposits
Enrolled on the Registers of Banks and of Banking Groups

REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE ORDINARY SHAREHOLDERS' MEETING OF 22 APRIL 2017

Dear Shareholders,

with this report the Board of Statutory Auditors provides information on the supervisory activities it carried out during the year ended at 31 December 2016, in compliance with the various applicable regulatory sources.

In order to carry out these activities, the Board of Statutory Auditors acquired the necessary information above all through meetings with the managers of the relative corporate structures, especially the control areas, making use of information reports provided by the same and holding twenty meetings. The results of these meetings were reported in the minutes registered in the registry of Board of Statutory Auditors meetings.

The participation of the statutory auditors at eighteen meetings held by the Board of Directors during the year and the thirteen meetings of the Risk Committee, during which they interacted further with the company and control functions, also were an integral part of the supervisory activities of the board of statutory auditors.

The statutory auditors also participated in the shareholders' meetings held in 2016.

On the basis of the information and responses obtained in the methods and on the occasions noted, the Board of Statutory Auditors, in reporting on the activities assigned to it, notes that it:

- noted the regular operation of the Board of Directors, the work of which is performed, in particular, in compliance with the provisions foreseen in article 2391 of the Civil Code, in terms of resolutions made in the presence of conflicts of interest for directors, and also with related parties and associates, and carrying out structured meetings, accompanied by contents that comply with that required under article 2381 of the Civil Code;
- monitored the evolution of the Strategic Plan which was reorganised during the year in terms of certain implementation aspects deemed adequate to pursue the capital strengthening and commercial growth objectives;
- obtained information about the activities performed and the operations of the greatest economic, financial and capital significance, allowing it to affirm that the resolutions and items existing comply with the law and the Articles of Association, and are not manifestly imprudent or reckless or in contrast with resolutions made by the Shareholders' Meeting;
- acquired information and monitored compliance with the standards of proper administration, as well as the functioning and adequacy of the organisational structure and internal and administrative accounting systems within the Company and the Group, also noting the attention dedicated to this aspect by the Board of Directors and the assigned entity, to which overall positive evaluations and actions to rationalise them both apply;
- positively assessed, in particular, the actions relating to the organisational structure of the Company and the Group, which also regarded the control functions, in relation to which strengthening activities were recently planned;

- monitored the ongoing process of revising internal regulations, in order to allow for greater consistency with the governance and control system and to increase their ease of use by the parties concerned;
- carried out supervisory activities pursuant to article 19 of Legislative Decree no. 39/2010, which assigns the Board of Statutory Auditors the role of "the internal audit and control committee", verifying *inter alia* the adequacy, in methodological terms, of the impairment process used for relevant balance sheet assets, as well as periodically exchanging information with the independent auditing firm, from which the results of the audits done of the corporate accounts were received, as well as those regarding proper recognition of management events in accounting records;
- received from the independent auditing firm, pursuant to the aforementioned regulations, the elements necessary to ascertain its independence, the communication of non-auditing services provided to the Company by the same or by entities belonging to the same network as well as, finally, the report outlining the "fundamental issues" that arose during the audit;
- confirmed the current and prospective adequacy of regulatory capital in terms of the required ratios;
- monitored the adequacy and compliance of the ICAAP in regards to the requirements established in the regulations;
- met with members of the boards of statutory auditors of the other Group companies, in order to exchange information and opinions, in application of the provisions of the Authority and the provisions of article 2403-*bis* of the Civil Code, not forgetting that the Company, as the Parent Company, directs and coordinates these companies, pursuant to article 2497 of the Civil Code;
- issued opinions and certifications as foreseen and determined that no complaints or claims had been sent to the Board of Statutory Auditors

pursuant to article 2408 of the Civil Code;

- learned of the outcomes of the supervisory inspection conducted by the Bank of Italy in June 2016 on the subsidiary Banca Sella, focusing on the adaptation to restrictions regarding the Remuneration of credit lines and overdrafts pursuant to art. 117 bis of the Consolidated Banking Act and Ministerial Decree 644/2012, which concluded with the identification of aspects to be improved upon, for which the subsidiary has planned suitable actions; as well as the recent launch, on 7 February 2017, of an inspection of the Company, referring to the entire Group, concerning the governance, control and IT and operational risk management systems and the efficiency and reliability of the reporting/accounting system;
- carried out the annual process of self-assessment in terms of the adequacy, presence of diversified professionalism and skills, the structure and operation of the Board of Directors, which had positive results, although with margins for improvement;
- carried out, with a similarly positive result, and similar margins for improvement, the self-assessment of the Board of Auditors and its members, in accordance with the indications of the Bank of Italy and the Banca Sella Group, making the considerations and receiving the certifications necessary to consider the independence requirements for each member of the Board of Statutory Auditors fulfilled;
- received the draft individual and consolidated financial statements in a prompt fashion, approved by the Board of Directors at its meeting of 14 March 2017, together with the respective reports on operations, upon completion of the proceedings properly carried out, in compliance with the provisions of the law;
- verified the structure and composition of the draft individual and

consolidated financial statements and the respective reports on operations, determining their completeness and suitability to represent the overall situation of the Company and the Group, with adequate evidence of the characteristics of the activities and sectors in which they are carried out; the factors which most significantly denoted the year and influenced the results; operations with related parties and subsidiaries; the accounting standards adopted and the results of their application;

- received from Deloitte & Touche, the company appointed to perform independent auditing, the report on audit activities performed, for the separate and consolidated financial statements, which did not indicate any findings or requests for additional information;
- established that the proposed destination of profits is compliant with the Articles of Association and with the indications of the supervisory authority, issued in a communication dated 14 March 2017;
- finally, established that in financial year 2016 no significant events occurred which would require notification of the supervisory authority, nor did the need arise to make proposals regarding the financial statements, approval of the same, or aspects following under the responsibility of the Board of Statutory Auditors.

Biella, 6 April 2017

The Board of Statutory Auditors

Pierluigi Benigno

Gianluca Cinti

Daniele Frè

Independent Auditors' Report

Deloitte.

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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 Holding S.p.A.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Banca Sella Holding S.p.A. and its subsidiaries ("Gruppo Banca Sella"), 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 flows statement for the year then ended, and the related explanatory notes.

Management's Responsibility for the Financial Statements

The Company's Directors are responsible for the preparation of these consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements give a true and fair view of the financial position of Gruppo Banca Sella 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 and of certain information included in the report on corporate governance with the consolidated financial statements

We have performed the procedures indicated in the Auditing Standard (SA Italia) n. 720B in order to express, as required by law, an opinion on the consistency of the report on operations and of certain information required by art. 123-bis, paragraph 2 letter b), of Italian Legislative Decree n. 58/98 included in the specific section of the report on corporate governance, which are the responsibility of the Directors of Banca Sella Holding S.p.A., with the consolidated financial statements of Gruppo Banca Sella as at December 31, 2016. In our opinion the report on operations and the information required by art. 123-bis, paragraph 2 letter b), of Italian Legislative Decree n. 58/98 included in the specific section of the report on corporate governance referred to above are consistent with the consolidated financial statements of Gruppo Banca Sella as at December 31, 2016.

DELOITTE & TOUCHE S.p.A.

Signed by
Claudio Crosio
Partner

Turin, Italy
April 5, 2017