IFITALIA
GRUPPO BNP PARIBAS

Financial Report 2017

INTERNATIONAL FACTORS ITALIA S.p.A. - IFITALIA
Company subject to the management and co-ordination of BNP Paribas S.A. – Paris
Registered offices and Headquarters: Via Vittor Pisani 15, 20124 Milan, Italy
Tel. No. +39 (02) 67781
Fax No. +39 (02) 6671.3190
Ifitalia.it – info@ifitalia.it – Ifitalia@pec-ifitalia.it

Share capital: EUR 55,900,000
Tax Code No. 00455820589 - VAT No. 09509260155
Milan Companies' Register No. 00455820589 and Economic & Administrative Roster No. 683665
Register of Financial Brokers: mechanised code no. 19016

FINANCIAL REPORT 2017

REPORT ON OPERATIONS

2017 Report on Operations

Offices

Milan	20124	Via Vittor Pisani, 15 Tel. No. 02/67781

Commercial offices within branches of Banca Nazionale del Lavoro

Ancona	60122	Corso Stamira, 10 Tel. No. 071/203846
Bari	70121	Via Dante Alighieri, 32/40 Tel. No. 080/5210177
Bologna	40125	Via Rizzoli, 26 Tel. No. 051/237001
Catania	95131	Corso Sicilia, 30 Tel. No. 095/322320
Genoa	16121	Largo Eros Lanfranco, 2 Tel. No. 010/582571
Mestre	30175	Corso del Popolo, 21 Tel. No. 041/5044070
Naples	80134	Via Toledo, 126 Tel. No. 081/5517364
Padua	35139	Piazza Insurrezione, 6/6A Tel. No. 049/655988
Palermo	90133	Via Roma, 291 Tel. No. 091/6111387
Parma	43100	Piazza Garibaldi, 17/A Tel. No. 0521/206232
Pescara	65121	Corso Vittorio Emanuele, 148 Tel. No. 085/4429552
Prato	50047	Via Bettino, 2 Tel. No. 0574/453605
Rome	00187	Salita San Nicola da Tolentino, 13 Tel. No. 06/42010834
Turin	10121	Via XX Settembre, 40 Tel. No. 011/543444

Directors and Officers as at 31 December 2017

Board of Directors	MARIO GIROTTI	*Chairman*
	PAOLO ALBERTO DE ANGELIS (until 24 October 2017)	*Vice Chairman*
	PATRICK PIERRE MARIE GALOUZEAU DE VILLEPIN (Vice Chairman from 25 October 2017)	*Vice Chairman*
	MARIO SPAZIANTE (until 24 October 2017)	*Director*
	REGINA CORRADINI D'ARIENZO (from 25 October 2017)	*Director*
	MICHELA CICENIA	*Director*
	ANGELO NOVATI	*Director*
	OLIVIER MARIE PERRAIN (until 24 October 2017)	*Director*
	MARCO TARANTOLA (from 25 October 2017)	*Director*
	MAURO BOMBACIGNO (from 20 December 2017)	*Director*
Board of Statutory Auditors	FRANCESCO SCHIAVONE PANNI	*Chairman*
	ROBERTO SERRENTINO	*Acting Auditor*
	GUIDO NORI	*Acting Auditor*
	LORENZO THEODOLI CICCOLINI	*Alternate Auditor*
	ROBERTO D'AYALA VALVA	*Alternate Auditor*
General Manager	GIANLUCA LAURIA (from 1 February 2017)	

Introduction and methodological note

Ifitalia has prepared the consolidated financial statements for the first time, which include in the scope of consolidation, other than Ifitalia, only Tierre Securitization srl, the SPV used for securitisation transactions (as described in detail on page 42 of this report) and a *de facto* subsidiary of Ifitalia.
Given the structure of the securitisation transactions that do not allow the receivables assigned to the SPV to be derecognised from Ifitalia's balance sheet assets, the values of the various items of the consolidated financial statements do not differ substantially from those of Ifitalia's separate financial statements.
For this reason, the values and analyses performed in the Report on Operations refer to Ifitalia's separate financial statements.

Highlights (amounts in thousands of EUR)

Ifitalia S.p.A. - Highlights	2017	2016	% changes
VOLUMES			
Turnover	29,289,056	28,767,520	1.8%
- without recourse	25,756,946	24,792,757	3.9%
- with recourse	3,532,110	3,974,762	-11.1%
ECONOMIC DATA			
Net interest	68,070	73,252	-7.1%
Net commissions	44,215	50,395	-12.3%
Net banking income	112,083	123,876	-9.5%
Administrative expenses	47,307	44,044	7.4%
- personnel expenses	*21,544*	*19,411*	11.0%
Net adjustments for impairment of tangible and intangible assets	3,340	2,820	18.4%
Net adjustments for impairment of financial assets	16,255	13,957	16.5%
Net operating income	49,040	62,043	-21.0%
Profit for the year	34,200	45,214	-24.4%
BALANCE SHEET DATA			
Total assets	7,486,597	*7,669,771*	-2.4%
Total Risk Weighted Assets (RWA)	7,182,242	*7,666,615*	-6.3%
Due from customers	7,370,779	*7,539,121*	-2.2%
Loans to lending and financial institutions	10,424	*14,366*	-27.4%
Available-for-sale assets	5,921	*7,285*	-18.7%
Due to lending and financial institutions	6,031,525	*6,441,688*	-6.4%
Due to customers	547,537	*394,847*	38.7%
Equity	699,765	*666,088*	5.1%
Tier 1 capital	655,303	*610,841*	7.3%
Supervisory capital	655,635	*611,589*	7.2%
PROFITABILITY, EFFICIENCY AND DIVERSIFICATION INDICES			
R.O.E.	5.0%	7.0%	-28.7%
(*)Cost / income (with amortisation/depreciation)	45.2%	37.8%	19.4%
Net commissions/Earnings margin	39.4%	40.7%	-3.0%

(*) Includes "administrative expenses" and "net adjustments for impairment of tangible and intangible assets"

Ifitalia S.p.A. - Highlights

	2017	2016	% changes
ASSET QUALITY			
Total problem positions	**519,462**	**566,396**	**-8.3%**
- in relation to customer receivables	7.05%	7.51%	-6.2%
- coverage percentage	52.01%	51.09%	1.8%
Non-performing positions	**290,976**	**289,892**	**0.4%**
- in relation to customer receivables	3.95%	3.85%	*2.7%*
- coverage percentage	70.57%	69.55%	*1.5%*
Unlikely to pay	**150,902**	**236,070**	**-36.1%**
- in relation to customer receivables	2.05%	3.13%	*-34.6%*
- coverage percentage	41.41%	36.16%	*14.5%*
Past due positions	**77,584**	**40,434**	**91.9%**
- in relation to customer receivables	1.05%	0.54%	*96.3%*
- coverage percentage	3.03%	5.95%	*-49.0%*
CAPITALISATION RATIOS			
Tier 1 ratio	9.12%	7.97%	14.5%
Solvency ratio	9.13%	7.98%	14.4%
STRUCTURAL DATA			
Employees at year end	**231**	**231**	0.0%
No. of commercial offices	**15**	**15**	0.0%
- of which in Italy	**15**	**15**	0.0%
INFORMATION ON IFITALIA SECURITY			
Total number of shares	**55,900,000**	**55,900,000**	0.0%
- of which ordinary	**55,900,000**	**55,900,000**	0.0%
Par value (euro)	**1**	**1**	0.0%
Current value (euro) (*)	**12.52**	**11.92**	5.1%

(*) Effective Equity/total number of share

Results overview

In an economic scenario in which lending activity showed modest signs of recovery, the factoring market experienced a certain vitality with an increase in turnover and average loans greater than 9%, (primarily linked to large transactions in the energy market). However, at the same time, the factoring market has suffered considerably on the price side, with significant declines compared to the previous year.

Within this context, Ifitalia has not always followed the market, limiting its participation in large transactions with restricted profitability; overall in 2017, average loans increased by +5.8% and turnover by +1.8%. Conversely, the reduction in spreads was more contained compared to the market. Nevertheless, this trend was not positively reflected in net banking income (-10%) due to non-recurring components, such as interest for late payments by public entities recorded in 2017 at a markedly lower rate than in 2016.

The drop in net banking income is accompanied by a decrease in the cost of risk (-14% compared to 2016), and an increase in administrative expenses, mainly due to the cost of the redundancy plan for personnel (EUR 2 million).

From a financial point of view, **loans to customers** declined from EUR 7,539 million in 2016 to EUR 7,371 million in 2017 (-2.2%).

The **net banking income** fell from EUR 123.9 million in 2016 to EUR 112.1 million in 2017 (-10%). Particularly:

- **net interest** amounted to EUR 68.1 million (EUR 73.3 million in 2016), posting a decline of 7.1% due to lower interest accrued on late payments from public entities, partially offset by higher interest associated with higher average loan volumes (+5.8%), though with a slightly lower spread (from 1.31% to 1.29%)

- **net commissions**, equalling EUR 44.2 million, decreased with respect to 2016 by EUR 6.2 million (-12.3%). This reduction was caused by the drop in commission income following the lower pricing applied in 2017 compared to 2016 and the increase in insurance costs and commission expense.

As regards the **cost of risk**, during 2017 the Company recognised EUR 18.8 million, recording a decrease of 14% on the previous year.
The reduction in net analytical adjustments is the result of the decrease in new additions to NPL, while the cost for collective impairment increased following the implementation of the recommendations from internal audit. The PD model applies a prudential adjustment of the qualitative variable "financial liquidity" to the exclusive Small Corporate customers in order to mitigate the impact in case of missing values. This will also allow a reduction in the portion of unrated counterparties.

Administrative expenses recorded a 7% increase compared to December 2016:

- **personnel expenses**, amounting to EUR 21,544 thousand, are up 11% compared to December 2016; this increase relates to the voluntary redundancy campaign launched in 2017 which required a provision of EUR 2 million;
- **other administrative expenses** increased 5% with respect to the prior year; this change is essentially due to the increase in IT costs and outsourcing services.

net value adjustments on tangible and intangible assets were EUR 3.3 million against EUR 2.8 million in 2016, posting an increase of EUR 520 thousand. Of these, EUR 1.2 million (in line with 2016) refer to tangible assets and EUR 2.2 million (EUR 1.6 million in 2016) to intangible assets. The latter increase relates to the amortisation for capitalised software related to the RWA calculation project with the advanced Basel II models (IRBA).

In defining administrative expenses and depreciation and amortisation expenses compared with the net banking income, the cost to income ratio equalled 45.2% in 2017 against 37.8% in 2016.

Other operating income and expenses amounted to EUR 2.7 million, consistent with 2016.

Net operating income stood at EUR 49 million.

After direct taxes, which were EUR 15 million, the **profit for the year** was EUR 34.2 million (EUR 45.2 million in 2016, -24%).

* * *

Equity, including the profit for the year, is EUR 700 million (+5% against 2016).

As at 31 December 2017, the level of capitalisation for Supervisory purposes was expressed by a Tier 1 Capital Ratio of 9.12% (7.97% in 2016) and by a Total Capital Ratio of 9.13% (7.98% at the end of December 2016).

Market in which the company operates

Macroeconomic scenario

The world economy and the Euro area

During 2017, the global economy grew at an annual rate of 3.7%, much higher than the previous year. The growth was widespread, involving most advanced and emerging countries.
International trade volumes have begun to grow at a more pronounced rate than global economic trends, reversing the trend recorded in the previous two years. After a long downturn, commodity prices are showing considerable increases, especially for metals and energy products.
The favourable global scenario has facilitated the beginning of a recovery for both Brazil and Russia, the latter increasingly linked to the global energy market. Although not without issues, growth in China and India remains robust, confirming the Asian continent as the most dynamic area in the world.
In the United States, the acceleration of private consumption is supported by investments to give strength to the economic situation. At the end of the year, the unemployment rate was at an historic low, with a reduction of 0.6 percentage points over twelve months. The risk of deflation seems remote, although price dynamics are still relatively contained.
The growth rate in the Eurozone is improving, with contributions from all countries of the area (albeit in different ways). The more positive economic climate is mitigating some weaknesses, but target values are often far from being achieved, especially in the case of inflation and unemployment.
In October, the Fed initiated a program to reduce its assets, implementing only a partial renewal of the securities in its portfolio that had expired. In mid-December, the less accommodating approach of US monetary policy was reinforced by the new increase in the benchmark rate, the third in the year and the fifth since the market became bullish (December 2015).
For its part, the ECB confirms its highly expansionary approach, leaving benchmark rates unchanged. However, a reduction in purchases of financial assets was announced at the beginning of this year (from EUR 60 to EUR 30 billion each month).

The Italian economy

For the fourth consecutive year, the annual economic results were positive. However, although clearly improving (about +1.5%), growth in 2017 is lower than the average for the Eurozone.
The trend in private consumption, facilitated by higher disposable income, contributed significantly to the more favourable economic situation. Automotive sales grew by nearly 8%, an increase that is considerably higher than that of the rest of the European Union.
Fixed investments began a recovery, growing by 3%, driven not only by improved forecasts, but also by more relaxed conditions in the financial market. The unemployment rate shows only a slight decline, also because the growth in employment combines with a reawakening of interest from those who had been discouraged during the crisis and preferred to withdraw from the labour market.
A more dynamic economy has inevitably stimulated imports, whose growth reached double digits at the end of the year. Exports also confirm their vitality with an increase in sales abroad which is more energetic in countries outside the European Union. The balance of trade in goods and services with foreign countries, although limited in size, is still largely positive.
Price dynamics remain weak, but less pronounced than the previous year. At the end of 2017, the national consumer price index rose by 0.9% compared to December 2016, or only 0.7% if we consider "core inflation", calculated by excluding energy and fresh food products.

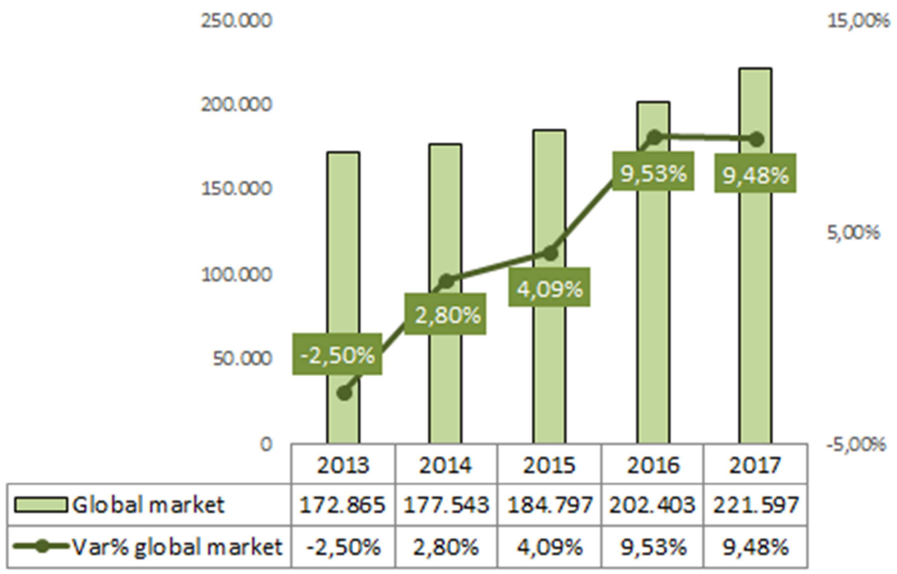
Lending activities in Italy

Lending activities in Italy showed signs of recovery in 2017, although still limited in amount. Loans to the non-financial private sector (seasonally adjusted and corrected for the accounting effect of securitisations) increased by 1.4% YoY (November 2017), while loans to the public administration grew +3.7% YoY. Demand for loans from consumer households continues to be robust (+3.2% YoY), while demand from businesses remains weak but began to be marginally positive (+0.3% YoY). Total loans to small companies recorded a new decline (-1% YoY), although more limited than in the past. Overall, lending to businesses is more robust in North and the Central Italy, while lending to households is more sustained in the South and islands.
The improvement in the domestic economic context is causing evident improvement in the quality of the loan portfolio. In the third quarter, the annualised ratio of the flow of new impaired loans to total loans fell to 1.7% due to a reduction of 0.5 percentage points in loans to businesses (to 2.6%) and 0.2 percentage points for loans to households (1.2%). If the data relating to households is included in the total, the figure relating to businesses is still high.
In addition to the lower amount of new impaired loans, the quality of the loan portfolio improved as a result of the sale by several institutions of considerable amounts of abnormal loans, largely loans to businesses that have been classified as non-performing for some time. The ratio of (gross) impaired loans to total loans fell to 16.4%, which, although high, is about 2 percentage points lower than that of eighteen months earlier.
During 2017, there was a decisive acceleration in the process of liquidating the portfolio of government securities. The total amount decreased by EUR 50 billion over the twelve-month period, however, it remains sizeable, both in absolute terms and in relation to the rest of the Eurozone.
In terms of collections, the growth in current accounts (just below +9% on average for the year) was significant, partly generated by weakening in other forms of deposits. Conversely, the contraction in bonds has not eased (nearly -10% on average for the year).
Asset management activities were positive once again in 2017. The approximately EUR 100 billion of net inflows realised in the year drove total assets managed up to almost EUR 2,100 billion.

The factoring market

In Italy, the factoring market in 2017 strengthened with respect to the prior year, reaching nearly 13% of GDP.
Based on the figures provided by Assifact in 2017, the market, in terms of **turnover**, came to EUR 221,597 million, up 9.48% over the previous year. The increase is largely due to transactions related to the energy market.

This market continues to be highly concentrated.



In terms of **loans**, the factoring market came to EUR 50,400 million, an increase of 1.4% with respect to 2016 (Ifitalia -6.93%); **average loans**, amounting to EUR 36,389 million, reported an increase of 9.78%.

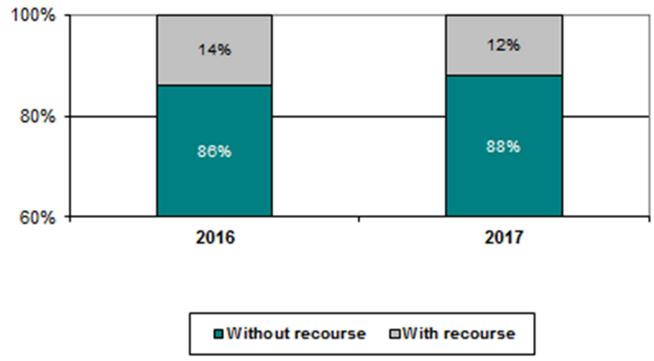
Ifitalia's competitive positioning

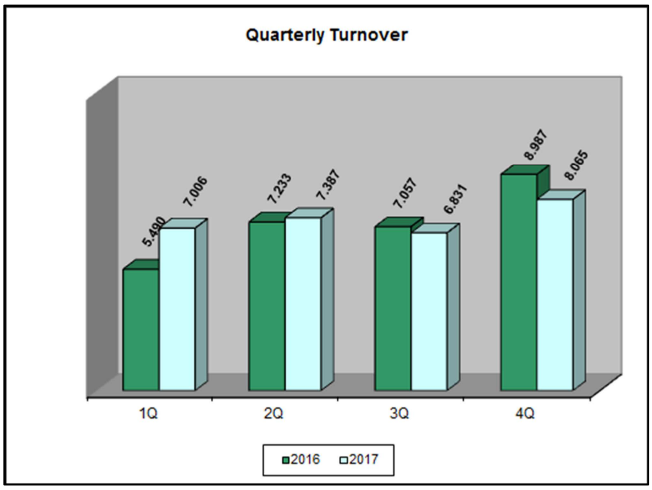
Turnover

Ifitalia's turnover, or flow of loans/receivables acquired by the Company during 2017, reached EUR 29,289 million (EUR 28,768 million in 2016), representing growth of 1.8%.
With regard to the distribution across products, carried out according to the contractual form, without-recourse factoring represented 88% of total turnover (86% in 2016) while with-recourse factoring represented 12% (14% in 2016).

(in milions of €)

TURNOVER	31/12/2017	31/12/2016	Changes	%
Without recourse	25,757	24,793	964	3.9%
With recourse	3,532	3,975	(443)	-11.1%
Total	**29,289**	**28,768**	**522**	**1.8%**

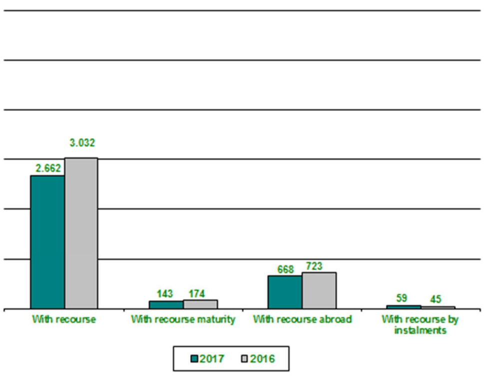


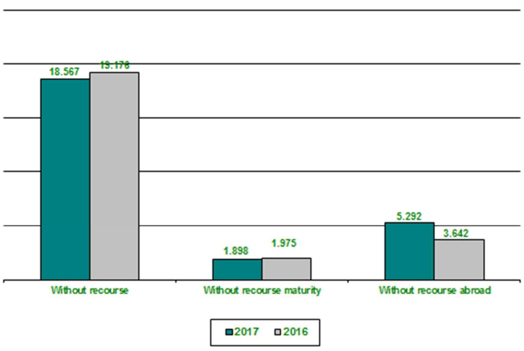


As regards the composition, the graphs below show without-recourse and with-recourse factoring further broken down into their income components.

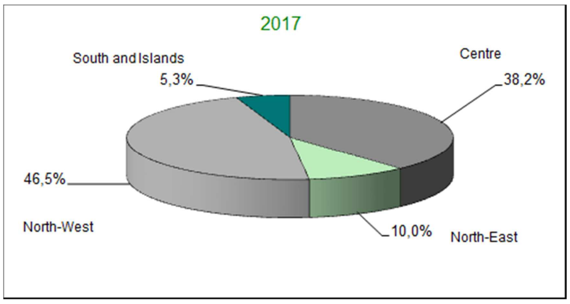
(in milions of €)

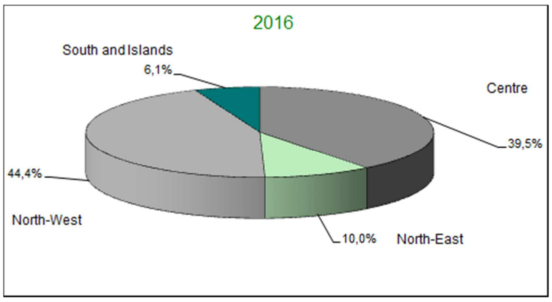
Product	Turnover 2017	Turnover 2016	Changes	%	Incidence % 2017
Without recourse	18,567	19,176	(609)	-3.2%	63.4%
Without recourse maturity	1,898	1,975	(77)	-3.9%	6.5%
Without recourse abroad	5,292	3,642	1,650	45.3%	18.1%
Total	**25,757**	**24,793**	**964**	**3.9%**	**87.9%**
With recourse	2,662	3,032	(370)	-12.2%	9.1%
With recourse maturity	143	174	(32)	-18.1%	0.5%
With recourse abroad	668	723	(55)	-7.7%	2.3%
With recourse by instalments	59	45	15	32.4%	0.2%
Total	**3,532**	**3,975**	**(443)**	**-11.1%**	**12.1%**
TOTAL	**29,289**	**28,768**	**522**	**1.8%**	**100%**





With regard to the domestic geographic breakdown of the transferors, they were distributed as follows:





The graphs above show turnover broken down by geographic area; in relation to Italy, which represents 93.1% (EUR 27,274 million) of the total, turnover decreased slightly in absolute value compared with 2016 (EUR 27,567 million, 95.8% of the total).
Foreign turnover amounted to EUR 2,015 million (EUR 1,201 million in 2016) and represents 6.9% of total turnover (4.2% in 2016).

(in milions of €)

Areas	2017	% of the total	2016	% of the total
CENTRE	10,419	35.6%	10,886	37.8%
NORTH-EAST	2,703	9.2%	2,769	9.6%
NORTH-WEST	12,695	43.3%	12,240	42.5%
SOUTH AND ISLANDS	1,457	5.0%	1,671	5.8%
TOTAL FOR ITALY	27,274	93.1%	27,567	95.8%
ABROAD	2,015	6.9%	1,201	4.2%
TOTAL TURNOVER	**29,289**	**100%**	**28,768**	**100%**

With reference to the **sectors of economic activities**, 2017 turnover presented the following breakdown:

TURNOVER BY ECONOMIC SECTOR	YEAR 2017	YEAR 2016	DELTA
52 Energy products	23.0%	26.0%	-11.5%
67 Commerce, recovery, repair services	14.7%	13.5%	9.0%
00 Unclassified subjects	16.0%	11.3%	40.8%
73 Other services for sale	8.6%	9.0%	-4.7%
60 Means of transport	8.0%	8.6%	-6.8%
72 Communication services	5.0%	5.7%	-12.0%
61 Foodstuff and tobacco products	3.4%	3.7%	-7.6%
59 Electric materials and supplies	2.6%	3.0%	-10.8%
63 Paper, paper products, press products, publishing	2.2%	2.3%	-6.3%
56 Metal products excluding means of transport	1.8%	2.1%	-13.0%
66 Construction and public w orks	1.9%	2.0%	-5.2%
64 Rubber and plastic products	2.0%	1.9%	2.7%
55 Chemicals	1.9%	1.7%	11.6%
71 Services connected to transports	1.2%	1.6%	-27.0%
57 Agricultural and industrial machines	1.1%	1.6%	-29.4%
53 Minerals, ferrous and non ferrous metals	1.6%	1.5%	3.0%
69 Internal transport services	1.0%	1.1%	-1.3%
62 Textiles, footw ear and clothing	1.0%	1.0%	-0.1%
58 Office machines, computers, precision tools, etc.	0.6%	0.6%	2.4%
54 Minerals and non-metallic mineral products	0.8%	0.5%	52.3%
51 Farming, forestry, fishery products	0.5%	0.5%	12.8%
68 Hotel and public services	0.5%	0.4%	13.9%
65 Other industrial products	0.5%	0.4%	34.7%
70 Maritime and air transport services	0.2%	0.1%	63.4%
Total	**100%**	**100%**	

This year, the industries that made the most use of factoring were “energy products” (23%; -11.5% compared to 2016), “commerce services” (14.7%; +9% compared to 2016), “other services for sale” (8.6%; -4.7% compared to 2016), and “means of transport” (8%; -6.8% compared to 2016).
The first ten sectors represent 85.5% of total turnover (85.1% in 2016).

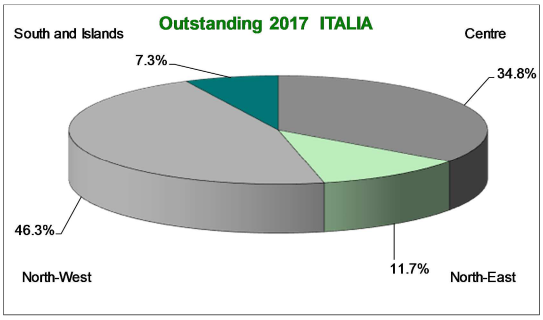
Outstanding positions

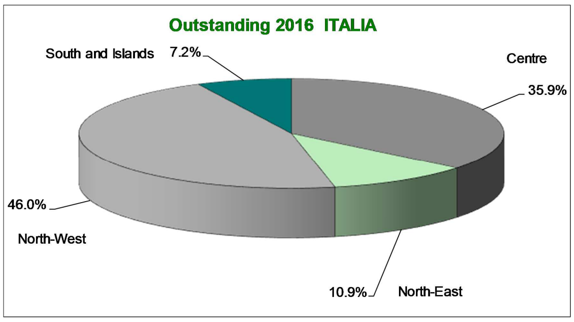
The stock of loans/receivables at nominal value effectively factored at year end amounted to EUR 8,653 million (EUR 8,966 million in 2016, -3.49%), of which EUR 7,135 million (82.46% of total loans/receivables) refers to contracts factored without recourse, while EUR 1,518 million concerns with recourse contracts (17.54% of the total).

Within the amounts indicated above, total international factoring transactions amounted to EUR 1,391 million (16.08% of the total), of which EUR 1,249 million for export transactions (EUR 1,104 million in 2016) and EUR 142 million for import factoring transactions (EUR 129 million in 2016).

Outstanding positions in Italy came to EUR 8,151 million compared with EUR 8,573 million in the previous year and represent 94.2% of total outstanding positions (95.6% in 2016).

As regards the geographic breakdown of Domestic customers, from the **transferor side**, a decrease of 1% was recorded in the “Central" area (35.9% in 2016 versus 34.8% in 2017), offset by an increase in the “North East” area of +0.8% (from 10.9% in 2016 to 11.7% in 2017).

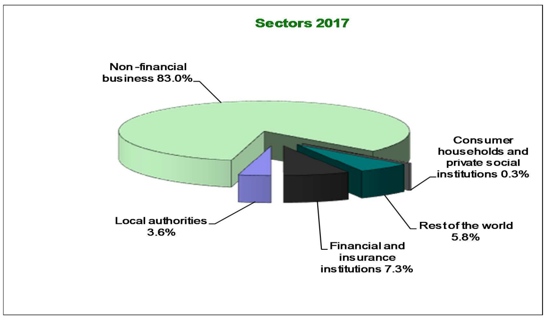


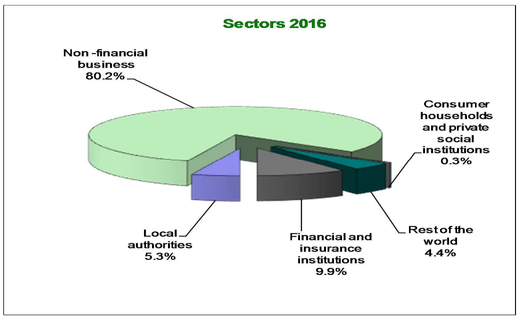


With regard to the foreign segment, the outstanding balance, considered in relation to the nationality of the transferor, came to EUR 502 million (EUR 393 million in 2016) and represented 5.8% of the total outstanding amount (4.4% in 2016).

OUTSTANDING BALANCE				(millions of euros)
Areas	**2017**	**% of the total**	**2016**	**% of the total**
CENTRE	2,838	32.8%	3,074	34.3%
NORTH-EAST	951	11%	931	10.4%
NORTH-WEST	3,770	43.6%	3,947	44%
SOUTH AND ISLANDS	592	6.8%	621	6.9%
TOTAL FOR ITALY	8,151	94.2%	8,573	95.6%
ABROAD	502	5.8%	393	4.4%
TOTAL OUTSTANDING BALANCE	**8,653**	**100%**	**8,966**	**100%**

The breakdown of loans/receivables by segment confirms that in 2017, 83.0% of these amounts was attributable to transferors belonging to the category of non-financial businesses (80.2% in 2016).



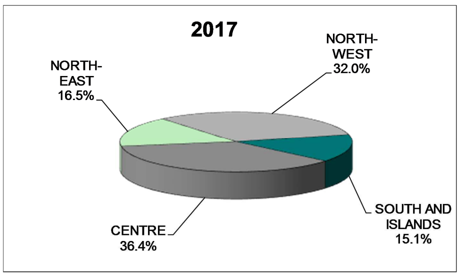


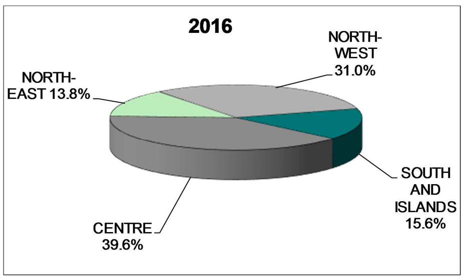
By contrast, with regard to the breakdown of these amounts according to the segment the transferor belongs to, the following table confirms that 64.9% of the customer portfolio concerns loans/receivables deriving from the top five segments of economic activities; adding the next five, 81.6% of the total amount is reached.

Two of the most significant sectors are "commerce, recovery, and repair services" and "other services for sale", representing 16.8% and 16.1%, respectively.
These sectors are followed by "energy products" (10.3%) and "means of transport" (8%).

	OUTSTANDING BY ECONOMIC SECTOR	YEAR 2017	YEAR 2016	DELTA
67	Commerce, recovery, repair services	16.8%	14.9%	13.0%
73	Other services for sale	16.1%	14.9%	7.9%
0	Unclassified subjects	13.5%	14.8%	-8.4%
52	Energy products	10.3%	13.9%	-25.8%
60	Means of transport	8.0%	7.3%	10.7%
66	Construction and public works	4.5%	3.7%	22.1%
63	Paper, paper products, press products, publishing	3.5%	3.2%	7.4%
59	Electric materials and supplies	3.3%	3.5%	-4.8%
72	Communication services	2.8%	3.2%	-12.7%
57	Agricultural and industrial machines	2.7%	3.5%	-21.9%
61	Foodstuff and tobacco products	2.6%	2.7%	-4.5%
56	Metal products excluding means of transport	2.5%	2.6%	-3.5%
64	Rubber and plastic products	2.4%	2.1%	13.0%
55	Chemicals	2.0%	1.7%	13.9%
62	Textiles, footwear and clothing	1.4%	1.4%	-4.3%
53	Minerals, ferrous and non ferrous metals	1.3%	1.6%	-17.9%
71	Services connected to transports	1.2%	1.5%	-18.4%
54	Minerals and non-metallic mineral products	0.9%	0.6%	58.8%
69	Internal transport services	0.9%	0.8%	14.3%
58	Office machines, computers, precision tools, etc.	0.9%	0.7%	30.7%
68	Hotel and public services	0.6%	0.2%	178.3%
65	Other industrial products	0.6%	0.5%	20.9%
70	Maritime and air transport services	0.5%	0.3%	65.6%
51	Farming, forestry, fishery products	0.5%	0.3%	51.3%
	Total	**100%**	**100%**	

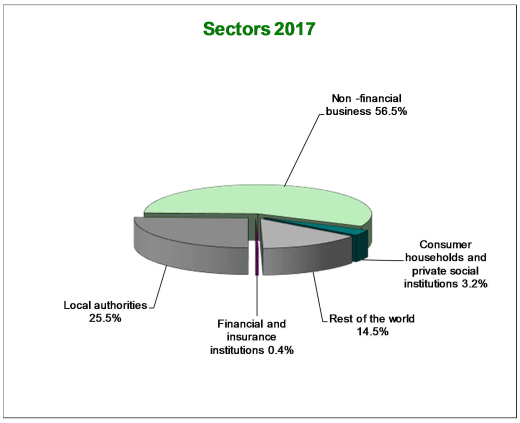
Following the previously analysed distribution of the outstanding transferor balances by geographic area, the same figure is now analysed seen from the **debtor side**. The graphs below reveal that, in relation to the previous year, the "North East" and "North West" areas increased, respectively by 2.7% and 1%; whereas the "Central" and "South and Islands" areas recorded a decrease of 3.2% and 0.5%, respectively.

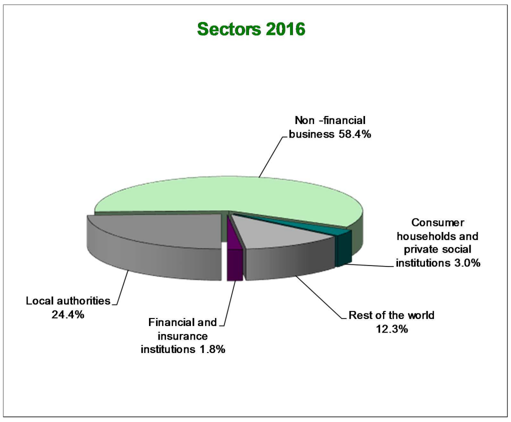




Likewise, the breakdown by sectors of economic activities, again analysed from the **debtor side**, expressed the situation indicated below, which revealed substantial growth in debtors belonging to the "Public administration" segment from 24.4%

in 2016 to 25.5% in 2017 and a decrease in the “Non-financial businesses” sector, which dropped from 58.4% in 2016 to 56.5% in 2017.





Profit performance

Net banking income

In order to more fully assess the performance of the single components of the net banking income, it is considered useful to analyse the breakdown of its individual items:

- **net interest** is EUR 68.1 million (-7.1%) versus EUR 73.3 million in 2016. The reduction in net interest is mainly due to lower interest accrued for late payments by public entities; while the reduction in the financial spread is more than offset by the increase in average loans;
  Interest expense (charges paid on deposited funds) continue to have a positive balance as a result of negative short-term market rates.

(in milions of €)

	31/12/2017	31/12/2016	% change
Interest and similar income	63.8	72.8	-12.3
Interest expense and similar charges	4.2	0.5	780.2
Net interest	**68.1**	**73.3**	**-7.1**

- **net commissions**, equalling EUR 44.2 million, decreased with respect to 2016 by EUR 6.2 million (-12.3%). The trend was affected by a decrease in commission income. The commissions on typical factoring activities equalled EUR 57.5 million compared to EUR 62 million in 2016. The reduction is attributable to the decrease in the commission margin, partially offset by the increase in turnover volumes (+1.8%); malus commissions also decreased as a result of fewer measures under guarantee.
  With reference to commission expense, there was an increase of EUR 1.7 million due to higher commissions to BNPP for transactions carried out under risk sharing, and the increase in costs for credit insurance.

(in milions of €)

	31/12/2017	31/12/2016	% change
Commission income			
Services for factoring transactions	57.5	62.0	-7.2
Commission income	**57.5**	**62.0**	**-7.2**
Commission expense			
Other services	-13.3	-11.6	14.6
Commission expense	**-13.3**	**-11.6**	**14.6**
Net commission	**44.2**	**50.4**	**-12.3**

The **net trading profit (loss)**, equivalent to a cost of EUR 230 thousand (revenue of EUR 113 thousand in 2016), derives from the measurement at fair value (level 2) of derivatives entered into with BNL.

In addition, **dividends** for EUR 27 thousand (EUR 118 thousand in 2016) were recorded, essentially relating to the Serfactoring holding.

Adding net commissions and the aforementioned components to net interest, **net banking income** totals EUR 112.1 million (EUR 123.9 million in 2016; -10%).

Net value adjustments for impairment of financial assets

(in milions of €)

	31/12/2017	31/12/2016	% change
Net value adjustments/writebacks for impairment of loans			
Net value adjustments/writebacks for discounting interest	-1.6	-1.7	-8.7
Net value adjustments, analytical	15.6	17.0	-7.7
non-performing loans	*12.2*	*9.8*	*24.4*
problem loans	*-0.1*	*-0.3*	*-82.8*
restructured receivables	*3.5*	*7.5*	*-53.3*
Total impairment	1.8	-1.5	-218.4
Total net value adjustments/writebacks	**15.9**	**13.7**	**15.9**
Discounting interest	*3.9*	*4.4*	*-11.3*
Operational Risk	*-1.0*	*3.9*	*-126.4*
Cost of Risk Total	**18.8**	**22.0**	**-14.5**

The reduction in analytical adjustments is due to the reduction of new additions to NPL, while the higher cost for collective impairment is due to the implementation of the Réco expressed by B2C. The PD model applies a prudential adjustment of the qualitative variable "financial liquidity" to the exclusive Small Corporate customers in order to mitigate the impact in case of missing values. This will also allow a reduction in the portion of unrated counterparties.

In 2016, the cost of operating risk contained significant provisions relating to litigation, of which the principal dispute pertains to Guess group for EUR 2 million, while in 2017 there were considerable write-backs on 3 positions.

Administrative expenses

(in milions of €)

	31/12/2017	31/12/2016	% change
Administrative expenses:	-47.3	-44.0	7.4
personnel expenses	*-21.5*	*-19.4*	*11.0*
others administrative expenses	*-25.8*	*-24.6*	*4.6*
of which: indirect taxes and dues	*1.2*	*1.1*	*7.7*
Administrative expenses:	**-47.3**	**-44.0**	**7.4**

As regards the year's performance for administrative expenses, it is noted that:

- **personnel expenses** increased 11% compared to 2016; this increase is due to the allocation of EUR 2 million for the voluntary redundancy provision, set up at the end of 2017;
- **other administrative expenses** increased by 4.6% on 2016 essentially as a result of the increase in IT costs as well as outsourcing and compliance activities.

Other income components

The **net value adjustments on tangible and intangible assets** were EUR 3.34 million, an increase of 18.4% compared with the EUR 2.82 million in 2016. Of these, EUR 1.16 million (EUR 1.23 million in 2016) refers to tangible assets and EUR 2.19 million (EUR 1.59 million in 2016) to intangible assets. The increase in amortisation of intangible assets is due solely to capitalised software, mainly associated with the project to transition to advanced models for the RWA calculation (IRBA).

In light of the above, the **net operating income** and **profit (loss) from current operations before taxes** generated profit of EUR 49 million, EUR 13 million lower than 2016.

After income taxes, the **profit for the year** came to EUR 34.2 million (EUR 45.2 million in 2016, -24%).

(in milions of €)

	31/12/2017	31/12/2016	% change
Net operation income	**49.0**	**62.0**	**-21.0**
Income taxes for the year on current operations	-14.8	-16.8	-11.8
Profit from current operations net of taxation	**34.2**	**45.2**	**-24.4**
Profit for the year	**34.2**	**45.2**	**-24.4**

Balance sheet items

Loans and receivables

(in milions of €)

	31/12/2017	31/12/2016	% change
Due from customers	**7,370.8**	**7,539.1**	**-2.2**
- Factoring	7,370.8	7,539.1	-2.2
Due from banks	**10.4**	**14.4**	**-27.4**
Loans and receivables	**7,381.2**	**7,553.5**	**-2.3**

Loans and receivables, net of value adjustments, totalled EUR 7,381 million, compared with EUR 7,554 million in the previous year, therefore with a decrease of 2.3%.
This item, according to the IAS/IFRS international accounting standards, includes loans and receivables purchased without recourse, advances issued with recourse and for receivables acquired without recourse which have not transferred all the risks and benefits, and loans to debtors granted for conceded payment extensions.

Credit quality

Impaired loans and receivables decreased in 2017 from EUR 566 million in 2016 (EUR 277 million net; 3.7% of total loans) to EUR 519 million in 2017 (EUR 249 million net; 3.4% of total loans).

(in milions of €)

	Gross exposure	Value adjustments	Net exposure	% hedging	% incidence on due from customers
31/12/17					
Non-performing loans	291.0	205.3	85.6	70.6	1.2
Problem loans	150.9	62.5	88.4	41.4	1.2
Restructured receivables	77.6	2.4	75.2	3.0	1.0
Total impaired receivables	**519.5**	**270.2**	**249.3**	**52.0**	**3.4**
31/12/16					
Non-performing loans	289.9	201.6	88.3	69.6	1.2
Problem loans	236.1	85.4	150.7	36.2	2.0
Restructured receivables	40.4	2.4	38.0	6.0	0.5
Total impaired receivables	**566.4**	**289.4**	**277.0**	**51.1**	**3.7**

The total of **impaired receivables**, net of value adjustments, amounts to EUR 249 million (277 million in 2016) with a comprehensive hedging of 52% (51.1% in 2016). These receivables particularly concern:

- **non-performing loans**, amounting to EUR 291 million (EUR 290 million in 2016) which, 70.6% of which hedged (69.6% in 2016), present a net value of EUR 85.6 million (EUR 88.3 million in 2016);
- **unlikely to pay**, totalling EUR 151 million (EUR 236 million in 2016) which, net of the related hedges of 41.4% (36.2% in 2016) present a net value of EUR 88 million. This category includes unlikely to pay receivables, subject to

postponement and not subject thereto. This significant decrease is due to the return or reduction of some significant positions;

- **past due receivables** amount to EUR 77.6 million (EUR 40.5 million in 2016). This category includes exposures continuously overdue for over 90 days (receivables from central authorities, central banks and local authorities) or 180 days (receivables from government agencies) whose total amount is at least 5 percent of the entire exposure to said debtor. The scope of observation excludes exposures to the Tax Authorities deriving from tax receivable transfers (VAT, IRPEG, etc.); these loans and receivables have undefined maturity, as there is a minimum time before which they cannot be liquidated but not a maximum term by which they must be paid.

Liability provisions

(in milions of €)

	31/12/2017	31/12/2016	% change
Provision for employees termination benefits	4.7	4.9	-3.5
Provision for risks and charges	13.6	12.7	6.7
b) other provisions	13.6	12.7	6.7
Total	18.3	17.6	3.9

As at 31 December 2017, **liability provisions** were EUR 18.3 million (+3.9% compared with 17.6 million in 2016) and represent the allocations needed to cover future outlays deemed likely with respect to outstanding events.

The **provision for employee termination benefits** refers, for each employee, to obligations of defined benefits regarding work done until the date that the "accruing" employee termination benefits are transferred to INPS or to external retirement benefits as set forth by the 2007 budget act. The liability is posted using the actuarial method considering the probable future date on which the effective financial outlay shall take place. As at 31 December 2017, the provision was EUR 4.7 million (EUR 4.9 million at the end of 2016).

The **other provisions**, equalling EUR 13.6 million, include:

- *provision for legal disputes*, of EUR 9.93 million (EUR 11.31 million at the end of 2016) for allocations against revocations and legal proceedings;
- *personnel expenses*, equalling EUR 3.65 million (EUR 1.41 million at the end of 2016) mainly due to the allocation for the voluntary redundancy plan carried out in 2017 for EUR 2 million, as well as the provision for the employee incentive/bonus plan.

Equity items

Equity as at 31 December 2017 amounted to EUR 699.8 million (EUR 666.1 million in 2016), up by 5% due to the following changes:

Equity as at 31 December 2016	**666.09**
2017 changes:	
- net profit as at 31 December 2017	34.20
- change in other reserves	
- change in valuation reserve	-0.52
Equity as at 31 December 2017	**699.77**

With regard to the capital adequacy of Ifitalia as at 31 December 2017, Ifitalia closed with **total own funds** of **EUR 655.6 million**, up EUR 44.1 million, in the presence of total capital requirements of EUR 431.1 million with a capital surplus of EUR 224.5 million. The Tier 1 came to 9.12% and the Total Capital Ratio was 9.13%.
Own funds as at 31 December 2017 do not include the 2017 profit, which will be capitalised following approval of the financial statements by the Shareholders' Meeting.

A summary of the figures relating to the capital adequacy follows:

	2017	**2016**	**% change**
Tier 1 capital	655.3	610.8	7.3
Tier 2 capital	0.0	0.0	0.0
Elements to be deducted of T2	0.0	0.0	0.0
Transitional regime - impact of T2 (+/-)	0.3	0.7	(52.5)
Total Capital	**655.6**	**611.5**	**7.2**
Risk Weighted Assets (*)	**7,182.2**	**7,666.6**	**(6.3)**
Total prudential requirements	**431.1**	**460.2**	**(6.3)**
Capital excess	**224.5**	**151.4**	**48.3**
Tier 1 capital ratio	9.12%	7.97%	14.5
Total capital ratio	9.13%	7.98%	14.4

(*) As from 2008, the above-mentioned aggregates have been calculated according to Basel III

Infra-group transactions and those "related parties"

Relations with the parent company and other companies belonging to the BNL-BNPP group, included in what is set forth pursuant to art. 2497 and following of the Italian Civil Code, include both financial and commercial relations.

The borrowing transactions with the Parent Company, regulated at market conditions, are represented almost entirely by amounts owed to banks.

With regard to the operating transactions with BNPP group companies, made up mainly of service agreements for providing IT services (mainframe use and use of data networks) and company vehicle hire, costs were incurred for EUR 5,588 thousand.
Furthermore, with regard to the services provided by the consortium company Business Partner Italia ScpA within the sphere of the support services relating to facility management, HR management, procurement and operations, the cost came to EUR 6,428 thousand for 2017 (EUR 6,511 thousand in 2016).

Expenses/profits were also recorded for staff seconded respectively from or to other Group companies for an annual total of EUR 2,496 thousand in 2017.

In 2017 income from rents receivable was also recorded of EUR 397 thousand.

With regard to general accounting activities, preparation of financial and tax reporting, and the handling of the accounting audits, Ifitalia avails itself of outside servicing provided by BNL Spa for a total cost in 2017 of EUR 370 thousand; moreover, Ifitalia paid BNL EUR 580 thousand for outsourcing of the Compliance function.

Furthermore, the company makes use of an internal audit service offered by BNL, based on the BNP Paribas guidance regarding Internal Control Systems. The total costs sustained were EUR 370 thousand.
Expenses for coordinating factoring activities at the group level, performed by the "Global Factoring Competence Centre", were incurred for EUR 476 thousand in 2017.

In addition, for providing commercial services, Ifitalia collaborated with BNL branches, to which it paid commercial commission expenses of about EUR 2,800 thousand; moreover, it paid the group an additional EUR 348 thousand for brokerage activities.

With regard to the loans granted against factoring activity, it is specified that Ifitalia receives, disinvests, and provides guarantees regarding the BNL Parent Company and some BNL-BNPP Group companies.
All transactions between the Bank and related parties are carried out at market conditions.

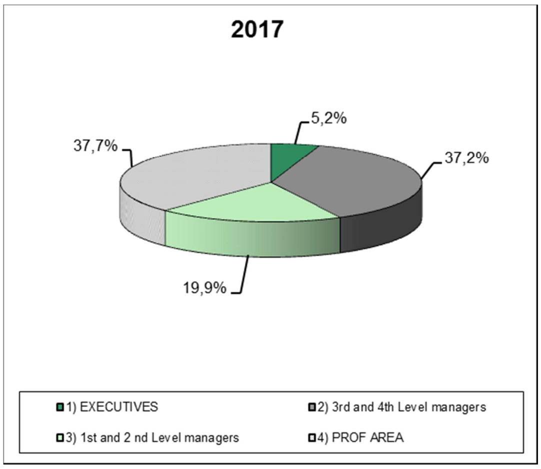
The summary of equity and economic relations for 2017 with the parent company and other companies belonging to the BNL-BNPP Group originating from financial or commercial relations are indicated on page 127 of the Notes to the Accounts.

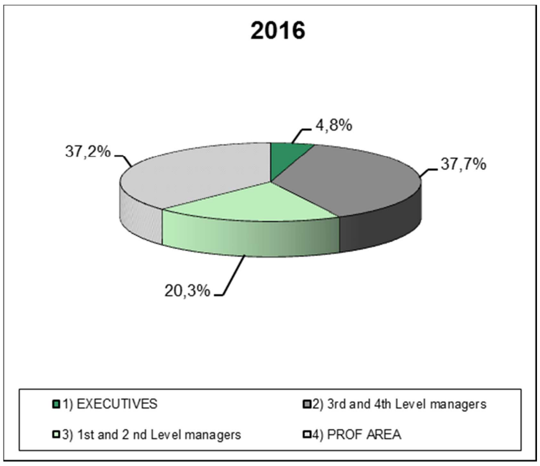
Human resources

The personnel as at 31 December 2017 (middle managers and employees) - amounts to 231 individuals (unchanged from 31 December 2016); broken down as in the tables below:

Distribution by grading

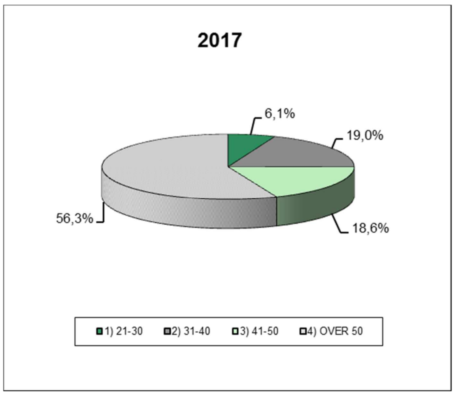
Category	31/12/2017	31/12/2016	2017 in %	2016 in %
1) EXECUTIVES	12	11	5.2%	4.8%
2) 3rd and 4th Level managers	86	87	37.2%	37.7%
3) 1st and 2 nd Level managers	46	47	19.9%	20.3%
4) PROF AREA	87	86	37.7%	37.2%
Total	**231**	**231**	**100%**	100%

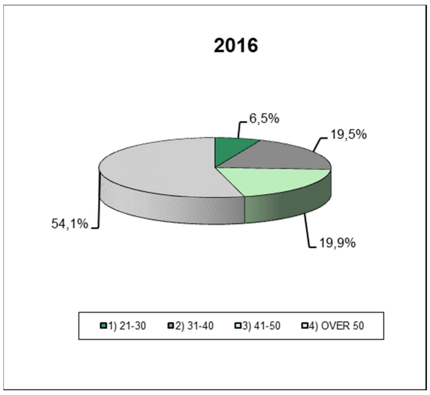




Distribution by age

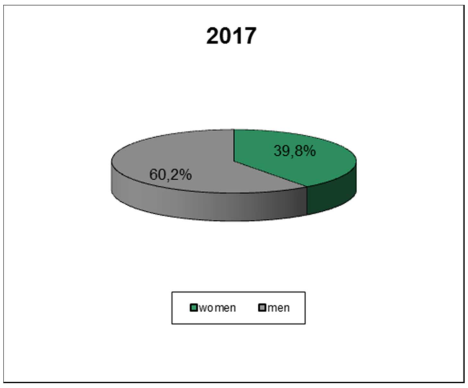
Age group	31/12/2017	31/12/2016	2017 in %	2016 in %
1) 21-30	14	15	6.1%	6.5%
2) 31-40	44	45	19.0%	19.5%
3) 41-50	43	46	18.6%	19.9%
4) OVER 50	130	125	56.3%	54.1%
Total	**231**	**231**	**100%**	100%

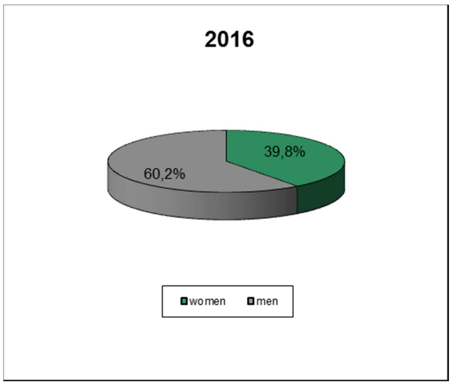




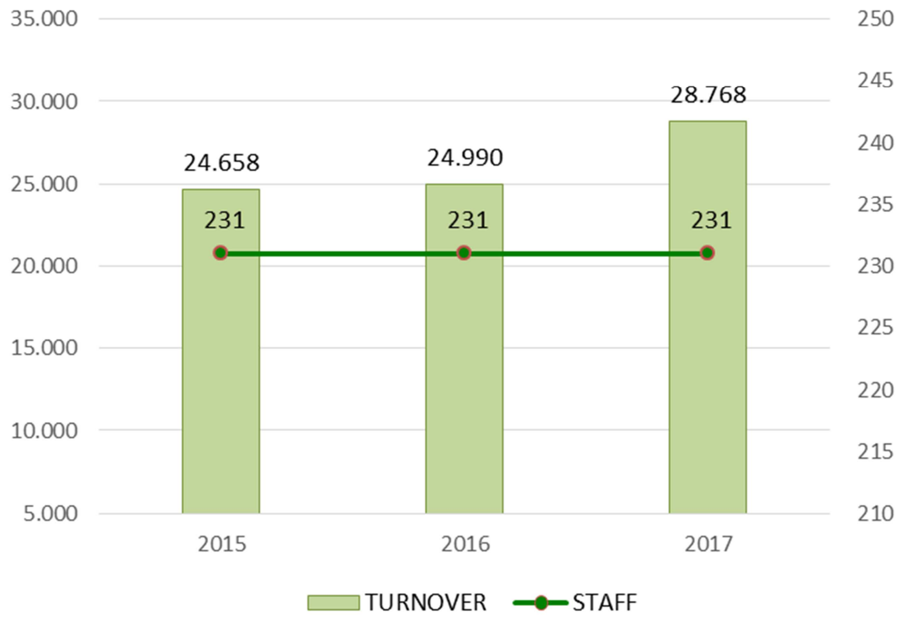
Distribution by gender

Category	31/12/2017	31/12/2016	2017 in %	2016 in %
women	92	92	39.8%	39.8%
men	139	139	60.2%	60.2%
Total	**231**	**231**	**100.0%**	100%

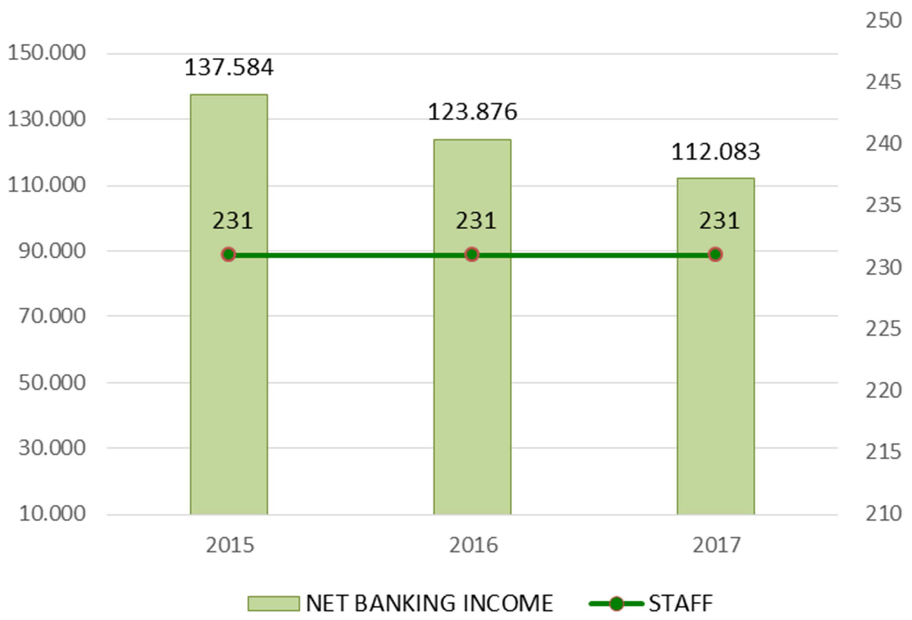




The chart presented below shows the trend in turnover and the number of resources in the period 2015 – 2017:



The chart presented below shows the trend in the earnings margin and the number of resources at the end of the period from 2015 to 2017:



Human resources

As at 31 December 2017, the total number of resources in Ifitalia was 231. Of these, 218 were employees and 19 were seconded from other BNP Paribas Group companies in Italy.

IFITALIA*	31/12/2016	31/12/2017
Managers	11	12
Non-Managers	220	219
TOTAL	231	231

* This number includes resources seconded in Ifitalia from other BNP Paribas Group companies in Italy.

Trade union relationships

During 2017, the following were signed with trade unions:

- an agreement relating to the Reorganisation Procedure "Development Guidelines through 2020" and subsequent employment issues, stipulated with the aim of adapting processes, organisational structures, and tools to meet the challenges inherent in the current and future economic, financial and regulatory framework.
  As part of the Procedure, 12 redundant resources were identified for the three-year period 2018-2020, whose management will be resolved through the use of early retirement incentives - with possible subsequent recourse to collective redundancies as per Italian Law 223/1991 and access to the ABI redundancy fund.
- an agreement relating to the standardisation of BNL Group and Ifitalia personnel policies and application procedures for certain contractual institutions
- an agreement on handling company bonuses for 2017, 2018, and 2019
- an agreement on introducing a multi-year welfare plan (2018-2020) to support the income of workers by providing a wide range of goods and services

Finally, as part of the "Protocol on Industrial Relations for BNL and Ifitalia Group Companies" of 28 July 2015 - Ifitalia has agreed to participate in an innovative protocol on social issues and work/life balance, confirming the attention and willingness to enhance initiatives aimed at social solidarity and the balancing of personal and professional schedules for employees.

Management Policies and Human Resources Development

The procedures and related tools for managing and developing Human Resources in Ifitalia are designed and governed in close synergy with those adopted within BNP Paribas Group in Italy

With regard to Human Resources Management, during 2017, change processes were activated for about 20% of the business population with the objective of offering people and, consequently, the organisation as a whole, opportunities for enrichment and skill development. In particular, 26 colleagues changed roles, 9 mobility procedures were activated with Group companies in Italy and, finally, 11 external people were hired (including contract transformations). All of these actions were aimed at further strengthening customer management and development activities.

The management strategy continues to envisage the substantial involvement of direct managers in guiding employees, as well as in identifying and preparing individual development plans.

For this purpose, training is a fundamental component, in addition to Dialogue - People and Performance, a tool that ensures standardisation and consistency in analysing, evaluating and developing the professional skills and competencies of employees.

Remuneration policies

Remuneration tools adopted in 2017 for personnel were divided into interventions to the fixed component of remuneration (raises and promotions) and to the variable component (bonuses, incentive plans, company bonuses, welfare), in line with defined standards and guidelines.

Training

With a view to continuous evaluation and growth of the Company's human resources, investments continued to be made in training activities during 2017.
The total training hours provided in 2017 came to 6,884, equal to approximately 3.5 days per capita, between classroom-based and remote courses.

With regard to the offer, in addition to having a rather rich and extensive training catalogue, which concerns both behavioural/managerial and technical matters, we conducted in-house initiatives specifically aimed at commercial and managerial roles. In particular, the programme "Let's write our future together" designed for Ifitalia's 40 managerial roles was an opportunity to define the strategic priorities for the business and translate them into behaviours to collectively promote and develop.

With reference to training topics, 20% were of a technical-specialist nature, 17% related to regulations, and 63% were behavioural and linguistic.

The coverage of the business population was 100%.

Selection and Employer Branding

In collaboration with the other Group companies, the commitment to Employer Branding has grown, with the objective of increasing and expanding the presence of BNP Paribas Group and Ifitalia in the labour market.

Among the Employer Branding initiatives in which Ifitalia participates, in collaboration with other BNP Paribas entities in Italy, is the Ambassador Programme: initiatives intended for universities and aimed at promoting the image of the company within Italian universities.

During the year, 11 recruits were also hired.

OTHER INFORMATION

Organisational structure

During 2017, the following changes were made to the organisational structure:

In February 2017, the Sales Network was reorganised, already discussed in last year's report, which entailed:
- the creation of 7 Regional Head Offices, mirroring those of BNL,
- 2 Teams specialising in general management
  - *Business Development Team: Head of Coverage and Origination for customers in the CIB and Large Contributors segments;*
  - *Export and Multi-local Team: for in&out cross-border transaction;*
- a dedicated point of contact for government authorities.

Effective 1 June 2017, the new Legal and Corporate Department was established, integrated into the organisational model of the BNP Paribas Group Legal Department, with the task of monitoring the Company's legal risk. The activities related to the Secretariat of Statutory Bodies are included in this department.

Finally, in December 2017, the reallocation of the Operational Risk and Permanent Controls Department to the Operational Management Department was approved and subsequently implemented at the beginning of 2018. At the same time, the Risk Division was assigned responsibility for overseeing and coordinating the Company's Operational Risks and Permanent Controls system, ensuring the adoption and communication of the principles and standards defined by the Parent Company regarding operational risks and permanent controls (known as the "second line of defence").

Management and coordination of Parent Company activities

The company is subject to the management and coordination of BNP Paribas activities.
The company has a traditional Governance and Control system that comprises the Shareholders' Meeting, Board of Directors, General Manager and Board of Statutory Auditors.

Treasury or parent company shares in the portfolio

The Company does not hold any treasury or parent company shares.

Supervisory review process

The enforcement of Circular No. 288 "Regulatory provisions for financial intermediaries" dated 3 April 2015 repealed Circular No. 216 and led to a harmonisation with the Banking Supervision rules and with the European legislation disciplined by Regulation (EU) no. 575/2013 (co-called CRR) and directive 2013/36/EU (so-called CRD IV).

As illustrated in Circular no. 228, the Supervisory Review Process (SRP) is divided into two integrated phases. The first is represented by the internal process for determining capital adequacy (Internal Capital Adequacy Assessment Process - ICAAP) and refers to the intermediaries, which carry out an independent assessment of their capital adequacy, current and forecast, in relation to the risks undertaken and the business strategies. The second involves the Supervisory Review and Evaluation Process (SREP) and is the responsibility of the regulatory authority, which, also via the ICAAP review, formulates an overall opinion on the intermediary and activates, if necessary, corrective measures.

In line with the matters laid down by the Legislation, Ifitalia prepared the ICAAP document with reference to 31 December 2016.

Business targets and policies regarding the handling of risks and the related hedging policies

All information concerning the policies for the handling of the risks and the related hedging policies is presented in Part D: Other Information - Section 3 of the Notes to the accounts.

The internal control system in relation to the financial disclosure process (Article 123-bis, Paragraph 2 b of the Consolidated Finance Act (TUF))

Article 123-*bis* of Legislative Decree no. 58 of 24 February 1998, (Consolidated Finance Act or TUF), amended and supplemented by Article 5 of Legislative Decree no. 173 of 3 November 2008, introduced, under paragraph 2, letter b, the obligation to describe the main characteristics of existing risk management and internal control systems in relation to the financial disclosure process.
The purpose of the internal accounting control system is to verify the completeness and correctness of accounting records, to prevent and locate any errors as well as the quality of the data to be used to prepare the financial statements, to produce supervisory reports and all other accounting and financial disclosure. The system complies with the standards set by the Parent Company BNP Paribas.
The methodological approach is based on ascertaining the existence of suitable governance systems, standards of conduct inspired to corporate ethics and integrity, disciplinary systems for the personnel, suitable organisational structures, a clear structure of delegations and responsibilities, effective codes of conduct and fraud prevention systems. It is consistent with the standards envisaged by the Parent Company BNP Paribas and was implemented with the preparation of appropriate internal procedures, for an effective and efficient monitoring of accounting risks and financial disclosure.

Accounting risk monitoring is included in the broader context of permanent control, based on the continuous monitoring of risk identification and assessment, of procedures and controls.

Checks reflect the current definition prescribed in the company's internal control system. Checks are classified as "first level" (carried out by operating personnel and hierarchical managers) and "second level" (carried out by specialised departments). The periodic auditing of the system is carried out by the Group Inspection Générale Department (third level check).

In assessing the accounting internal control system, special attention was devoted to verifying the adequacy and actual application of the accounting and administrative procedures as well as the rules of correct management of the technological infrastructure, applications and operating systems. Analyses were conducted with the specific methodologies, monitored through the Finance Division. Monitoring the accounting and financial reporting quality focuses on examining the organisational settings and the functionality of the internal controls, through a test plan that continuously assesses the adequacy and actual application of the accounting and administrative procedures that play a role in preparing the accounting documents and any other financial communication.
The quality of the accounting reporting and the effectiveness of the related internal control system are formalised by issuing a Group Certificate every three months.

Business Continuity

Ifitalia has defined a **Business Continuity** system to guarantee the continuity of the company's critical services.
In line with regulatory and BNP Paribas Group provisions, Ifitalia's **Business Continuity Management** system is comprised of:

- ✓ a **Governance organisation** to manage crisis scenarios;
- ✓ a **Business Continuity Plan (BCP)** for operational management of crisis scenarios.

Ifitalia has included in its Corporate Regulations specific references to the responsibilities pertaining to the process of implementation, maintenance and governance of Business Continuity.

Particularly:

- ➢ A **Business Continuity Manager**, in charge of preparing and maintaining the Business Continuity system;
- ➢ **Corporate Functions**, which contribute to finding, sharing and validating the information required to guarantee the effectiveness and efficiency of the continuity solutions established in the BCP;

- **Crisis Committee**, which guarantees the management of particularly serious crisis situations which require immediate co-ordination to define continuity solutions;
- **Risk Monitoring Committee:** Supports the Business Continuity Manager in identifying, sharing and validating the information and initiatives designed to maintain the Business Continuity solutions.

Ifitalia's Business Continuity Plan is developed over a period comprising a timeframe of **3 weeks** starting from the occurrence of the crisis event. In this reference timeframe, the goal is to guarantee the continuity of the services indicated as indispensable for the survival of the Business.

In order to guarantee the rapid implementation of the business continuity plans, Ifitalia has identified 55 resources who are assigned the responsibility, under the BCP, to reactivate the critical processes in emergency situations. These resources are part of the Critical Emergency Teams. The team is composed of about 23% of total resources.

In 2017, Business Continuity (BC) actions in Ifitalia were carried out in compliance with the main activities planned, which regarded:

- Review of the internal reference regulations for BC, consistent with the updates of the Parent Company's regulations (BCP and BCM update);
- Annual verification and update of the BIAs;
- Update of target sites for the critical team,
- Handling of "key" suppliers mapped for BC purposes:
- Acquisition of results of the related audit tests performed by critical suppliers;
- Update of the permanent controls plan consistent with the Group's Generic Control Plan
- Execution of the operating continuity simulation tests;
- Reporting – BC Monitor;
- Delivery of BC training.

Financial Security – Anti-Money Laundering, Terrorism Funding Prevention, Economic and Financial Sanctions and Embargoes Unit

As part of the more general process that began in 2015 of centralising the Compliance function of companies in the operational perimeter of the BNL Banking Group, during the fourth quarter of 2016, Ifitalia assigned the formal responsibility of the Anti-Money Laundering Department to the Head of the Financial Security Department within the BNL Compliance Division, which took charge of the full perimeter related to financial security as part of an outsourcing contract for the entire Compliance Function. In addition, in 2017 the organisational model envisaged the presence of a Senior Point of Contact (SPOC) who is part of the Compliance Division, dedicated to ensuring the proper and timely provision of the services defined in the outsourcing contract.

Thus, the BNL Anti-Money Laundering Department operationally coordinated or implemented the entire scope of activities, which include:

- due diligence and profiling of customers/intermediaries;
- AUI registrations and bookkeeping;
- identification and reporting of potentially suspicious transactions;
- management of advisory and authorisation activities related to international sanctions and embargoes, combating the financing of terrorism, and the proliferation of weapons of mass destruction.

For all these areas, the BNL Anti-Money Laundering Department, in addition to directly managing certain operational processes (e.g., reporting of suspicious transactions to the Judicial Authorities) has:

- ensured specialised advisory services on financial security issues;
- monitored the evolution of national and EU legislation on financial security, assessing its impact on operating processes and developing appropriate updates to ensure its full compliance;
- drafted or updated the body of procedures within internal regulations relating to the specific scope of anti-money laundering, consistent with the provisions of the Parent Company and necessary for compliance with current legislation;

- implemented a second-level control plan aimed at monitoring the proper performance of all relevant operational processes;
- monitored any operational risk incidents;
- completed the annual self-assessment of anti-money laundering risk, as well as the monitoring envisaged by the BNPP Parent Company;
- monitored the proper registration of data into the Consolidated IT Archive (AUI) and the timely delivery of information in SARA reports;
- defined the specific training plan for financial security, which was fully operational and available on the dedicated on-line platform. The utilisation percentage by personnel identified as the intended audience of the plan was very high, nearly all employees targeted by the specific training.

Throughout 2017, the updating of the Ifitalia IT systems continued:

- operating limits on particular categories of countries, such as sanctioned and/or embargoed countries
- use of a new method of acceptance and review of incoming cash flows from customers
- use of a new filtering platform that allows the continuous verification for all customers of whether the person is classified as a Politically Exposed Person (PEP) or on International Surveillance/Financial Penalty Lists.

Finally, note that in 2017 there were no external inspections or operational incidents with anti-money laundering impacts.

Protecting Customers' interests

During 2017, with reference to the Protection of Customers' Interests, the Company implemented additional actions for strengthening the dedicated systems and related control processes, following the issue of the new Policy on Protection of Customers' Interests.
In particular, the Compliance Division initiated and completed a gap analysis designed to strengthen the relevant processes (e.g., complaint management process) and identify areas for improvement related to the implementation of the PIC Policy[1] in Ifitalia, which defines the organisational and behavioural rules applicable within the Group regarding the protection of customers' interests. Specifically, it emphasises the need for adequate governance in order to prevent risks and anticipate changes in business activities, defining roles and tasks for the business lines and the Compliance and Legal Divisions. The policy newly defines the minimum standards of the rules of conduct to be adopted with customers of the Group.
Following the Bank of Italy's focus on unilateral changes to contractual conditions (Communication no. 0412631/17), an issue characterised by high reputation risk and a potential increase in customer complaints, a review was launched and concluded on conduct in this regard since the beginning of 2016. From the analytical assessment, 2 unilateral changes, pursuant to art. 118 of the consolidation act of banking and lending laws (TUB), were undertaken by the Company starting from January 2016, which did not involve corrective/restitution initiatives.
With regard to transparency of banking and financial transactions, following the aforementioned Bank of Italy communication on unilateral changes pursuant to art. 118 of the TUB, the internal framework was reinforced with the issue of the Policy on Transparency of Transactions and Banking and Financial Services (Policy no. 31 of 26 May 2017), which describes the guiding principles regarding transparency and proper behaviours to which all Company employees must abide in carrying out transactions and in providing banking and financial services. In particular, this Policy summarises the guiding principles with which the Company implements the requirements on transparency and proper behaviours - defined by external regulations - consistent with the rules of conduct in the Global Policy on Protection of Customers' Interests: "*Bien Vendre - Good sales practices*[2]". It defines specific rules on calculating interest on interest, known as compound interest, describes certain aspects of governance on the issue, with particular reference to unilateral changes to contractual conditions and setting of fees, and establishes the principles for defining and implementing a set of controls to ensure that the process of managing transparency and proper behaviours in banking and financial transactions and services is compliant with the provisions of this Policy and relevant additional internal rules.

[1] CPL0276 - Policy for the Protection of Customers' Interests, implemented with Policy no. 36/2017 "Policy on Protection of Customers' Interests - Guidelines for Protecting Customers in Sales Transactions"
[2] The Policy was approved by the Company's Board of Directors on 7 October 2015 (Policy no. 6/2015)

During 2017, the Compliance Division performed the controls[3] that were applicable following the reviews conducted beginning on 1 October 2016, the effective date of the Compliance Division outsourcing contract from Ifitalia to BNL. The Company's control framework was also implemented and strengthened with the definition and formalisation of the relevant data sheets on the customer's awareness of PIC, adequacy of products/services offered with respect to the customer's profile, disclosure to customers, management of relations between the Company, customers, and third parties (product companies/third-party distribution networks), compliance of incentive system (inducements), and the modification of certain existing data sheets.

Market Integrity & Professional Ethics

With regard to issues of Market Integrity & Professional Ethics, note that during 2017, continuing the activities carried out in previous months, the Company's internal body of regulations was kept updated, to ensure that it is aligned with the Group's procedural structure. These activities concerned processes in the area of Professional Ethics, while those of Market Integrity did not require adaptations, given that the procedural and control system adopted to monitor emerging risks is simplified due to the limited exposure to these risks, and it was therefore not necessary to supplement them.
With specific regard to issues of **professional ethics**, the following regulations were issued/updated:

- *Gifts and Invitations Policy*, which describes the conditions under which gifts and invitations, received or offered, can be accepted, authorised or refused, and specifies the criteria to be considered in order to evaluate the "reasonableness" of the four macro-categories of invitations (informational, representational, fostering relationships, and entertainment).
- *Policy on the Ethical Alert System - Whistleblowing*, which governs the rules for use and behaviours to be undertaken by the Company's collaborators, in activating the "Ethics Alert System" (Whistleblowing);
- *Policy on Conflicts of Interest for Collaborators*, which defines suitable guidelines on conflicts of interest between collaborators and customers and/or between collaborators and the Company;
- *Policy on Appointments and Personal Activities of Collaborators*, which defines the process of authorising the appointments and activities that collaborators wish to carry out in a personal capacity;
- *Corruption Policy*, designed to provide an internal system for reporting any acts of corruption, consistent with Group provisions, both in terms of the organisational and procedural aspects;
- *Policy on Correct Use of Social Media*, which aims to define the set of fundamental principles and specific rules that must guide the conduct of each collaborator in using Social Media, for both personal and professional reasons.
- *Policy on Reputation Risk*, which aims to define the organisation and references necessary to identify, assess and manage Reputation Risk in the activities carried out by the entities that are part of the BNP Paribas Group.

As regards Market Integrity & Professional Ethics, ongoing **consultancy** was guaranteed to support Ifitalia's Structures/Divisions.
During 2017, the Compliance Division ensured the usual **second-level oversight** of ethics risks, as envisaged by the "Global Control Plan Professional Ethics" issued by the Company.
With reference, in particular, to ethical and deontological behaviour, the Division ensured the **oversight of adopted systems** and monitored compliance with policies.
Moreover, with regard to the ethics alert system, permanent monitoring of the overall regulatory plan adopted by the Parent Company was guaranteed.
Additional control regarding the supervision of gifts and invitations received/provided by collaborators, while, concerning conflicts of interest between collaborators and customers and/or collaborators and the Company, during the year there were no critical issues regarding any non-compliance conduct by collaborators.
Following the launch of the Sapin II Law in France, which provides that businesses define an anti-corruption program to identify and mitigate corruption risks, BNP Paribas Group launched a risk assessment process in all entities in France to

[3] Circular no. 1/2017 - "Ifitalia Compliance Controls Plan (excluding Financial Security)" which formalised controls related to Organisation of PIC, Compliance of the Commercial Incentive System, Customer Complaint Management, Control on the Training Process on PIC Issues, Checking the Validation Process of Non-Standard Products, and Control of the Application of Group PIC Policies and Procedures.

identify emerging risks in this area. The Compliance Division performed an initial mapping of risks for Ifitalia during November, by reviewing corruption risks related to different areas (Gifts, Suppliers, Customers).

Lastly, during the year the Company was subject to a specific **Compliance Risk Assessment** drawn up by the Group. The assessment results showed, in relation to Inherent Risk and the Control Environment, a “low” Residual Risk for both the Market Integrity and Professional Ethics areas.

During 2017 no **incidents** occurred pertaining to issues of market integrity or professional ethics.

Finally, **specific training activities** on Professional Ethics topics were carried out in e-learning mode for “newcomers” and awareness/communication activities regarding US Whistleblowing and Personal Transactions carried out by Relevant Parties were carried out for all Collaborators.
With regard to Market Integrity, a course to develop awareness on market abuse was provided through e-learning to staff exposed to this risk.

Advisory & Complementary topics

Beginning in October 2016 (effective date of the Compliance Division outsourcing contract from Ifitalia to BNL), impact analyses were conducted in relation to taxation (FATCA/AEOI/QI) and banking laws (VR/FBL/CFTC Swap Dealer) in order to evaluate their applicability to the specific nature of Ifitalia’s business activities. The analyses performed resulted in the non-applicability of FATCA/AEOI regulations both from a subjective perspective (Ifitalia is not considered as an entity classified as a “Non-Financial Foreign Entity") and from an objective perspective (the Company does not have any product classified as a "financial account”) whereas the QI regulation was not applicable as the Company did not sign a QI Agreement with the IRS (Internal Revenue Service).

As regards the Volcker Rule and the French Banking Law, these are marginally applicable from a mere subjective perspective, as Ifitalia - although not holding investments in funds and not carrying out proprietary trading activities - is directly controlled by BNP Paribas Group.

In brief, the Volcker Rule prohibits engaging in proprietary trading, defined as the purchase or sale of financial instruments as the principal on the "trading account" (subject to certain exceptions) and buying or maintaining an investment in a covered fund. French Banking Law prohibits speculative activities, unless they are outsourced to a subsidiary of the BNP Paribas Group (Opera Trading Capital, a company specifically created and controlled by BNP Paribas).

In this context, in December 2017, monitoring in relation to the “VR” was strengthened by issuing the "Volcker Rule Governance Policy" and the "Policy on Archiving Volcker Rule Documentation in the Company": the first describes the principles, responsibilities and oversight to be adopted at the local level in the event of proprietary trading activities/investments in funds and the second policy implements the procedure adopted by BNP Paribas to comply with archiving requirements set out in art. 13 of the US law on bank holding companies.

The CFTC Swap Dealer regulations do not apply since the relevant products (trading of swaps with customers) are not part of the Company's operations.

In 2017, the risk management framework for Data Protection was strengthened by issuing a policy that also anticipates aspects envisaged by the EU Regulation (GDPR).

The objective of the aforementioned Policy is to formalise the adoption of the new system for personal data protection, which incorporates the principal relevant external regulations, internal governance rules currently adopted by the Company and, above all, the description of the main processes, as contemplated by the national supervisory authority, with the related requirements and controls.

Certain key concepts of the new EU Regulation no. 2016/679 have already been introduced (approved, but effective from 25 May 2018). Furthermore, the regulation implements the "Politique Générale du Groupe BNP Paribas en matière de protection des données personnelles (BNP Paribas Group General Policy on Personal Data Protection - CG0167).

With a view to progressive convergence towards the directional model, the rule will undergo subsequent fine-tuning initiatives, also given the deliverables that will be produced in the meantime by the project to transpose the new European regulation on protection of personal data.

As part of the GDPR project, included in the Group RADAR program (designed to launch the project initiative to implement the regulation at BNPP Group level), the Compliance Division, together with the Legal Division, acted as co-sponsor (Project Leader: BNL CDO). For this purpose, the Compliance Division provided the requirements, interacted with the central project team, promoted awareness events for certain central/business line functions of the various legal entities in the scope of consolidation, and conducted an initial assessment of the common requirements and/or characteristics.

Support was also provided in relation to:

- Ifitalia Privacy Documentation Management (management of the Ifitalia privacy documentation carried out by BPI's Ifitalia APAC on behalf of the Company).
- "Citelum" (processing, by Ifitalia, of Citelum debtor data for the purpose of evaluating a possible factoring transaction).
- Non-notified assigned debtors (management of disclosure to debtors assigned as part of a non-notified factoring relationship).

Ifitalia Complaints Regulation (procedure on managing disputes with customers).

Organisational measures

Introduction

As part of the Ifitalia 2020 Business Plan, various projects have been planned with the cross-functional objective of improving the efficiency of the Company and its processes, which will lead to cost savings in terms of FTEs and greater commercial competitiveness, reinvesting the efficiencies obtained in business development activities, with a view to supporting an expansion of the customer base towards new segments.

The Business Plan initiatives dedicated to digitisation include two projects that contribute significantly to achieving these objectives: Mediana and Onboarding.

Mediana

Mediana is the home-factoring platform that Ifitalia provides to its customers, which, in its current form, mainly allows the presentation of invoices and uploading of new borrowers.

The Mediana project seeks to increase utilisation of the portal by 40% by 2020 and to make the customer more independent in daily operations. As a result of more operational and reporting functionality available on the site and tools for directly interacting with Ifitalia, a reduction of around 50% of phone calls and emails for requests for assistance is expected.

The evolution of the site towards a customer-centric platform based on advanced solutions is also intended to improve the user experience, with positive impacts on retention and NPS.

Access to Mediana will be integrated in the new Corporate BNL portal.

To date, preliminary analyses have been completed involving internal structures and customers using the Design Thinking methodology, which resulted in the development of a backlog of functionalities that could be included in the portal, and the related Agile development project was launched.

Onboarding

The onboarding process for new customers, which extends from the start of the sales negotiation to the credit application and first use of credit lines, represents a pillar of the factoring customer journey, as well as an element of commercial competitiveness, in particular for acquiring new customers.

Therefore, the project's objective is to make the onboarding phase easier and faster for the customer and improve Ifitalia's time-to-market, speeding up the credit process, both for transferors and debtors, by increasing automatic SME approvals from scoring from 45% to 70% and reducing the average onboarding response time from 60 to 40 days.

The project also aims to make onboarding a seamless and integrated process, supporting all the structures involved and measuring the relevant KPIs at each step. Greater integration will be achieved with the BNL Business Divisions and with the various HW/SW/reporting components with Bank IT systems.

Project activities include updating the PEF work-flow tool and improving the scoring tool used to assess debtors. To date, some optimisation actions (delegation review and Feasibility Report content, modification of debtor valuation processes, introduction of "red carpet" procedure for new customers) and an end-to-end review of current process tools have been completed.

Research & development activities

The following projects were implemented in **2017** relating to the development of IT procedures:

1. *Update of IT Governance procedures* (Armonia, Financial Mng) following the introduction of new Group policies and controls
2. *Basel 2*: during 2017,
    a) Model Validation activities for PD, LGD and Dilution were completed
    b) regulatory and management reporting activities were initiated
    c) activities for adapting the systems to BCBS 239 (Basel Committee of Banking Supervision 239) were launched
3. *Data logging on FIS*: logging procedures for obsolete data in the main tables of the core business system were carried out.
4. *Mediana Re-engineering*: technology porting due to obsolescence of system software (no longer supported by the provider) and roll-out of customer on the new system were launched.
5. *Liability Cycle*: system for the Liability Cycle was centralised on a single Group system (MS Navision) with the related decommissioning of the local system (at Ifitalia)
6. *Shared customer management*: activities concerning the automatic process of sending master data of customers shared with other Italian entities of BNPP Group were completed, with the aim of sharing risk data (approved and used), monitoring any differences related to risk measures (rating and GRR SU), and providing input to the "contagion" process carried out in objective mode.
7. *Global KYC (Know your Customer) Italy policy*: updated the KYC application to the new provisions of BNPP Group and integrated the application with new information on KYT (Know your Transaction); launched a study to adopt the tool used in BNL (expected in 2018).
8. *GDPR*: performed the assessment and began application activities to adapt software to legal requirements (completion in 2018)
9. *IFRS 9*: new standards for the accounting treatment of financial instruments have been implemented with the objective of ensuring the same interpretation and application of the rules contained in the regulatory provisions adopted in the BNL architecture (shared with the Parent Company BNPP).
10. *Spesometro*: adjusted the systems to the new tax requirements (Decree Law no. 193/2016)

11. *Delegation system*: delegation system was updated in line with the new organisation.
12. *Cobol 6*: as a result of COBOL version obsolescence (Common Business-Oriented Language - programming language), activities were launched for the technology porting to version 6 pertaining to all applications of BNPP Group that are processed on the Mainframe. The project is part of the Ifitalia Business Plan.
13. *"End to end" credit process management*: benchmark study carried out on various suppliers in the Italian market and solutions used in BNPP Group were verified to identify possible synergies if a single end-to-end loan application tool is adopted to manage the credit process (New Commercial Credit Platform). The project is part of the Ifitalia Business Plan.
14. *Standardisation of debtor assessment*: study for developing scores for approval as well as new requests for limits and renewals, both for automatic approvals as well as to support decisions with the aim of allowing a "rapid" evaluation of the loan requests. The project is part of the Ifitalia Business Plan.
15. *CyberSecurity*: in line with BNPP Group, an assessment was initiated to measure the level of maturity on cyber and IT risk issues, with the aim of defining a long-term Strategic Plan that will result in an adequate level of maturity in all identified cyber area no later than 2020.
16. *Conformity Milan Project*: base software at the Milan server farm and the Rome recovery site (which the provider has declared "obsolete") continued to be adapted to the latest version indicated in Group policies; project is part of the larger "Conformity BNL/BP2I" project.
17. *Printers*: printer park renewed for obsolescence

Securitisation transactions

Following the positive performance of the first securitisation transaction carried out in 2016, an additional 3 securitisation transactions were initiated in 2017 with the same type of structure as the previous one.
These multi-year transactions (with a duration of 5 years with a renewable commitment each year) allow Ifitalia to hold long-term relationships with the customer while maintaining satisfactory margins and, at the same time, providing the customer a more stable and structured working capital loan.

The transactions, structured by BNPP CIB of Milan, are developed as described below.
Trade receivables, originated by primary customers of Ifitalia, are sold by Ifitalia without recourse, pursuant to the Italian Factoring Law (Law 52/91). At the time of purchase, Ifitalia sells the entire portfolio of receivables, with recourse, to the vehicle company Tierre Securitization s.r.l. (SPV) based on the Italian Securitisation Law (Law 130/1999). The transaction is conducted on a revolving basis, i.e. on collection of the receivables, which have an average duration of 60 days, new receivables are gradually sold.
In both sales (Ifitalia customer to Ifitalia and Ifitalia to the SPV), the trade receivables are sold at a price equal to their nominal value (sale at par).
The SPV finances the purchase of the receivables through the issue of two classes of short-term ABS Notes - Class A1 and Class A2 - which have a different amortisation profile, but the same rights (pari passu rank). Class A1 Notes are subscribed by third parties, while Class A2 Notes are subscribed by Ifitalia.

Ifitalia fully guarantees the credit risk of the transaction through the mechanism of purchasing the receivables without recourse and selling them to the SPV with recourse. From an operational point of view, this occurs through Ifitalia's commitment to buy the unpaid receivable back from the SPV after a certain number of days of delay in payment. In turn, Ifitalia protects itself from credit risk by stipulating an insurance policy on debtor risk or by benefiting from existing policies on debtor risk on the securitised portfolio.

The transaction structured as above provides customers with a committed source of financing for working capital, while keeping its relationships with customers unchanged, and allows Ifitalia to construct a significant transaction with satisfactory profitability, whose funding may be allocated with third parties. It also increases the loyalty of a customer of high standing.

The transaction, as devised, does not add any specific risk for Ifitalia compared to a normal without recourse factoring transaction.
From an accounting/financial statements point of view, for the mechanism of purchasing without recourse receivables and their resale with recourse (which effectively keeps the credit risk on the entire portfolio with Ifitalia), at the time of the sale by Ifitalia to the SPV, the receivables are not derecognised from Ifitalia's financial statements, but continue to be represented under balance sheet assets. At the time of sale of the receivables by Ifitalia to SPV, instead of derecognising the receivables, an item is recorded under payables in liabilities, limited to the portion not financed by Ifitalia.

Main aggregates for outstanding securitisation transactions as at 31 December 2017

(thousands of Euro)

Items	31/12/2017
Loans in portfolio (included in Balance Sheet item 60)	513.755
Other Debts (included in Balance Sheet item 10: funding of the third-party operation)	-256.900
Other Debts	-172
Securitization portfolio share financed by Ifitalia equal to the value of securities subscribed by Ifitalia	**256.682**

Significant events after year end

No significant events occurred after year end.

Business outlook

During 2017, average factoring loans grew 5.8% compared to the prior year. This growth was due in part to large, individual transactions with top customers and in part to growth recorded on other customers of the business. As seen in 2016, the difficulty in developing credit at the system level, due to the elevated liquidity present on the market from which large groups with high standing benefit, toward activities such as those of Ifitalia is still unbalanced.

In this market situation, there was fierce competition during 2017 in terms of pricing, whose contraction involved both factoring commissions and financial margins.

With regard to Ifitalia, the maintenance/growth of the net banking income will depend on its ability to increase lending and turnover volumes by growing its market share and pursuing diversification of its customer portfolio, in particular, by having a selective approach for “big ticket” transactions and focusing on the customer segment with more stable margins, expanding the customer base.

With this in mind, the key to achieving the 2018-2020 results is the joint development with the BNL sales network of shared relationships towards higher value-added transactions. For Large Corporate and Corporate relationships, the goal is to increase the number of securitisations, reverse factoring, and international factoring, including by means of synergies with other factoring companies of BNPP Group.
For the SME segment, which was launched in 2017, Ifitalia will seek to markedly increase its customer base by focusing mainly on standardised transactions related to with-recourse and without-recourse transactions, for the latter, favouring debtors belonging to the public administration.

Careful management of operating costs will continue for the purpose of maintaining the current level without, however, precluding investments associated with developing new relationships, organisational developments, and regulatory impacts.

During 2017, there was an overall reduction in the cost of risk; active management and monitoring policies adopted suggest a real possibility of further reduction for 2018.

Shareholders,

The financial statements which we submit for your attention closed with net profit of EUR 34,200,107.

We propose that you approve the financial statements in their entirety, as presented to you, as well as allocate the profit for the year as follows:

to the Statutory reserve EUR 34,200,107

The statutory reserve shall, therefore, change in this way:

Statutory reserve

Opening balance	**EUR 516,936,964**
2017 profit	EUR 34,200,107
Closing balance	**EUR 551,137,071**

We would like to thank you for the confidence placed in us and for the support provided during the year; we would also like to thank the Board of Statutory Auditors for the support given to the Company during the year. In conclusion, particular thanks go to all the staff for the dedication, the acknowledged commitment and the valuable work carried out to achieve the Company's objectives, as well as, to the Parent Company BNP Paribas S.A. for the collaboration and assistance provided.

Milan, Italy, 28 March 2018

The Board of Directors

IFITALIA FINANCIAL STATEMENT

Ifitalia Financial Statements as at 31 December 2017

Mandatory financial statements:

Notes to the accounts:

MANDATORY FINANCIAL STATEMENTS

Balance Sheet

(Euro)

	ASSETS	31/12/2017	31/12/2016
10	Cash and cash equivalents	8,959	14,027
40	Available-for-sale financial assets	5,920,783	7,284,799
60	Receivables	7,381,202,928	7,553,487,369
100	Tangible assets	20,700,004	21,672,111
110	Intangible assets	9,985,210	9,055,422
120	Tax assets	54,533,260	63,848,594
	a) current	*15,448,312*	*21,716,217*
	b) prepaid	*39,084,948*	*42,132,377*
	of which under Law 214/2011	*34,477,613*	*37,648,160*
140	Other assets	14,246,043	14,409,005
	Total	**7,486,597,187**	**7,669,771,327**

(Euro)

	LIABILITIES AND NET SHAREHOLDERS' EQUITY	31/12/2017	31/12/2016
10	Payables	6,579,062,668	6,836,534,956
30	Financial liabilities held for trading	232,272	358,564
70	Tax liabilities	14,000,001	16,944,926
	a) current	*11,892,636*	*14,806,333*
	b) deferred	*2,107,365*	*2,138,593*
90	Other liabilities	175,219,938	132,209,415
100	Employee termination benefits	4,740,439	4,912,439
110	Provisions for risks and charges:	13,576,779	12,723,506
	a) post-retirement benefit and similar obligations	-	-
	b) other	*13,576,779*	*12,723,506*
120	Share capital	55,900,000	55,900,000
150	Share premium	61,798,643	61,798,643
160	Reserves	539,689,750	494,475,849
170	Valuation reserves	8,176,590	8,699,128
180	Profit (loss) for the year	34,200,107	45,213,901
	Total Liabilities and Net Shareholders' Equity	**7,486,597,187**	**7,669,771,327**

Income Statement

(Euro)

	INCOME STATEMENT	Year 2017	Year 2016
10	Interest and similar income	63,828,086	72,770,290
20	Interest and similar expense	4,242,102	481,973
	Net interest income	**68,070,188**	**73,252,263**
30	Commission income	57,535,494	62,014,913
40	Commission expense	(13,320,195)	(11,619,727)
	Net commission	**44,215,299**	**50,395,186**
50	Dividends and similar income	27,330	117,500
60	Net trading profit (loss)	(229,842)	112,538
90	Gain (loss) on disposal or repurchase:	-	(1,500)
	a) financial assets	-	*(1,500)*
	Net banking income	**112,082,975**	**123,875,987**
100	Net value adjustments/writebacks for impairment of:	(15,909,354)	(13,776,798)
	a) financial assets	*(15,905,315)*	*(13,957,444)*
	b) other financial transactions	*(4,039)*	*180,646*
110	Administrative expenses:	(47,307,465)	(44,044,320)
	a) personnel expenses	*(21,543,558)*	*(19,410,829)*
	b) other administrative expenses	*(25,763,907)*	*(24,633,491)*
120	Net value adjustments/writebacks on tangible assets	(1,154,975)	(1,234,477)
130	Net value adjustments/writebacks on intangible assets	(2,185,406)	(1,585,984)
150	Net provisions for risks and charges	834,313	(3,904,806)
160	Other operating income and charges	2,679,913	2,713,156
	Income (loss) from operations	**49,040,001**	**62,042,758**
	Profit (Loss) from current operations before taxes	**49,040,001**	**62,042,758**
190	Income taxes for the year on current operations	(14,839,894)	(16,828,857)
	Profit (loss) for the year	**34,200,107**	**45,213,901**

Statement of Comprehensive Income

(Euro)

	Items	Year 2017	Year 2016
10.	**Profit (loss) for the year**	**34,200,107**	**45,213,901**
	Other income components net of taxation without transfer to income statement		
40.	Defined benefit plans	(102,820)	(16,163)
	Other income components net of taxation with transfer to income statement		
100.	Available-for-sale financial assets	(419,718)	(223,088)
130.	**Total other income components net of taxation**	**(522,538)**	**(239,251)**
140.	**Comprehensive income (Item 10+130)**	**33,677,569**	**44,974,650**

Statement of Changes in Equity as at 31 December 2017

(Euro)

	Balances as at 31.12.2016	Change in opening balances	Balances as at 01.01.2017	Allocation of previous year's result		Changes for the year							Shareholders' Equity 31.12.2017
							Equity transactions						
				Reserves	Dividends and other allocation	Changes in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary dividend distribution	Change in equity instruments	Other changes	Comprehensive income for the year 2017	
Share capital:	**55,900,000**		**55,900,000**										**55,900,000**
a) ordinary shares	55,900,000		55,900,000										55,900,000
b) other shares													
Share premium	**61,798,643**		**61,798,643**										**61,798,643**
Reserves:	**494,475,849**		**494,475,849**	**45,213,901**							**-**		**539,689,750**
a) profit-related	482,903,064		482,903,064	45,213,901									528,116,965
b) other	11,572,785		11,572,785								-		11,572,785
Valuation reserves	**8,699,128**		**8,699,128**									**(522,538)**	**8,176,590**
a) available for sale	-												-
b) hedging of financial flows	-												-
c) other	-												-
Equity instruments													
Treasury shares													
Profit (loss) for the year	**45,213,901**		**45,213,901**	**(45,213,901)**								**34,200,107**	**34,200,107**
Shareholders' Equity	**666,087,521**		**666,087,521**								**-**	**33,677,569**	**699,765,090**

Statement of Changes in Equity as at 31 December 2016

(Euro)

	Balances as at 31.12.2015	Change in opening balances	Balances as at 01.01.2016	Allocation of previous year's result		Changes for the year							Shareholders' Equity 31.12.2016
							Equity transactions						
				Reserves	Dividends and other allocation	Changes in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary dividend distribution	Change in equity instruments	Other changes	Comprehensive income for the year 2016	
Share capital:	**55,900,000**		**55,900,000**										**55,900,000**
a) ordinary shares	55,900,000		55,900,000										55,900,000
b) other shares	-												
Share premium	**61,798,643**		**61,798,643**										**61,798,643**
Reserves:	**449,941,547**		**449,941,547**	**44,534,302**							**-**		**494,475,849**
a) profit-related	438,368,762		438,368,762	44,534,302									482,903,064
b) other	11,572,785		11,572,785								-		11,572,785
Valuation reserves	**8,938,379**		**8,938,379**									**(239,251)**	**8,699,128**
Equity instruments													
Treasury shares													
Profit (loss) for the year	**44,534,302**		**44,534,302**	**(44,534,302)**								**45,213,901**	**45,213,901**
Shareholders' Equity	**621,112,871**		**621,112,871**								**-**	**44,974,650**	**666,087,521**

IFITALIA GRUPPO BNP PARIBAS

Statement of Cash Flows

(Euro)

A OPERATING ACTIVITIES	31/12/2017	31/12/2016
1.Management	**58,171,615**	**84,710,968**
- net profit (loss) for the period	34,200,107	45,213,901
- capital gains/losses from financial assets held for trading and financial assets/liabilities measured at fair value (+/-)		
- capital gains/losses from hedging assets (+/-)		
- net value adjustments on hedging assets (-)		
- net value adjustments for impairment (-)	9,230,671	17,743,520
- net value adjustments on intangible and tangible fixed assets (-)	3,340,381	2,820,462
- net provisions for risks and charges and other costs/revenues (+/-)	(353,009)	4,405,132
- unsettled taxes (+)	11,753,465	14,527,953
- net value adjustments of the groups of assets undergoing disposal, net of the		
- other adjustments		
2. Liquidity generated/absorbed by financial assets	**173,966,311**	**(1,156,501,881)**
- financial assets held for trading		
- financial assets at fair value		
- available-for-sale financial assets	1,364,016	996,500
- due from banks	(29,716,759)	62,189,853
- due from financial institutions	95,876,530	74,435,368
- amounts due from customers	96,893,999	(1,328,491,665)
- other assets	9,548,525	34,368,063
3. Liquidity generated/absorbed by financial liabilities	**(228,844,932)**	**1,074,937,909**
- due to banks	(410,228,674)	1,045,862,554
- due to financial institutions		
- due to customers	152,756,386	122,033,437
- securities issued		
- financial liabilities held for trading	(126,292)	(132,698)
- financial liabilities at fair value		
- other liabilities	28,753,648	(92,825,383)
Net liquidity generated/absorbed by operations	**3,292,994**	**3,146,996**
B. INVESTMENT ACTIVITIES		
1.Liquidity generated by:	**(3)**	
- sale of equity investments		
- dividends collected on equity investments		
- sale/reimbursements of financial assets held to maturity		
- sale of tangible assets	(3)	
- sale of intangible assets		
- sale of business units		
2.Liquidity absorbed by:	**(3,298,059)**	**(3,151,560)**
- purchase of equity investments		
- purchase of financial assets held to maturity		
- purchase of tangible assets	(182,868)	(188,672)
- purchase of intangible assets	(3,115,191)	(2,962,888)
- purchase of business units		
Net liquidity generated/absorbed by investment activities	**(3,298,062)**	**(3,151,560)**
C. FUNDING ACTIVITIES		
- issue/purchase of treasury shares		
- issue/purchase of equity instruments		
- distribution of dividends and other allocations		
Net liquidity generated/absorbed by funding activities		
NET LIQUIDITY GENERATED/ABSORBED BY OPERATIONS	**(5,068)**	**(4,564)**

Reconciliation

(Euro)

Financial statement items	31/12/2017	31/12/2016
Cash and cash equivalents	14,027	18,591
Total net liquidity generated/absorbed in the period	(5,068)	(4,564)
Cash and cash equivalents at year end	8,959	14,027

NOTES TO THE ACCOUNTS

INTRODUCTION

The notes to the accounts are divided into the following parts:
1) Part A – Accounting Policies;
2) Part B – Information on the Balance Sheet;
3) Part C – Information on the Income Statement;
4) Part D – Other Information.
Each part of the notes is divided into sections, each of which illustrates an individual aspect of the business operations.
The sections contain both qualitative and quantitative information.
As a rule, the quantitative information comprises items and tables.

PART A – ACCOUNTING POLICIES

A. 1 – GENERAL SECTION

Section 1 – Declaration of compliance with international accounting standards
Ifitalia S.p.A.'s financial statements as at 31 December 2017 comply with International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board – IASB, adopted by the European Commission, as well as the measures issued in implementation of Article 9 of Italian Legislative Decree 38/2005.
With regard to the layouts and the technical forms, the statutory financial statements have been drawn up in accordance with the Circular "IFRS Financial Statements of Brokers other than Banking Intermediaries", whose updated text was issued by the Bank of Italy on 9 December 2016, and in accordance with Article 9 of Italian Legislative Decree no. 38/2005.
In order to more clearly guide the application and interpretation of the international accounting standards, reference was also made to the following sources:
- ✓ Framework for the Preparation and Presentation of Financial Statements issued by the IASB;
- ✓ Implementation Guidance, Basis for Conclusions and other interpretative documents for IAS/IFRS adopted by IASB or IFRIC (International Financial Reporting Standard Interpretations Committee);
- ✓ documents drawn up by the Italian Standard Setter (OIC) and the Italian Banking Association (ABI);
- ✓ documents drawn up by the Italian Chartered Accountants Association (Assirevi).
- ✓ ESMA (European Securities and Markets Authority) and CONSOB documents that refer to the application of specific provisions in the IFRS.

Section 2 – General basis of presentation
The statutory financial statements, accompanied by the related Report on Operations, comprise:
- Balance Sheet and Income Statement;
- Statement of Comprehensive Income;
- Statement of Changes in Equity;
- Statement of Cash Flows;
- Notes to the Accounts.

The financial statements were prepared with a view to the business as a going concern, taking into account the current and projected profitability and the ease of access to financial resources. The Directors considered the going concern assumption appropriate because, in their judgement, no uncertainties linked to events or circumstances have emerged which, considered individually or as a whole, may lead to doubts about the viability of the business.
The accounting policies comply with the principles of accruals, relevance and significance of the accounting information and predominance of economic substance over legal form.

The financial statement accounts are consistent with the company's accounting records; furthermore, in compliance with the provisions of Article 5, Paragraph 2 of Italian Legislative Decree no. 38 dated 28 February 2005, the financial statements have been drawn up using the Euro as the reporting currency. Specifically, in line with the instructions issued by the Bank of Italy, the statements have been drawn up in units of Euro without decimal figures, the notes to the accounts are drawn up in thousands of Euro, and the Report on Operations is drawn up in millions of Euro.
During 2017, no new accounting standards, interpretations, or amendments came into force.

Section 3 – Subsequent events after year end
When drawing up the financial statements, Ifitalia considered all the events which had economic pertinence for the year ended as at 31 December 2017, even if subsequent to the year end date, and which took place up until the date of approval of the financial statements by the Board of Directors.

Section 4 – Other aspects
The Ifitalia financial statements have been audited by the auditing firm Mazars Italia S.p.A., which was granted the appointment for the period 2015 – 2023 by the Shareholders' Meeting held on 24 November 2015 in accordance with Legislative Decree no. 39 of 27 January 2010.

<u>LEGISLATIVE CHANGES</u>

The European Commission has approved the following accounting standards that will come into force beginning with the 2018 financial statements:
- ✓ IFRS 9 - Financial Instruments (EU Reg. 2016/2067);
- ✓ IFRS 15 - Revenue from Contracts with Customers (EU Reg. 2016/1905).

The IASB issued the following accounting standards and interpretations or amendments, which will become effective after the approval process is completed by the competent bodies of the European Union:
- ✓ IFRS 14 - Regulatory Deferral Accounts (January 2014);
- ✓ IFRS 16 - Leases (January 2016);
- ✓ IFRS 17 - Insurance Contracts (May 2017);
- ✓ Amendments to IFRS 10 and IAS 28: Sale or contribution of Assets between an Investor and its Associate or Joint Venture (September 2014);
- ✓ Amendments to IAS 12: Recognition of deferred tax assets for unrealised losses (January 2016);
- ✓ Amendments to IAS 7: Disclosure Initiative (January 2016);
- ✓ Clarifications to IFRS 15: Revenue from Contracts with Customers (April 2016).
- ✓ Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions (June 2016);
- ✓ Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (September 2016);
- ✓ Annual Improvements to IFRS Standards 2014 - 2016 Cycle (December 2016);
- ✓ IFRIC 22: Foreign Currency Transactions and Advance Consideration (December 2016);
- ✓ Amendments to IAS 40: Transfers of Investment Property (December 2016);
- ✓ IFRIC 23: Uncertainty over Income Tax Treatments (June 2017).

With specific reference to accounting standards to be applied in the short term, the following is highlighted.

<u>IFRS 9</u>:
- ✓ introduces significant changes, with respect to IAS 39, to the rules for classifying and measuring receivables and debt securities, which will be based on the business model and the characteristics of the financial instrument's cash flows (SPPI criterion - Solely Payments of Principal and Interest);
- ✓ provides for the classification of capital instruments at fair value with the recognition of differences in the income statement or in "other income components";
- ✓ introduces a new accounting model of impairment based on:
  (i) an "expected losses" approach instead of the current "incurred losses", and
  (ii) on the concept of "lifetime" expected losses, which will lead to an increase in value adjustments to receivables;
- ✓ intervenes on "hedge accounting" by rewriting the rules for designating a hedge relationship and for verifying its effectiveness with the objective of ensuring a greater alignment between the accounting representation of the hedges and the underlying management rationale; and

- ✓ modifies the accounting for "own credit risk", i.e., changes in the fair value of liabilities designated as fair value options due to the fluctuations of the entity's own creditworthiness.

In order to adapt the processes to the new IFRS 9 standard by the scheduled deadline, the Company participated in a broad, three-year program launched in February 2015 by BNPP for the entire Group.
Furthermore, the Company envisages the use of "transitional relief" provided for in the standard and therefore will not publish the comparative data in its 2018 financial statements.

A) Classification and Measurement

Although the definitions introduced in the new IFRS 9 differ from those in the current IAS 39, there are no significant impacts from the introduction of the new accounting rules in terms of classification and measurement. Almost all financial assets will be essentially classified in the new categories introduced by IFRS 9, without changing the measurement method.
One exception is the inclusion of capital instruments in the new portfolios, which has impacts on the Company's equity upon FTA (first-time adoption). In particular, capital instruments, currently recognised in the AFS portfolio (available for sale), will be classified as FVTPL, or at fair value with a contra-entry in the income statement. Upon FTA, the corresponding AFS reserve, equal to EUR 3.57 million (inclusive of taxes, EUR 0.25 million), will therefore be reclassified into a profit reserve.

B) Impairment

Staging rules

Performing positions:

The Stage classification for performing facilities is based on the outcome of the assessment of "significant increase in credit risk" (or "significant impairment").
The "significant increase in credit risk" is assessed at the individual facility level by comparing the rating determined at the reporting date with the rating in effect at the origination date (recognition date).
The rating, monitored and updated periodically according to Ifitalia's policies, represents the main parameter for expressing creditworthiness.
For the assessment of "significant impairment", Ifitalia uses the absolute and relative criteria defined at Group level.

Absolute criteria
The absolute criteria (or backstop) used to classify performing facilities in Stages 1 and 2 are based on the information available at the reporting date (e.g., rating, days past due). The thresholds used reflect absolute levels of high or low credit quality in order to classify:
- in Stage 1, all facilities that have a low credit risk;
- in Stage 2, all facilities that have a high underlying risk.

The absolute criteria (or backstop) defined are based on the assessment of the rating at the reporting date.
Furthermore, as required by the accounting standard and Group policy, Ifitalia adopts the "Rebuttable Presumption", according to which all facilities with contractual payments past due for more than 30 days are classified in Stage 2.

Relative criteria:
For all performing facilities, which do not fall within the scope of the absolute criteria, relative criteria are applied, expressed in terms of the difference between ratings (known as the "delta notch").

Non-Performing Perimeter

All facilities that at the reporting date have a rating of 11 12 are classified in Stage 3.

Impairment calculation rules

Following the classification in Stages, Ifitalia calculates the provisions, at the individual facility level, consistent with regulatory principles and Group guidelines.
The provision amount corresponds to the expected loss differentiated by Stage in order to take into account the different levels of risks:
• For facilities classified in Stage 1, an expected loss in relation to the maturity is calculated with a maximum value of one year;
• For facilities classified in Stage 2, a lifetime expected loss (EL Lifetime) is calculated, that is, until the facility's maturity date;
• For facilities classified in Stage 3, specific provisions are calculated, corresponding to an expected lifetime loss.

<u>Performing positions</u>

The impairment calculation is based on risk parameters (PD, LGD and EAD) consistent with the duration of the transaction.
The expected loss in Stage 1 represents the expected loss deriving from the possible occurrence of a facility entering default within one year of the reporting date.
The expected loss in Stage 2 is the present value of expected losses due to a facility entering default in the period between the reporting date and the facility's maturity.
To calculate the expected lifetime loss, cumulative PDs are therefore used.
For the portion of the portfolio for which the rating models are not available at the BNP Group level, Ifitalia, in line with Group guidelines, calculates the expected loss, at one year or over the lifetime, using a simplified method based on historical loss data (EL ratio).
In accordance with IFRS 9, the PD, LGD and EAD parameters used to calculate impairment are consistent with regulatory values (those used to calculate the IRBA capital requirements), in particular for the LGD parameter, the value is net of conservative margins, regulatory penalties, and downturn margins.
In addition, IFRS 9 provides for the adoption of a forward-looking, multi-scenario approach to risk parameters in order to incorporate current conditions as well as expectations for possible future events and conditions in the impairment calculation.

<u>Non-Performing Perimeter</u>

For facilities classified in Stage 3, Ifitalia calculates the expected lifetime loss through a forward-looking approach that incorporates future expectations of possible collections and losses, including possible sales scenarios.
For non-performing exposures, Ifitalia has adopted a unique, precise analytical valuation model for individual positions; thus, for these positions Ifitalia adopts a "Judgemental Approach";
The Judgemental Approach incorporates both the collection strategy and the expected value deriving from a possible sale of the portfolio.

C) Estimating impacts of First Time Adoption (FTA) of IFRS 9

The above considerations will result in an increase of EUR 32.74 million in write-downs upon FTA as at 1 January 2018 (before taxes, EUR 10.81 million), broken down as follows:
- Stage 1 increase in write-downs of EUR 4.63 million;
- Stage 2 increase in write-downs of EUR 1.42 million;
- Stage 3 increase in write-downs of EUR 26.69 million.

These write-downs will be recorded as a contra-entry to the reduction in equity for EUR 21.93 million, net of the tax effect of EUR 10.81 million.

Following the entry into force of IFRS 9, Regulation (EU) no. 575/2013 introduced an amendment of prudential rules for calculating capital absorption on expected credit losses. In this regard, financial institutions may adopt a transitional regime, according to which they can include adjustments made following the adoption of the new standard's impairment model in CET1, with a phase-in mechanism over a period of 5 years beginning in 2018. Given the above impacts and following the estimated impacts upon transition to the new standard, the Company has decided that it will not observe the provisions of the aforementioned regulation and, therefore, the effects of the write-downs performed upon FTA on capital and capital ratios will be fully reported.

IFRS 15, applicable from 1 January 2018, was approved by the European Union with EU Regulation no. 2016/1905 of 22 September 2016 (published on 29 October 2016), amending the current set of international accounting standards and interpretations on the recognition of revenues and, in particular, IAS 18.

The principle envisages:

- ✓ two approaches for recognising revenues ("at point in time" or "over time");
- ✓ a new model of transaction analysis ("Five-Steps Model") focused on the transfer of control; and
- ✓ more disclosure required to be included in the notes to the accounts.

The activities carried out to analyse the effects resulting from the adoption of the accounting standard and to ensure compliance did not show any impact on the Company's financial statements starting from 2018.

IFRS 16, applicable from 1 January 2019, subject to the approval of the European Union, amends the current set of international accounting standards and interpretations on leases and, in particular, IAS 17.

The standard introduces a new definition of leases and confirms the current distinction between the two types of leases (operating and financial) in reference to the accounting model that the lessor must apply.

In order to ensure compliance with this accounting standard, the Group has launched activities to analyse the effects of adopting the new standard and preparing necessary implementation solutions.

Foreign currency transactions

Assets and liabilities denominated in foreign currency (these being understood to be currencies other than the Euro, also including the transactions which envisage index-linking clauses to these currencies) are converted on the basis of the exchange rate as at year end.

Payment agreements based on own equity instruments

The Company has not put in place payment agreements based on own equity instruments.

Use of estimates in financial statements

The preparation of the financial statements required the use of estimates and assumptions that can have effects on the amounts in the balance sheet and income statement. The calculation of these estimates involves the use of the information available as of the date of preparation of the financial statements and the adoption of subjective evaluations, based also on historical experience, used to formulate reasonable assumptions in order to record management events.

The main cases for which the use of subjective evaluations is required the most by the company's management are:

- ✓ the losses due to impairment of receivables and, generally, of other financial assets;
- ✓ the fair value of financial instruments to be used for the purpose of financial statement disclosure;
- ✓ the provisions for risks and charges;
- ✓ the recoverability of deferred tax assets;
- ✓ the portion of property held for investment purposes.

Impairment tests

As regards the tests provided for by IAS 36, no impairment indicators were found in the valuations made, in consideration of the book values and the specific nature of the assets in the accounts.

A.2 – SECTION REGARDING THE MAIN FINANCIAL STATEMENT AGGREGATES

The accounting standards applied to the financial statements of the Company are described in detail below.

1. Financial assets and liabilities held for trading

Initial recognition

The initial recognition of financial assets (or the financial liabilities) takes place on their trading date.

These items are initially stated at their fair value, generally represented by the amount paid for the execution of the transactions, with the exclusion of the transaction costs which are immediately recorded in the income statement even if directly attributable to these financial assets.

Classification
"Financial assets held for trading" (item 20 – Balance sheet - Assets) and "Financial liabilities held for trading" (item 30 – Balance sheet - Liabilities) include financial instruments held with the intention of generating profits over the short-term deriving from changes in the prices of said instruments, as well as derivative contracts; the only exception concerns derivative contracts designated as hedging instruments.
A financial instrument or other type of contract is considered to be a derivative if it has the following three features:

- its value changes in relation to the change in an interest rate, the price of a financial instrument, the price of a good, the foreign currency exchange rate, a price or rate index, the credit rating or credit indices or other pre-established variables (generally known as "underlying" elements);
- it does not require an initial net investment or requires an initial net investment lower than that required for other types of contracts which are expected to disclose a similar fluctuation in relation to market factor changes;
- it is settled at a future date.

The Company has recorded Interest Rate Swap derivatives under financial liabilities held for trading, not initially declared in the hedging category, despite being, operationally, transactions established with the aim of hedging the fixed rate risk applied to customers.

Measurement
Subsequent to initial recognition, these financial assets/liabilities are valued at fair value, with the exception of equity instruments not listed on an active market and whose fair value cannot be reliably determined. The determination of the fair value of trading assets and liabilities is based on the prices struck on active markets, on prices provided by the operators or on appraisal models used in financial practice.
If the fair value of a financial asset becomes negative – a circumstance which may occur, for example, in relation to derivative contracts – this asset is recorded as a financial trading liability (item 30 - Balance sheet - Liabilities).

Derecognition
Financial assets/liabilities are cancelled when the right to receive or the duty to pay the cash flows expires or whenever all the risks and benefits connected with the holding of said assets/liabilities are substantially transferred.

Income component recognition
Accrued interest is recorded in item 10 "Interest income and similar income" or 20 "Interest expense and similar expenses for debt securities", except for the differentials on derivatives, which are recorded in the net trading profit (loss).
Realised gains and losses on sales or reimbursements and unrealised gains and losses deriving from fair value changes in the trading portfolio, are recorded in income statement item 60 "Net trading profit (loss)".

2. Available-for-sale financial assets

Initial recognition
Initial recognition takes place, for financial assets whose delivery is disciplined on the basis of agreements envisaged by the reference market (so-called regular way contracts), as of the settlement date, while the trading date is applied for the others. The initial statement value for all the assets is the fair value; this normally coincides with the cost of the transaction, inclusive of the transaction costs or income directly attributable to said instrument.

Classification
These are non-derivative financial assets which are not classified as loans/receivables, held-to-maturity financial assets, assets valued at fair value or financial assets held for trading.
Money market securities, other debt instruments and shares which are intended to be held for an unspecified period of time, but that can be sold in order to obtain liquidity, due to changes in interest rates, in exchange rates and market prices, can be classified as "Available-for-sale financial assets" (item 40 Balance sheet – Assets). Equity investments that do not qualify as subsidiary, jointly-controlled or associated companies are included in this item.

Measurement

These assets are subsequently valued at fair value, determined on the basis of the prices struck on active markets, provided by operators or on internal appraisal models generally used in financial practice based on shareholders' equity figures, limited to the measurement of the unlisted equity investments.
The value of listed share investments is determined on the basis of the market price; in this latter case, the securities are written down if objective evidence indicates that the decrease (impairment) in the market price has reached such a level that the recovery of the cost value cannot be reasonably expected in the foreseeable future.
Investments in equity instruments not listed on active markets, and whose fair value cannot be reliably determined, are maintained at cost. In this case, the indicators prescribed by IAS 39 are considered for revealing any impairment.

Derecognition
Available-for-sale financial assets are cancelled when the asset is sold, transferring the essential nature of the associated risks and benefits, or when the contractual rights on the financial flows deriving from said assets cease. In this event, the statement in the accounts of the transfer takes place on the basis of the same criteria adopted for initial statement.

Income component recognition
Unrealised profits and losses deriving from the fair value measurement, are recorded in a specific equity reserve, item 170. "Valuation reserves", net of the related taxation, up to the moment the investment is disposed of or written down (permanent loss in value) and the related effect is recorded respectively in the income statement under the item "Profit/loss on disposal of financial assets" (item 90.a) or "Net value adjustments for impairment of financial assets" (item 100.a). In this latter case, the amount transferred equates to the difference between the book value (acquisition cost net of any losses due to impairment already previously recorded in the income statement) and the fair value.
The permanent loss in value is recorded at the time the acquisition cost (net of any capital repayment and amortisation/depreciation) of an available-for-sale financial asset exceeds its recoverable
value as defined in the accounting policies. Any value write-backs on investments in share instruments, whose fair value is reliably determined, are not recorded with a matching balance in the income statement, but under equity, while any value write-backs on investments in debt instruments are classified in the income statement.

3. Receivables

Initial recognition
Within the sphere of the more extensive category of financial instruments, loans/receivables comprise non-derivative financial assets with payments which are fixed or can be determined and which are not listed on an active market. Loans/receivables are initially stated at fair value.

Classification
In accordance with IAS 39, and in compliance with the general principle of the predominance of the economic substance over legal form, a transferee company can record a financial asset in its financial statement if and only if:
a) the financial asset is transferred along with essentially all the risks and contractual rights to the correlated cash flows (the transferor may maintain the rights to receive the cash flows of the asset but must have the obligation to pay the same to the transferee, and cannot sell or commit the financial asset);
b) the benefits associated with ownership of the same cease with regard to the transferor when transferred to the transferee.
The forms of transfer for loans/receivables subject to factoring can be broken down as follows:
- ✓ without recourse: a transaction which, irrespective of the contractual form, provides the factor with the full transfer of the risks and benefits associated with the assets forming the subject matter of the transaction as per IAS 39;
- ✓ with recourse: a transaction which, irrespective of the contractual form, does not provide the factor with the full transfer of the risks and benefits associated with the assets forming the subject matter of the transaction as per IAS 39.

Ifitalia has recorded the following in the financial statements, under item 60 of the balance sheet assets, "Loans and Receivables", and in line with the afore-mentioned criteria:
- ✓ loans/receivables acquired without recourse. Classification envisages the recording of the loans/receivable due from the debtors for the portion of the amount paid (cash risk) and for the portion still to be paid (endorsement risk) net of impairment. In this case, the amount due to the transferor, for the portion of the amounts still to be paid, is recorded under balance sheet liability item 10, "Payables";

- ✓ advances paid to the transferors for loans/receivables acquired with recourse, inclusive of the interest and other amounts accrued, and net of impairment;
- ✓ advances paid to the transferors for loans/receivables acquired without recourse with contractual clauses (as defined below) which limit the essential transfer of all the risks and benefits (formal without recourse);
- ✓ advances paid to the transferors for future loan/receivable factoring transactions, inclusive of the interest and other amounts accrued;
- ✓ advances paid to the transferors exceeding the total loans/receivables inclusive of the interest and other amounts accrued;
- ✓ exposure to the factored debtors in just guarantee-related without recourse transactions when on occurrence of default the payment is made under guarantee of said loan/receivable;
- ✓ amounts due for late payments;
- ✓ exposures to the factored debtors for payment extensions granted.

Ifitalia has recorded the following amounts under guarantees and commitments (Notes to the accounts Part D), in line with the above criteria:

- ✓ both the value of the loans/receivables acquired without recourse (just guarantee) and the guarantees given accessory to the factoring transactions;
- ✓ the value of the endorsement risk for the loans/receivables acquired without formal recourse and the value of the exposure for the unused amount of the committed credit facilities.

In order to assess whether transfer of the essential nature of the risks and benefits has taken place in acquiring the loans/receivables factored without recourse, it is necessary to identify and analyse, using qualitative and quantitative criteria,

the contractual clauses capable of affecting the expected variability of the cash flows of the factored loans/receivables. For such purposes, within the reference framework of IAS 39 interpreted and defined together with Bank of Italy legislation and Assirevi and Assifact research documents, the most common contractual clauses in Ifitalia transactions have been stated below,

analysed with a view to application of the recognition/derecognition rules.

Maximum payable

This category of clauses is key for the purposes of the recognition/derecognition since it limits the undertaking of the credit risk by the Factor. In essence, while the "initial loss" remains the Factor's, the losses exceeding the ceiling are the transferor's.

In the presence of this clause, it is necessary to quantify and compare the amount of the ceiling with the risk exposure. If the maximum payable essentially covers the credit risk, then it means that the afore-mentioned risk has been transferred by the Transferor to the Factor.

With regard to the outstanding contracts, the latter point has been confirmed, therefore the clauses have not been considered as an impediment to recognition of the individual loans/receivables in the financial statements.

Malus clause

The commission linked to the portfolio's performance, with retroactive application (losses deriving from default of the factored debtors, with regard to principal and/or interest), can be critical for the purpose of recognition/derecognition since it can indicate a limitation or an exclusion of the transfer of the risks by the transferor to the factor.

In the presence of quantitative and qualitative analysis carried out, the loans/receivables assisted by this clause in certain specific cases led to the retention of the credit risk by the transferor to an extent considered to be significant on the basis of

materiality thresholds. In such cases, the clause was considered an impediment to recognition of the individual loans/receivables in the financial statements.

Measurement

After initial recognition, the receivables are valued at amortised cost as indicated below.

For the purpose of calculating the return within the sphere of factoring transactions, it is possible to identify, with regard to the nature, three categories of remuneration:

- <u>Management commission</u>

  This commission takes the form of a *fee for the provision of a plurality of services* (for example, the dunning of the debtor, debt collection, etc.) provided by means of an unspecified number of activities within a specific time span. With regard to this type of commission, recognised irrespective of the duration of the loan/receivable, IAS 18 was applied, re-discounting the portion of commission relating to loans/receivables not expired to be credited as a matching balance to the item “other liabilities”.

- Guarantee commission (costs/revenues directly attributable to the transaction)
  This commission takes the form of a fee for the undertaking by the Factor of all or part of the risk element inherent in the financial asset forming the subject matter of the transaction. With regard to this type of commission, steps were taken to apply IAS 39, spreading the revenue equally over the duration of the loan/receivable and for loans/receivables due beyond 12 months deducting the unaccrued amount (deferred income) from said loan/receivable.
- Other types of commission
  This category includes those cost/revenue items not falling within the above two categories and includes on-going, one-off commission recorded at the time when the one-off service is completed (very often coinciding with collection of the commission).

Loans/receivables are in turn classified as performing and impaired (non-performing). According to the Bank of Italy instructions, impaired assets are as follows:

✓ Non-performing loans: positions vis-à-vis parties in a state of insolvency (even if not legally ascertained) or in essentially equivalent situations, irrespective of any loss forecasts made by the company. Therefore, the existence of any guarantees (secured or unsecured) afforded to cover the receivables is left aside.

✓ Unlikely to pay: the classification in this category takes place on the basis of the improbability that, without recourse to action such as enforcement of the guarantees, the debtor fully meets his/her credit obligations (in terms of principal and/or interest). This assessment is made independently from the presence of any amounts (or instalments) past due and not paid.
Therefore, it is not necessary to await the explicit symptom of anomaly (non-payment), if elements exist which imply a situation of debtor default risk (for example, a crisis in the industrial sector in which the debtor operates).

✓ Impaired past due positions
Cash credit exposures other than those classified as non-performing or unlikely to pay, which are past due as at the reporting reference date.

a) *Past due positions with respect to individuals*: exposures other than those classified as non-performing or unlikely to pay, which are past due by more than 90 days as at the reporting reference date. Based on the Bank of Italy legislation, Ifitalia applies the notion of past due exposure at counterparty level.
The position is past due if there is at least one invoice past due by more than 90 days and the total of the past due invoices (including those by less than 90 days) exceeds 5 percent of the total loans/receivables.

b) *Past due positions with respect to Public Administration parties*: in accordance with a conservative interpretation of the Bank of Italy regulations the definition of “past due” includes those exposures for which the following conditions are met:

1) they have been past due on a continual basis for more than:
   - 90 days in the case of exposures to central administrations, central banks, and local authorities;
   - 180 days in the case of exposures to government agencies;
2) the total amount of the exposures indicated above and the other portions due by less than 90 or 180 days are at least equal to 5 percent of the entire exposure to this debtor.
3) they are different from exposures to the Tax Authorities deriving from sales of tax credits (VAT, IRPEG, etc.). These loans and receivables have an undetermined maturity, as there is a minimum time before which they cannot be liquidated but not a maximum term by which they must be paid.

For these exposures, where the notion of past due receivable is applied at the counterparty level, the continual nature of the past due receivable is interrupted when the debtor has made a payment for at least one of the positions which became past due in the previous 90 days.

Exposures subject to concessions can be classified either as impaired assets ("non-performing exposures") or as performing loans ("performing exposures") and do not constitute a category. As regards the measurement and provisions for exposures subject to concessions, accounting policies follow the general criterion, in line with the provisions of IAS 39.

Income component recognition
Interest on loans/receivables is classified under interest and similar income, income statement “item 10” and is recorded on an accruals basis.

Impairment:

Based on the relationship status, a distinction was made between "**performing**" positions and "**non-performing or impaired**" positions:

a) "**Performing**" positions: the company has implemented a process to calculate the collective write-down of performing loans consistent with the provisions at BNP Group level with the methods below:
   - ✓ Credit risk: the write-down is applied proportionally to the Expected Loss on each counterparty associated with the rating value (PD) and the LGD of the technical form relating to the recorded amount associated to the subject (PA=PD x LGD). The group's methodology considers the PD associated to rating classes 8/9/10 for the corporate/SME segment and 9/10 for the Retail SME/Retail segment as relevant;
   - ✓ Dilution risk – the write-down is applied to debtor cash risks proportionally to the average dilution risk recorded on the portfolio divided into the corporate/SME and Retail SME/Retail segments. The amount of the write-down is proportional to the expected loss deriving from the default risk of the transferor associated to the without-recourse transaction and the unsecured LGD recorded on internal data.

b) "Impaired" positions: a loan/receivable is considered to be impaired when it is deemed that, most probably, it will not be possible to recover the entire amount, on the basis of the original contract conditions, or an equivalent value. The determination of the write-downs to be made to loans/receivables is based on discounting the expected cash flows for principal and interest net of the recovery charges; for the purpose of calculating the current value of the flows, the fundamental elements are represented by the identification of estimated recoveries, the related timescales and the discount rate to be applied.

The valuation of the loans/receivables included in the categories of non-performing and unlikely to pay is carried out analytically, while for past due positions, an analytical assessment is carried out for larger positions and a generalised assessment is carried out for the rest.
The write-down of problem loans/receivables is subsequently written back (within the limits of the value previously written down) only when the quality of the amount due has improved to such an extent that reasonable certainty exists of a greater recovery of the principal and the interest and/or amounts have been collected to an extent greater than the value of the receivables recorded in the previous financial statements. In any event, considering the method used for determining the write-downs, the approach of the due dates envisaged for the recovery of the receivable due to the passage of time, gives rise to a "value write-back" on said receivable, since it determines a reduction in the implicit financial charges previously charged against the value of the receivables.
Gains (or losses) on receivables are recorded in the income statement:

- ✓ when the financial asset in question is eliminated, under item 90.a - "Gains (losses) on disposal";
- ✓ when the financial asset has undergone a write-down or write-back, under item 100.a - "Net value adjustments for impairment";
- ✓ under item 150 "Net provisions for risks and charges" matching "Other liabilities" the loss expected against guarantee and commitments (Part D).

Derecognition
Loans/receivables are derecognised from the balance sheet assets when:

- ✓ the right to receive the cash flows is discharged;
- ✓ the loan/receivable is considered to be definitively unrecoverable.

The amount of the losses is recorded in the income statement net of the write-down allowances previously provided.

4. Tangible assets

Initial recognition
Tangible assets are initially stated at cost, inclusive of all the charges directly associated with bringing the asset onto stream.

Classification
Item (100) "Tangible assets" includes land and buildings used for business purposes, land and building for investment purposes, furniture, electronic systems and other tangible assets.
Assets used for business purposes are those held for the supply of services or for administrative purposes, while investment properties are those held for the purpose of collecting lease payments and/or held for appreciating the invested capital or in any event not occupied by the company or when they become as such.

Measurement
Subsequent to initial statement, tangible assets are recorded at cost net of accumulated depreciation and impairment losses.
With reference to properties held for investment, the valuation at cost was opted for, providing the disclosure envisaged by IAS 40.
The depreciable value, equating to cost less the residual value (or rather the amount which is expected to be obtained from the asset at the end of its useful life, usually zero, after having deducted the sale costs), is divided up systematically over the useful life of the tangible asset, adopting a straight-line depreciation approach.
The residual value and the useful life of properties, plant and machinery is reviewed at least once a year for financial statement purposes and, if the expectations differ from the previous estimates, the depreciation charge for the current and subsequent years is adjusted.
The useful life, subject to periodic review for the purpose of recording any estimates significantly different from the previous ones, is defined as:
– the period of time during which it is expected that an asset can be used by the company, or,
– the quantity of products or similar units which the company expects to obtain from the use of said asset.
In the property category, land and buildings are considered to be separable assets and treated independently for accounting purposes, even when acquired together, but only if the entire building is owned (detached property). As a rule, land has an unlimited life and therefore is not depreciated. Buildings have a limited life and, therefore, are depreciated. An increase in the value of the land on which a building stands does not influence the determination of the building's useful life.
If there is objective evidence that an individual asset has suffered impairment, steps are taken to compare the book value of the asset with its recoverable value, equating to the greater between the fair value, less sales costs, and the related value in use, understood to be the current value of the future cash flows which are expected to derive from the asset. Any value adjustments are recorded under item 120. "Value adjustments/write-backs on tangible assets" in the income statement.
If the value of an asset previously written down is reinstated, the new book value cannot exceed the net book value which would have been determined if no impairment loss on the asset had been recorded in previous years.

Income component recognition and derecognition
Depreciation is recorded in the income statement in item 120, "Net value adjustments/writebacks on tangible assets".
The costs incurred subsequent to purchase are added to the book value of the assets or recorded as a separate asset if it is probable that future economic benefits exceeding those initially estimated will be achieved and the cost can be reliably determined. All the other costs incurred subsequently (e.g. ordinary maintenance measures) are recorded in the income statement, in the year they are incurred, under item: 110.b) "Other administrative expenses", if they refer to assets for business use, or item 160. "Other operating income/charges", if referring to properties held for investment.
Tangible assets are cancelled from the balance sheet when disposed of or when the asset is permanently withdrawn from use and future profits are not expected from its disposal and future economic benefits are not expected from its use. Any difference between the disposal value and the book value is recorded in the income statement under the item 180. Profit/loss on disposal of investments.

5. Intangible assets

Initial recognition and classification
An intangible asset is a non-monetary asset, identifiable even if lacking physical appearance, from which it is probable that future economic benefits will originate. The asset is identifiable if:
– it can be separated or spun-off and sold, transferred, granted under licence, leased or exchanged;
– it derives from contractual rights or other legal rights irrespective of the fact that these rights are transferable or separable from other rights or obligations.
The asset is controlled by the company if the company has the power to avail itself of the economic future benefits deriving from the resource in question and can, also, limit access by third parties to said benefits. They are therefore recorded among the balance sheet assets only if:
(a) future economic benefits attributable to the asset in question are likely to accrue;
(b) the cost of the assets can be reliably measured.

If the conditions described above should occur, intangible assets are included among the balance sheet assets and recorded at cost, adjusted for any accessory charges. Otherwise, the cost of intangible assets is recorded in the income statement related to the year in which the cost was borne.

Intangible assets recorded in the financial statements are essentially represented by software. Furthermore, in accordance with the Group accounting standards and IAS/IFRS, the Company adopted the policy of capitalising the IT costs attributable to software development projects.

Measurement

After initial recognition, software is recorded in the financial statements at cost net of total amortisation and accumulated losses in value.

The cost includes:

- the purchase price less trade discounts and allowances;
- any direct cost for preparing the asset for use.

Any expenses, determined and attributable to the asset reliably, subsequent to initial statement, are capitalised only if they are able to generate future economic benefits.

Intangible assets with a definite useful life are amortised on the basis of the estimate made of their residual useful life and recorded at cost net of total amortisation (using the straight-line method) and any impairment losses applicable. At the end of each accounting period, this residual useful life is subject to appraisal so as to ascertain the adequacy of the estimate. If there is objective evidence that an individual asset has suffered impairment, steps are taken to compare the book value of the asset and its recoverable value, equating to the greater between the fair value, less sales costs, and the related value in use, understood to be the current value of the future cash flows which are expected to derive from the asset.

In the event that the book value is greater than the recoverable value, a loss equating to the difference between the two values is recorded under item 130. “Net value adjustments/writebacks on intangible assets”.

If the value of a previously written down intangible asset, other than goodwill, is reinstated, the new amounts cannot exceed the net book value which would have been determined if no loss had been recorded for the impairment of the asset in previous years.

Income component recognition and derecognition

Amortisation is recorded in the income statement in item 130, “Net value adjustments/writebacks on intangible assets”.

Intangible assets are eliminated from the balance sheet at the time of disposal or when future economic benefits from their use or disposal are no longer expected, and any difference between the disposal value and the book value is recorded in income statement item 180. Profit/loss on disposal of investments.

6. Tax assets and liabilities

Income taxes are calculated in observance of current tax legislation. The tax liability (return) is the total amount of the current and deferred taxes included in the calculation of the net profit or loss for the year. Current taxes represent the amount of the income taxes payable (recoverable) referring to the taxable income (tax loss) for a year. Deferred taxes represent the amounts of the income taxes payable (recoverable) in future years, referable to taxable (deductible) timing differences.

Current tax assets include the advance payments and other tax credits for withholdings made or for tax credits for which a rebate has been requested from the competent tax authorities. By contrast, tax liabilities reflect the provisions necessary for covering the tax charges for taxation on the basis of current legislation. Deferred taxation is calculated by applying the so-called “balance sheet liability method”, taking into account the tax effects associated with the timing differences between the book value of the assets and the liabilities and their value for tax purposes, which determine taxable or deductible amounts in future periods.

Timing differences can be:

- ✓ taxable, in other words timing differences which, when determining the taxable income (tax loss) for future years, will translate into taxable amounts when the book value of the asset or the liability will be realised or discharged; a deferred tax liability is recorded for these differences.
- ✓ deductible, in other words timing differences which, when determining the taxable income (tax loss) for future years, will translate into deductible amounts when the book value of the asset or the liability will be realised or discharged.

A deferred tax asset is recorded for all the deductible timing differences if it will be probable that taxable income will be generated against which the deductible timing difference can be used.

Deferred tax assets and liabilities are calculated using the tax rate envisaged in the periods when the assets will be realised or the liability will be discharged and will be offset when they are due to the same tax authority and when the right to offsetting is recognised by law.
Current and deferred taxes are recorded in the income statement with the exception of those relating to items whose value adjustment is recorded as a matching balance to the equity and for which the tax effects are also recorded among the equity reserves. Prepaid tax assets and deferred tax liabilities are not discounted back or offset.

7. Payables

Initial recognition
Initial recognition takes place at the fair value of the liabilities, equating to the face value increased by any additional costs/income directly attributable to the individual transaction and not reimbursed by the creditor. Internal administrative costs are excluded.

Classification
“Payables” (item 10) include all the forms of funding vis-à-vis the system as well as amounts due to transferors. Payables include all the debt liabilities, other than trading liabilities.
The item mainly comprises payables due to banks for loans received, current account overdrafts and payables to transferors for loans/receivables acquired without recourse, in relation to the portion for which the price has not been paid to the transferor or all the risks and benefits have not been transferred.

Measurement
After initial recognition, subsequent measurement follows the amortised cost approach, using the effective interest rate method.

Income component recognition
The related interest is recorded in the income statement under item 20. “Interest expense and similar charges”.

Derecognition

Payables are cancelled from the financial statements when the related contractual obligations expire or are discharged.

8. Employee termination benefits

Initial recognition and classification
Employee Termination Benefits, disbursed by the employer to the employee when the employment relationship terminates, are one of the worker’s rights disciplined by Article 2120 of the Italian Civil Code and by Italian Laws no. 297/1982 and 296/2006. The provision has been recorded as a benefit subsequent to the employment relationship with defined benefits. The related liability is recorded in the financial statements on the basis of the amount to be paid to each employee and is valued using the actuarial method as a “defined benefit obligation”, taking into account future due dates when the financial disbursement will actually occur.
In particular, following Italian Law no. 296/2006 (2007 Budget Act), the amount recorded under the item “Employee termination benefits” refers solely to the defined benefit obligations connected with the benefits accrued up to a specific date within the first half of 2007, which may be different for every employee, valued by an independent actuary without applying the “pro-rata” of the service supplied. As a result, costs relating to work performed after said date are not considered for valuation purposes.

Measurement and income component recognition
The actuarial method for calculating the Employee Termination Benefits starts from the detailed situation, at the moment of recording, of each worker and envisages year after year, for each individual worker up until his/her departure, the development of this situation due to:

- ✓ the expected date of termination of the employment relationship, resignation, redundancy, death, inability to work or

retirement (once the requirements have been met);
- ✓ for each worker that remains within the workforce, potential requests for advance salary payments are also taken into account.

9. Provision for risks and charges

Initial recognition/classification
A provision is recorded under “Provisions for risks and charges” (item 110) only when:
- a current obligation (legal or implicit) exists as the result of a past event;
- it is probable that the use of resources will be necessary for meeting the obligation;
- a reliable estimate can be made of the amount of the obligation.

Measurement
The provision is represented by the liabilities which it is supposed will be incurred in order to discharge the obligation.
The provisions for risks and charges include:
- provisions for revocation disputes and third party disputes (including therein those made by staff and former employees);
- any other provision with a specific purpose;
- provision for a redundancy incentive for employees.

No provision is made against potential and improbable liabilities.

Income component recognition
The amount set aside to the provision for risks and charges is recorded in the income statement under item 150 “Net provisions for risks and charges”.
The afore-mentioned item includes the balance, positive or negative, between the provisions and any re-allocations to the income statement of the provisions deemed in excess.
If the provisions concern charges for employees, the income statement item concerned is item 110.a) “Administrative expenses: personnel expenses”.

Derecognition
The provisions made are reviewed as of each year end date and adjusted to reflect the best current estimate. If it is no longer likely that the use of resources for producing economic benefits will be necessary to meet the obligation, the provision is reversed.

A.3 - DISCLOSURE ON THE TRANSFERS BETWEEN FINANCIAL ASSET PORTFOLIOS
The company has not carried out any portfolio transfers during 2017.

A.4 – FAIR VALUE DISCLOSURE

Qualitative information

A.4.1 Fair value levels 2 and 3: measurement techniques and input used
The fair value is the price which would be perceived for the sale of an asset, or which would be paid for the transfer of a liability in a regular transaction between market operators as of the measurements date (*IFRS 13; §9*). In the event of financial instruments listed on active markets (fair value level 1), the fair value is determined as from the official prices of the most advantageous market to which the Company has access (Mark to Market). A financial instrument is considered as listed on an active market if the listed prices are readily and duly available in a price list and these prices represent effective market transactions which regularly take place in normal transactions.
For the purpose of classification in fair value level 2, if the official listing on an active market does not exist for a financial instrument in its entirety, but active markets exist for the parts which it is comprised of, the fair value is determined on the basis of the pertinent market prices for the parts it is comprised of. If the market listings are not available, the Company resorts to measurement models (Mark to Model) in line with the methods generally accepted and used by the market. The measurement models include techniques based on the discounting of the future cash flows and on the estimate of the

volatility and are subject to review both during their development and periodically, for the purpose of ensuring their full coherence with the objectives of the measurement.

These methods use inputs based on prices formed in recent transactions in the instrument subject to measurement and/or prices/listings of instruments with similar features in terms of risk profile. These prices/listings are, in fact, important for the purpose of determining the significant parameters, in terms of credit risk, liquidity risk, price risk and any other significant risk, relating to the instrument being measured.

The reference to these "market" parameters makes it possible to limit the discretion used in the measurement, at the same time ensuring the verifiability of the resulting fair value.

If, due to one or more risk factors, it is not possible to refer to market data, and therefore the financial instruments are classified in fair value level 3, the measurement models employed use estimates based on historical data as inputs.

The parameters which cannot be observed on the markets used for the measurement of the equity instruments which give rise to FV adjustments in the determination of the estimates, refer to the Net Asset Value (with the exclusion of any intangible fixed assets) whose calculation is based on data communicated directly by the Company (financial statements, reports, etc.).

Specifically, as at 31 December 2017, the Company had recorded both unlisted equity investments that are carried at cost, since these are capital instruments whose fair value cannot be measured reliably, as well as unlisted equity investments measured at fair value on equity figures under "Available-for-sale financial assets".

During 2017, no changes took place in the measurement techniques used for estimating the fair value of Levels 2 and 3 of the financial assets and liabilities measured at fair value.

With regard to the financial instruments recognised at amortised cost, with regard to the estimate of the fair value indicated in the Note to the accounts, the following methods and assumptions have been applied:

- for cash and cash equivalents the fair value is represented by the nominal or face value;
- for properties, the fair value is determined on the basis of the analysis of the market values of similar properties;
- with regard to the impaired financial assets, the fair value has been adopted as equal to the estimated realisable value used for financial statement purposes;
- with regard to financial assets, as well as for other asset and liability items without a specific maturity, the book value essentially approximates the fair value.

A.4.2 Processes and sensitivity of the measurements

The unobservable parameters capable of influencing the measurement of the instruments classified as level 3 are represented by the estimates and the assumptions underlying the models used for measuring the investments in equities.

With regard to these investments, no quantitative sensitivity analysis of the fair value with respect to the change in the non-observable inputs has been drawn up, since either the fair value has been obtained from third party sources without making any adjustment or it is the result of a model whose inputs are specific to the entity subject to measurements (e.g., equity values of the company) and in relation to which it is not reasonably possible to hypothesise alternative values.

A.4.3 Fair value hierarchy

IFRS 13 establishes a fair value hierarchy in relation to the degree of observability of the inputs of the valuation techniques adopted. In detail, the following levels are identified:

Level 1: valuations (without adjustments) taken from the active markets of the listings;

Level 2: inputs other than the listed prices as per the previous point, but in any event referring to parameters or prices which can be observed directly or indirectly on the market;

Level 3: inputs which are not based on market observations.

The classification of financial instruments measured at fair value and assets and liabilities not measured at fair value or valued at fair value on a non-current basis is carried out with reference to the afore-mentioned indications. These parameters are also used for the transfer between the various levels which might become necessary during the year.

There were no transfers between the fair value levels during 2017.

A.4.4 Other information

The Company has not availed itself of the possibility envisaged by IFRS 13, § 48 which makes it possible to "measure the fair value of a group of financial assets and liabilities based on the price which would be received from the sale of a long net position (or rather an asset) for a specific exposure to risk or from a transfer of a short net position (or rather a liability) for a particular exposure to risk in a regular transaction between market operators as of the measurement date, under current market conditions."

Quantitative information

A.4.5 Fair value hierarchy

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

(thousands of €)

	2017			2016		
Assets/liabilities at fair value	L1	L2	L3	L1	L2	L3
1. Financial assets held for trading	-	-	-	-	-	-
2. Financial assets at fair value	-	-	-	-	-	-
3. Available-for-sale financial assets	-	-	5,921	-	-	7,285
4. Hedging derivatives	-	-	-	-	-	-
5. Tangible assets	-	-	-	-	-	-
6. Intangible assets	-	-	-	-	-	-
Total	**-**	**-**	**5,921**	**-**	**-**	**7,285**
1. Financial liabilities held for trading	-	232	-	-	359	-
2. Financial liabilities at fair value	-	-	-	-	-	-
3. Hedging derivatives	-	-	-	-	-	-
Total	**-**	**232**	**-**	**-**	**359**	**-**

KEY:
BV = Book Value
L1 = Level 1
L2 = Level 2
L3 = Level 3

At year end, the company did not have any reclassification of the financial instruments among the portfolios. Available-for-sale financial assets are represented by investments in unlisted companies.

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

(thousands of €)

		Financial assets held for trading	Financial assets at fair value	Available-for-sale financial assets	Hedging derivatives	Tangible assets	Intangible assets
1.	**Opening balances**		-	**7,285**	-	-	-
2.	**Increases**	-	-	**-**	-	-	-
2.1.	Purchases	-	-	-	-	-	-
2.2.	Profits booked to:	-	-	-	-	-	-
2.2.1	Income statement	-	-	-	-	-	-
	- of which capital gains	-	-	-	-	-	-
2.2.2.	Shareholders' Equity	X	X	-	-	-	-
2.3	Transfers from other levels	-	-	-	-	-	-
2.4.	Other increases	-	-	-	-	-	-
3.	**Decreases**	-	-	**1,364**	-	-	-
3.1	Sales		-	-	-	-	-
3.2	Reimbursements	-	-	563	-	-	-
3.3	Losses booked to:	-	-	801	-	-	-
3.3.1	Income statement	-	-	350	-	-	-
	- of which capital losses	-	-	350	-	-	-
3.3.2	Shareholders' Equity	X	X	451	-	-	-
3.4	Transfers to other levels	-	-	-	-	-	-
3.5	Other decreases	-	-	-	-	-	-
4.	**Closing balances**	-	-	**5,921**	-	-	-

A.4.5.3 Annual changes in liabilities measured at fair value on a recurring basis (level 3)
There were no amounts in this table.

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 level

(thousands of €)

	2017				2016			
Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis	VB	L1	L2	L3	VB	L1	L2	L3
1. Held-to-maturity financial assets	-	-	-	-	-	-	-	-
2. Receivables	7,381,203	-	-	7,381,203	7,553,487	-	-	7,553,487
3. Investments	-	-	-	-	-	-	-	-
4. Tangible assets held for investment	2,724	-	2,724	-	2,863	-	2,863	-
5. Non current assets and groups of assets undergoing disposal	-	-	-	-	-	-	-	-
Total	**7,383,927**	**-**	**2,724**	**7,381,203**	**7,556,350**	**-**	**2,863**	**7,553,487**
1. Payables	6,579,063	-	-	6,579,063	6,836,535	-	-	6,836,535
2. Securities issued	-	-	-	-	-	-	-	-
3. Liabilities associated with assets undergoing disposal	-	-	-	-	-	-	-	-
Total	**6,579,063**	**-**	**-**	**6,579,063**	**6,836,535**	**-**	**-**	**6,836,535**

KEY:
BV = Book Value
L1 = Level 1
L2 = Level 2
L3 = Level 3

A.5 Disclosure on the so-called "day one profit/loss"
The company did not carry out any transactions which generated the so-called "day one profit/loss",

PART B – INFORMATION ON THE BALANCE SHEET

ASSETS

Section 1 – Cash and cash equivalents – Item 10

(thousands of €)

	31/12/2017	31/12/2016
a) Cash	9	14
b) Unrestricted deposits with central banks	-	-
Total	**9**	**14**

The item comprises cash and cash equivalents and revenue stamps at company headquarters.

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

4.1 Breakdown of Item 40 "Available-for-sale financial assets"

(thousands of €)

Items/Balances	31/12/2017			31/12/2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1 Debt securities	-	-	-	-	-	-
Structured securities	-	-	-	-	-	-
Other debt securities	-	-	-	-	-	-
2 Equity investments and UCI units	-	-	5,921	-	-	7,285
3 Loans	-	-	-	-	-	-
Total	**-**	**-**	**5,921**	**-**	**-**	**7,285**

The item concerns unlisted equity investments held by Ifitalia in the companies detailed below:

(thousands of €)

DESCRIPTION	No. of Ifitalia shares	Holding %	Nominal value	Book value
Unlisted securities:				
Serfactoring SpA Via Fabiani 1 B 20097 San Donato Milanese Share capital EUR 5.160.000	180,000	18%	929	4,607
Business Partner Italia ScpA Via Vittorio Veneto 119 00187 Roma Share capital EUR 5.710.300	172,111	3.01%	172	172
Other holdings				1,142
Total				5,921

The amount of EUR 1,142 thousand (EUR 2,055 thousand in 2016), recorded in the item "other" refers to the investment holdings held by Ifitalia inherent to cinema productions. During the year, reimbursements of EUR 563 thousand and write-downs of EUR 350 thousand were recognised. It has not been possible to reliably establish the fair value of the investments since they are not traded on an active market.
In 2017, the equity investment in Serfactoring was written down for EUR 451 thousand as a matching balance under equity.

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

(thousands of €)

Items/Balances		31/12/2017	31/12/2016
Financial assets			
a)	Governments and Central Banks	-	-
b)	Other government agencies	-	-
c)	Banks	-	-
d)	Financial institutions	4,607	5,058
e)	Other issuers	1,314	2,227
	Total	**5,921**	**7,285**

Section 6 – Loans and receivables - Item 60

(thousands of €)

Breakdown	Total 31/12/2017	Total 31/12/2016
Deposits and current accounts	1,309	4,310
Factoring receivables	6,698,784	6,869,367
- with recourse	1,245,626	1,532,826
- without recourse	5,453,158	5,336,541
Other loans	681,110	679,810
Other assets	-	-
Total	7,381,203	7,553,487
Total Fv	7,381,203	7,553,487

6.1 "Due from banks"

(thousands of €)

Breakdown	Total 31/12/2017				Total 31/12/2016			
	Book Value	Fair Value			Book Value	Fair Value		
		L 1	L 2	L 3		L 1	L 2	L 3
1. Deposits and current accounts	1,309	-	-	1,309	4,310	-	-	4,310
2. Loans	167,742	-	-	167,742	135,024	-	-	135,024
2.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.2 Financial leasing	-	-	-	-	-	-	-	-
2.3 Factoring	167,742	-	-	167,742	135,024	-	-	135,024
- with recourse	142,505	-	-	142,505	118,796	-	-	118,796
- without recourse	25,237	-	-	25,237	16,228	-	-	16,228
2.4 Other loans	-	-	-	-	-	-	-	-
3. Debt securities	-	-	-	-	-	-	-	-
- structured securities	-	-	-	-	-	-	-	-
- other debt securities	-	-	-	-	-	-	-	-
4. Other assets	-	-	-	-	-	-	-	-
Total	**169,051**	**-**	**-**	**169,051**	**139,334**	**-**	**-**	**139,334**

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

The item "Deposits and current accounts" concerns the on-demand amounts due from lending institutions represented by temporary creditor balances of Euro and currency current accounts.

6.2 “Due from financial institutions”

(thousands of €)

Breakdown	Total 31/12/2017						Total 31/12/2016					
	Book Value			Fair Value			Book Value			Fair Value		
	Performing	Impaired		L 1	L 2	L 3	Performing	Impaired		L 1	L 2	L 3
		Purchased	Other					Purchased	Other			
1. Deposits and current accounts	50,829	-	628	-	-	51,457	146,611	-	723	-	-	147,334
2. Loans	-	-	-	-	-	-	-	-	-	-	-	-
2.1 Repurchase agreements	-	-	-	-	-	-	-	-	-	-	-	-
2.2 Financial leasing	50,829	-	628	-	-	51,457	146,611	-	723	-	-	147,334
2.3. Factoring	28,180	-	620	-	-	28,800	117,111	-	622	-	-	117,733
- with recourse	22,649	-	8	-	-	22,657	29,500	-	101	-	-	29,601
- without recourse	-	-	-	-	-	-	-	-	-	-	-	-
2.4 Other loans	-	-	-	-	-	-	-	-	-	-	-	-
3. Debt securities	-	-	-	-	-	-	-	-	-	-	-	-
- structured securities	-	-	-	-	-	-	-	-	-	-	-	-
- other debt securities	-	-	-	-	-	-	-	-	-	-	-	-
4. Other assets	-	-	-	-	-	-	-	-	-	-	-	-
Total	**50,829**	**-**	**628**	**-**	**-**	**51,457**	**146,611**	**-**	**723**	**-**	**-**	**147,334**

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

6.3 “Due from customers”

(thousands of €)

Breakdown	Total 31/12/2017						Total 31/12/2016					
	Book Value			Fair Value			Book Value			Fair Value		
	Performing	Impaired		L 1	L 2	L 3	Performing	Impaired		L 1	L 2	L 3
		Purchased	Other					Purchased	Other			
1. Loans	6,912,048	-	248,647	-	-	7,160,695	6,990,539	-	276,280	-	-	7,266,819
1.1 Financial leasing	-	-	-	-	-	-	-	-	-	-	-	-
of which: without final purchase option	-	-	-	-	-	-	-	-	-	-	-	-
1.2 Factoring	6,230,938	-	248,647	-	-	6,479,585	6,310,729	-	276,280	-	-	6,587,009
- with recourse	928,082	-	146,239	-	-	1,074,321	1,150,762	-	145,535	-	-	1,296,297
- without recourse	5,302,856	-	102,408	-	-	5,405,264	5,159,967	-	130,745	-	-	5,290,712
1.3 Consumer credit	-	-	-	-	-	-	-	-	-	-	-	-
1.4 Credit cards	-	-	-	-	-	-	-	-	-	-	-	-
1.5 Loans on pledge	-	-	-	-	-	-	-	-	-	-	-	-
1.6. Loans granted in relation to the payment services performed	-	-	-	-	-	-	-	-	-	-	-	-
1.7 Other loans	681,110	-	-	-	-	681,110	679,810	-	-	-	-	679,810
of which: from enforcement of guarantees and commitments	-	-	-	-	-	-	-	-	-	-	-	-
2. Debt securities	-	-	-	-	-	-	-	-	-	-	-	-
2.1 structured securities	-	-	-	-	-	-	-	-	-	-	-	-
2.2 other debt securities	-	-	-	-	-	-	-	-	-	-	-	-
3. Other assets	-	-	-	-	-	-	-	-	-	-	-	-
Total	**6,912,048**	**-**	**248,647**	**-**	**-**	**7,160,695**	**6,990,539**	**-**	**276,280**	**-**	**-**	**7,266,819**

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

6.4 “Loans and Receivables": guaranteed assets

(thousands of €)

Breakdown	Total 31/12/2017						Total 31/12/2016					
	Due from banks		Due from financial institutions		Due from customers		Due from banks		Due from financial institutions		Due from customers	
	VE	VG	VE	VG	VE	VG	VE	VG	VE	VG	VE	VG
1. Performing assets guaranteed by:												
- Leased assets												
- Factoring receivables	142,244	142,244	24,677	24,677	968,267	965,537	118,627	118,627	115,636	115,636	1,221,162	1,218,423
- Mortgages					2	2					44	44
- Pledges												
- Unsecured guarantees	51	51			685,618	478,045					710,889	442,027
- Derivatives on receivables												
2. Impaired assets guaranteed by:												
- Leased assets												
- Factoring receivables			612	612	143,550	143,549			596	596	141,439	141,416
- Mortgages												
- Pledges												
- Unsecured guarantees					3,533	3,263					5,167	4,972
- Derivatives on receivables												
Total	**142,295**	**142,295**	**25,289**	**25,289**	**1,800,970**	**1,590,396**	**118,627**	**118,627**	**116,232**	**116,232**	**2,078,701**	**1,806,882**

VE = book value of exposures
VG = fair value of the guarantees (for the type of guarantees outstanding it equates to the contractual value)

Section 10 – Tangible assets – Item 100

10.1 Tangible assets for business use: breakdown of assets valued at cost

(thousands of €)

Assets/Balances	31/12/2017	31/12/2016
1. Owned	**17,976**	**18,809**
a) land	13,186	13,186
b) buildings	3,991	4,365
c) furniture	88	159
d) electronic systems	672	1,099
e) other	39	-
2. Assets acquired under financial lease	**-**	**-**
a) land	-	-
b) buildings	-	-
c) furniture	-	-
d) electronic systems	-	-
e) other	-	-
Total	**17,976**	**18,809**

10.2 Tangible assets held for investment: breakdown of assets valued at cost

(thousands of €)

Assets/Balances	31/12/2017				31/12/2016			
	Book Value	Fair Value			Book Value	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Owned	**2,724**		**2,724**		**2,863**		**2,863**	
- land	1,030		1,030		1,030		1,030	
- buildings	1,694		1,694		1,833		1,833	
2. Assets acquired under financial lease	**-**				**-**			
a) land	-				-			
b) buildings	-				-			
Total	**2,724**		**2,724**		**2,863**		**2,863**	

"Assets held for investment" are represented by certain leased parts of the owned property in Via Vittor Pisani 15, Milan and the property in Via Vittorio Veneto 7, Rome.

10.3 Tangible assets for business use: breakdown of revalued assets

There were no amounts in this section.

10.4 Tangible assets held for investment: breakdown of assets measured at fair value

There were no amounts in this section.

10.5 Tangible assets for business use: changes during the year

The tangible assets for business use of the company are all valued at cost.

(thousands of €)

			Land	Buildings	Furniture	Electronic systems	Other	Total
A.	**Gross opening balances**		**13,186**	**12,459**	**1,789**	**7,084**	**0**	**34,518**
A.1	**Total net impairment**			**(8,094)**	**(1,630)**	**(5,985)**	**-**	**(15,709)**
A.2	**Net opening balances**		**13,186**	**4,365**	**159**	**1,099**	**0**	**18,809**
B.	**Increases**				**1**	**143**	**183**	**327**
	B.1	Purchases					183	**183**
	B.2	Capitalised improvement costs						
	B.3	Value writebacks						
	B.4	Positive fair value changes booked to:						
		a) equity						
		b) income statement						
	B.5	Positive exchange rate differences						
	B.6	Transfers from properties held for investment						
	B.7	Other increases			1	**143**		**144**
C.	**Decreases**		**-**	**374**	**72**	**571**	**143**	**1,160**
	C.1	Sales			1			**1**
	C.2	Depreciation		374	71	571		**1,016**
	C.3	Value adjustments from impairment booked to:						
		a) equity						
		b) income statement						
	C.4	Negative fair value changes booked to:						
		a) equity						
		b) income statement						
	C.5	Negative exchange rate differences						
	C.6	Transfers to:						
		a) tangible assets held for investment						
		b) assets undergoing disposal						
	C.7	Other decreases					143	**143**
D.	**Gross closing balances**		**13,186**	**3,991**	**88**	**671**	**40**	**17,976**
D.1	**Total net impairment**			**(8,468)**	**(1,700)**	**(6,413)**		**(16,581)**
D.2	**Net closing balances**		**13,186**	**12,459**	**1,788**	**7,084**	**40**	**34,557**
E.	Valued at cost		**13,186**	**3,991**	**88**	**671**	**40**	**17,976**

10.6 Tangible assets held for investment: changes during the year

The tangible assets held for investment of the company are all valued at cost.

(thousands of €)

			31/12/2017	
			Land	**Buildings**
A.	**Opening balances**		**1,030**	**1,834**
B.	**Increases**		**-**	-
	B.1	Purchases		-
	B.2	Capitalised improvement costs		
	B.3	Positive fair value changes		
	B.4	Value writebacks		
	B.5	Positive exchange rate differences		
	B.6	Transfers from properties for business use	-	-
	B.7	Other increases		-
C.	**Decreases**		**-**	140
	C.1	Sales		-
	C.2	Depreciation		140
	C.3	Negative net fair value changes		
	C.4	Value adjustments from impairment		
	C.5	Negative exchange rate differences		
	C.6	Transfers to other asset portfolios:		
		a) properties for business use		
		b) non current assets undergoing disposal		
	C.7	Other decreases		
D.	**Closing balances**		**1,030**	**1,694**
E.	**Valued at fair value**		**1,030**	**1,694**

In the financial statements, the value of the land is separated from the company's property located in Milan (Via Vittor Pisani), based on the estimate of the company which appraised the property in 2000, assigning the land a value equating to 55% of the revalued historic cost recorded in the financial statements for the property (monetary revaluation as per Italian Law no. 342 dated 21 November 2000).

The value of the land for the property located in Rome (Via V. Veneto) has not been spun-off, since Ifitalia does not own the entire building.

10.7 Commitments to purchase tangible assets (IAS 16/74.c)

There were no amounts in this section.

Section 11 – Intangible assets – Item 110

11.1 Breakdown of item 110 "Intangible assets"

(thousands of €)

Items/Valuation	31/12/2017		31/12/2016	
	Assets valued at cost	Assets valued at fair value	Assets valued at cost	Assets valued at fair value
1. Goodwill	-	-	-	-
2. Other intangible assets:				
2.1 owned	**9,985**	-	**9,055**	-
- generated internally	1,834	-	1,679	-
- other	8,151	-	7,376	-
2.2 acquired under financial lease	-	-	-	-
Total 2	**9,985**	-	**9,055**	-
3. Assets pertaining to financial lease:				
3.1 unopted assets	-	-	-	-
3.2 assets withdrawn following termination	-	-	-	-
3.3 other assets	-	-	-	-
Total 3	-	-	-	-
4. Assets granted under operating lease				
Total (1+2+3+4)	**9,985**		**9,055**	
Total	**9,985**	**-**	**9,055**	**-**

The IT costs attributable to internal software development projects amount to EUR 1,834 thousand, generated entirely by Ifitalia resources. The intangible fixed assets also include "software licenses" for EUR 428 thousand (EUR 542 thousand in 2016) and "software development" for EUR 7,723 thousand (EUR 6,834 thousand in 2016), purchased from third-party suppliers.

11.2 Tangible assets: changes during the year

(thousands of €)

			Total
A.	**Opening balances**		**9,055**
B.	**Increases**		**3,115**
	B.1	Purchases	3,115
	B.2	Value writebacks	-
	B.3	Positive fair value changes	-
		- equity	-
		- income statement	-
	B.4	Other increases	-
C.	**Decreases**		**2,185**
	C.1	Sales	-
	C.2	Depreciation	2,185
	C.3	Value adjustments	-
		- equity	
		- income statement	-
	C.4	Negative fair value changes	-
		- equity	
		- income statement	
	C.5	Other decreases	-
D.	**Net closing balances**		**9,985**

The purchases during the year, amounting to EUR 3,115 thousand, refer to capitalisations of IT costs, of which EUR 598 thousand (496 thousand in 2016) referring to capitalisation of internal effort.

11.3 Intangible assets - other information

Nothing to report

Section 12 – Tax assets and tax liabilities

12.1 Breakdown of item 120 “Tax assets: current and prepaid”

(thousands of €)

	31/12/2017				31/12/2016			
	IRES	IRAP	other	total	IRES	IRAP	other	total
Current tax assets:								
- Tax advances	10,145	3,076		13,221	14,961	4,039	471	19,471
- Amounts withheld	12	-	-	12	30	-	-	30
- Tax credits pending rebate by the tax authorities	2,215	-	-	2,215	2,215	-	-	2,215
	12,372	**3,076**	**-**	**15,448**	**17,206**	**4,039**	**471**	**21,716**
Prepaid tax assets:								
- Writedowns of credits exceeding the deductible portion for the year	31,100	3,378	-	34,478	33,961	3,688	-	37,649
- Provisions for risks and charges	4,401	61	-	4,462	4,330	48	-	4,378
- Other	145	-	-	145	106	-	-	106
	35,646	**3,439**	**-**	**39,085**	**38,397**	**3,736**	**-**	**42,133**
Total	**48,018**	**6,515**	**-**	**54,533**	**55,603**	**7,775**	**471**	**63,849**

12.2 Breakdown of item 70 “Tax liabilities: current and deferred”

(thousands of €)

	31/12/2017			31/12/2016		
	IRES	IRAP	total	IRES	IRAP	total
Current tax liabilities:						
- Taxes for the year	9,393	2,500	11,893	11,133	3,673	14,806
	9,393	**2,500**	**11,893**	**11,133**	**3,673**	**14,806**
Deferred tax liabilities:						
- Amortisation/depreciation of tangible fixed assets	1,547	313	1,860	1,548	313	1,861
- Provision for employee termination benefits	223	24	247	278	-	278
- Tax writedowns of credits	-	-	-	-	-	-
	1,770	**337**	**2,107**	**1,826**	**313**	**2,139**
Total	**11,163**	**2,837**	**14,000**	**12,959**	**3,986**	**16,945**

12.3 Change in prepaid taxes (matching balance in income statement)

	31/12/2017	31/12/2016
1. Opening balance	**42,026**	**44,327**
2. Increases	**1,058**	**1,656**
2.1 Prepaid taxes recorded during the year	990	1,578
a) relating to previous years	-	-
b) due to change in accounting policies		
c) value writebacks		
d) other	990	1,578
2.2 New taxes or increases in tax rates		
2.3 Other increases	68	78
2.4 Other increases due to business combination		
3. Decreases	**4,144**	**3,957**
3.1 Prepaid taxes cancelled during the year	4,144	3,957
a) amounts reversed	4,144	3,957
b) writedowns due to non-recoverability		
c) due to change in accounting policies		
d) other	-	-
3.2 Reductions in tax rates		
3.3 Other decreases	-	-
a) transformation into tax credits pursuant to Law 214/2011		
b) other	-	-
4. Closing balance	**38,940**	**42,026**

Prepaid tax assets have been recorded in the financial statements based on the assumption that taxable income will be generated against which the deductible timing differences can be used.

The increase of EUR 1,058 thousand refers almost entirely to the provision to risks and charges for the year; the reduction of EUR 4,144 thousand relating to prepaid taxes cancelled during the year concerns the deductible portion of receivables (EUR 3,170 thousand) and the use of the risk and charges provisions (EUR 974 thousand).

12.3.1 Change in prepaid taxes pursuant to Law 214/2011 (matching balance in income statement)

(thousands of €)

	31/12/2017	31/12/2016
1. Opening balance	**37,648**	**39,656**
2. Increases	**-**	**-**
3. Decreases	**3,170**	**2,008**
3.1 Amounts reversed	3,170	2,008
3.2 Transformation into tax credits	-	-
a) from losses for the year		
b) from tax losses		
3.3 Other decreases	-	-
4. Closing balance	**34,478**	**37,648**

12.4 Changes in deferred taxes (matching balance in income statement)

(thousands of €)

		31/12/2017	31/12/2016
1.	**Opening balances**	**1,861**	**1,861**
2.	**Increases**	**-**	**-**
2.1	Deferred taxes recorded during the year	-	-
	a) relating to previous years	-	-
	b) due to change in accounting policies	-	-
	c) other	-	-
2.2	New taxes or increases in tax rates	-	-
2.3	Other increases	-	-
3.	**Decreases**	**1**	**-**
3.1	Deferred taxes cancelled during the year	-	-
	a) amounts reversed	-	-
	b) due to change in accounting policies	-	-
	c) other	-	-
3.2	Reductions in tax rates	-	-
3.3	Other decreases	1	-
4.	**Closing balance**	**1,860**	**1,861**

12.5 Changes in prepaid taxes (matching balance under equity)

(thousands of €)

		31/12/2017	31/12/2016
1.	**Opening balance**	**106**	**100**
2.	**Increases**	**39**	**6**
2.1	Prepaid taxes recorded during the year	39	6
	a) relating to previous years		
	b) due to change in accounting policies		
	c) other	39	6
2.2	New taxes or increases in tax rates		
2.3	Other increases		
3.	**Decreases**		
3.1	Prepaid taxes cancelled during the year		
	a) amounts reversed		
	b) writedowns due to non-recoverability		
	c) due to change in accounting policies		
	d) other		
3.2	Reductions in tax rates		
3.3	Other decreases		
4.	**Closing balance**	**145**	**106**

12.6 Changes in deferred taxes (matching balance under equity)

(thousands of €)

		31/12/2017	31/12/2016
1.	**Opening balance**	**278**	**55**
2.	**Increases**	**-**	**223**
2.1	Deferred taxes recorded during the year	-	223
	a) relating to previous years		
	b) due to change in accounting policies		
	c) other		223
2.2	New taxes or increases in tax rates		
2.3	Other increases		
3.	**Decreases**	**31**	**-**
3.1	Deferred taxes cancelled during the year	31	
	a) amounts reversed		
	b) due to change in accounting policies		
	c) other	31	
3.2	Reductions in tax rates		
3.3	Other decreases	-	-
4.	**Closing balance**	**247**	**278**

Section 14 – Other assets – Item 140

14.1 Breakdown of item 140 "Other assets"

(thousands of €)

	31/12/2017	31/12/2016
Guarantee deposits	9	10
Amounts receivable for supply of services/advance payments	88	152
Items in transit	43	12
Securities credited to customers subject to collection services awaiting collection from the bank	1,506	1,505
Other amounts receivable	12,600	12,730
Total	**14,246**	**14,409**

LIABILITIES

Section 1 – Payables – Item 10

1.1 Payables

(thousands of €)

Items	31/12/2017			31/12/2016		
	due to banks	due to financial institutions	due to customers	due to banks	due to financial institutions	due to customers
1. **Loans**	5,530,969	257,072	-	5,639,832	140,000	-
1.1. Reverse repurchase agreements						
1.2 other	5,530,969	257,072		5,639,832	140,000	
2. **Other payables**	500,530		290,491	801,896		254,807
Total	**6,031,499**	**257,072**	**290,491**	**6,441,728**	**140,000**	**254,807**
Fair value - level 1						
Fair value - level 2						
Fair value - level 3	6,031,499	257,072	290,491	6,441,728	140,000	254,807
Total fair value	**6,031,499**	**257,072**	**290,491**	**6,441,728**	**140,000**	**254,807**

Payables due to banks are almost entirely represented by the exposure to the Parent Company BNP Paribas. Other loans due to banks concern loans falling due. Other payables to customers concern the payables due to transferors for the portion of the fee not advanced relating to without recourse loans/receivables.

1.2 Subordinated payables

There were no amounts in this section.

Section 3 – Financial trading liabilities – Item 30

3.1 Breakdown of item 30 “Financial trading liabilities”

(thousands of €)

Liabilities	Total 31/12/2017					Total 31/12/2016				
	Fair Value			FV	NV	Fair Value			FV	NV
	L1	L2	L3			L1	L2	L3		
A. Cash liabilities	-	-	-	-	-	-	-	-	-	-
1. Payables										
3. Debt securities	-	-	-	-	-	-	-	-	-	-
- Bonds	-	-	-	-	-	-	-	-	-	-
- Structured										
- Other bonds										
- Other securities	-	-	-	-	-	-	-	-	-	-
- Structured										
- Other										
B. Derivatives	-	232	-	232	2,493	-	359	-	359	3,123
1. Financial derivatives	-	232	-	232	2,493	-	359	-	359	3,123
2. Loan derivatives										
Total	-	232	-	232	2,493	-	359	-	359	3,123

L1 = Level 1
L2 = Level 2
L3 = Level 3
NV = Nominal/notional value
Fv* = Fair value calculated excluding the changes on variation of the creditworthiness of the issuer with respect to the issue date.

3.2 “Financial trading liabilities”: Subordinated liabilities

There were no amounts in this section.

3.3 “Financial trading liabilities”: derivative financial instruments

(thousands of €)

Liabilities	Interest rates	Currencies	Investment securities	Other	Total 31/12/2017	Total 31/12/2016
1. Over the counter						
Financial derivatives						
- Fair value	232				232	359
- Notional value	2,493				2,493	3,123
Loan derivatives						
- Fair value					-	-
- Notional value					-	-
Total	232	-	-	-	232	359
2. Other						
Financial derivatives						
- Fair value						
- Notional value						
Loan derivatives						
- Fair value						
- Notional value						
Total	-	-	-	-	-	-
Total	**232**	**-**	**-**	**-**	**232**	**359**

Section 9 – Other liabilities – Item 90

9.1 Breakdown of item 90 “Other liabilities”

(thousands of €)

Description	Total 31/12/2017	Total 31/12/2016
Collections being registered	108,723	65,912
Amounts due to employees	1,030	1,345
Amounts due to the tax authorities	617	485
Amounts due to social security and welfare institutions	1,038	924
Payables and invoices to be received from suppliers and professionals	21,137	19,340
Liabilities due to transferors	5,636	6,633
Other payables	6,176	9,245
Advances from customers	28,971	26,371
Residual holiday entitlement fund	361	428
Expected loss for without-recourse credit risk recorded among commitments	1,531	1,527
Total	**175,220**	**132,209**

Section 10 − Provision for employee termination benefits − Item 100

10.1 “Provision for employee termination benefits”: changes during the year

(thousands of €)

		Total 31/12/2017	Total 31/12/2016
A.	**Opening balances**	**4,912**	**5,226**
B.	**Increases**	**185**	**73**
B.1	Provision for the year	43	51
B.2	Other increases	142	22
C.	**Decreases**	**357**	**387**
C.1	Payments made	343	372
C.2	Other decreases	14	15
D.	**Closing balances**	**4,740**	**4,912**

(*) The provision for employment termination benefits calculated in compliance with Article 2120 of the Italian Civil Code equals EUR 4,310,039 and represents the effective obligation towards employees. The allocation for the year is EUR 93,044.

10.2 Other information

11.2.1 Description of the provision and related risks

Employee termination benefits, disbursed by the employer to the employee when the employment relationship terminates, are one of the worker’s rights disciplined by Article 2120 of the Italian Civil Code and by Italian Laws no. 297/1982 and 296/2006. The provision has been recorded as a benefit subsequent to the employment relationship with defined benefits. The related liability is recorded in financial statements based on the amount to be paid to each employee and is valued using the actuarial method as a “defined benefit obligation”, taking into account future due dates when the financial disbursement will actually occur.

More specifically, Italian Law No. 296/2006 (2007 Budget Act) essentially states that the portion of employee termination benefits:

- accrued through the beginning of 2007 will remain in-house and must be disbursed to employees in accordance with statutory regulations, creating a liability to be recorded in the financial statements;
- accrued from the beginning of 2007 must, according to the employee’s choice: a) be transferred to supplementary welfare funds; or b) be transferred to the INPS Treasury Fund.

Therefore, the amount recorded under the item “Employee termination benefits” refers solely to the defined benefit obligations connected with the benefits accrued up to a specific date within the first half of 2007 which is different for every employee, valued by an independent actuary without applying the “pro-rata” of the service supplied. As a result, costs relating to future work provided are not considered for valuation purposes.

The current method for calculating employee termination benefits starts from the detailed situation, at the moment of entry, of each worker and envisages each year, for each individual worker up until his/her departure, the development of the provision due to:

1. the expected date of termination of the employment relationship, resignation, redundancy, death, inability to work or retirement (once the requirements have been met);
2. for each worker that remains within the workforce, potential requests for advance salary payments are also taken into account.

11.2.2 Changes during the year of net defined benefit liabilities (assets) and reimbursement rights

The change in the provision for employee termination benefits is shown in Section 11 "Employee termination benefits - Item 110 - table 11.1 “Employee termination benefits: annual changes”. The allocation for the year represents the change due to the passage of time and is equivalent to EUR 43 thousand.

The social security cost related to employment benefits, as illustrated above, is not set aside, but recorded directly in the income statement following the supplementary welfare reform, which provides for the allocation of accrued employee termination benefits to supplementary funds or the INPS Treasury Fund (Legislative Decree no. 252/2005 and Law no. 296/2006). The allocation for the year is recorded in the income statement under personnel costs.

11.2.3 Information on the fair value of assets serving the plan

Employee termination benefits are fully paid by the Company and there are no assets serving the plan.

11.2.4 Description of the principal actuarial assumptions

The liability recognised in the balance sheet is equal to the present value of the defined benefit obligations accrued as at 31 December 2017 estimated by an independent actuary.

The benefits owed by the Company were estimated based on developmental assumptions for the population of relevant personnel (forecast of length of employment with company, probability of early disbursements), in addition to the use of appropriate demographic and economic financial bases (mortality tables, monetary inflation). For 2017, the following parameters were used: discount rate of 0.8%; inflation rate of 1.7%; 2% salary increase; estimated employment duration of 12 years.

Section 11 – Provisions for risks and charges − Item 110

11.1 Breakdown of item 110 “Provisions for risks and charges”

(thousands of €)

	Total 31/12/2017	Total 31/12/2016
1. In-house pension funds		
2. Other provisions for risks and charges	13,577	12,724
2.1 legal disputes	6,981	7,684
2.2 revocation actions	2,948	3,631
2.3 personnel charges	3,647	1,409
Total	**13,577**	**12,724**

11.2 Changes during the year of item 110 “Provisions for risks and charges”

(thousands of €)

		Pension funds	Other	Total 31/12/2017	Total 31/12/2016
A.	**Opening balances**	-	12,724	12,724	12,835
B.	**Increases**	-	2,591	2,591	4,091
B.1	Provision for the year		2,588	2,588	3,848
B.2	Changes due to passage of time		3	3	57
B.3	Changes due to variation in discount rate			-	-
B.4	Other increases			-	523
C.	**Decreases**		1,738	1,738	4,202
C.1	Use during the year		1,738	1,738	3,206
C.2	Changes due to variation in discount rate				
C.3	Other decreases		-		1,333
D.	**Closing balances 31/12/2012**	-	13,577	13,577	12,724

Allocations for the year for other provisions included EUR 2 million for the incentive plan for the voluntary redundancy program.

Section 12 – Equity – Items 120, 130, 140 and 150

12.1 Breakdown of item 120 "Share capital"

(thousands of €)

Type	amount
1. Share capital	
1.1 Ordinary shares	55,900
1.2 Other shares	

The ordinary shares totalling 55,900,000 have been fully subscribed and paid up.

12.2 Breakdown of item 130 "Treasury shares"

There were no amounts in this section.

12.3 Breakdown of item 140 "Equity instruments"

There were no amounts in this section.

12.4 Breakdown of item 150 "Share premium reserve"

(thousands of €)

Type	amount
Share premium	
Share premium	61,799

The share capital and the share premium reserve have not changed with respect to 31 December 2016. Item 120, Share capital, now amounts to EUR 55,900 thousand and is made up of 55,900,000 shares with a par value of EUR 1 each

12.5 Other information

Breakdown and changes in item 160 "Reserves"

(thousands of €)

	Legal reserve	Statutory reserve	Other	Total
A. Opening balances	**11,180**	**471,723**	**11,573**	**494,476**
B. Increases	**-**	**45,214**	**-**	**45,214**
B.1 Allocations of profits	-	45,214	-	45,214
B.2 Other increases	-	-		0
C. Decreases	**-**	**-**	**-**	**0**
C.1 Uses	-	-	-	0
coverage of losses	-	-	-	0
distribution				0
transfer to capital				0
C.1 Other decreases	-	-	-	0
D. Closing balances	**11,180**	**516,937**	**11,573**	**539,690**

Breakdown and changes in item 170 "Valuation reserves"

(thousands of €)

	Available-for-sale financial assets	Tangible assets	Intangible assets	Hedging of financial flows	Special revaluation laws	Other	Total
A. Opening balances	**3,741**	**-**	**-**	**-**	**5,870**	**(912)**	**8,699**
B. Increases	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B.1 Positive fair value changes	-	-	-	-	-	-	-
B.2 Other increases	-	-	-	-	-	-	-
C. Decreases	**420**	**-**	**-**	**-**	**-**	**103**	**523**
C.1 Negative fair value changes	420						420
C.1 Other decreases	-	-	-	-	-	103	103
D. Closing balances	**3,322**	**-**	**-**	**-**	**5,870**	**(1,015)**	**8,176**

The "Other" column refers to defined benefit plans.

With regards to the provisions of Article 2427 no. 7-*bis* of the Italian Civil Code, the following table provides an analytical breakdown of equity items by origin, potential use and distributable nature. No use was made in the last three years.

(thousands of €)

Ifitalia S.p.A. - Financial Statements as at 31 December 2017

	Amount	Potential use		Amount available
Share capital	55,900	-		-
Capital reserve:				
Share premium reserve	61,799	A-B-C		61,799
Profit reserve:				
Legal reserve	11,180	B		
Statutory reserve	516,937	A-B-C		516,937
Other reserve:				
Stock options/Dspp/Freeshares reserve	102	A-B-C		102
FTA Reserve and Goodwill	10,442	A-B-C		10,442
Merger surplus	1,029	A-B-C		1,029
Valuation reserve	8,176	-	(1)	-
Profit for the year	34,200	A-B-C		34,200
Total	**699,765**	**-**		**624,509**
Non-distributable share	**75,256**			
Residual distributable share	**624,509**			**624,509**

Key:
A: share capital increase
B: coverage of losses
C: distribution to shareholders
(1) As provided for by art. 6 of Legislative Decree no. 38 of 28 February 2005, the valuation reserves formed in accordance
be distributed and are unavailable for allocation to capital, coverage of losses and the uses provided for by
articles 2350 third section, 2357 first section, 2358 third section, 2359-bis first section, 2342,2478-bis fourth section of the Italian

PART C – INFORMATION ON THE INCOME STATEMENT

Section 1 – Interest – Items 10 and 20

1.1 Breakdown of item 10 “Interest income and similar income”

(thousands of €)

Items/Technical forms	Debt securities	Loans	Other transactions	Total 31/12/2017	Total 31/12/2016
1. Financial assets held for trading				-	-
2. Financial assets at fair value					
3. Available-for-sale financial assets				-	-
4. Held-to-maturity financial assets				-	-
5. Receivables				-	-
5.1 Due from banks		159	388	547	735
5.2 Due from financial institutions		2,001		2,001	238
5.3 Due from customers		56,308	4,972	61,280	71,797
6. Other assets	X		-	-	-
7. Hedging derivatives	X	X		-	-
Total	**-**	**58,468**	**5,360**	**63,828**	**72,770**

As at 31 December 2017 interest (other than interest recognised under “value write-backs”) accrued during the year on positions classified as “impaired” at the reporting date came to EUR 3,885 thousand.

1.2 Interest and similar income: other information

The interest in item “5. Loans and receivables” essentially refers to interest accrued for factoring activities on payments, advances to transferors and on extensions granted to factored debtors.

1.3 Breakdown of item 20 “Interest expense and similar income expense”

(thousands of €)

Items/Technical forms	Loans	Debt	Other	Total 31/12/2017	Total 31/12/2016
1. Due to banks	4,052	X		4,052	482
2. Due to financial institutions	190	X		190	-
3. Due to customers	-	X		-	-
4. Securities issued	X			-	-
5. Financial liabilities held for trading				-	-
6. Financial liabilities at fair value				-	-
7. Other liabilities	X	X		-	-
8. Hedging derivatives	X	X		-	-
Total	**4,242**	**-**	**-**	**4,242**	**482**

The positive balance of interest on loans received is generated by interest income due at negative interest rates for EUR 7,756 thousand and interest expense for EUR 3,514 thousand, paid mainly on loans in foreign currency, medium/long-term loans, and for the securitisation transaction.

IFITALIA GRUPPO BNP PARIBAS

Section 2 – Commissions – Items 30 and 40

2.1 Breakdown of item 30 "Commission income"

(thousands of €)

Analysis	31/12/2017	31/12/2016
1. financial lease transactions		
2. factoring transactions	57,535	62,015
3. consumer credit	-	-
4. guarantees given	-	-
5. services:		
- fund management for third parties	-	-
- exchange brokerage	-	-
- distribution of products	-	-
- other	-	-
6. collection and payment services	-	-
7. servicing in securitisation transactions	-	-
8. other commission	-	-
Total	**57,535**	**62,015**

2.2 Breakdown of item 40 "Commission expense"

(thousands of €)

Detail/Sectors	31/12/2017	31/12/2016
1. guarantees received	1,085	966
2. distribution of services to third parties	-	-
3. collection and payment services	1,419	1,964
4. other commission	10,816	8,690
of which: brokerage	10,816	8,690
Total	**13,320**	**11,620**

Section 3 – Dividends and similar income – Item 50

3.1 Breakdown of item 50 "Dividends and similar income"

(thousands of €)

Items/Income	Total 31/12/2017		Total 31/12/2016	
	Dividends	Income from UCI units	Dividends	Income from UCI units
1. Financial assets held for trading	-	-	-	-
2. Available-for-sale financial assets	27	-	118	-
3. Financial assets at fair value	-	-	-	-
4. Investments		-		-
Total	**27**	**-**	**118**	**-**

Section 4 – Net trading profit (loss) – Item 60

4.1 Breakdown of item 60 “Net trading profit (loss)”

(thousands of €)

Analysis	Capital gains	Trading gains	Capital losses	Trading losses	Net result
1. Financial assets	**-**	**-**	**-**	**-**	**-**
1.1 Debt securities	-	-	-	-	-
1.2 Investment securities and UCI units	-	-	-	-	-
1.3 Loans	-	-	-	-	**-**
1.4 Other assets	-	-	-	-	**-**
2. Financial liabilities	**-**	**-**	**-**	**-**	**-**
2.1 Debt securities	-	-	-	-	-
2.2 Payables	-	-	-	-	**-**
2.3 Other liabilities	-	-	-	-	**-**
3. Other financial assets and liabilities: exchange rate differences	**-**	**-**	**(356)**	**-**	**(356)**
4. Financial derivatives	**126**	-			**126**
5. Derivatives on receivables	**-**	**-**			**-**
Total	**126**	**-**	**(356)**	**-**	**(230)**

SECTION 7 – Profit (loss) from the sale or repurchase – Item 90

7.1 Breakdown of item 90 "Profit (loss) from the sale or repurchase"

(thousands of €)

Transactions/Income components	31/12/2017			31/12/2016		
	Gains	Losses	Net result	Gains	Losses	Net result
1. Financial assets	**-**	**-**	**-**	**-**		
1.1 Receivables	-	-	-	-	-	-
1.2 Available-for-sale financial assets	-	-	-	-	**(1)**	**(1)**
1.3 Held-to-maturity financial assets	-	-	-	-	-	-
Total (1)		-	-		**(1)**	**(1)**
2. Financial liabilities	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Payables	-	-	-	-	-	-
2.2 Securities issued	-	-	-	-	-	-
Total (2)	**-**	**-**		**-**		
Total (1+2)	**-**	**-**	**-**	**-**		

Section 8 – Net value adjustments for impairment - Item 100

8.1 "Net value adjustments/write-backs for impairment of loans/receivables"

(thousands of €)

Transactions/Income components	Value adjustments		Value writebacks		Total 31/12/2017	Total 31/12/2016
	Specific	Portfolio	Specific	Portfolio		
1. Due from banks						
- for leasing						
- for factoring						
- other amounts receivable						
2. Due from financial institutions						
Impaired receivables acquired						
- for leasing						
- for factoring						
- other amounts receivable						
Other amounts receivable						
- for leasing						
- for factoring	(304)		1,069		765	3,420
- other amounts receivable						
3. Due from customers						
Impaired receivables acquired						
- for leasing						
- for factoring						
- for consumer credit						
- other amounts receivable						
Other amounts receivable						
- for leasing						
- for factoring	(29,059)	(1,810)	14,199		(16,670)	(17,378)
- for consumer credit						
- loans on pledge						
- other amounts receivable						
C. Total	**(29,363)**	**(1,810)**	**15,268**		**(15,905)**	**(13,958)**

8.2 "Net value adjustments/write-backs for impairment of available-for-sale financial assets"

There were no amounts in this section.

8.3 "Net value adjustments/write-backs for impairment of financial assets held to maturity"

There were no amounts in this section.

8.4 Breakdown of sub-item 100.b "Net value adjustments/write-backs for impairment of other financial transactions"

(thousands of €)

Transactions/Income components	Value adjustments		Value writebacks		TOTALE	TOTALE
	Specific	Portfolio	Specific	Portfolio	31/12/2017	31/12/2016
A. Guarantees given	(75)	(12)	83		**(4)**	**181**
B. Derivatives on receivables						
C. Commitments to grant funds						
D. Other transactions						
E. Total	**(75)**	**(12)**	**83**		**(4)**	**181**

Key
A= from interest
B= Other writebacks

Section 9 – Administrative expenses – Item 110

9.1 Breakdown of item 110.a "Personnel expenses"

(thousands of €)

Type of expense/Balances	31/12/2017	31/12/2016
1) Employees	**18,786**	**16,906**
a) wages and salaries	11,481	11,468
b) social security contributions	3,453	3,361
c) termination benefits		-
d) social security and welfare costs		-
e) provision for termination benefits	43	51
f) provisions for post-employment benefits and similar obligations:	438	449
- defined contribution	438	449
- defined benefit	-	-
g) payments to supplementary outside pension funds:	769	753
- defined contribution	769	753
- defined benefit	-	-
h) other expenses (net)	2,602	824
2) Other active employees	115	178
3) Directors and Statutory Auditors	147	149
4) Retired personnel		-
5) Expense recharges for employees seconded with other companies	(405)	(362)
6) Expense reimbursements for third-party employees seconded with other com	2,901	2,540
Total	**21,544**	**19,411**

9.2 Average number of employees by category

	31/12/2017	31/12/2016
Employees	**217**	**216**
a) Executives	7	7
b) 3rd and 4th level managers	79	81
b) 1st and 2nd level managers	41	41
d) Remaining employees	90	87
Other employees	**20**	**20**
Total	**237**	**236**

9.3 Breakdown of item 110.b “Other administrative expenses”

(thousands of €)

Type of expense/Balances	31/12/2017	31/12/2016
Indirect expenses and dues	**1,251**	**1,104**
Sundry services rendered by third parties	**8,340**	**7,773**
Sundry services rendered by third parties (IT)	7,970	7,290
Sundry services rendered by third parties (Internal Auditing)	370	483
Fees for professionals	**4,736**	**4,158**
Fees for consultancy	1,258	955
Fees for legal and notarial costs	2,623	1,940
Fees for debt collection	751	1,168
Compensation to independent Auditors	104	96
Costs relating to properties/furniture	**325**	**354**
Postal, printed matter, surveillance of premises and stock values	**1,611**	**1,779**
Management expenses GFCC	**476**	**506**
Advertising and entertainment	**196**	**248**
Searches and information	**1,411**	**1,334**
Other expenses	**7,418**	**7,378**
TOTAL	**25,764**	**24,633**

The compensation for services rendered by the audit company in 2017, net of VAT, is EUR 80,000.

Section 10 – Net value adjustments/write-backs on tangible assets – Item 120

10.1 Breakdown of item 120 “Net value adjustments/write-backs on tangible assets”

(thousands of €)

Asset/Income component	Depreciation	Value adjustments for impairment	Value writebacks	Net result
1. Assets for business use	**1,016**	**-**	**-**	**1,016**
1.1 owned	**1,016**	**-**	**-**	**1,016**
a) land	-	-	-	-
b) buildings	374	-	-	374
c) furniture	71	-	-	71
d) operating assets	571	-	-	571
e) other	-	-	-	-
1.2 acquired under financial lease		**-**	**-**	**-**
a) land	-	-	-	-
b) buildings	-	-	-	-
c) furniture	-	-	-	-
d) operating assets	-	-	-	-
e) other	-	-	-	-
2 Assets held for investment	**140**	**-**	**-**	**140**
2.1 owned	**140**	-	-	**140**
b) buildings	140	-	-	140
Total	**1,156**	**-**	**-**	**1,156**

Section 11 – Net value adjustments/write-backs on intangible assets – Item 130

11.1 Breakdown of item 130 "Net value adjustments/write-backs on intangible assets"

(thousands of €)

Items/Value adjustments and writebacks	Depreciation	Value adjustments for impairment (B)	Value writebacks	**Net result**
1. Goodwill	**-**	**-**	**-**	**-**
2. Other intangible assets	**2,185**	**-**	**-**	**2,185**
2.1 owned	2,185	-	-	2,185
2.2 acquired under financial lease	-	-	-	-
3. Assets pertaining to financial lease	**-**	**-**	**-**	**-**
4. Assets granted under operating lease	**-**	**-**	**-**	**-**
Total	**2,185**	**-**	**-**	**2,185**

Section 13 – Net provisions for risks and charges – Item 150

13.1 Breakdown of item 150 "Net provisions for risks and charges"

(thousands of €)

Analysis	Total 31/12/2017	Total 31/12/2016
PROVISIONS	**(350)**	**(3,848)**
Legal disputes	(350)	(3,848)
Revocation actions	(12)	
Pending disputes	(338)	(3,848)
Personnel charges		
Other provisions		
USES	**1,187**	
Legal disputes	*1,187*	
Revocation actions	683	
Pending disputes	504	
Personnel charges		
Other uses		
INTEREST FROM DISCOUNTING BACK	**(3)**	**(56)**
Legal disputes	(3)	(56)
Revocation actions		(13)
Pending disputes	(3)	(44)
Total	**834**	**(3,905)**

Section 14 – Other operating income and expenses – Item 160

14.1 Breakdown of item 160 "Other operating income"

(thousands of €)

Analysis	Total 31/12/2017	Total 31/12/2016
Other income		
Rental income	481	853
Other income	3,147	3,409
Other charges		
Losses for sundry causes	(81)	(622)
Other charges	(867)	(927)
Total	**2,680**	**2,713**

Section 17 – Income taxes for the year on current operations – Item 190

17.1 Breakdown of item 190 "Income taxes for the year on current operations"

(thousands of €)

	Income components/Balances	31/12/2017	31/12/2016
1.	Current taxes	(11,754)	(14,699)
2.	Changes in current taxes for previous years		171
3.	Reduction in current taxes for the year	-	-
3.bis	Reduction in current taxes for the year for tax credits of which under Law no. 214/2011	-	-
4.	Change in prepaid taxes	(3,086)	(2,301)
5.	Change in deferred taxes		
	Taxes for the year	**(14,840)**	**(16,829)**

17.2 Reconciliation between the theoretical tax liability and the effective tax liability in the financial statements

(thousands of €)

Analysis	IRES	IRAP
Economic result useful for calculating taxation	49,040	49,040
Permanent non-deductible differences	965	411
Permanent non-taxable differences	(5,773)	
Total taxable income	44,232	49,451
Theoretical tax rate	27.50%	5.55%
Theoretical tax liability/recovery	12,164	2,745
Other differences	(69)	
Effective tax liability as per financial statements	**12,095**	**2,745**

Section 19 – Income statement: other information

19.1 - Detailed breakdown of interest income and commission income

(thousands of €)

Transactions/Income components	Interest income			Commission income			Total	Total
	Banks	Financial institutions	Customers	Banks	Financial institutions	Customers	31/12/2017	31/12/2016
1. Financial leasing								
- property assets								
- movable assets								
- operating assets								
- intangible assets								
2. Factoring	***33***	***4,496***	***59,299***		***87***	***57,448***	**121,363**	**134,785**
- on current receivables	*33*	*4,496*	*56,268*		*87*	*56,949*	117,833	134,151
- on future receivables			*282*				282	359
- on receivables acquired definitely								
- on receivables acquired under nominal value								
- for other loans			*2,749*			*499*	3,248	275
3. Consumer credit								
- personal loans								
- targeted finance								
- loans on salaries								
4. Loans on pledge								
5. Guarantees and commitments								
- commercial								
- financial								
Total	**33**	**4,496**	**59,299**		**87**	**57,448**	**121,363**	**134,785**

19.2 - Other information

Nothing to report

PART D – OTHER INFORMATION

Section 1 – Specific references to transactions carried out

A. FINANCIAL LEASE
There were no amounts in this section.

B. FACTORING AND TRANSFER OF LOANS/RECEIVABLES

B.1 Gross and book values

B.1.1 Factoring transactions

(thousands of €)

	Items/Counterpart	31/12/2017			31/12/2016		
		Gross value	Value adjustments	Net value	Gross value	Value adjustments	Net value
1.	**Performing assets**	**6,455,074**	**5,565**	**6,449,509**	**6,596,120**	**3,756**	**6,592,364**
	- exposures to transferors (with recourse)	1,100,957	2,190	1,098,767	1,388,142	1,473	1,386,669
	- factoring of future receivables	29,211	-	29,211	20,813	-	20,813
	- other	1,071,746	2,190	1,069,556	1,367,329	1,473	1,365,856
	- exposures to transferred debtors transferors (without recourse)	5,354,117	3,375	5,350,742	5,207,978	2,283	5,205,695
2.	**Impaired assets**	**519,462**	**270,187**	**249,275**	**566,396**	**289,393**	**277,003**
2.1	**Non-performing**	**290,976**	**205,339**	**85,637**	**289,892**	**201,631**	88,261
	- exposures to transferors (with recourse)	180,121	113,373	66,748	180,292	105,071	75,221
	- factoring of future receivables	10,369	6,246	4,123	10,370	5,586	4,784
	- other	169,752	107,127	62,625	169,922	99,485	70,437
	- exposures to transferred debtors (without recourse)	110,855	91,966	18,889	109,600	96,560	13,040
	- purchases below nominal value	-	-	-	-	-	-
	- other	110,855	91,966	18,889	109,600	96,560	13,040
2.2	**Unlikely to pay**	**150,902**	**62,494**	**88,408**	**236,070**	**85,355**	**150,715**
	- exposures to transferors (with recourse)	89,200	36,012	53,188	107,245	40,196	67,049
	- factoring of future receivables	139	139	-	5,988	2,900	3,088
	- other	89,061	35,873	53,188	101,257	37,296	63,961
	- exposures to transferred debtors transferors (without recourse)	61,702	26,482	35,220	128,825	45,159	83,666
	- purchases below nominal value	-	-	-	-	-	-
	- other	61,702	26,482	35,220	128,825	45,159	83,666
2.4	**Past due positions**	**77,584**	**2,354**	**75,230**	**40,434**	**2,407**	**38,027**
	- exposures to transferors (with recourse)	26,970	47	26,923	3,958	71	3,887
	- factoring of future receivables	-	-	-	-	-	-
	- other	26,970	47	26,923	3,958	71	3,887
	- exposures to transferred debtors transferors (without recourse)	50,614	2,307	48,307	36,476	2,336	34,140
	- purchases below nominal value	-	-	-	-	-	-
	- other	50,614	2,307	48,307	36,476	2,336	34,140
	Total	**6,974,536**	**275,752**	**6,698,784**	**7,162,516**	**293,149**	**6,869,367**

B.1.2 Purchase transactions for impaired receivables other than factoring
There were no amounts in this section.

B.2 – Breakdown by residual life

B.2.1 – With recourse factoring transactions: advances and “total loans/receivables”

(thousands of €)

Maturity	Advances		Total loans/receivables	
	2017	2016	2017	2016
- on demand	299,823	359,016	2,689,006	2,487,063
- up to 3 months	482,226	711,906	4,403,482	4,463,833
- 3 to 6 months	108,066	184,157	1,028,458	964,813
- 6 months to 1 year	72,673	151,276	470,928	861,992
- beyond 1 year	282,838	126,471	441,294	470,750
- unspecified duration	-	-	-	-
Total	1,245,626	1,532,826	9,033,168	9,248,451

B.2.2 – Without recourse factoring transactions: exposures

(thousands of €)

Maturity	Exposures	
	2017	2016
- on demand	589,662	112,483
- up to 3 months	3,480,018	3,220,740
- 3 to 6 months	731,997	618,517
- 6 months to 1 year	254,831	692,002
- beyond 1 year	114,686	314,804
- unspecified duration	281,964	377,995
Total	5,453,158	5,336,541

B.2.3 – Purchase transactions for impaired receivables other than factoring

There were no amounts in this section.

B.3 – Changes in value adjustments

B.3.1 Factoring transactions

(thousands of €)

Item	Opening value adjustments	Increases				Decreases					Closing value adjustments
		Value adjustments	Losses from sale	Transfer from other status	Other positive changes	Value writebacks	Profits on disposal	Transfer to other status	Cancellations	Other negative changes	
Specific adjustments on impaired assets	**289,393**	**25,458**	**-**	**21,449**	**-**	**(11,397)**	**-**	**(21,449)**	**-**	**(33,267)**	**270,187**
Exposures to transferors	145,338	13,835	-	3,092	-	(7,405)	-	(3,092)	-	(2,336)	149,432
- Non-performing	105,071	10,577		3,092		(3,031)				(2,336)	113,373
- Unlikely to pay	40,196	3,258				(4,350)		(3,092)			36,012
- Past due positions	71					(24)					47
Exposures to transferred debtors	144,055	11,623	-	18,357	-	(3,992)	-	(18,357)	-	(30,931)	120,755
- Non-performing	96,560	6,452		18,357		(2,022)				(27,381)	91,966
- Unlikely to pay	45,159	5,171				(1,941)		(18,357)		(3,550)	26,482
- Past due positions	2,336					(29)					2,307
Portfolio on other assets	**3,756**	**1,809**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**5,565**
Exposures to transferors	1,473	717	-	-	-	-	-	-	-	-	2,190
Exposures to transferred debtors	2,283	1,092	-	-	-	-	-	-	-	-	3,375
Total	**293,149**	**27,267**	**-**	**21,449**	**-**	**(11,397)**	**-**	**(21,449)**	**-**	**(33,267)**	**275,752**

B.3.2 Purchase transactions for impaired receivables other than factoring
There were no amounts in this section.

B.4 – Other information

B.4.1 – Turnover of factored loans/receivables

(thousands of €)

Items	Totale 31/12/2017	Total 31/12/2016
1. ***Without-recourse transactions*** of which: purchases below the nominal value	25,756,946	24,792,757 -
2. ***With-recourse transactions***	3,532,110	3,974,763
Total	**29,289,056**	**28,767,520**

The table was drawn up in accordance with the standards illustrated in section A.2.3. “Loans/receivables – Classification”.

B.4.2 – Collection services

(thousands of €)

Item	Totale 31/12/2017	Total 31/12/2016
Loans and receivables collected in the year	482,817	366,426
Amount of loans and receivables at year end	157,440	129,108

B.4.3 – Nominal value of factoring contracts for future loans/receivables

(thousands of €)

Item	Totale 31/12/2017	Total 31/12/2016
Flow of factoring contracts for future in the year	278,366	253,040
Amount of the contracts at year end	467,688	397,175

D. GUARANTEES GIVEN AND COMMITMENTS

D.1 – Value of guarantees (secured or unsecured) given and commitments

(thousands of €)

	Transactions	Amount 31/12/2017	Amount 31/12/2016
1)	Financial guarantees given upon first request	**142,408**	**147,504**
	a) Banks	10,057	19,426
	b) Financial institutions	6	25
	c) Customers	132,345	128,053
2)	Other financial guarantees given	**-**	**-**
	a) Banks	-	-
	b) Financial institutions	-	-
	c) Customers	-	-
3)	Commercial guarantees given	**-**	**-**
	a) Banks	-	-
	b) Financial institutions	-	-
	c) Customers	-	-
4)	Irrevocable commitments to grant funds	**221,190**	**263,002**
	a) Banks	-	-
	i) certain to be called on	-	-
	ii) uncertain to be called on	-	-
	b) Financial institutions	-	-
	i) certain to be called on	-	-
	ii) uncertain to be called on	-	-
	c) Customers	221,190	263,002
	i) certain to be called on	-	-
	ii) uncertain to be called on	221,190	263,002
5)	Commitments underlying credit derivatives: protection sales	-	-
6)	Assets made to guarantee third party obligations	-	-
7)	Other irrevocable commitments	-	-
	Total	**363,598**	**410,506**

D.2 – Loans recorded in the financial statements due to enforcement

Exposures	31/12/2017			31/12/2016		
	Gross value	Value adjustments	Net value	Gross value	Value adjustments	Net value
1. Performing assets						
- from guarantees	**-**	**-**	**-**	**-**	**-**	**-**
- commercial						
- financial						
2. Impaired assets						
- from guarantees	**151.719**	**(109.094)**	**42.624**	**176.040**	**(131.365)**	**44.674**
- commercial						
- financial	151.719	(109.094)	42.624	176.040	(131.365)	44.674
Total	**151.719**	**(109.094)**	**42.624**	**176.040**	**(131.365)**	**44.674**

D.3 Guarantees given (secured or unsecured): status of risk undertaken and quality

(thousands of €)

Type of assumed risk	Not impaired guarantees given				Impaired guarantees given: non-performing				Other impaired guarantees			
	Counterguaranteed		Other		Counterguaranteed		Other		Counterguaranteed		Other	
	Gross value	Value adjustments	Gross value	Value adjustments	Gross value	Value adjustments	Gross value	Value adjustments	Gross value	Value adjustments	Gross value	Value adjustments
Guarantees given with assumption of risk of initial loss	-			-		-		-		-		-
- financial guarantees upon first request	-					-		-		-		
- other financial guarantees	-			-		-		-		-		-
- commercial guarantees	-			-		-		-		-		-
Guarantees given with assumption of mezzanine type risk	-			-		-		-		-		-
- financial guarantees upon first request	-			-		-		-		-		-
- other financial guarantees	-			-		-		-		-		-
- commercial guarantees	-			-		-		-		-		-
Pro rata guarantees given	-		141,935	(1,454)		-		-		-	473	(77)
- financial guarantees upon first request	-		141,935	(1,454)		-		-		-	473	(77)
- other financial guarantees	-		-	0		-		-		-	-	0
- commercial guarantees	-		-	0		-		-		-	-	0
Total	-		141,935	(1,454)		-		-		-	473	(77)

D.10 Changes in impaired guarantees given (secured or unsecured): other

(thousands of €)

Amount of the changes	Financial guarantees upon first request		Other financial guarantees		Commercial guarantees	
	Counterguaranteed	Other	Counterguaranteed	Other	Counterguaranteed	Other
(A) Initial gross value		**469**				
(B) Increases:	-	**514**	-	-	-	-
- transfers from performing guarantees	-	340	-	-	-	-
- transfers from other impaired guarantees	-		-	-	-	-
- other increases	-	174	-	-	-	-
(C) Decreases:	-	**(510)**	-	-	-	-
- outgoings to performing guarantees	-	(27)	-	-	-	-
- outgoings to other impaired guarantees	-	-	-	-	-	-
- enforcement	-		-	-	-	-
- other decreases	-	(483)	-	-	-	-
E. Other						
(D) Gross final value		**473**	-	-	-	-

D.11 Changes in unimpaired guarantees given (secured or unsecured)

(thousands of €)

Amount of the changes	Financial guarantees upon first request		Other financial guarantees		Commercial guarantees	
	Counterguaranteed	Other	Counterguaranteed	Other	Counterguaranteed	Other
(A) Initial gross value		**147,034**				
(B) Increases:	-	**58,000**	-	-	-	-
- Guarantees given	-	26,381	-	-	-	-
- other increases	-	31,619	-	-	-	-
(C) Decreases:	-	**(63,099)**	-	-	-	-
- guarantees not enforced	-		-	-	-	-
- transfers to impaired guarantees	-	(340)	-	-	-	-
- other decreases	-	(62,760)	-	-	-	-
(D) Gross final value	-	**141,935**				

D.15 Distribution of guarantees (secured or unsecured) given by sector of economic activities of the guaranteed debtors (amount guaranteed and underlying asset)

(euro thousand)

Type of risk assumed	Given guarantees with first loss risk-taking		Given guarantees with mezzanine risk-taking		Given guarantess pro-quota
	Amount guaranteed	Underlying asset	Amount guaranteed	Underlying asset	Amount guaranteed
- 'Subgroup 1: SAE 430 - Non financial companies - Production companies					108,257
- 'Subgroup 2: SAE 49a - Non financial companies - Others					272
- 'Subgroup 3: SAE 615 - Other producer households					3,690
- 'Subgroup 4: Others					30,189
Total					**142,408**

D.16 Geographic distribution of guarantees (secured or unsecured) given by region of residence of the guaranteed debtors (amount guaranteed and underlying asset)

(euro thousand)

Type of risk assumed	Given guarantees with first loss risk-taking		Given guarantees with mezzanine risk-taking		Given guarantess pro-quota
	Amount guaranteed	Underlying asset	Amount guaranteed	Underlying asset	Amount guaranteed
- 'Region 1 North-West Italy					43,732
- 'Region 2 Centre Italy					32,585
- 'Region 3 North-East Italy					42,297
- 'Region 4 South Italy and islands					21,283
- 'Region 5 Others					2,511
Total					**142,408**

Section 3 – Information on risks and related hedging policies

3.1 CREDIT RISK

QUALITATIVE INFORMATION

1. General aspects

Factoring activities involve numerous services which can be structured in various ways by means of the with- and without-recourse factoring of commercial loans and receivables.

A peculiar feature of factoring transactions is the correlated involvement for various reasons of three parties, which can be classified, in brief, as:

- The Factor (transferee);
- The Client (transferor);
- The Debtor (transferred party).

If observed from the standpoint of the underlying services, it is therefore a composite product, where the credit management, the guarantee of the debtor's solvency and the disbursement of advances on loans/receivables accepted under factoring can be combined in various ways.

Therefore, the risk assessment of factoring transactions must be carried out by means of preliminary analysis of numerous factors such as: the solvency of the transferred debtors, the degree of fragmentation of the risk, the characteristics of the underlying commercial relationship, the transferor's ability to repay – in the event of disbursement of advances – also in light of the figures of the Bank of Italy's Credit Reference Bureau and the financial statements, ratings – internal or ECAI - on the party and/or associated companies, connections or simple dependence on Groups, supply difficulties, technological innovation which could place a product out of the market, etc.

Clearly, these are appraisals which can only partly overlap with lending activities carried out by banks, indispensable for permitting an adequate control of the credit risk which partly expresses itself in aspects[1] not present in banking activities.

---

[1] Measurement of the asset risk: a wider concept of the measurement of creditworthiness of the individual debtors factored, since it refers to the interaction of the individual names within the factored portfolio, whose risk profile is determined by the concentration of the debtors and their domestic-export nature, the ageing, DSO and payments terms, payment methods, statistics on bad debt, etc.;

Measurements of the "factorability" risk, associated with the nature and the characteristics of the supply relationship being factored, which influences the tendency of the transferred receivables to self-liquidate, especially with reference to a hypothetical terminal phase of said relationship. This risk is appreciable from the analysis of the subject matter of the supply and the type of debtors involved, the invoicing process and the statistics relating to the invoices (number, amounts...), the contracts, etc.

Measurement of the concentration risk of the relationship, falls between the asset risk and the factorability risk, since in the factoring transaction one of the most significant risk mitigation factors is represented by the large number of commercial relationships with the parties granted credit which it is possible to place under observation and on which it is possible to intervene. In fact, adequate diversification not only permits the portfolio factored to "survive" the default of one or more debtors, but also contributes towards isolating and containing any problematic issues linked to the commercial transactions underlying the factored receivables and limits the impact of potential fraud.

Measurement of the facility risk, associated with the contractual and operating features of the factoring transaction which contribute to determining the related risk profile. It requires the assessment of the reason for the technical form proposed and the opinion on the ongoing operations (e.g., global transfer vs. spot transfer, confidential vs. disclosed, QN vs. recognition, invoice forwarding method, accompanying documents, dunning).

Where several products are offered and/or several transactions for which the client undertakes the dual role of transferor and transferred debtor, these situations may give rise - from a conceptual standpoint - to a correlation risk between the transactions, understood as the possibility of unexpected changes in the overall risk of the transaction due to correlation between the risks deriving from the characteristics of the various transactions offered to the customer (the latter being particularly complex to identify and quantify).

With regard to the provision of the above services, the factor may undertake the credit risks in different ways, which can be, in turn, broken down into certain elementary types:

- credit risk in the strictest sense, represented by the risk of loss due to default of the debtors[2];
- dilution risk is the risk that the amount of a receivable decreases through the granting of receivables, in cash or another form, in favour of the debtor;
- commingling risk, which emerges in loan/receivable acquisition transactions each time the funds due to the factor may be confused with those of the transferor;
- late payment risk, which may occur if the without-recourse guarantee is also extended to the payment by the debtor as at a pre-established date (so-called conventional expiry).

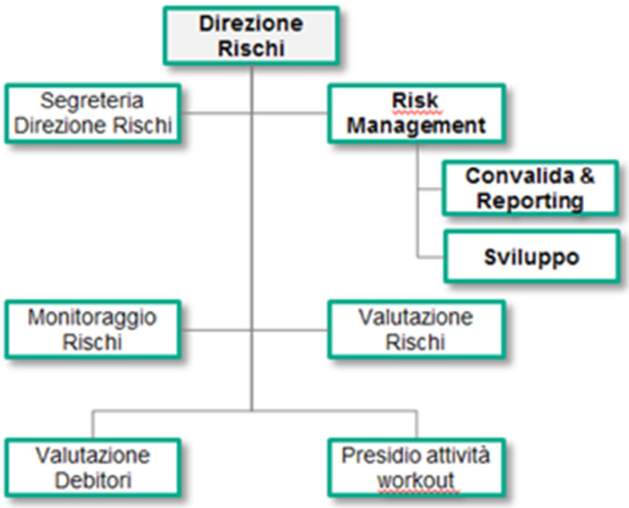
The internal control system set up by the company proposes to mitigate the manifestation of the above risks, which could lead to losses should they arise.

The planned progressive integration towards the Parent Company's credit risk control model, in addition to the scenario, in recent years, of exceptional macro-economic factors which have required and will require measures to be taken, including legislative, by the Regulators, who have facilitated the introduction of a gradual implementation of the credit risk control process.

2. Credit risk management policies

2.1 Organisational aspects

The Division's organisational structure is as follows:



The Head of the Risk Division, acting as pertinent risk control unit, is appointed by the Board of Directors, having consulted the audit body; he/she functionally reports to the Board of Directors and has a functional relationship with the Italy Risk Manager at Group level (Country Chief Risk Officer).

The Operational Risk Point of Contact functionally reports to the Head of the Risk Division, to whom he/she sends suitable information flows on pertinent risks, their recording and periodic monitoring and the mitigation actions implemented with the related Risk Owners.

[2] I.e., those with whom the factor has risks which must be discharged by those counterparties; therefore, these also include transferors for advances received.

The Permanent Controls are present in two units - in the Risk Manager's staff - and are carried out by the Risk Management Department and the Risk Monitoring Department. The Risk Division Office unit gathers together the secretarial activities, in the Risk Manager's staff. The remaining units of the Division are at line level.

Risk Division

- oversees the processes relating to the assumption of credit risk and ensures the maintenance of the customer portfolio quality over time in keeping with the corporate and BNP Paribas Group objectives and strategies.
- handles the doubtful positions, co-ordinating at BNP Paribas Group level.
- ensures constant monitoring of credit risks and those envisaged as part of the ICAAP process for the relevant areas of responsibility.
- ensures, in co-ordination with the competent BNP Paribas Group Units, the definition and maintenance of the methods and instruments aimed at identifying, measuring, assessing and handling the credit risks.

As a result of the outsourcing to Business Partner Italia S.C.p.A. of Workout activities, the Workout Activities Oversight Unit performs the role of Point of Contact for the Workout services outsourced (Problem asset management; Servicing on behalf of third parties and government authorities management; Revocation management, Lawsuit management of parties in Arrears Unlikely to Pay – Agreed Unlikely to Pay and Non-Performing statuses and of any positions subject to Complaints; Planning, operational management and monitoring).
The general mission is established by means of the Business Units indicated above, whose missions are summarised below.

Risk Division Office

- supports the Sales Division, the Risk Assessment and the Debtor Assessment service in handling the transferor and debtor approval procedures for the Credit Committee (Ordinary and Integrated sessions) and the Board of Directors. fulfils the obligations set forth by the Committee and forwards the documentation for which the opinion of the competent units of other entities of BNPP Paribas Group has been requested and performs any follow-up for the outcome, seeing to any changes set forth;
- oversees the preparation of the Default Committees as well as the Judgemental Impairment and Stock Session, supporting the Risk Manager in administering the resolutions taken by the Committee, receiving the opinion of BNL where required (allocations to risk provisions);
- handles the formalisation of risk measures, entering in the information system the results of the resolutions of the statistical rating override process (publication of the rating in TOR) and judgemental assignment of the rating, for the GRR process (CRF);
- oversees the process of publishing ratings in FIS attributed at the end of the quarter (SME Policy Performance) reported in the "flat" file licensed by Risk Assessment;
- handles requests from Val.DE. to enter data in the master file for foreign parties and enter limits in Mediana/FIS, directly or through the use of services, for the assessment of the corresponding risks by the appointed requesting units (Val.DE);
- manages the flow of requests from the potential clients resulting from approval of without-recourse Feasibility Reports (opinions), ensuring, directly or through the use of the service, the correct entry of the reports and the related assignment to the units assigned to assess the corresponding risks;
- handles the safekeeping of the documents acquired that support the approval process and decision-making activities (feasibility report);
- supervises the service relating to document archiving insofar as it is responsible;
- ensures for the approved limits, the control of the accuracy of the data entered in FIS, by comparing the data summarised in the table and 1) original resolutions received from the Debtor Assessment service, if paper-based, 2) with the PEF (electronic applications) extract produced, processed daily by DIT; manages the restrictive measures resolved for without-recourse risks (revocations/reductions), performing the related tasks (entry in FIS, etc.)
- ensures the adjustment of any errors detected in the FIS company information system relating to the processing of without-recourse limits.

Risk Monitoring Department

The purpose of the structure is to see to the definition, planning and implementation of controls aimed at monitoring credit risk. Specifically:
1) it defines, plans and implements credit control activities. In this area, the Department:

- conducts checks regarding the lending process and the management of the relationship and collections based on internal regulations;
- monitors the process and the merits of the assignment and revisions of ratings and reports periodic worsening in statistical ratings for the purpose of suitable management/review of the positions;
- makes sure that the facilities granted are regularly used with respect to the resolution reached at the time and the progression of the risk elements expressed by the development of the relationship;
- conducts controls on the process of allocating for impaired accounts; monitors the achievement of lending objectives in the activities of disbursement and management of lending positions, reporting any critical issue to the Divisions concerned;
- conducts checks regarding the lending process and the management of the relationship based on internal regulations;
- controls the consistency of the risk status classifications of the positions according to the guidelines of BNP Paribas Group and the Banking System, reporting any misalignment to the competent Divisions;

2) it ensures, working with the Business Lines, the effectiveness of the process of watchlist management, to define and implement the corrective actions on positions subject to systematic supervision;

3) it contributes, in line with the rules of the BNP Paribas Group and together with the competent Divisions, to the planning, application and maintenance of the procedures aimed at overseeing the credit risks;

4) it ensures a periodic flow of information towards BNL to allow the consolidation - at BNP Paribas Group level - of the data regarding credit monitoring;

5) it ensures that specific reports regarding the results of the control activities conducted and the corrective actions for the anomalies detected are prepared for the Top Management and/or the boards;

6) it reports any operational risk found as part of its permanent control activities to the Operational Risks Department and PCC.

The structure carries out these activities on a monthly or quarterly basis, based on the type of control to be conducted.

The activities are carried out based on the Operational Plan of Controls (OPC), which includes both controls on performance and on merits and correctness of form, broken down by type of process:

- Assumption and Review of credit risk;
- Credit risk management;
- Collection of impaired loans.

Risk Management Department

The organisational unit is divided up into two spheres with separate teams and responsibilities.
The Pillar 2 Product and Controls / Models Development Sphere sees to the activities associated with the development of the risk measures with regard to Ifitalia while, for the part developed by the BNL skill centre, it performs a support function for the implementation, application, applicative monitoring and periodic up-dating of said analysis as well as support for the issue of the regulations relating to its sphere.

This sphere's mission also includes the control on the Second Pillar risks, where considered significant by Senior Management, as well as the analysis with regard to the development on new products in terms of impact on the level of risk and support for the achievement insofar as it is responsible.
In conclusion, it works together with the Finance Division in the ICAAP process insofar as this fall under the responsibility of the Risk Division.

The Reporting and Models Validation Sphere, in co-ordination with the corresponding units of DR BNL,

- with regard to Model Validation, defines the validation guidelines for the credit risk models consistent with the guidelines of BNP Paribas Group, follows the development of analysis methods for the validation of the afore-mentioned models and performs the second-level validation/qualification (initial and periodic) of the local/central risk parameters for the purpose of checking the reliability of the results and the persistence of the coherence with the legislative requirements and the evolution of the reference market. It ensures the monitoring of performance and the accuracy of estimates produced by local models following the resolution of any critical aspects detected within its activities. A specific periodic disclosure is prepared to report on these activities to the Company's Governance and Control Bodies. In conclusion, it collaborates within the sphere of the above activities for the correct implementation of the algebra underlying the local estimation models with respect to the validated versions. Lastly, it oversees data quality control in the area of models, to the extent of its remit.
- with regard to reporting activities, it implements a control reporting system intended for Senior and Top Management on the performance of asset quality (e.g. changes in asset quality, shortcuts/excesses on LGD with respect to the coverages in NPL, changes in the distribution of EL by product/responsibility centre, significant changes in the granularity of the portfolio risk, analysis with focus on the change of significant sector risks, drafting of information sent to the Risk Policy Committees, etc.), provides the necessary disclosure support to management so that it can carry out its functions as part of the budgeting and periodic audit process (forecast), as well as disclosure support for the performance of the risk cost control activities carried out by management (Action Plan), performs second-level data quality controls for its area of responsibility on the internal rating system and on the information forwarded to central application software for calculating requirements, and, in conclusion, ensures its support for the consolidation process for the country risk limits of BNP Paribas in co-ordination with the Brussels GFCC.

Both the spheres of activities direct and collaborate with the IT Division, insofar as they are responsible, in relation to the development and maintenance of the databases necessary for the implementation of their analysis objectives.

<u>Risk Assessment</u>

- analyses the transferor and related with-recourse debtor approval procedures established by the Sales Division according to the methods envisaged by the "4Eyes" process, in particular:
- provides risk opinions on the without recourse debtor and transferor risks assessing the consistency with the lending policies of the Company and the BNP Paribas Group, as well as with the internal regulations in force;
- express a fairness opinion on the rating automatically calculated by the software as part of the transferor credit proposals;
- validates the changes in the without-recourse transferor and debtor ratings triggered by the override requests submitted by the Sales Division or the Debtor Assessment Department of the statistical ratings automatically assigned by the system (local models);
- validates the risk measures (rating and GRR) assigned in judgemental mode (central models) for both without-recourse transferors and debtors.
- supports the Default Committee in applying deviations from the Company Allocation Standards, expressing the Risk Opinion on the departure proposals put forward.

<u>Debtor Assessment</u>

- prepares and assesses without-recourse Debtor files and oversees the quality of these risks over time, in particular:

– resolves within the authorised limits or submits without-recourse risks to the competent bodies;

– assesses the consistency of the rating assigned by the software with the general risk profiles of the without-recourse Debtor, activating override processes, if necessary;
– formulates proposals for assigning risk measures (rating and GRR SU) in judgemental mode for without-recourse debtors and submits them for validation to the Risk Assessment Department.
– sees to, directly or via the use of services, the entry of the results of the resolutions relating to without-recourse limits and any reinsurance of the same in the Electronic Procedure or in the FIS company information system;
– manages, with the credit insurance companies, the requests for granting, renewal or revocation of the individual insurance coverage;
– sees to the review of outstanding without-recourse risks;
– manages the limits subordinated to the acquisition of accessory guarantees in co-ordination with the Management Division (responsibility of VAL.DE)
– examines the prepayment plans proposed or the requests for related extensions, submitting them to the competent bodies for authorisation;
– adopts restrictive measures aimed at safeguarding the risk undertaken by means of decreases, changes and revocations of without-recourse limits;
– handles the updates of the map of the Associated Customer Groups and their composition in a co-ordinated manner with the other company structures and the other entities of BNP Paribas Group;
– sees to the main without-recourse debtor risk concentration, including by assigning portions of Major Debtor Limits or Debtor Group Limits, entering in the FIS company information system the results of the related resolutions and carrying out the appropriate controls in observance of the limits approved;
– analyses the periodic downgrades of internal ratings of risks under its responsibility for case-by-case decisions;
- as part of managing counterparty risk:
– supports the Head of the Department in identifying new credit insurance policies or reviewing the ones in place;
– verifies the calculation and authorises the payment of the reassurance policy premiums, services provided by external providers, and information agencies;
– draws up suitable disclosure for the Owners with regard to the requirements of *pro tempore* policies in force so as to permit the correct operational handling; monitors the suitability of the CPAs resolved for foreign correspondents and insurance companies, handling the Annual Review process in collaboration with GFCC.

Workout Activities Unit

It oversees the Workout activities outsourced, periodically monitoring the observance of the service levels/execution times, the trend in the relationships with third parties, any problematic aspects emerging, and the identification of the appropriate solutions, and produces the related reporting.

This unit draws up the reporting on all disputes and revocation actions for parties managed by the Workout unit of BPI.

For “legal deeds”, it manages acceptance and activates the Workout unit of BPI for parties with the status Non-Performing – Arrears Unlikely to Pay – Agreed Unlikely to Pay.

It collects the proposals for reclassification of status of without-recourse transferors and debtors and submits them for the review and authorisation of the decision-making bodies, handling the entry in the company information system of the change of status resolved with regard to without-recourse debtors.

2.2 Management, Measurement and Control Systems

Internal Rating System (IRS)

The Ifitalia IRS, established in 2005, has undergone a progressive change which continued throughout 2016, as reported in relation to activities associated with the Basel 2 Programme. The Probability of Default (PD) models which apply to the Large Corporate, Small Mid Corporate and SME Retail segments adopt a methodology that is in line with Group standards for the portion locally implemented. The Large Corporate portion uses a process implemented by the parent company BNP Paribas and applied on a transnational basis to determine the value of the internal rating and the GRR (Global Recovery Rate=1-LGD).

All releases safeguard the principle of the uniqueness of the rating value by supplementing these values with those expressed by the BNP Paribas banking network, which are used, each time they are present, as a driver in the loan process. In line with the other entities of BNP Paribas Group, a single master scale is used to assess the one-year PD of counterparties included in the application scope of the models.

In addition to being a management control instrument and compliant with IFRS 9 requirements, the PD models in use were implemented as part of regulatory provisions to determine supervisory capital requirements, since our Company is a credit institution which plans to migrate to the internal rating application method using the advanced approach. The existing Ifitalia IRS is based on statistical models estimated by BNL and applied to our population. These consider, for their operation, pertinent financial, qualitative, and performance variables. The probabilities of default obtained are corrected to consider the influence of the economic cycle in a way to reduce its influence and cyclicality. The SME Retail part adopts estimation methodologies with the construction of HCR (Homogeneous Class of Risk) in line with the Group's standards.

The internal rating system as a whole is subject to a general governance process and a set of application rules that guarantee the utmost reliability over time of the process to estimate and input the risk measures and their correct application in company processes. LGD and Dilution were developed internally, with the support of the BNL competence centre.

The master scale adopted ranks the customers into 10 classes for the performing part and two classes for the default part, which includes past due, unlikely to pay and non-performing positions.

The risk managers and the principals of the approval process are allowed to request a review of the internal rating in accordance with a regulated process which entrusts the risk department with the authority to accept or refuse the related requests, each of which must be duly and promptly justified. The rating value is updated at the time the approval process begins and periodically, on the occurrence of specific events or at deadlines defined by the risk department.

The statuses expressed by the Parent Company on shared customers have direct effects on the internal classification, with particular reference to the various degrees of impairment. As regards other risk measures, which, together with the PD, make up the IRS, note that the Loss Given Default (LGD) is used in management reporting, particularly in reference to analyses highlighting the distribution of expected loss and consistency with coverage levels (shortcut/excess), as well as for IFRS 9 purposes.

Credit risk management policies

- Reporting

The reporting process drawn up by the Risk Management Dept. takes the form of periodic disclosure to the Risk Policy Committee (RPC)[3] of BNPP Paribas Group, Senior Management, and the first level of responsibility of business management, and contains, among other things, qualitative-quantitative information on portfolio risk and the level of sector concentration. In compliance with the credit policies expressed by the Group, periodic disclosure has also been prepared for the process Owners, with the aim of facilitating observance of the indicated limits and permitting periodic reporting. Additional reports are drawn up by the Risk Monitoring Dept. and intended for Senior Management – subject to discussion if necessary with the process Owners – with the aim of informing Senior Management on observance of certain

[3] Credit Policy Committee

aspects of the credit process deemed to be particularly critical, also in relation to the indications received from the Parent Company.

The reporting process will be subject to additional implementations due to the gradual expansion of the use of risk measures, which is currently underway, with an extension of use and improved visibility of aspects such as expected loss and RWAs on credit risk and dilution risk, etc.

- Delegation system

The system of lending powers systematically supplements the use of the rating in the credit authorisation process with depth in the structure for exercising the authorisation in relation to the expected loss levels.

The decision-making process, taking into account Ifitalia's merger within the BNP Paribas Group, has adopted the Group model.

This model entails the involvement of two organisation chains in the credit granting process: a "commercial chain[4]" and a "risk chain[5]". According to this process, all lending resolutions relating to the with-recourse transferor and debtor risk are made by the commercial chain, which avails itself of the support of a team of specialised credit risk analysts, who express credit opinions (so-called risk opinions) on the credit proposals developed.

By means of this constant and joint assessment of the transferor proposal, by the commercial chain and the risk chain, the credit process has been defined as "4 Eyes".
The 4 Eyes organisational process applies at every decision-making level, from the lowest (Zone) up to Head Office and, in the event of disagreement between the commercial opinion and the lending opinion, the concept of resolution escalation applies at all levels, on the basis of which the decision is referred to the higher decision-making body.

Resolution escalation applies each time the risk opinions express a more restrictive (or negative) lending opinion with respect to the proposed transaction and the decision-making body identified by the lending powers does not intend to comply with the risk opinion expressed.

With regard to the without-recourse debtor role, the Risk Division maintained the initial approval process and part of the decision-making activities as per the assigned powers.

For both the without-recourse debtor and transferor role, the power delegations take into account not only the absolute amounts but also the internal rating values expressed by the Group and by the internal rating system for the customers and debtors that are not shared.

The presence of insurance coverage on without-recourse debtor risk influences the lending process and the application of the delegation system.

In any event, the collective Decision-Making Bodies (Credit Committee and Board of Directors) are entrusted all the risks involving greater amounts, which are also subject to review by the Parent Company for the largest amounts or which, due to lender type, are reserved for the exclusive competence of the Board of Directors.

- Lending policies

The structure of the lending policies was implemented in 2017 with a set of "Specific Credit Policies" approved by the Board of Directors, which supplement the strategic guidelines formulated by the Parent Company's Risk Policy Committee (RPC) as regards specific local aspects, aimed at supporting and guiding the factoring activities at Group level.

[4] "Commercial chain" means the business units of the Sales Division tasked with initial approval/decision-making activities.
[5] "Risk chain" means the business units of the Risk Division tasked with credit risk assessment activities in the initial approval process.

The “Specific Credit Policies” concern aspects such as:

- coordination at Group level of the risk assumption methods, taking account of sector performance, default risk of the counterparty, and the aspects inherent in managing the relationship;
- methods of assumption and review of without-recourse debtor risk for specific brackets of amounts and segments;
- methods of assumption of transferor risk with regard to specific types of products and/or credit underlyings.

The implementation of strategies as well as the implementation of the “Specific Credit Policies” are subject to verification and reporting to the company governance bodies, according to specifically defined processes.

- Supervision of performing and past due loans/receivables

The systematic supervision system takes and adapts to the factoring context the “IPEG” and “Watch List” procedure already in use at BNL, known as “IFIPEG”.

“Systematic Supervision” is the set of management rules and processes for the individual risk positions of transferor and debtor counterparties, hereinafter referred to as “customers”, aimed at ensuring constant reporting and assessment of risk, the consequent classification and the timely and effective application of management strategies designed to minimise the impact from risk increase, with a view to preserving the quality of these credit assets. Anticipatory management is envisaged, both in Basel regulations and in Bank of Italy supervisory instructions, as one of the fundamental principles of prudential control, where the focus is on the need for banks and financial brokers to set up a suitable system of monitoring and reporting risk exposures, which also assesses the manner in which the changing risk profile of the institution could influence its capital requirements. These rules promote the constant strengthening of the ability to prospectively assess risk profiles, defining the following, *inter alia*:

- Measurement criteria based on “internal ratings" as the predictive nature of those models allows for the definition of guidelines for governing credit risk, for the purpose of early management of possible impairment of assets;
- The fundamental principles of prudential control, where the focus is on the need for banks and financial brokers to set up a suitable system of monitoring and reporting risk exposures, which also assesses the manner in which the changing risk profile of the institution could influence its capital requirements.

The Systematic Supervision process is organised into 3 pillars:

– **On-going classification of Customers**, by virtue of which the customer base must be permanently classified in relation to the current and forecast risk, making a distinction between low risk customers and high risk ones;

– **Focus on customers subject to increasing risk**, whose main objective is the early management of the deterioration of loan quality as well as its permanent and on-going monitoring;

– **Action plans**, focused on the reduction/reclassification of the risk vis-à-vis high risk customers.

These pillars are strictly linked to the Monitoring process, which constitutes the final phase of the broader process of Systematic Supervision and Monitoring. The Customer enters the Systematic Supervision process when:

- it is possible to apply a risk assessment and consequent management action to the same;
- a limit is granted or resolved or when an exposure emerges;
- the Customer is reclassified as performing or Restructured Unlikely to Pay, Automatic Unlikely to Pay, or Management Unlikely to Pay from a status of Arrears Unlikely to Pay, Non-Performing or Agreed Unlikely to Pay.

Conversely, the Customer leaves the process when:

- he/she no longer has dealings with Ifitalia;
- the position is classified as Arrears Unlikely to Pay, Non-Performing or Agreed Unlikely to Pay.

Positions which, due to the significance of the level of risk and/or performance or management anomalies detected, must be subject to specific monitoring, are classified as Watch List and periodically subject to examination by the Risk Monitoring Committee.

The Watchlist is broken down into:

- **Ordinary**: includes all positions in accounting status Performing, Past Due and those in accounting status Unlikely to Pay but defined as Automatic, Non-Arrears Unlikely to Pay without forborne flag in the management accounts, which have a counterparty risk higher than or equal to the threshold of EUR 200,000 and are marked red or orange.

- **Doubtful**: includes all positions in management status Management Unlikely to Pay, Restructured Unlikely to Pay or Automatic, Non-Arrears Unlikely to Pay with forborne flag, with counterparty risk >0 and/or transferor credit line and/or debtor credit limit.

The process is being fully reviewed as part of the process to implement the new IFIPEG 2.0 tool.

Organisation of the Committees

For the purpose of ensuring an integrated management of the processes, the Company has established an organisational structure which envisages the meeting of Committees where the relevant business units are occasionally called to provide their contribution through an integrated approach.

In particular:

Credit Committee

It decides on the granting of loans and authorises their disbursements, within the limits of the powers granted.

It expresses opinions regarding lending in line with the delegated powers and approves, upon the proposal of the General Manager and within the maximum limits established by the Board of Directors, the decision-making and administrative sub-delegation and use of the credit facilities, including registered by name, to be assigned to certain defined business roles.

The Credit Committee meets in "ordinary" and "integrated" sessions. In the "integrated" session, the Credit Committee resolves solely on granting loans that exceed the powers of the "ordinary" session, without prejudice to the powers reserved exclusively to the Board of Directors.

Non-Standard Product Validation Committee

It authorises all the “non-standard products”, understood as those which cannot be activated, marketed, controlled, handled or registered for reputational, accounting, tax-related, supervisory and risk and management control purposes, in accordance with current practices and legislation.

The Committee is responsible for assessing the impacts:

- on the measures and other components of risk and on the system of controls;
- on accounting and administrative processes/systems and on commercial, financial and supervisory reporting;
- on tax aspects;
- on legal and reputation aspects;
- on IT systems and/or infrastructure components;
- on distribution processes;
- on organisational aspects.

Risk Monitoring Committee

The Risk Monitoring Committee, consistent with the Group model, is an analysis and decision-making body which ensures the integrated supervision of significant risks, also with a view to valuation of the level of adequacy of the available capital.

This Committee is the venue in which business management discusses the valuation of risks carried out by the competent units and assesses the mitigation action proposed by the responsible units, individually or jointly.
Furthermore, the company control units share the results of the respective activities within said Committee.

The Committee therefore represents one of the main venues in which - for its areas of responsibility - control is exercised by the Risk Control Units, and represents a point of business synthesis which ensures a single view of risks.
The Committee is organised in multiple issue-based sessions, and its composition varies in relation to the issues handled in each session.
Specifically, the Committee is responsible for:

- examining the trends in impairment on the performing portfolio;
- validating the Operational Plans for Control of the risks, prepared by the responsible units, to be submitted for the approval of the Board of Directors;
- assessing the corrective action plans proposed by the competent units for the positions included on the watchlists, consistent with the processes defined at BNP Paribas Group level;
- directly downgrading, if necessary, the rating assigned to the customer;
- assessing the action/initiatives to mitigate risks and modify developmental trends in activities to contain risks and RWAs;
- providing a global and systematic vision of the situation within the sphere of the permanent control system and operational risk;
- analysing and acquiring collective decisions with regard to the permanent control system and operational risks;
- supporting the Business Continuity manager in reporting, sharing and validating the information and initiatives aimed at maintaining Business Continuity solutions;
- in implementation of the governance of Internal Rating System:
    - ensuring a joint examination on initial application, as well as in the subsequent evolutions of risk measures that are applied in the business;
    - ensuring a joint examination on initial application, as well as in the subsequent evolutions of the tools for using the risk measures to govern credit and dilution risk;
    - ensuring an integrated view of the results of data quality and data integrity controls relating to the use of the internal rating system;
- ensuring an integrated communication flow on significant risks: collecting and reviewing reports on trends in the adequacy of the available capital (ICAAP) and of the significant risks drawn up by the competent business units; communicating the outcome of the discussions to the BoD, formalised in specific reports;
- supervising, in an integrated manner, the current and forecast trend of the risk profile and the level of capital adequacy of the Company, assessing the action/initiatives to mitigate risks and modify developmental trends in activities to contain risks and the RWAs;
- ensuring the supervision of supplier risk so as to efficiently manage any issues deriving from the commercial dealings with suppliers, ensuring the quality and continuity of the related activities.

Default Committee

The Default Committee is the body that analyses and resolves on lending disputes and the collection or loss forecasts.

This Committee works through two internal sessions: ***Ordinary*** (assesses and resolves the reclassification of risks exceeding EUR 3 million from performing and non-performing, assesses any deviation from the global Past Due and Unlikely to Pay provision determined by the level of the past due positions (Automatic IPA/IP), assesses and resolves allocations to provisions for risk starting from EUR 600 thousand) and ***Stock*** (assesses the management activity of risk positions with the Debt Collection Dept. with financial exposure starting from EUR 3 million). Promptly reports its decisions to the Risk Division of BNL.

2.3 Techniques for mitigating credit risk

The mitigation of credit risk in the factoring transaction is essentially entrusted to an efficient and effective process for checking the ability of the debtor to pay the trade receivable acquired on maturity, which, since 2016 has been

increasingly accompanied by insurance on without-recourse debtor risk, previously contracted essentially on foreign transactions and for transactions with specific customers. This choice is consistent with the strategies implemented within the factoring hub of BNP Paribas Group, where normally the assumption of without-recourse debtor risk is accompanied by an insurance guarantee or a guarantee from a foreign correspondent.
The compliance of correspondents and insurers is subject to periodic assessment.

Nevertheless, as regards unsecured and secured guarantees, the Company has already organised itself, defining tasks and responsibilities inherent to the definition of:

- standard forms for the types of guarantees normally assumed;
- processes for gathering the subscription of guarantees;
- processes for the control, custody and registration of the guarantees.

The organisational and technological processes take into due account the necessary functional distinction which must be assigned among the party that defines the standard texts, the party that collects the guarantees, and the party that checks/holds/validates them.
The credit protection usually undertaken is unsecured (unfunded), while the use of secured (funded) credit protection instruments is typically associated with protection of already non-performing loans/receivables and, therefore – contrary to banking activities - is more of an exception than a usual risk mitigation instrument.

2.4 Non-performing loans/receivables in the scope of workout and collection process

The supervision of the collection process for impaired positions – other than past due and some of the unlikely to pay and restructured positions – is entrusted to the Workout Division of Business Partners Italia which, as mentioned previously, is an outsourced unit and followed internally by the Workout Activities Unit.

As part of this process, the Unit implements collection strategies which consider:

- the status of the position and counterparties resulting from the data in its possession at the time the documentation is received and subsequently acquired;
- the effective amount to be collected and economic advantages of possible actions to be carried out;
- the presence of any guarantee which can be usefully enforced.

In relation to the above, it periodically takes steps to formulate collection forecasts and to quantify the amount of provisions deemed adequate in light of the status of the position when the forecasts are formulated and each time there are new elements which allow to change it.

In relation to the unlikely to pay/non-performing positions with contained risk amounts, external servicers are used, whose activities and efficiency is accurately monitored.

The Group methodology, shared with BNL, was introduced in 2012 with regard to the definition of the scope of impaired receivables and the rules to quantify the provisions to the performing portfolio (known as Collective Write-down) and non-performing receivables (known as Global impairment and analytic impairment). The process for provisioning and status changeover is co-ordinated by the Default Committee referred to above.

Projects underway that will be realised as from 2018

The project entitled “Basel II Programme” to adopt the IRB Advanced approach for the calculation of the credit risk capital requirement has currently reached a very advanced stage and the application to the supervisory authority is expected during 2018. This project involved a significant evolution of processes and tools supporting the business divisions overseeing and governing credit and dilution risk.

With regard to dilution risk, a specific control framework was identified that pertains to the various phases of the credit process and is designed to maintain the amount of this risk within limits that are considered insignificant.

Along with these developments, a substantial intervention is envisaged for the scoring system already in place to extend its application as well as to increase its ability to classify even more selectively, consistent with the *pro tempore* risk objectives defined by the business.

QUANTITATIVE INFORMATION

1. Distribution of credit exposures by portfolio and loan quality (Book value)

(thousands of €)

Portfolios/quality	Non-performing	Unlikely to pay	Past due positions	Performing Past due positions	Other Assets	Total
1. Available-for sale financial assets						-
2. Held-to maturity financial assets					-	-
3. Due from banks	16	-	612	11,142	208,738	**220,508**
4. Due from customers	85,622	88,407	74,618	1,396,962	5,515,086	**7,160,695**
7. Financial assets at fair value						
8. Disposal financial assets	-					-
Total 31/12/17	85,638	88,407	75,230	1,408,104	5,723,824	7,381,203
Total 31/12/16	88,261	150,715	38,027	1,105,042	5,171,442	7,553,487

(migliaia di euro)

Portafogli/qualità	Attività di scarsa qualità creditizia	Altre attività	Totale
1. Attività finanziarie detenute per la negoziazione	-	-	-
2. Derivati di copertura	-	-	-
Totale 31/12/2017	-	-	-
Totale 31/12/2016	-	-	-

2. Credit exposures

2.1 Credit exposures to customers: gross and net values and maturity bracket

(thousands of €)

Exposure types/Balances	Gross exposure – Impaired assets – Up to 3 months	Gross exposure – Impaired assets – 3 to 6 months	Gross exposure – Impaired assets – 6 months to 1 year	Gross exposure – Impaired assets – beyond 1 year	Gross exposure – Performing assets	Specific value adjustments	Portfolio value adjustments	Net exposure
A CASH EXPOSURES								
a) Non-performing	6,170	805	653	281,637	X	(203,644)	X	85,621
-of which forborne exposures	1,860	-	-	15,084	X	(13,258)	X	3,686
b) Unlikely to pay	7,329	1,052	21,909	120,612	X	(62,494)	X	88,408
-of which forborne exposures	2,131	152	3,702	5,761	X	(4,129)	X	7,617
c) Past due positions	-	36,018	40,954	-	X	(2,354)	X	74,618
-of which forborne exposures	-	-	-	-	X	-	X	-
d) Performing Past due positions	X	X	X	X	1,396,962	X	(1,829)	1,395,133
-of which forborne exposures	X	X	X	X	-	X	-	-
e) Other Assets	X	X	X	X	5,520,652	X	(3,737)	5,516,915
-of which forborne exposures	X	X	X	X	538	X	(2)	536
TOTAL A	**13,499**	**37,875**	**63,516**	**402,249**	**6,917,614**	**(268,492)**	**(5,566)**	**7,160,695**
OFF BALANCE SHEET EXPOSURES								
a) Impaired assets	-	210	36	25,214	X	(77)	X	25,384
b) Performing assets	X	X	X	X	328,049	X	(1,454)	326,595
TOTAL B	**-**	**210**	**36**	**25,214**	**328,049**	**(77)**	**(1,454)**	**351,979**
TOTAL (A+)B	**13,499**	**38,085**	**63,552**	**427,463**	**7,245,663**	**(268,569)**	**(7,020)**	**7,512,674**

(thousands of €)

Credit exposures to customers - Performing assets	
Maturity	Performing Past due exposures
past due up to 3 months	1,068,961
past due 3 to 6 months	57,900
past due 6 months to 1 year	47,038
past due beyond 1 year	223,063
TOTAL	**1,396,962**

2.2 Credit exposures to banks and financial institutions: gross and net values and maturity bracket

(thousands of €)

Exposure types/Balances	Gross exposure					Specific value adjustments	Portfolio value	Net exposure
	Impaired assets				Performing assets			
	Up to 3 months	3 to 6 months	6 months to 1 year	beyond 1 year				
A. CASH EXPOSURES								
a) Non-performing	-	-	-	1,711	X	(1,695)	X	16
-of which forborne exposures	-	-	-	-	X	-	X	-
b) Unlikely to pay	-	-	-	-	X	-	X	-
-of which forborne exposures	-	-	-	-	X	-	X	-
c) Past due positions	-	-	612	-	X	-	X	612
-of which forborne exposures	-	-	-	-	X	-	X	-
d) Performing Past due positions	X	X	X	X	11,142	X		11,142
-of which forborne exposures	X	X	X	X	-	X		-
e) Other Assets	X	X	X	X	208,738	X		208,738
-of which forborne exposures	X	X	X	X	-	X		-
TOTAL A	**-**	**-**	**612**	**1,711**	**219,880**	**(1,695)**	**-**	**220,508**
B. OFF BALANCE SHEET EXPOSURES								
a) Impaired assets	-				X		X	-
b) Performing assets	X	X	X	X	10,088	X	-	10,088
TOTAL B	**-**	**-**	**-**	**-**	**10,088**	**-**	**-**	**10,088**
TOTAL (A+)B	**-**	**-**	**612**	**1,711**	**229,968**	**(1,695)**	**-**	**230,596**

2.3 Classification of exposures based on external and internal ratings

2.3.1 Distribution of cash and “off-balance sheet” credit exposures by external rating classes

(thousands of €)

Exposures	External rating classes						Without rating	Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
A. Cash exposures			**1,485,527**				**5,988,621**	**7,474,148**
B. Derivatives								**-**
B.1 Financial derivatives								**-**
B.2 Derivatives on receivables								**-**
C. Guarantees given			10,097				132,311	**142,408**
D. Commitments to grant funds							221,190	**221,190**
E. Other								**-**
TOTAL	**-**	**-**	**1,495,624**	**-**	**-**	**-**	**6,342,122**	**7,837,746**

For exposures belonging to the Central Administrations and Central Banks portfolio, public sector entities, and supervised intermediaries, Ifitalia uses the external ratings of the following ECAI:

	RISK CLASS	RATING	ITALY RATING 31/12/17
1 Standard & Poor's	3	da BBB+ a BBB-	BBB-
2 Moody's	3	da Baa1 a Baa3	Baa2
3 Fitch	3	da BBB+ a BBB-	BBB

2.3.2 Distribution of cash and "off-balance sheet" credit exposures by internal rating classes

The Company does not use internal ratings.

3. Lending concentration

3.1 Distribution of cash and off-balance sheet exposures by sector of economic activities of the counterparty

Cash exposures

(thousands of €)

Exposure types/Balances	Government authorities				Non-financial businesses				Banks and financial institutions			
	Gross exposure	Specific value adjustments	Portfolio value adjustments	Net exposure	Gross exposure	Specific value adjustments	Portfolio value adjustments	Net exposure	Gross exposure	Specific value adjustments	Portfolio value adjustments	Net exposure
A. Receivables												
A.1 Non-performing	11,767	(3,799)	X	**7,968**	267,510	(192,274)	X	**75,236**	1,711	(1,695)	X	**16**
-of which forborne exposures	1,860	(14)	X	**1,846**	14,094	(12,344)	X	**1,750**	-	-	X	**-**
A.2 Unlikely to pay	11,474	(19)	X	**11,455**	128,945	(57,087)	X	**71,858**	-	-	X	**-**
-of which forborne exposures	649	-	X	**649**	10,293	(3,784)	X	**6,509**	-	-	X	**-**
A.3 Past due positions	48,168	(2,000)	X	**46,168**	28,386	(300)	X	**28,086**	612	-	X	**612**
-of which forborne exposures	-	-	X	**-**	-	-	X	**-**	-	-	X	**-**
A.4 Other Assets	1,462,593	X	-	**1,462,593**	5,313,431	X	(5,508)	**5,307,923**	219,880	X	-	**219,880**
-of which forborne exposures	-	X	-	**-**	497	X	(2)	**495**	-	X	-	**-**
TOTAL	**1,534,002**	**(5,818)**	**-**	**1,528,184**	**5,738,272**	**(249,661)**	**(5,508)**	**5,483,103**	**222,203**	**(1,695)**	**-**	**220,508**

(thousands of €)

Exposure types/Balances	Households				Other parties				Total			
	Gross exposure	Specific value adjustments	Portfolio value adjustments	Net exposure	Gross exposure	Specific value adjustments	Portfolio value adjustments	Net exposure	Gross exposure	Specific value adjustments	Portfolio value adjustments	Net exposure
A. Receivables												
A.1 Non-performing	8,746	(7,420)	X	**1,326**	1,242	(151)	X	**1,091**	**290,976**	**(205,339)**	X	**85,637**
-of which forborne exposures	991	(899)	X	**92**	-	-	X	**-**	**16,945**	**(13,257)**	X	**3,688**
A.2 Unlikely to pay	8,051	(4,381)	X	**3,670**	2,432	(1,007)	X	**1,425**	**150,902**	**(62,494)**	X	**88,408**
-of which forborne exposures	803	(346)	X	**457**	-	-	X	**-**	**11,745**	**(4,130)**	X	**7,615**
A.3 Past due positions	274	(54)	X	**220**	144	-	X	**144**	**77,584**	**(2,354)**	X	**75,230**
-of which forborne exposures	-	-	X	**-**	-	-	X	**-**	**-**	**-**	X	**-**
A.4 Other Assets	126,809	X	(57)	**126,752**	14,780	X	-	**14,780**	**7,137,493**	X	**(5,565)**	**7,131,928**
-of which forborne exposures	41	X	-	**41**	-	X	-	**-**	**538**	X	**(2)**	**536**
TOTAL	**143,880**	**(11,855)**	**(57)**	**131,968**	**18,598**	**(1,158)**	**-**	**17,440**	**7,656,955**	**(270,187)**	**(5,565)**	**7,381,203**

Off balance sheet exposures

(thousands of €)

Exposure types/Balances	Government authorities				Non-financial businesses				Banks and financial institutions			
	Gross exposure	Specific value adjustments	Portfolio value adjustments	Net exposure	Gross exposure	Specific value adjustments	Portfolio value adjustments	Net exposure	Gross exposure	Specific value adjustments	Portfolio value adjustments	Net exposure
Guarantees given and commitments												
A.1 Non-performing			X	**-**	-		X	**-**			X	**-**
A.2 Unlikely to pay			X	**-**	25,184	(29)	X	**25,156**	-		X	**-**
A.3 Non Performing assets			X	**-**	222	(37)	X	**185**			X	**-**
A.4 Other assets	39	X		**39**	320,866	X	(214)	**320,652**	10,113	X		**10,113**
TOTAL	**39**	**-**	**-**	**39**	**346,272**	**(66)**	**(214)**	**345,992**	**10,113**	**-**	**-**	**10,113**

(thousands of €)

Exposure types/Balances	Households				Other parties				Total			
	Gross exposure	Specific value adjustments	Portfolio value adjustments	Net exposure	Gross exposure	Specific value adjustments	Portfolio value adjustments	Net exposure	Gross exposure	Specific value adjustments	Portfolio value adjustments	Net exposure
Guarantees given and commitments												**-**
A.1 Non-performing			X	**-**			X	**-**	**-**	**-**	X	**-**
A.2 Unlikely to pay	30	(7)	X	**23**			X	**-**	**25,214**	**(35)**	X	**25,179**
A.3 Non Performing assets	25	(5)	X	**20**			X	**-**	**247**	**(42)**	X	**205**
A.4 Other assets	6,996	X	(39)	**6,957**	122	X		**122**	**338,137**	X	(254)	**337,883**
TOTAL	**7,052**	**(12)**	**(39)**	**7,001**	**122**	**-**	**-**	**122**	**363,598**	**(77)**	**(254)**	**363,267**

3.2 Distribution of cash and off-balance sheet exposures by counterparty's geographic area

Cash exposures

(thousands of €)

	Geographic distribution					
	North-West	North-East	Centre	South and Islands	Other countries	Total
Receivables						
A.1 Non-performing	15,381	10,033	33,676	26,289	258	**85,637**
A.2 Unlikely to pay	22,210	5,898	27,359	27,907	5,034	**88,408**
A.3 Past due positions	4,439	718	36,277	24,156	9,640	**75,230**
A.4 Other assets	2,114,521	975,612	2,198,710	719,861	1,123,224	**7,131,928**
TOTAL A	**2,156,551**	**992,261**	**2,296,022**	**798,213**	**1,138,156**	**7,381,203**

Off balance sheet exposures

(thousands of €)

	Geographic distribution					
	North-West	North-East	Centre	South and Islands	Other countries	Total
Off balance sheet exposures						
A.1 Non-performing	-	-	-	-	-	
A.2 Unlikely to pay	25,018	9	99	89	-	**25,214**
A.3 Past due positions	70	29	6	142	-	**247**
A.4 Other assets	239,935	42,298	32,574	21,285	2,045	**338,137**
TOTAL B	**265,022**	**42,336**	**32,680**	**21,515**	**2,045**	**363,598**

3.3 Significant exposures

(thousands of €)

Significant exposures		Book value	Weighted value
a	Amount	2,390,966	1,027,866
b	Total number of shares	11	11

4. Models and other methods for gauging and handling the credit risk

The description of the models for gauging the credit risk is indicated in Section 3 - Credit Risk: Qualitative Information, in paragraph 2.2 "*Management, measurement and control systems*".

5. Other quantitative information

There were no amounts in this section.

3.2 MARKET RISK

3.2.1 INTEREST RATE RISK

QUALITATIVE INFORMATION

1. General aspects

The interest rate risk deriving from the timing mismatch between asset and liability items associated with funding and lending transactions is handled by the Finance Division.

As part of its core activities, due to company policy, funding reflects the same market parameters to which the structure of the loans is linked.

In consideration of the types of lending and funding which characterise Ifitalia's activities, the risk of a change in the market rates has a marginal impact on the value of assets and liabilities.

QUANTITATIVE INFORMATION

Given that all funding is currently provided to the company by the Parent Company, the mismatch by maturity bracket with respect to the amount of the funding is marginal as at 31 December 2017.

1. Distribution by residual maturity (re-pricing date) of financial assets and liabilities

Currency: euro *(thousands of €)*

Items/residual maturity	On demand	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	5 to 10 years	Beyond 10 years	Unspecified duration
1. Assets								
1.1 Debt securities								
1.2 Receivables	1,619,545	4,490,479	412,948	213,667	144,863	11,515		281,964
1.3 Other assets								5,921
2. Liabilities								
2.1 Payables	318,362	5,621,803	50,828	9,040	86,927			294,219
2.2 Securities issued								
2.3 Other liabilities								105,076
3. Financial derivatives								
Options								
3.1 Long positions								
3.2 Short positions								
Other derivatives								
3.1 Long positions								232
3.2 Short positions								

Other currencies *(thousands of €)*

Items/residual maturity	On demand	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	5 to 10 years	Beyond 10 years	Unspecified duration
1. Assets								
1.1 Debt securities								
1.2 Receivables	13,013	184,825	6,971	1,413	-	-	-	-
1.3 Other assets								
2. Liabilities								
2.1 Payables	137,011	41,947	18,926	-	-	-	-	
2.2 Securities issued								
2.3 Other liabilities								
3. Financial derivatives								
Options								
3.1 Long positions								
3.2 Short positions								
Other derivatives								
3.1 Long positions								
3.2 Short positions								

2. Models and other methods for gauging and handling the interest rate risk

The interest rate risk is monitored on a quarterly basis by the Financial Division – Treasury Dept. The model used by Ifitalia to monitor interest rate risk is that indicated in the provisions contained in Bank of Italy Circular no. 288, whose model is based on the principle of a 200 bp shock.
At the end of 2017, the portfolio's sensitivity to interest rate risk for Ifitalia amounted to EUR 7.9 million, equal to 1.8% of the supervisory capital, below the 20% threshold.

3. Other quantitative information on interest rate risk
There were no amounts in this section.

3.2.2 PRICE RISK
The Company does not purchase or sell financial instruments other than trade receivables and therefore is not exposed to the market risks associated with the price volatility of said instruments.

3.2.3 EXCHANGE RISK

QUALITATIVE INFORMATION

1. General aspects
Exchange risk is negligible within the scope of core business activities, since all assets acquired are consistently assisted by identical liabilities in the same currency and with the same duration features.

QUANTITATIVE INFORMATION

1. Distribution by currency of assets, liabilities and derivatives

(thousands of €)

Items	Currencies					
	US Dollars	GB Sterling	Yen	Canadian Dollars	Swiss Francs	Other currencies
1. Financial assets						
1.1 Debt securities						
1.2 Investment securities						
1.3 Receivables	168,337	14,455	-	-		36,243
1.4 Other financial assets						
2. Other assets						
3. Financial liabilities						
3.1 Payables	161,632	12,040				36,207
3.2 Debt securities						
3.3 Other financial liabilities						
4. Other liabilities						
5. Derivatives						
5.1 Long positions						
5.2 Short positions						
Total assets	168,337	14,455	-	-	-	36,243
Total liabilities	161,632	12,040	-	-	-	36,207
Imbalance (+/-)	6,705	2,415	-	-	-	36

2. Models and other methods for gauging and handling the exchange risk
As stated above, exchange risk is negligible, since all assets acquired are consistently assisted by identical liabilities in the same currency and with the same duration features.

3. Other quantitative information on exchange risk
There were no amounts in this section.

3.3 OPERATIONAL RISK

QUALITATIVE INFORMATION

1. General aspects, management processes and methods for gauging the operational risk

The Operational Risk Management Model adopted by Ifitalia is based on the logic and principles defined by the TSA Methodology (Traditional Standardised Approach) for calculating capital requirements; the Company was certified by Bank of Italy to use this Methodology in July 2010.

The main aspects of the entire operational risk management and control framework are described below in reference to 2017.

Organisational structure

The governance structure for Operational Risks is made up of **Governance Bodies** (Board of Directors, General Manager and Board of Statutory Auditors) and the following Divisions:

- **Operational Risks and Permanent Control Unit**, which has the task of enlivening and handling the entire Operational Risk Management Model in compliance with prudential supervisory instructions and consistent with the provisions of BNP Group. This Model involved the integrated management of "Operational Risks" and "Permanent Controls", so as to perform coordinated actions in this process, both in the phase of identifying and reporting operating losses as well as in the risk assessment, control, monitoring and mitigation stage, following the adoption of common metrics and gaugings.
  In the Unit, which is part of the General Manager's staff, the role of Operational Risk Point of Contact was identified, who reports hierarchically to the Head of the Unit and functionally to the Head of the Risk Division, with whom he/she coordinated to perform the activities on pertinent risks, on their reporting and periodic monitoring and the mitigation actions implemented in agreement with the related Risk Owners and to whom he/she sent suitable information flows. The Head of the Risk Division acted as the Operational Risk Correspondent and Coordinator of Permanent Controls for the Company.
  The staff of the Unit, who do not participate in specific operating activities of the other departments, were dedicated to executing Permanent Controls according to the formalities and the deadlines defined in the Plan of Controls and prepared "day by day" operational disclosure on the checks carried out, emerging issues, and any mitigation activities carried out. This information was sent to operational management, Heads of the relevant Units, and the Operational Risk Point of Contact.

Also in regard to 2017, the organisation was completed by:

- **Risk Monitoring Committee - Permanent Control Operational Risk Session**, in line with the Parent Company model, assured the coordination and oversight of the permanent control and operational risk system. The Committee was confirmed as responsible for:

  - approving the Operational Plans for Permanent Control of risks, prepared by the responsible divisions;
  - providing a global, organic vision of the permanent control and operational risk system;
  - analysing and acquiring collective decisions on the permanent control and operational risk framework;
  - generating an alarm and escalation level on recurring critical issues;
  - determining the involvement of operational units responsible for managing these issues and activating the monitoring of mitigating actions.

Committee meetings were attended by the Heads of the Company Divisions identified, for each session, in relation to the topics discussed and to their respective responsibilities. In addition, the Contact Persons for Essential Outsourced Services[6] and the relevant BNL SpA functions (Compliance and Risk Management Division) participated.

- **Finance Division,** which was responsible for ensuring that incidents generating a significant financial impact were appropriately reported in the Company's financial documents; this Division also worked with the Operational Risks and Permanent Control Unit to perform an accounting reconciliation of operating incidents. It was also responsible for calculating the capital requirements to be established in relation to the operational risks.

Lastly, on 20 December 2017, the Board of Directors resolved to transfer the Operational Risks and Permanent Control Unit to the **Operational Management Division**, assigning it as a "*first line of defence*", in accordance with the BNP Paribas Group model. On the same date, the Board of Directors assigned responsibility for overseeing and coordinating the Company's Operational Risks and Permanent Controls system ("*second line of defence*") to the Risk Division. The new organisational structure became effective on 1 February 2018.

Method

Management of operational risk, in the definition adopted by BNP Paribas, is based on an alignment of cause analysis (internal process or external fact), event (incident), and effect (risk of economic loss). In detail, the BNP Group has defined an incident as "every real or potential event deriving from the inadequacy or malfunctioning of internal processes or external events, which has, would have, or could generate a loss, a revenue or a lack of earnings". The frequency/impact analysis of historic incidents and their forecasted trend constitutes a fundamental element for developing the risk map.

The Operational Risk Management Model within Ifitalia concerns the following processes:

- **Loss Data Collection Process**: activities for the identification, entry, and registration of historic incidents of Operational Risk through input to the BNP FORECAST Group tool. The FORECAST (Full Operational Risk & Control Analysis System) management system is the IT platform used by the companies of BNP Paribas Group to record historic incidents, the related recognised, estimated, or potential losses, any amounts collected as a result of insurance or by other means that occur within the Group's organisations;

- **Risk Mapping Process**: valuation of the exposure to operational and non-compliance risks within Ifitalia; the mapping of the risks has been one of the qualifying elements for the adoption of the TSA model. It is essentially based on a self-assessment process to identify, classify, and measure in advance the risks which business operations are potentially exposed to and as such, is a managerial operating tool useful for planning the most appropriate mitigation measures for said risk;

- **Permanent Control Plan**: activation of permanent control procedures on areas at greatest operational risk identified in the Risk Mapping Process; the outcomes of the controls are reported through the Ve.Re.Co. (Control Reports) Group application;

- **Issue Resolution Activities**: adoption of suitable corrective measures in relation to the critical areas indicated, to ensure the efficiency of the company procedures and processes (in terms of integration, variation or support). These activities are carried out according to two different operating methods: definition of short-term corrective actions and structuring of medium/long-term action plans;

- **Reporting**: reporting activities ensures operational risk monitoring and enables the efficacy of controls and hedging procedures to be assessed. The main report produced, "Permanent Controls and Operational Risks Report", contains the outcomes of the permanent controls and the results of the Loss Data Collection process and management of potential incidents. A section of the report contains any mitigation action adopted and the related status of activities.

[6] Important Operating Functions pursuant to Bank of Italy Circular no. 288/2015.

QUANTITATIVE INFORMATION

Assessment of the main sources and nature of risk events

The breakdown by percentage of operational risk events recorded in 2017 according to the type of loss event (Event Type) defined by the Basel II Committee is provided below. In 2017, 25 risk events occurred, involving:

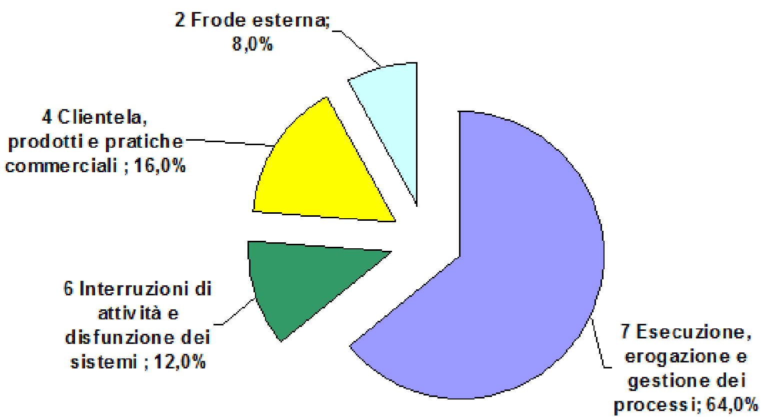
- **phenomena related to process execution, delivery and management (ET 7)**: these events are due to deficiencies in the completion of the transaction or in the management of processes, as well as events deriving from transactions with commercial counterparties (sellers and suppliers); these events constitute the main source of operational risk, as they account for 64% of the total number of events recorded in 2017 (versus 70.8% in 2016);

- **phenomena related to interruptions of activities and system malfunctions (ET 6)**: these events derive from activity interruptions or from system malfunctions; they represent 12% of the total events recorded in 2017 (compared to 8.3% in 2016);

- **phenomena related to customers, products and business practices (ET 4)**: these are events deriving from breaches of professional obligations to customers or from the nature or characteristics of the product or of the service rendered; such phenomena are mainly represented by revocation actions and lawsuits, which account for 16% of the total events occurred in 2017 (versus 12.5% in 2016);

- **phenomena related to external frauds (ET 2)**: these are events due to fraud, embezzlement or violation of laws by persons outside the Company and account for 8% of the total events in 2017 (versus 4.2% in 2016).

Percentage composition by each type of event:



3.4 LIQUIDITY RISK

QUALITATIVE INFORMATION

1. General aspects, management processes and methods for gauging the liquidity risk

The policies for managing liquidity risk, i.e. the ability to fulfil, at any time, one's payment obligations at the set due dates, are an expression of the strategy defined by the Parent Company BNP Paribas, which is essentially based on centralised liquidity management for all Group companies.

QUANTITATIVE INFORMATION

1. Time distribution by residual maturity of financial assets and liabilities - Euro

Euro *(thousands of €)*

	Items/Timeframe	On demand	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Beyond 5 years	Unspecified duration
	Cash assets										
A.1	Government bonds										
A.2	Other debt securities										
A.3	Loans	1,559,429	-	-	1,607,444	2,201,424	809,315	321,435	323,749	70,222	281,964
A.4	Other assets										5,921
	Cash liabilities										
B.1	Deposits and current accounts										
	- Banks	268,763	890,325	957,025	1,427,753	726,060	421,066	1,309,040	86,927		294,219
	- Financial institutions										
	- Customers										105,075
B.2	Debt securities										
B.3	Other liabilities										
	Off balance sheet transactions										
C.1	Financial derivatives with capital exchange										
	- Long positions										
	- Short positions										
C.2	Financial derivatives without capital exchange										
	Long positions									232	
	Short positions										
C.3	Deposits and loans to be received										
	- Long positions										
	- Short positions										
C.4	Irrevocable commitments to grant funds										
	- Long positions										
	- Short positions	-	-	-	-	-	-	-	-		
C.5.	Financial guarantees given	-	-	-	-	-	-	-	-		-

1. Time distribution by residual maturity of financial assets and liabilities – Other currencies

Other currencies *(thousands of €)*

	Items/Timeframe	On demand	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Beyond 5 years	Unspecified duration
	Cash assets										
A.1	Government bonds										
A.2	Other debt securities										
A.3	Loans	12,474			47,346	106,030	30,748	6,070	3,553		
A.4	Other assets										
	Cash liabilities										
B.1	Deposits and current accounts										
	- Banks	137,011		24,568	10,106	7,273	18,926				
	- Financial institutions										
	- Customers										
B.2	Debt securities										
B.3	Other liabilities										
	Off balance sheet transactions										
C.1	Financial derivatives with capital exchange										
	- Long positions										
	- Short positions										
C.2	Financial derivatives without capital exchange										
	Long positions										
	Short positions										
C.3	Deposits and loans to be received										
	- Long positions										
	- Short positions										
C.4	Irrevocable commitments to grant funds										
	- Long positions										
	- Short positions										
C.5.	Financial guarantees given	-			-	-	-				-

SECTION 4 EQUITY INFORMATION

4. 1 Company equity

4.1.1 Qualitative information

The Company's equity is made up of the aggregation of share capital, share premium reserve, reserves, valuation reserves and profit for the period.
For supervisory purposes, the capital aggregate significant for this purpose is determined based on the current provisions envisaged by the Bank of Italy and represents the reference oversight for prudential supervisory provisions.
In accordance with said provisions, the Company is obliged to maintain a comprehensive capital requirement, which is calculated as the sum of the requirements relating to the single risk types (so-called "building block").

4.1.2 Quantitative information

4.1.2.1 Company equity: breakdown

The Company's equity as at 31 December 2017 amounted to EUR 699,766 thousand.

(thousands of €)

Items/Balances	2017	2016
1. Share capital	55,900	55,900
2. Share premium	61,799	61,799
3. Reserves	539,690	494,476
- profit	528,117	482,903
a) legal reserve	11,180	11,180
b) statutory reserve	516,937	471,723
c) treasury shares		
d) other		
- other	11,573	11,573
4. (Treasury shares)	-	-
5. Valuation reserves	8,177	8,699
- Available-for-sale financial assets	3,322	3,741
- Tangible assets	-	-
- Intangible assets	-	-
- Foreign investment hedging	-	-
- Hedging of financial flows		
- Exchange rate differences	-	-
- Non current assets undergoing disposal	-	-
- Special revaluation laws	5,870	5,870
- Actuarial gains (losses) relating to defined benefit welfare plans	(1,015)	(912)
- Portion of the valuation reserves related to equity investments valued at equity	-	-
6. Equity instruments		
7. Profit (loss) for the year	34,200	45,214
Total	**699,766**	**666,088**

Information about the Company's equity components is indicated in Part B - Section 12 of these notes to the accounts.

4.1.2.2 Reserves from valuation of the available-for-sale financial assets: breakdown

(thousands of €)

Items/Balances	2017		2016	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1 Debt securities	-	-	-	-
2 Equity investments	3,322	-	3,741	-
3 UCI units	-	-	-	-
4 Loans	-	-	-	-
Total	**3,322**	**-**	**3,741**	**-**

4.1.2.3 Reserves from valuation of the available-for-sale financial assets: changes during the year

(thousands of €)

		Debt securities	Equity investments	UCI units	Loans
1.	**Opening balances**	**-**	**3,741**	**-**	**-**
2.	**Increases**	**-**	**-**	**-**	**-**
2.1	Positive fair value changes	-	-	-	-
2.2		-	-	-	-
			-	-	-
		-	-	-	-
2.3	Other increases	-	-	-	-
3.	**Decreases**	**-**	**(420)**	**-**	**-**
3.1	Negative fair value changes	-	(420)		-
3.2			-		-
3.3		-	-		-
3.4	Other decreases	-	-		-
4.	**Closing balances**	**-**	**3,322**	**-**	**-**

4.2 Own Funds and supervisory ratios

4.2.1 Own Funds

With the recent reform of Title V of the Consolidated Banking Law, which came into force on 11 July 2015, financial intermediaries are authorised by the Bank of Italy to carry out lending activities under any form and enrolled in the specific register envisaged by Article 106 of the CBL (so-called “consolidated register”, as amended by Italian Legislative Decree no. 141/2010).
These intermediaries are subject to a prudential supervisory regime equivalent to that of the banks, aimed at pursuing objectives of financial stability and safeguarding sound and prudent management, structured according to the principle of proportionality, so as to take into account the operational, size-related and organisational complexity of the operators as well as the nature of the activities carried out.

That being said, in October 2015 the company submitted the application for authorisation for registration in the consolidated register, and once the transitional period envisaged (12 May 2016) passed, those reforms became operational.
The quantitative information on supervisory capital and risk assets presented below has been calculated based on instructions issued to take into account the application of IAS/IFRS accounting standards (“Prudential Filters” discipline).

4.2.1.1 Qualitative information

On 1 January 2014, the revision of the agreements of the Basel Committee (“Basel 3”) pertaining to strengthening the capacity of brokers to absorb the shocks deriving from financial tension and improving risk management and governance became operational. For this purpose, in maintaining the method based on the Three Pillars which was the foundation of the previous capital accord (“Basel 2”), the Committee supplemented it to increase the quantitative and qualitative characteristics of capital requirements, introduce anti-cyclical supervisory instruments, and regulations on liquidity risk and reducing leverage.

"Basel 3" was adopted through the issue of Regulation EU no. 575/2013 of 26 June 2013 (CRR), which governs prudential requirements for credit institutions and investment firms and disclosure to the public, and Directive 2013/36/EU of 26 June 2013 (CRD IV), which regards, *inter alia*, conditions for access to banking activity, the freedom of establishment and the freedom to provide services, the prudential control processes and additional capital reserves.

These provisions are supplemented at national level with those issued by the Bank of Italy with Circular no. 288 of 3 April 2015, which combines the prudential supervisory provisions applicable to financial brokers enrolled in the register set out in Article 106 of the consolidation act of the banking and lending laws (TUB). The main objectives of those provisions, in addition to ensuring risk measurement and capital that is strictly commensurate with their degree of exposure, include the creation for financial brokers of a supervisory regime featuring prudential requirements that are comparable in terms of robustness to those of banks, as amended since 1 January 2014 by the aforementioned CRD IV Directive and CRR Regulation, by extending banking regulations to brokers in order to strengthen the sound and prudent management and the stability of the financial sector as a whole.

The new regulatory structure requires that Own Funds (or Regulatory Capital) be comprised of the following levels of capital:
1. Tier 1 Capital, which, in turn, is composed of:
   - Common Equity Tier 1 (CET1);
   - Additional Tier 1 (AT1);
2. Tier 2 Capital (T2).

The new regulatory framework will be introduced gradually, through a transitional period (which orders the progressive entry into force of the rules, to be fully implemented in 2019 (2022 for the phase-out of certain instruments), during which some elements which can be calculated in or deducted fully from Common Equity on full application will impact Common Equity Tier 1 only by a percentage. Usually the residual percentage in relation to that applicable can be calculated in/deducted from Additional Tier 1 (AT1) and Tier 2 (T2) or considered in risk-weighted assets.

4.2.1.2 Quantitative information

(thousands of €)

	Totale al 31/12/2017	Totale al 31/12/2016
A. Tier 1 capital ((Common Equity Tier 1) before application of prudential filters	655,580	611,818
Of which Tier 1 instruments are subject to transitional provisions	-	-
B. Prudential filters applied to tier 1 capital :	-	-
C. Tier 1 capital gross of elements to be deducted and the effects of the transitional regime (A+B)	655,580	611,818
D. Elements to be deducted from Tier 1 capital	-	-
E. Transitional regime - impact Tier 1 capital	(277)	(977)
F. Tier 1 capital (Common Equity Tier 1 (C - D +/- E)	655,303	610,841
G. Additional Tier 1 capital (Additional Tier 1 - AT1) of elements to be deducted and the effects of the transitional regime	-	-
Of which AT1 instruments are subject to transitional provisions	-	-
H. Elements to be deducted of AT1	-	-
I. Transitional regime - impact of AT1 (+/-)	-	-
L. Additional Tier 1 capital (Additional Tier 1 - AT1) (G - H +/- I)	-	-
Total Tier 1 (Tier 1) (F+L)	655,303	610,841
M. Tier 2 capital gross of elements to be deducted and the effects of the transitional regime	-	-
Of which T2 instruments are subject to transitional provisions	-	-
N.Elements to be deducted of T2	-	-
O. Transitional regime - impact of T2 (+/-)	332	748
P. Total Tier 2 (Tier 2 - T2) (M - N +/- O)	332	748
Q. Total Capital (F + L + P)	655,635	611,589

4.2.2 Capital adequacy

4.2.2.1 Qualitative information

Within the Company, the Finance Division carries out constant monitoring of the evolution of the aggregate useful for supervisory purposes with respect to the performance of the various risk profiles for the purpose of achieving an adequate balance in the overall structure, taking into account an effective composition between the components of Own Funds.

4.2.2.2 Quantitative information

The elements indicated above are subject to the following limits:
– Common Equity Tier 1 must be equal, at all times, to at least 4.5% of risk-weighted assets;
– Total Regulatory Capital (or Own Funds), equal to Tier 1 Capital plus Tier 2 Capital must be equal, at all times, to at least 6% of risk-weighted assets.

As at 31 December 2017, the company's capitalisation level was in line with the requirements:

- CET 1 and Tier 1 capital ratios equal 9.12%;
- Total capital ratio came to 9.13%.

(thousands of €)

Categories/Balances	Unweighted amounts		Weighted amounts / requirements	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
A. RISK ASSETS				
A.1 Credit and counterpart risk	**7,680,296**	**7,905,855**	**6,453,803**	**6,760,540**
1. Standardised method	7,680,296	7,905,855	6,453,803	6,760,540
2. Method based on internal ratings	-	-	-	-
2.1 Basic	-	-	-	-
2.2 Advanced	-	-	-	-
3. Securitisation	-	-	-	-
B. SUPERVISORY CAPITAL REQUIREMENTS				
B.1 Credit and counterpart risk			**387,383**	**405,632**
B.2 Adjusting the credit rating risk				
B.3 Regulation risk				
B.4 Market Risk			**-**	**-**
1. Standard method			-	-
2. Internal models			-	-
3. Concentration risk			-	-
B.5 Operating risk			**17,162**	**19,800**
1. Basic method			-	-
2. Standardised method			17,162	19,800
3. Advanced method			-	-
B.6 Other prudential requirements			**26,562**	**34,749**
B.7 Other elements of the calculation			**-**	**-**
B.8 Total prudential requirements			**431,107**	**460,181**
C. RISK ASSETS AND SUPERVISORY RATIOS				
C1 Risk-weighted assets			**7,182,242**	**7,666,615**
C2 Tier 1 capital/Risk-weighted assets ratio (CET 1 capital ratio)			**9.12%**	**7.97%**
C3 Tier 1 capital/Risk-weighted assets (Tier 1 capital ratio)			**9.12%**	**7.97%**
C4 Capital/Risk-weighted assets (Total capital ratio)			**9.13%**	**7.98%**

SECTION 5 – ANALYTICAL STATEMENT OF COMPREHENSIVE INCOME

(thousands of €)

	ITEMS	Gross amount	Income taxes	Net amount
10.	**Profit (loss) for the year**	**49,040**	**(14,840)**	**34,200**
	Other income components without transfer to income statement			
20.	Tangible assets	-	-	-
30.	Intangible assets	-	-	-
40.	Defined benefit plans	(142)	39	(103)
50.	Non current assets undergoing disposal	-	-	-
60.	Portion of the valuation reserves of investments valued at equity	-	-	-
	Other income components with transfer to income statement			
70.	Hedging of foreign investments:	-	-	-
	a) fair value changes	-	-	-
	b) transfer to income statement	-	-	-
	c) other changes	-	-	-
80.	Exchange rate differences:	-	-	-
	a) value changes	-	-	-
	b) transfer to income statement	-	-	-
	c) other changes	-	-	-
90.	Hedging of financial flows	-	-	-
	a) fair value changes	-	-	-
	b) transfer to income statement	-	-	-
	c) other changes	-	-	-
100.	Available-for-sale financial assets:	(451)	32	(419)
	a) fair value changes	-		-
	b) transfer to income statement	-	-	-
	- adjustments from impairment	-	-	-
	- profit/ loss from realisation	-	-	-
	c) other changes	(451)	32	(419)
110.	Non current assets undergoing disposal:	-	-	-
	a) fair value changes	-	-	-
	b) transfer to income statement	-	-	-
	c) other changes	-	-	-
120.	Portion of the valuation reserves of investments valued at equity:	-	-	-
	a) fair value changes	-	-	-
	b) transfer to income statement	-	-	-
	- adjustments from impairment	-	-	-
	- profit/ loss from realisation	-	-	-
	c) other changes	-	-	-
130.	**Total other income components**	**(593)**	**71**	**(522)**
140.	**Comprehensive income (Item 10+130)**	**48,447**	**(14,769)**	**33,678**

SECTION 6 – TRANSACTIONS WITH RELATED PARTIES

The introduction of the international accounting standards involves the application of the provisions relating to disclosure on transactions with related parties established by IAS 24.

6.1 Information on the remuneration of executives with strategic responsibilities

During the year, remuneration for the Board of Directors was recognised for EUR 46 thousand, while fees pertaining to the Board of Statutory Auditors amounted to EUR 100 thousand.

6.2 Loans and guarantees given in favour of directors and statutory auditors

At year end, there were no cash and endorsement credit facilities used by members of the Board of Directors or the Board of Statutory Auditors or by parties referring to the same.

6.3 Information on transactions with related parties

Reference should be made to the comments in the corresponding item of the Report on Operations – intercompany transactions and those with related parties – page 28.

Income statement transactions for the period and balance sheet balances as at 31 December 2017 between the Parent Company and other BNPP Group companies, deriving from financial or trade transactions, are presented below.

(thousands of €)

Counterpart	Interest and similar income	Interest and similar expense	Commission income	Commission expense	Dividends	Derivatives	Administrative expenses	Other operating income and charges
PARENT COMPANY	7,840	(633)		(848)				
ASSOCIATED COMPANIES	491	(3,146)	260	(4,279)	14	126	(16,730)	(338)
OTHER								
Total	8,331	(3,779)	260	(5,127)	14	126	(16,730)	(338)

(thousands of €)

Counterpart	IFITALIA creditor	IFITALIA debtor	Factoring receivables	Guarantees received (*)	Guarantees given	Derivative liability
A) PARENT COMPANY	**10,342**	**5,486,870**	**-**	**219,041**	**-**	**-**
BNP PARIBAS PARIS		876				
BNP PARIBAS SUCC. MILANO	10,342	5,485,994		219,041		
B) BNPP GROUP COMPANIES	**7,492**	**812,460**	**53,729**	**100,092**	**10,041**	**232**
ARVAL SERVICE LEASE ITALIA S.P.A.		222	53,708			
BNL SpA	7,426	550,079		100,092	10,041	232
BNL FINANCE S.P,A.		24				
BNL POSITIVITY SRL		40				
BNP PARIBAS FACTOR		487				
BNP PARIBAS FORTIS	2	478				
BNP PARIBAS LEASE GROUP		575				
BNPP REAL ESTATE		31				
BUSINESS PARTNER ITALIA	64	1,773				
CNH INDUSTRIAL CAPITAL EUROPE			21			
FINDOMESTIC BANCA S.P.A.		704				
TIERRE SECURITISATION SRL		258,047				
C) ASSOCIATED COMPANIES		**34**				
INTERNATIONAL TRADE PARTNER		34				
	17,834	**6,299,364**	**53,729**	**319,133**	**10,041**	**232**

(*) Including guarantees provided to cover the exceeding of risk concentration limits.

Financial Statement Data for the Parent Company BNP Paribas

With reference to the matters envisaged by Article 2497-*bis*, paragraph 4 of the Italian Civil Code, regarding disclosure on management and co-ordination activities, tables are presented below containing a summary of the highlights taken from the last set of financial statements approved on 31 December 2016 by BNP Paribas S.A. in its capacity as direct parent company.

Consolidated income statement of the BNP Paribas Group

In millions of euros	Notes	Year to 31 Dec. 2016	Year to 31 Dec. 2015
Interest income	2.a	40,894	41,381
Interest expense	2.a	(18,518)	(18,828)
Commission income	2.b	12,765	13,335
Commission expense	2.b	(5,563)	(5,720)
Net gain on financial instruments at fair value through profit or loss	2.c	6,189	6,054
Net gain on available-for-sale financial assets and other financial assets not measured at fair value	2.d	2,211	1,485
Income from other activities	2.e	36,532	38,289
Expense on other activities	2.e	(31,099)	(33,058)
REVENUES		43,411	42,938
Salary and employee benefit expense	6.a	(16,402)	(16,061)
Other operating expenses	2.f	(11,279)	(11,539)
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	4.n	(1,697)	(1,654)
GROSS OPERATING INCOME		14,033	13,684
Cost of risk	2.g	(3,262)	(3,797)
Costs related to the comprehensive settlement with US authorities	2.h	-	(100)
OPERATING INCOME		10,771	9,787
Share of earnings of equity-method entities	4.m	633	589
Net gain on non-current assets		(12)	996
Goodwill	4.o	(182)	(993)
PRE-TAX INCOME		11,210	10,379
Corporate income tax	2.i	(3,095)	(3,335)
NET INCOME		8,115	7,044
Net income attributable to minority interests		413	350
NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS		7,702	6,694
Basic earnings per share	7.a	6.00	5.14
Diluted earnings per share	7.a	6.00	5.13

Consolidated balance sheet of the BNP Paribas Group

In millions of euros	Notes	31 December 2016	31 December 2015
ASSETS			
Cash and amounts due from central banks		160,400	134,547
Financial instruments at fair value through profit or loss			
Trading securities	4.a	123,679	133,500
Loans and repurchase agreements	4.a	152,242	131,783
Instruments designated as at fair value through profit or loss	4.a	87,644	83,076
Derivative financial instruments	4.a	328,162	336,624
Derivatives used for hedging purposes	4.b	18,133	18,063
Available-for-sale financial assets	4.c	267,559	258,933
Loans and receivables due from credit institutions	4.f	47,411	43,427
Loans and receivables due from customers	4.q	712,233	682,497
Remeasurement adjustment on interest-rate risk hedged portfolios		4,664	4,555
Held-to-maturity financial assets	4.j	6,100	7,757
Current and deferred tax assets	4.k	7,966	7,865
Accrued income and other assets	4.l	115,967	108,018
Equity-method investments	4.m	6,910	6,896
Investment property	4.n	1,911	1,639
Property, plant and equipment	4.n	22,523	21,593
Intangible assets	4.n	3,239	3,104
Goodwill	4.o	10,216	10,316
TOTAL ASSETS		**2,076,959**	**1,994,193**
LIABILITIES			
Due to central banks		233	2,385
Financial instruments at fair value through profit or loss			
Trading securities	4.a	70,326	82,544
Borrowings and repurchase agreements	4.a	183,206	156,771
Instruments designated as at fair value through profit or loss	4.a	54,076	53,118
Derivative financial instruments	4.a	318,740	325,828
Derivatives used for hedging purposes	4.b	19,626	21,068
Due to credit institutions	4.f	75,660	84,146
Due to customers	4.g	765,953	700,309
Debt securities	4.i	153,422	159,447
Remeasurement adjustment on interest-rate risk hedged portfolios		4,202	3,946
Current and deferred tax liabilities	4.k	3,087	2,993
Accrued expenses and other liabilities	4.l	99,407	88,629
Technical reserves of insurance companies	4.p	193,626	185,043
Provisions for contingencies and charges	4.q	11,801	11,345
Subordinated debt	4.i	18,374	16,544
TOTAL LIABILITIES		**1,971,739**	**1,894,116**
CONSOLIDATED EQUITY			
Share capital, additional paid-in capital and retained earnings		86,794	82,839
Net income for the period attributable to shareholders		7,702	6,694
Total capital, retained earnings and net income for the period attributable to shareholders		94,496	89,533
Changes in assets and liabilities recognised directly in equity		6,169	6,736
Shareholders' equity		100,665	96,269
Retained earnings and net income for the period attributable to minority interests		4,460	3,691
Changes in assets and liabilities recognised directly in equity		95	117
Total minority interests		4,555	3,808
TOTAL CONSOLIDATED EQUITY		**105,220**	**100,077**
TOTAL LIABILITIES AND EQUITY		**2,076,959**	**1,994,193**

IFITALIA CONSOLIDATED FINANCIAL STATEMENT

IFITALIA
GRUPPO BNP PARIBAS

Ifitalia Consolidated Financial Statements as at 31 December 2017

Mandatory financial statements:

Notes to the accounts:

IFITALIA
GRUPPO BNP PARIBAS

MANDATORY FINANCIAL STATEMENTS

Consolidated Balance Sheet

BALANCE SHEET

(Euro)

	ASSETS	31/12/2017	31/12/2016
10	Cash and cash equivalents	8.959	14.027
40	Available-for-sale financial assets	5.920.783	7.284.799
60	Receivables	7.381.433.048	7.553.530.612
100	Tangible assets	20.700.004	21.672.111
110	Intangible assets	9.985.210	9.055.422
120	Tax assets	54.533.385	63.848.594
	a) current	*15.448.437*	*21.716.217*
	b) prepaid	*39.084.948*	*42.132.377*
	of which under Law 214/2011	*34.477.613*	*37.648.160*
140	Other assets	14.247.284	14.409.162
	Total	**7.486.828.673**	**7.669.814.728**

(Euro)

	LIABILITIES AND NET SHAREHOLDERS' EQUITY	31/12/2017	31/12/2016
10	Payables	6.322.162.783	6.696.534.956
20	Securities outstanding	256.899.885	140.000.000
30	Financial liabilities held for trading	232.272	358.564
70	Tax liabilities	14.000.022	16.945.450
	a) current	*11.892.657*	*14.806.857*
	b) deferred	*2.107.365*	*2.138.593*
90	Other liabilities	175.056.828	132.236.898
100	Employee termination benefits	4.740.439	4.912.439
110	Provisions for risks and charges:	13.576.779	12.723.506
	a) post-retirement benefit and similar obligations	-	-
	b) other	*13.576.779*	*12.723.506*
120	Share capital	55.900.000	55.900.000
150	Share premium	61.798.643	61.798.643
160	Reserves	539.695.144	494.475.849
170	Valuation reserves	8.176.590	8.699.128
180	Profit (loss) for the year	34.579.288	45.219.295
190	Third-Party shareholders'Equity	10.000	10.000
	Total Liabilities and Net Shareholders' Equity	**7.486.828.673**	**7.669.814.728**

IFITALIA
GRUPPO BNP PARIBAS

Consolidated Income Statement

(Euro)

	INCOME STATEMENT	Year 2017	Year 2016
10	Interest and similar income	63.828.091	72.770.290
20	Interest and similar expense	4.427.604	481.975
	Net interest income	**68.255.695**	**73.252.265**
30	Commission income	57.529.494	62.013.021
40	Commission expense	(12.736.918)	(11.538.212)
	Net commission	**44.792.576**	**50.474.809**
50	Dividends and similar income	27.330	117.500
60	Net trading profit (loss)	(229.842)	112.538
90	Gain (loss) on disposal or repurchase:	-	(1.500)
	a) financial assets	-	*(1.500)*
	Net banking income	**112.845.759**	**123.955.612**
100	Net value adjustments/writebacks for impairment of:	(15.909.354)	(13.776.798)
	a) financial assets	*(15.905.315)*	*(13.957.444)*
	b) other financial transactions	*(4.039)*	*180.646*
110	Administrative expenses:	(47.690.718)	(44.117.418)
	a) personnel expenses	*(21.545.936)*	*(19.410.933)*
	b) other administrative expenses	*(26.144.782)*	*(24.706.485)*
120	Net value adjustments/writebacks on tangible assets	(1.154.975)	(1.234.477)
130	Net value adjustments/writebacks on intangible assets	(2.185.406)	(1.585.984)
150	Net provisions for risks and charges	834.313	(3.904.806)
160	Other operating income and charges	2.679.913	2.713.156
	Income (loss) from operations	**49.419.531**	**62.049.286**
	Profit (Loss) from current operations before taxes	**49.419.531**	**62.049.286**
190	Income taxes for the year on current operations	(14.840.243)	(16.829.991)
	Profit (loss) for the year	**34.579.288**	**45.219.295**

Consolidated Statement of Comprehensive Income

	Items	Year 2017	Year 2016
10.	**Profit (loss) for the year**	**34.579.288**	**45.219.295**
	Other income components net of taxation without transfer to income statement		
40.	Defined benefit plans	(102.820)	(16.163)
	Other income components net of taxation with transfer to income statement		
100.	Available-for-sale financial assets	(419.718)	(223.088)
130.	**Total other income components net of taxation**	**(522.538)**	**(239.251)**
140.	**Comprehensive income (Item 10+130)**	**34.056.750**	**44.980.044**

Consolidated Statement of Changes in Equity as at 31 December 2017

(Euro)

	Balances as at 31.12.2016	Change in opening balances	Balances as at 01.01.2017	Allocation of previous year's result		Changes for the year							Shareholders' Equity 31.12.2017	Third-party shareholders' Equity 31.12.2016
						Changes in reserves	Equity transactions				Other changes	Comprehensive income for the year 2017		
				Reserves	Dividends and other allocation		Issue of new shares	Purchase of treasury shares	Extraordinary dividend distribution	Change in equity instruments				
Share capital:	**55.910.000**		**55.910.000**										**55.900.000**	**10.000**
a) ordinary shares	55.910.000		55.910.000										55.900.000	
b) other shares														
Share premium	**61.798.643**		**61.798.643**										**61.798.643**	
Reserves:	**494.475.849**		**494.475.849**	**45.219.295**							**-**		**539.695.144**	
a) profit-related	482.903.064		482.903.064	45.219.295									528.122.359	
b) other	11.572.785		11.572.785								-		11.572.785	
Valuation reserves	**8.699.128**		**8.699.128**									**(522.538)**	**8.176.590**	
Equity instruments														
Treasury shares														
Profit (loss) for the year	**45.219.295**		**45.219.295**	**(45.219.295)**								**34.579.288**	**34.579.288**	
Shareholders' Equity	**666.102.915**		**666.102.915**								**-**	**34.056.750**	**700.149.665**	**X**
Third-party shareholders' Equity	**10.000**		**10.000**								**-**		**X**	**10.000**

Consolidated Statement of Changes in Equity as at 31 December 2016

(Euro)

	Balances as at 31.12.2015	Change in opening balances	Balances as at 01.01.2016	Allocation of previous year's result		Changes for the year							Shareholders' Equity 31.12.2016	Third-party shareholders' Equity 31.12.2016
						Changes in reserves	Equity transactions				Other changes	Comprehensive income for the year 2016		
				Reserves	Dividends and other allocation		Issue of new shares	Purchase of treasury shares	Extraordinary dividend distribution	Change in equity instruments				
Share capital:	**55.900.000**		**55.900.000**								**10.000**		**55.900.000**	**10.000**
a) ordinary shares	55.900.000		55.900.000										55.900.000	
b) other shares	-													
Share premium	**61.798.643**		**61.798.643**										**61.798.643**	
Reserves:	**449.941.547**		**449.941.547**	**44.534.302**							**-**		**494.475.849**	
a) profit-related	438.368.762		438.368.762	44.534.302									482.903.064	
b) other	11.572.785		11.572.785								-		11.572.785	
Valuation reserves	**8.938.379**		**8.938.379**									**(239.251)**	**8.699.128**	
Equity instruments														
Treasury shares														
Profit (loss) for the year	**44.534.302**		**44.534.302**	**(44.534.302)**								**45.219.295**	**45.219.295**	
Shareholders' Equity	**621.112.871**		**621.112.871**								**10.000**	**44.980.044**	**666.092.915**	**X**
Third-party shareholders' Equity	**10.000**		**10.000**								**10.000**		**X**	**10.000**

Consolidated Statement of Cash Flows

(Euro)

A OPERATING ACTIVITIES		31/12/2017	31/12/2016
1.Management		**58.553.160**	**84.716.361**
-	net profit (loss) for the period	34.579.289	45.219.295
-	capital gains/losses from financial assets held for trading and financial assets/liabilities measured at fair value (+/-)		
-	capital gains/losses from hedging assets (+/-)		
-	net value adjustments on hedging assets (-)		
-	net value adjustments for impairment (-)	9.230.671	17.743.520
-	net value adjustments on intangible and tangible fixed assets (-)	3.340.381	2.820.461
-	net provisions for risks and charges and other costs/revenues (+/-)	(350.646)	4.405.132
-	unsettled taxes (+)	11.753.465	14.527.953
-	net value adjustments of the groups of assets undergoing disposal, net of the		
-	other adjustments		
2. Liquidity generated/absorbed by financial assets		**173.778.225**	**(1.156.545.281)**
-	financial assets held for trading		
-	financial assets at fair value		
-	available-for-sale financial assets	1.364.016	996.501
-	due from banks	(29.915.738)	62.158.711
-	due from financial institutions	95.876.529	74.435.368
-	amounts due from customers	96.906.101	(1.328.503.767)
-	other assets	9.547.317	34.367.906
3. Liquidity generated/absorbed by financial liabilities		**(229.038.391)**	**1.074.975.915**
-	due to banks	(410.228.674)	1.045.862.554
-	due to financial institutions		
-	due to customers	35.856.501	(17.966.563)
-	securities issued	116.899.885	140.000.000
-	financial liabilities held for trading	(126.292)	(132.698)
-	financial liabilities at fair value		
-	other liabilities	28.560.188	(92.787.377)
	Net liquidity generated/absorbed by operations	**3.292.994**	**3.146.996**
B. INVESTMENT ACTIVITIES			
1.Liquidity generated by:		**(3)**	
-	sale of equity investments		
-	dividends collected on equity investments		
-	sale/reimbursements of financial assets held to maturity		
-	sale of tangible assets	(3)	
-	sale of intangible assets		
-	sale of business units		
2.Liquidity absorbed by:		**(3.298.059)**	**(3.151.560)**
-	purchase of equity investments		
-	purchase of financial assets held to maturity		
-	purchase of tangible assets	(182.868)	(188.672)
-	purchase of intangible assets	(3.115.191)	(2.962.888)
-	purchase of business units		
	Net liquidity generated/absorbed by investment activities	**(3.298.062)**	**(3.151.560)**
C. FUNDING ACTIVITIES			
-	issue/purchase of treasury shares		
-	issue/purchase of equity instruments		
-	distribution of dividends and other allocations		
	Net liquidity generated/absorbed by funding activities		
NET LIQUIDITY GENERATED/ABSORBED BY OPERATIONS		**(5.068)**	**(4.564)**

Reconciliation

(Euro)

Financial statement items	31/12/2017	31/12/2016
Cash and cash equivalents	14,027	18,591
Total net liquidity generated/absorbed in the period	(5,068)	(4,564)
Cash and cash equivalents at year end	8,959	14,027

NOTES TO THE ACCOUNTS

INTRODUCTION

The notes to the accounts are divided into the following parts:
1) Part A – Accounting Policies;
2) Part B – Information on the Balance Sheet;
3) Part C – Information on the Income Statement;
4) Part D – Other Information.
Each part of the notes is divided into sections, each of which illustrates an individual aspect of the business operations.
The sections contain both qualitative and quantitative information.
As a rule, the quantitative information comprises items and tables.

PART A – ACCOUNTING POLICIES

A. 1 – GENERAL SECTION

Section 1 – Declaration of compliance with international accounting standards
Ifitalia S.p.A.'s financial statements as at 31 December 2017 comply with International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board – IASB, adopted by the European Commission, as well as the measures issued in implementation of Article 9 of Italian Legislative Decree 38/2005.
With regard to the layouts and the technical forms, the statutory financial statements have been drawn up in accordance with the Circular "IFRS Financial Statements of Brokers other than Banking Intermediaries", whose updated text was issued by the Bank of Italy on 9 December 2016, and in accordance with Article 9 of Italian Legislative Decree no. 38/2005.
In order to more clearly guide the application and interpretation of the international accounting standards, reference was also made to the following sources:
✓ Framework for the Preparation and Presentation of Financial Statements issued by the IASB;
✓ Implementation Guidance, Basis for Conclusions and other interpretative documents for IAS/IFRS adopted by IASB or IFRIC (International Financial Reporting Standard Interpretations Committee);
✓ documents drawn up by the Italian Standard Setter (OIC) and the Italian Banking Association (ABI);
✓ documents drawn up by the Italian Chartered Accountants Association (Assirevi).
✓ ESMA (European Securities and Markets Authority) and CONSOB documents that refer to the application of specific provisions in the IFRS.

Section 2 – General basis of presentation
The statutory financial statements, accompanied by the related Report on Operations, comprise:
- Balance Sheet and Income Statement;
- Statement of Comprehensive Income;
- Statement of Changes in Equity;
- Statement of Cash Flows;
- Notes to the Accounts.

The financial statements were prepared with a view to the business as a going concern, taking into account the current and projected profitability and the ease of access to financial resources. The Directors considered the going concern assumption appropriate because, in their judgement, no uncertainties linked to events or circumstances have emerged which, considered individually or as a whole, may lead to doubts about the viability of the business.
The accounting policies comply with the principles of accruals, relevance and significance of the accounting information and predominance of economic substance over legal form.

The financial statement accounts are consistent with the company's accounting records; furthermore, in compliance with the provisions of Article 5, Paragraph 2 of Italian Legislative Decree no. 38 dated 28 February 2005, the financial statements have been drawn up using the Euro as the reporting currency. Specifically, in line with the instructions issued by the Bank of Italy, the statements have been drawn up in units of Euro without decimal figures, the notes to the accounts are drawn up in thousands of Euro, and the Report on Operations is drawn up in millions of Euro.
During 2017, no new accounting standards, interpretations, or amendments came into force.

Section 3 – Subsequent events after year end
When drawing up the financial statements, Ifitalia considered all the events which had economic pertinence for the year ended as at 31 December 2017, even if subsequent to the year end date, and which took place up until the date of approval of the financial statements by the Board of Directors.

Section 4 – Other aspects
The Ifitalia financial statements have been audited by the auditing firm Mazars Italia S.p.A., which was granted the appointment for the period 2015 – 2023 by the Shareholders' Meeting held on 24 November 2015 in accordance with Legislative Decree no. 39 of 27 January 2010.

<u>LEGISLATIVE CHANGES</u>

The European Commission has approved the following accounting standards that will come into force beginning with the 2018 financial statements:
- ✓ IFRS 9 - Financial Instruments (EU Reg. 2016/2067);
- ✓ IFRS 15 - Revenue from Contracts with Customers (EU Reg. 2016/1905).

The IASB issued the following accounting standards and interpretations or amendments, which will become effective after the approval process is completed by the competent bodies of the European Union:
- ✓ IFRS 14 - Regulatory Deferral Accounts (January 2014);
- ✓ IFRS 16 - Leases (January 2016);
- ✓ IFRS 17 - Insurance Contracts (May 2017);
- ✓ Amendments to IFRS 10 and IAS 28: Sale or contribution of Assets between an Investor and its Associate or Joint Venture (September 2014);
- ✓ Amendments to IAS 12: Recognition of deferred tax assets for unrealised losses (January 2016);
- ✓ Amendments to IAS 7: Disclosure Initiative (January 2016);
- ✓ Clarifications to IFRS 15: Revenue from Contracts with Customers (April 2016).
- ✓ Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions (June 2016);
- ✓ Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (September 2016);
- ✓ Annual Improvements to IFRS Standards 2014 - 2016 Cycle (December 2016);
- ✓ IFRIC 22: Foreign Currency Transactions and Advance Consideration (December 2016);
- ✓ Amendments to IAS 40: Transfers of Investment Property (December 2016);
- ✓ IFRIC 23: Uncertainty over Income Tax Treatments (June 2017).

With specific reference to accounting standards to be applied in the short term, the following is highlighted.

<u>IFRS 9</u>:
- ✓ introduces significant changes, with respect to IAS 39, to the rules for classifying and measuring receivables and debt securities, which will be based on the business model and the characteristics of the financial instrument's cash flows (SPPI criterion - Solely Payments of Principal and Interest);
- ✓ provides for the classification of capital instruments at fair value with the recognition of differences in the income statement or in "other income components";
- ✓ introduces a new accounting model of impairment based on:
  (i) an "expected losses" approach instead of the current "incurred losses", and
  (ii) on the concept of "lifetime" expected losses, which will lead to an increase in value adjustments to receivables;
- ✓ intervenes on "hedge accounting" by rewriting the rules for designating a hedge relationship and for verifying its effectiveness with the objective of ensuring a greater alignment between the accounting representation of the hedges and the underlying management rationale; and

- ✓ modifies the accounting for "own credit risk", i.e., changes in the fair value of liabilities designated as fair value options due to the fluctuations of the entity's own creditworthiness.

In order to adapt the processes to the new IFRS 9 standard by the scheduled deadline, the Company participated in a broad, three-year program launched in February 2015 by BNPP for the entire Group.
Furthermore, the Company envisages the use of "transitional relief" provided for in the standard and therefore will not publish the comparative data in its 2018 financial statements.

A) Classification and Measurement

Although the definitions introduced in the new IFRS 9 differ from those in the current IAS 39, there are no significant impacts from the introduction of the new accounting rules in terms of classification and measurement. Almost all financial assets will be essentially classified in the new categories introduced by IFRS 9, without changing the measurement method.
One exception is the inclusion of capital instruments in the new portfolios, which has impacts on the Company's equity upon FTA (first-time adoption). In particular, capital instruments, currently recognised in the AFS portfolio (available for sale), will be classified as FVTPL, or at fair value with a contra-entry in the income statement. Upon FTA, the corresponding AFS reserve, equal to EUR 3.57 million (inclusive of taxes, EUR 0.25 million), will therefore be reclassified into a profit reserve.

B) Impairment

Staging rules

Performing positions:

The Stage classification for performing facilities is based on the outcome of the assessment of "significant increase in credit risk" (or "significant impairment").
The "significant increase in credit risk" is assessed at the individual facility level by comparing the rating determined at the reporting date with the rating in effect at the origination date (recognition date).
The rating, monitored and updated periodically according to Ifitalia's policies, represents the main parameter for expressing creditworthiness.
For the assessment of "significant impairment", Ifitalia uses the absolute and relative criteria defined at Group level.

Absolute criteria
The absolute criteria (or backstop) used to classify performing facilities in Stages 1 and 2 are based on the information available at the reporting date (e.g., rating, days past due). The thresholds used reflect absolute levels of high or low credit quality in order to classify:
- in Stage 1, all facilities that have a low credit risk;
- in Stage 2, all facilities that have a high underlying risk.

The absolute criteria (or backstop) defined are based on the assessment of the rating at the reporting date.
Furthermore, as required by the accounting standard and Group policy, Ifitalia adopts the "Rebuttable Presumption", according to which all facilities with contractual payments past due for more than 30 days are classified in Stage 2.

Relative criteria:
For all performing facilities, which do not fall within the scope of the absolute criteria, relative criteria are applied, expressed in terms of the difference between ratings (known as the "delta notch").

Non-Performing Perimeter

All facilities that at the reporting date have a rating of 11 12 are classified in Stage 3.

Impairment calculation rules

Following the classification in Stages, Ifitalia calculates the provisions, at the individual facility level, consistent with regulatory principles and Group guidelines.
The provision amount corresponds to the expected loss differentiated by Stage in order to take into account the different levels of risks:

- For facilities classified in Stage 1, an expected loss in relation to the maturity is calculated with a maximum value of one year;
- For facilities classified in Stage 2, a lifetime expected loss (EL Lifetime) is calculated, that is, until the facility's maturity date;
- For facilities classified in Stage 3, specific provisions are calculated, corresponding to an expected lifetime loss.

Performing positions

The impairment calculation is based on risk parameters (PD, LGD and EAD) consistent with the duration of the transaction.
The expected loss in Stage 1 represents the expected loss deriving from the possible occurrence of a facility entering default within one year of the reporting date.
The expected loss in Stage 2 is the present value of expected losses due to a facility entering default in the period between the reporting date and the facility's maturity.
To calculate the expected lifetime loss, cumulative PDs are therefore used.
For the portion of the portfolio for which the rating models are not available at the BNP Group level, Ifitalia, in line with Group guidelines, calculates the expected loss, at one year or over the lifetime, using a simplified method based on historical loss data (EL ratio).
In accordance with IFRS 9, the PD, LGD and EAD parameters used to calculate impairment are consistent with regulatory values (those used to calculate the IRBA capital requirements), in particular for the LGD parameter, the value is net of conservative margins, regulatory penalties, and downturn margins.
In addition, IFRS 9 provides for the adoption of a forward-looking, multi-scenario approach to risk parameters in order to incorporate current conditions as well as expectations for possible future events and conditions in the impairment calculation.

Non-Performing Perimeter

For facilities classified in Stage 3, Ifitalia calculates the expected lifetime loss through a forward-looking approach that incorporates future expectations of possible collections and losses, including possible sales scenarios.
For non-performing exposures, Ifitalia has adopted a unique, precise analytical valuation model for individual positions; thus, for these positions Ifitalia adopts a "Judgemental Approach";
The Judgemental Approach incorporates both the collection strategy and the expected value deriving from a possible sale of the portfolio.

C) Estimating impacts of First Time Adoption (FTA) of IFRS 9

The above considerations will result in an increase of EUR 32.74 million in write-downs upon FTA as at 1 January 2018 (before taxes, EUR 10.81 million), broken down as follows:

- Stage 1 increase in write-downs of EUR 4.63 million;
- Stage 2 increase in write-downs of EUR 1.42 million;
- Stage 3 increase in write-downs of EUR 26.69 million.

These write-downs will be recorded as a contra-entry to the reduction in equity for EUR 21.93 million, net of the tax effect of EUR 10.81 million.

Following the entry into force of IFRS 9, Regulation (EU) no. 575/2013 introduced an amendment of prudential rules for calculating capital absorption on expected credit losses. In this regard, financial institutions may adopt a transitional regime, according to which they can include adjustments made following the adoption of the new standard's impairment model in CET1, with a phase-in mechanism over a period of 5 years beginning in 2018. Given the above impacts and following the estimated impacts upon transition to the new standard, the Company has decided that it will not observe the provisions of the aforementioned regulation and, therefore, the effects of the write-downs performed upon FTA on capital and capital ratios will be fully reported.

IFRS 15, applicable from 1 January 2018, was approved by the European Union with EU Regulation no. 2016/1905 of 22 September 2016 (published on 29 October 2016), amending the current set of international accounting standards and interpretations on the recognition of revenues and, in particular, IAS 18.

The principle envisages:

- ✓ two approaches for recognising revenues ("at point in time" or "over time");
- ✓ a new model of transaction analysis ("Five-Steps Model") focused on the transfer of control; and
- ✓ more disclosure required to be included in the notes to the accounts.

The activities carried out to analyse the effects resulting from the adoption of the accounting standard and to ensure compliance did not show any impact on the Company's financial statements starting from 2018.

IFRS 16, applicable from 1 January 2019, subject to the approval of the European Union, amends the current set of international accounting standards and interpretations on leases and, in particular, IAS 17.

The standard introduces a new definition of leases and confirms the current distinction between the two types of leases (operating and financial) in reference to the accounting model that the lessor must apply.

In order to ensure compliance with this accounting standard, the Group has launched activities to analyse the effects of adopting the new standard and preparing necessary implementation solutions.

Foreign currency transactions

Assets and liabilities denominated in foreign currency (these being understood to be currencies other than the Euro, also including the transactions which envisage index-linking clauses to these currencies) are converted on the basis of the exchange rate as at year end.

Payment agreements based on own equity instruments

The Company has not put in place payment agreements based on own equity instruments.

Use of estimates in financial statements

The preparation of the financial statements required the use of estimates and assumptions that can have effects on the amounts in the balance sheet and income statement. The calculation of these estimates involves the use of the information available as of the date of preparation of the financial statements and the adoption of subjective evaluations, based also on historical experience, used to formulate reasonable assumptions in order to record management events.

The main cases for which the use of subjective evaluations is required the most by the company's management are:

- ✓ the losses due to impairment of receivables and, generally, of other financial assets;
- ✓ the fair value of financial instruments to be used for the purpose of financial statement disclosure;
- ✓ the provisions for risks and charges;
- ✓ the recoverability of deferred tax assets;
- ✓ the portion of property held for investment purposes.

Impairment tests

As regards the tests provided for by IAS 36, no impairment indicators were found in the valuations made, in consideration of the book values and the specific nature of the assets in the accounts.

Section 5 – Scope and methods of consolidation

The scope of consolidation includes a vehicle company in respect of which Ifitalia is exposed to most risks and from which it derives the majority of benefits (SPE/SPV)

Financial statements used for consolidation purposes

The financial statement used as a basis for consolidation is that as at 31 December 2017, as approved by the relevant Council bodies of the consolidated company.

Equity investments in wholly controlled companies

The scope of consolidation includes the vehicle company Tierre Securitisation s.r.l. (SPV), with registered office in Via V. Alfieri 1, Conegliano (TV).

Ifitalia holds no share in the capital of the SPV. However, based on the reference accounting standards (IFRS 10), it can be deemed that Ifitalia controls the vehicle as it is the main party that determines its flows and, furthermore, is exposed to the variable returns of the SPV (both as a result of protection on credit risk and through the notes subscribed).

Significant evaluations and assumptions in the determination of the scope of consolidation
Controlled entities are those in which Ifitalia has a direct or indirect control. The control on an entity is determined through the ability to exercise power for the purpose of influencing the variable returns to which Ifitalia is exposed by effect of its relationship with the same.
"Structured entities" (SPV), for which voting rights are not significative in terms of the evaluation of control, are considered to be controlled where:

- Ifitalia has power through contractual rights which allow it to control relevant activities;
- Ifitalia is exposed to variable returns deriving from such activities.

Assets and liabilities, off-balance sheet transactions, revenues and charges, as well as profits and losses between entities included in the scope of consolidation have been eliminated.
The costs and revenues of a controlled entity are included in the consolidated financial statement from the date of acquisition of control.
The share of equity attributable to minority interests is included in the Balance sheet under item 190. "Equity attributable to minority interests", separately from liabilities and the equity attributable to the Group. In the Income statement the portion attributable to minority interests is listed separately under item 210. "Operating profit (loss) attributable to minority interests".
For companies included in the scope of consolidation for the first time, the fair value of the cost incurred to obtain a controlling interest, inclusive of accessory charges, is measured at the date of acquisition.
The difference between payments for the disposal of an interest in a controlled company and the relative accounting value of net assets is recorded as a counter entry in the Equity, if the transfer does not involve a loss of control.
In this case, Ifitalia has not incurred any cost to obtain control as the production of the consolidated financial statements is determined by the exemption requirements in accordance of legislation (Art. 40 of Italian Legislative Decree no. 136 of 2015) not being met.

Equity investments in wholly controlled companies with significant portions held by minority interests
The consolidated financial statements do not include wholly controlled companies with significant minority interests.

Significant restrictions
In 2017 Ifitalia did not experience significant restrictions in its ability to access or use the Group's assets and settle its liabilities.

Other information
The Group does not include consolidated companies whose individual financial statements refer to a date or a period different from that of the consolidated financial statements.

A.2 – SECTION REGARDING THE MAIN FINANCIAL STATEMENT AGGREGATES

The accounting standards applied to the financial statements of the Company are described in detail below.

1. Financial assets and liabilities held for trading

Initial recognition

The initial recognition of financial assets (or the financial liabilities) takes place on their trading date.
These items are initially stated at their fair value, generally represented by the amount paid for the execution of the transactions, with the exclusion of the transaction costs which are immediately recorded in the income statement even if directly attributable to these financial assets.

Classification
"Financial assets held for trading" (item 20 – Balance sheet - Assets) and "Financial liabilities held for trading" (item 30 –

Balance sheet - Liabilities) include financial instruments held with the intention of generating profits over the short-term deriving from changes in the prices of said instruments, as well as derivative contracts; the only exception concerns derivative contracts designated as hedging instruments.
A financial instrument or other type of contract is considered to be a derivative if it has the following three features:

- its value changes in relation to the change in an interest rate, the price of a financial instrument, the price of a good, the foreign currency exchange rate, a price or rate index, the credit rating or credit indices or other pre-established variables (generally known as "underlying" elements);
- it does not require an initial net investment or requires an initial net investment lower than that required for other types of contracts which are expected to disclose a similar fluctuation in relation to market factor changes;
- it is settled at a future date.

The Company has recorded Interest Rate Swap derivatives under financial liabilities held for trading, not initially declared in the hedging category, despite being, operationally, transactions established with the aim of hedging the fixed rate risk applied to customers.

Measurement
Subsequent to initial recognition, these financial assets/liabilities are valued at fair value, with the exception of equity instruments not listed on an active market and whose fair value cannot be reliably determined. The determination of the fair value of trading assets and liabilities is based on the prices struck on active markets, on prices provided by the operators or on appraisal models used in financial practice.
If the fair value of a financial asset becomes negative – a circumstance which may occur, for example, in relation to derivative contracts – this asset is recorded as a financial trading liability (item 30 - Balance sheet - Liabilities).

Derecognition
Financial assets/liabilities are cancelled when the right to receive or the duty to pay the cash flows expires or whenever all the risks and benefits connected with the holding of said assets/liabilities are substantially transferred.

Income component recognition
Accrued interest is recorded in item 10 "Interest income and similar income" or 20 "Interest expense and similar expenses for debt securities", except for the differentials on derivatives, which are recorded in the net trading profit (loss).
Realised gains and losses on sales or reimbursements and unrealised gains and losses deriving from fair value changes in the trading portfolio, are recorded in income statement item 60 "Net trading profit (loss)".

2. Available-for-sale financial assets

Initial recognition
Initial recognition takes place, for financial assets whose delivery is disciplined on the basis of agreements envisaged by the reference market (so-called regular way contracts), as of the settlement date, while the trading date is applied for the others. The initial statement value for all the assets is the fair value; this normally coincides with the cost of the transaction, inclusive of the transaction costs or income directly attributable to said instrument.

Classification
These are non-derivative financial assets which are not classified as loans/receivables, held-to-maturity financial assets, assets valued at fair value or financial assets held for trading.
Money market securities, other debt instruments and shares which are intended to be held for an unspecified period of time, but that can be sold in order to obtain liquidity, due to changes in interest rates, in exchange rates and market prices, can be classified as "Available-for-sale financial assets" (item 40 Balance sheet – Assets). Equity investments that do not qualify as subsidiary, jointly-controlled or associated companies are included in this item.

Measurement
These assets are subsequently valued at fair value, determined on the basis of the prices struck on active markets, provided by operators or on internal appraisal models generally used in financial practice based on shareholders' equity figures, limited to the measurement of the unlisted equity investments.
The value of listed share investments is determined on the basis of the market price; in this latter case, the securities are

written down if objective evidence indicates that the decrease (impairment) in the market price has reached such a level that the recovery of the cost value cannot be reasonably expected in the foreseeable future.
Investments in equity instruments not listed on active markets, and whose fair value cannot be reliably determined, are maintained at cost. In this case, the indicators prescribed by IAS 39 are considered for revealing any impairment.

Derecognition
Available-for-sale financial assets are cancelled when the asset is sold, transferring the essential nature of the associated risks and benefits, or when the contractual rights on the financial flows deriving from said assets cease. In this event, the statement in the accounts of the transfer takes place on the basis of the same criteria adopted for initial statement.

Income component recognition
Unrealised profits and losses deriving from the fair value measurement, are recorded in a specific equity reserve, item 170. “Valuation reserves”, net of the related taxation, up to the moment the investment is disposed of or written down (permanent loss in value) and the related effect is recorded respectively in the income statement under the item “Profit/loss on disposal of financial assets” (item 90.a) or “Net value adjustments for impairment of financial assets” (item 100.a). In this latter case, the amount transferred equates to the difference between the book value (acquisition cost net of any losses due to impairment already previously recorded in the income statement) and the fair value.
The permanent loss in value is recorded at the time the acquisition cost (net of any capital repayment and amortisation/depreciation) of an available-for-sale financial asset exceeds its recoverable
value as defined in the accounting policies. Any value write-backs on investments in share instruments, whose fair value is reliably determined, are not recorded with a matching balance in the income statement, but under equity, while any value write-backs on investments in debt instruments are classified in the income statement.

3. Receivables

Initial recognition
Within the sphere of the more extensive category of financial instruments, loans/receivables comprise non-derivative financial assets with payments which are fixed or can be determined and which are not listed on an active market. Loans/receivables are initially stated at fair value.

Classification
In accordance with IAS 39, and in compliance with the general principle of the predominance of the economic substance over legal form, a transferee company can record a financial asset in its financial statement if and only if:
a) the financial asset is transferred along with essentially all the risks and contractual rights to the correlated cash flows (the transferor may maintain the rights to receive the cash flows of the asset but must have the obligation to pay the same to the transferee, and cannot sell or commit the financial asset);
b) the benefits associated with ownership of the same cease with regard to the transferor when transferred to the transferee.
The forms of transfer for loans/receivables subject to factoring can be broken down as follows:
- ✓ without recourse: a transaction which, irrespective of the contractual form, provides the factor with the full transfer of the risks and benefits associated with the assets forming the subject matter of the transaction as per IAS 39;
- ✓ with recourse: a transaction which, irrespective of the contractual form, does not provide the factor with the full transfer of the risks and benefits associated with the assets forming the subject matter of the transaction as per IAS 39.

Ifitalia has recorded the following in the financial statements, under item 60 of the balance sheet assets, “Loans and Receivables”, and in line with the afore-mentioned criteria:
- ✓ loans/receivables acquired without recourse. Classification envisages the recording of the loans/receivable due from the debtors for the portion of the amount paid (cash risk) and for the portion still to be paid (endorsement risk) net of impairment. In this case, the amount due to the transferor, for the portion of the amounts still to be paid, is recorded under balance sheet liability item 10, “Payables”;
- ✓ advances paid to the transferors for loans/receivables acquired with recourse, inclusive of the interest and other amounts accrued, and net of impairment;
- ✓ advances paid to the transferors for loans/receivables acquired without recourse with contractual clauses (as defined below) which limit the essential transfer of all the risks and benefits (formal without recourse);

- ✓ advances paid to the transferors for future loan/receivable factoring transactions, inclusive of the interest and other amounts accrued;
- ✓ advances paid to the transferors exceeding the total loans/receivables inclusive of the interest and other amounts accrued;
- ✓ exposure to the factored debtors in just guarantee-related without recourse transactions when on occurrence of default the payment is made under guarantee of said loan/receivable;
- ✓ amounts due for late payments;
- ✓ exposures to the factored debtors for payment extensions granted.

Ifitalia has recorded the following amounts under guarantees and commitments (Notes to the accounts Part D), in line with the above criteria:

- ✓ both the value of the loans/receivables acquired without recourse (just guarantee) and the guarantees given accessory to the factoring transactions;
- ✓ the value of the endorsement risk for the loans/receivables acquired without formal recourse and the value of the exposure for the unused amount of the committed credit facilities.

In order to assess whether transfer of the essential nature of the risks and benefits has taken place in acquiring the loans/receivables factored without recourse, it is necessary to identify and analyse, using qualitative and quantitative criteria,

the contractual clauses capable of affecting the expected variability of the cash flows of the factored loans/receivables. For such purposes, within the reference framework of IAS 39 interpreted and defined together with Bank of Italy legislation and Assirevi and Assifact research documents, the most common contractual clauses in Ifitalia transactions have been stated below,

analysed with a view to application of the recognition/derecognition rules.

Maximum payable

This category of clauses is key for the purposes of the recognition/derecognition since it limits the undertaking of the credit risk by the Factor. In essence, while the "initial loss" remains the Factor's, the losses exceeding the ceiling are the transferor's.

In the presence of this clause, it is necessary to quantify and compare the amount of the ceiling with the risk exposure. If the maximum payable essentially covers the credit risk, then it means that the afore-mentioned risk has been transferred by the Transferor to the Factor.

With regard to the outstanding contracts, the latter point has been confirmed, therefore the clauses have not been considered as an impediment to recognition of the individual loans/receivables in the financial statements.

Malus clause

The commission linked to the portfolio's performance, with retroactive application (losses deriving from default of the factored debtors, with regard to principal and/or interest), can be critical for the purpose of recognition/derecognition since it can indicate a limitation or an exclusion of the transfer of the risks by the transferor to the factor.

In the presence of quantitative and qualitative analysis carried out, the loans/receivables assisted by this clause in certain specific cases led to the retention of the credit risk by the transferor to an extent considered to be significant on the basis of

materiality thresholds. In such cases, the clause was considered an impediment to recognition of the individual loans/receivables in the financial statements.

Measurement

After initial recognition, the receivables are valued at amortised cost as indicated below.

For the purpose of calculating the return within the sphere of factoring transactions, it is possible to identify, with regard to the nature, three categories of remuneration:

- Management commission

  This commission takes the form of a *fee for the provision of a plurality of services* (for example, the dunning of the debtor, debt collection, etc.) provided by means of an unspecified number of activities within a specific time span. With regard to this type of commission, recognised irrespective of the duration of the loan/receivable, IAS 18 was applied, re-discounting the portion of commission relating to loans/receivables not expired to be credited as a matching balance to the item "other liabilities".
- Guarantee commission (costs/revenues directly attributable to the transaction)

  This commission takes the form of a fee for the undertaking by the Factor of all or part of the risk element inherent in the financial asset forming the subject matter of the transaction. With regard to this type of commission, steps were taken to apply IAS 39, spreading the revenue equally over the duration of the loan/receivable and for loans/receivables due beyond 12 months deducting the unaccrued amount (deferred income) from said loan/receivable.

- Other types of commission
  This category includes those cost/revenue items not falling within the above two categories and includes on-going, one-off commission recorded at the time when the one-off service is completed (very often coinciding with collection of the commission).

Loans/receivables are in turn classified as performing and impaired (non-performing). According to the Bank of Italy instructions, impaired assets are as follows:

✓ Non-performing loans: positions vis-à-vis parties in a state of insolvency (even if not legally ascertained) or in essentially equivalent situations, irrespective of any loss forecasts made by the company. Therefore, the existence of any guarantees (secured or unsecured) afforded to cover the receivables is left aside.

✓ Unlikely to pay: the classification in this category takes place on the basis of the improbability that, without recourse to action such as enforcement of the guarantees, the debtor fully meets his/her credit obligations (in terms of principal and/or interest). This assessment is made independently from the presence of any amounts (or instalments) past due and not paid.
Therefore, it is not necessary to await the explicit symptom of anomaly (non-payment), if elements exist which imply a situation of debtor default risk (for example, a crisis in the industrial sector in which the debtor operates).

✓ Impaired past due positions
Cash credit exposures other than those classified as non-performing or unlikely to pay, which are past due as at the reporting reference date.

a) *Past due positions with respect to individuals*: exposures other than those classified as non-performing or unlikely to pay, which are past due by more than 90 days as at the reporting reference date. Based on the Bank of Italy legislation, Ifitalia applies the notion of past due exposure at counterparty level.
The position is past due if there is at least one invoice past due by more than 90 days and the total of the past due invoices (including those by less than 90 days) exceeds 5 percent of the total loans/receivables.

b) *Past due positions with respect to Public Administration parties*: in accordance with a conservative interpretation of the Bank of Italy regulations the definition of "past due" includes those exposures for which the following conditions are met:
1) they have been past due on a continual basis for more than:
- 90 days in the case of exposures to central administrations, central banks, and local authorities;
- 180 days in the case of exposures to government agencies;
2) the total amount of the exposures indicated above and the other portions due by less than 90 or 180 days are at least equal to 5 percent of the entire exposure to this debtor.
3) they are different from exposures to the Tax Authorities deriving from sales of tax credits (VAT, IRPEG, etc.). These loans and receivables have an undetermined maturity, as there is a minimum time before which they cannot be liquidated but not a maximum term by which they must be paid.
For these exposures, where the notion of past due receivable is applied at the counterparty level, the continual nature of the past due receivable is interrupted when the debtor has made a payment for at least one of the positions which became past due in the previous 90 days.

Exposures subject to concessions can be classified either as impaired assets ("non-performing exposures") or as performing loans ("performing exposures") and do not constitute a category. As regards the measurement and provisions for exposures subject to concessions, accounting policies follow the general criterion, in line with the provisions of IAS 39.

Income component recognition
Interest on loans/receivables is classified under interest and similar income, income statement "item 10" and is recorded on an accruals basis.

Impairment:
Based on the relationship status, a distinction was made between "**performing**" positions and "**non-performing or impaired**" positions:

a) "**Performing**" positions: the company has implemented a process to calculate the collective write-down of performing loans consistent with the provisions at BNP Group level with the methods below:
   ✓ Credit risk: the write-down is applied proportionally to the Expected Loss on each counterparty associated with

the rating value (PD) and the LGD of the technical form relating to the recorded amount associated to the subject (PA=PD x LGD). The group's methodology considers the PD associated to rating classes 8/9/10 for the corporate/SME segment and 9/10 for the Retail SME/Retail segment as relevant;
- ✓ Dilution risk – the write-down is applied to debtor cash risks proportionally to the average dilution risk recorded on the portfolio divided into the corporate/SME and Retail SME/Retail segments. The amount of the write-down is proportional to the expected loss deriving from the default risk of the transferor associated to the without-recourse transaction and the unsecured LGD recorded on internal data.

b) "Impaired" positions: a loan/receivable is considered to be impaired when it is deemed that, most probably, it will not be possible to recover the entire amount, on the basis of the original contract conditions, or an equivalent value. The determination of the write-downs to be made to loans/receivables is based on discounting the expected cash flows for principal and interest net of the recovery charges; for the purpose of calculating the current value of the flows, the fundamental elements are represented by the identification of estimated recoveries, the related timescales and the discount rate to be applied.

The valuation of the loans/receivables included in the categories of non-performing and unlikely to pay is carried out analytically, while for past due positions, an analytical assessment is carried out for larger positions and a generalised assessment is carried out for the rest.
The write-down of problem loans/receivables is subsequently written back (within the limits of the value previously written down) only when the quality of the amount due has improved to such an extent that reasonable certainty exists of a greater recovery of the principal and the interest and/or amounts have been collected to an extent greater than the value of the receivables recorded in the previous financial statements. In any event, considering the method used for determining the write-downs, the approach of the due dates envisaged for the recovery of the receivable due to the passage of time, gives rise to a "value write-back" on said receivable, since it determines a reduction in the implicit financial charges previously charged against the value of the receivables.
Gains (or losses) on receivables are recorded in the income statement:
- ✓ when the financial asset in question is eliminated, under item 90.a - "Gains (losses) on disposal";
- ✓ when the financial asset has undergone a write-down or write-back, under item 100.a - "Net value adjustments for impairment";
- ✓ under item 150 "Net provisions for risks and charges" matching "Other liabilities" the loss expected against guarantee and commitments (Part D).

Derecognition
Loans/receivables are derecognised from the balance sheet assets when:
- ✓ the right to receive the cash flows is discharged;
- ✓ the loan/receivable is considered to be definitively unrecoverable.

The amount of the losses is recorded in the income statement net of the write-down allowances previously provided.

4. Tangible assets

Initial recognition
Tangible assets are initially stated at cost, inclusive of all the charges directly associated with bringing the asset onto stream.

Classification
Item (100) "Tangible assets" includes land and buildings used for business purposes, land and building for investment purposes, furniture, electronic systems and other tangible assets.
Assets used for business purposes are those held for the supply of services or for administrative purposes, while investment properties are those held for the purpose of collecting lease payments and/or held for appreciating the invested capital or in any event not occupied by the company or when they become as such.

Measurement
Subsequent to initial statement, tangible assets are recorded at cost net of accumulated depreciation and impairment losses.
With reference to properties held for investment, the valuation at cost was opted for, providing the disclosure envisaged

by IAS 40.
The depreciable value, equating to cost less the residual value (or rather the amount which is expected to be obtained from the asset at the end of its useful life, usually zero, after having deducted the sale costs), is divided up systematically over the useful life of the tangible asset, adopting a straight-line depreciation approach.
The residual value and the useful life of properties, plant and machinery is reviewed at least once a year for financial statement purposes and, if the expectations differ from the previous estimates, the depreciation charge for the current and subsequent years is adjusted.
The useful life, subject to periodic review for the purpose of recording any estimates significantly different from the previous ones, is defined as:
– the period of time during which it is expected that an asset can be used by the company, or,
– the quantity of products or similar units which the company expects to obtain from the use of said asset.
In the property category, land and buildings are considered to be separable assets and treated independently for accounting purposes, even when acquired together, but only if the entire building is owned (detached property). As a rule, land has an unlimited life and therefore is not depreciated. Buildings have a limited life and, therefore, are depreciated. An increase in the value of the land on which a building stands does not influence the determination of the building's useful life.
If there is objective evidence that an individual asset has suffered impairment, steps are taken to compare the book value of the asset with its recoverable value, equating to the greater between the fair value, less sales costs, and the related value in use, understood to be the current value of the future cash flows which are expected to derive from the asset. Any value adjustments are recorded under item 120. "Value adjustments/write-backs on tangible assets" in the income statement.
If the value of an asset previously written down is reinstated, the new book value cannot exceed the net book value which would have been determined if no impairment loss on the asset had been recorded in previous years.

Income component recognition and derecognition
Depreciation is recorded in the income statement in item 120, "Net value adjustments/writebacks on tangible assets".
The costs incurred subsequent to purchase are added to the book value of the assets or recorded as a separate asset if it is probable that future economic benefits exceeding those initially estimated will be achieved and the cost can be reliably determined. All the other costs incurred subsequently (e.g. ordinary maintenance measures) are recorded in the income statement, in the year they are incurred, under item: 110.b) "Other administrative expenses", if they refer to assets for business use, or item 160. "Other operating income/charges", if referring to properties held for investment.
Tangible assets are cancelled from the balance sheet when disposed of or when the asset is permanently withdrawn from use and future profits are not expected from its disposal and future economic benefits are not expected from its use. Any difference between the disposal value and the book value is recorded in the income statement under the item 180. Profit/loss on disposal of investments.

5. Intangible assets

Initial recognition and classification
An intangible asset is a non-monetary asset, identifiable even if lacking physical appearance, from which it is probable that future economic benefits will originate. The asset is identifiable if:
– it can be separated or spun-off and sold, transferred, granted under licence, leased or exchanged;
– it derives from contractual rights or other legal rights irrespective of the fact that these rights are transferable or separable from other rights or obligations.
The asset is controlled by the company if the company has the power to avail itself of the economic future benefits deriving from the resource in question and can, also, limit access by third parties to said benefits. They are therefore recorded among the balance sheet assets only if:
(a) future economic benefits attributable to the asset in question are likely to accrue;
(b) the cost of the assets can be reliably measured.
If the conditions described above should occur, intangible assets are included among the balance sheet assets and recorded at cost, adjusted for any accessory charges. Otherwise, the cost of intangible assets is recorded in the income statement related to the year in which the cost was borne.

Intangible assets recorded in the financial statements are essentially represented by software. Furthermore, in accordance with the Group accounting standards and IAS/IFRS, the Company adopted the policy of capitalising the IT costs attributable to software development projects.

Measurement
After initial recognition, software is recorded in the financial statements at cost net of total amortisation and accumulated losses in value.
The cost includes:
- the purchase price less trade discounts and allowances;
- any direct cost for preparing the asset for use.

Any expenses, determined and attributable to the asset reliably, subsequent to initial statement, are capitalised only if they are able to generate future economic benefits.
Intangible assets with a definite useful life are amortised on the basis of the estimate made of their residual useful life and recorded at cost net of total amortisation (using the straight-line method) and any impairment losses applicable. At the end of each accounting period, this residual useful life is subject to appraisal so as to ascertain the
adequacy of the estimate. If there is objective evidence that an individual asset has suffered impairment, steps are taken to compare the book value of the asset and its recoverable value, equating to the greater between the fair value, less sales costs, and the related value in use, understood to be the current value of the future cash flows which are expected to derive from the asset.
In the event that the book value is greater than the recoverable value, a loss equating to the difference between the two values is recorded under item 130. “Net value adjustments/writebacks on intangible assets”.
If the value of a previously written down intangible asset, other than goodwill, is reinstated, the new amounts cannot exceed the net book value which would have been determined if no loss had been recorded for the impairment of the asset in previous years.

Income component recognition and derecognition
Amortisation is recorded in the income statement in item 130, “Net value adjustments/writebacks on intangible assets”.
Intangible assets are eliminated from the balance sheet at the time of disposal or when future economic benefits from their use or disposal are no longer expected, and any difference between the disposal value and the book value is recorded in income statement item 180. Profit/loss on disposal of investments.

6. Tax assets and liabilities
Income taxes are calculated in observance of current tax legislation. The tax liability (return) is the total amount of the current and deferred taxes included in the calculation of the net profit or loss for the year. Current taxes represent the amount of the income taxes payable (recoverable) referring to the taxable income (tax loss) for a year. Deferred taxes represent the amounts of the income taxes payable (recoverable) in future years, referable to taxable (deductible) timing differences.
Current tax assets include the advance payments and other tax credits for withholdings made or for tax credits for which a rebate has been requested from the competent tax authorities. By contrast, tax liabilities reflect the provisions necessary for covering the tax charges for taxation on the basis of current legislation. Deferred taxation is calculated by applying the so-called “balance sheet liability method”, taking into account the tax effects associated with the timing differences between the book value of the assets and the liabilities and their value for tax purposes, which determine taxable or deductible amounts in future periods.
Timing differences can be:
- ✓ taxable, in other words timing differences which, when determining the taxable income (tax loss) for future years, will translate into taxable amounts when the book value of the asset or the liability will be realised or discharged; a deferred tax liability is recorded for these differences.
- ✓ deductible, in other words timing differences which, when determining the taxable income (tax loss) for future years, will translate into deductible amounts when the book value of the asset or the liability will be realised or discharged.

A deferred tax asset is recorded for all the deductible timing differences if it will be probable that taxable income will be generated against which the deductible timing difference can be used.
Deferred tax assets and liabilities are calculated using the tax rate envisaged in the periods when the assets will be realised or the liability will be discharged and will be offset when they are due to the same tax authority and when the right to offsetting is recognised by law.
Current and deferred taxes are recorded in the income statement with the exception of those relating to items whose value adjustment is recorded as a matching balance to the equity and for which the tax effects are also recorded

among the equity reserves. Prepaid tax assets and deferred tax liabilities are not discounted
back or offset.

7. Payables

Initial recognition
Initial recognition takes place at the fair value of the liabilities, equating to the face value increased by any additional costs/income directly attributable to the individual transaction and not reimbursed by the creditor. Internal administrative costs are excluded.

Classification
"Payables" (item 10) include all the forms of funding vis-à-vis the system as well as amounts due to transferors. Payables include all the debt liabilities, other than trading liabilities.
The item mainly comprises payables due to banks for loans received, current account overdrafts and payables to transferors for loans/receivables acquired without recourse, in relation to the portion for which the price has not been paid to the transferor or all the risks and benefits have not been transferred.

Measurement
After initial recognition, subsequent measurement follows the amortised cost approach, using the effective interest rate method.

Income component recognition
The related interest is recorded in the income statement under item 20. "Interest expense and similar charges".

Derecognition

Payables are cancelled from the financial statements when the related contractual obligations expire or are discharged.

8. Employee termination benefits

Initial recognition and classification
Employee Termination Benefits, disbursed by the employer to the employee when the employment relationship terminates, are one of the worker's rights disciplined by Article 2120 of the Italian Civil Code and by Italian Laws no. 297/1982 and 296/2006. The provision has been recorded as a benefit subsequent to the employment relationship with defined benefits. The related liability is recorded in the financial statements on the basis of the amount to be paid to each employee and is valued using the actuarial method as a "defined benefit obligation", taking into account future due dates when the financial
disbursement will actually occur.
In particular, following Italian Law no. 296/2006 (2007 Budget Act), the amount recorded under the item "Employee termination benefits" refers solely to the defined benefit obligations connected with the benefits accrued up to a specific date within the first half of 2007, which may be different for every employee, valued by an independent actuary without applying the "pro-rata" of the service supplied. As a result, costs relating to work performed after said date are not considered for valuation purposes.

Measurement and income component recognition
The actuarial method for calculating the Employee Termination Benefits starts from the detailed situation, at the moment of recording, of each worker and envisages year after year, for each individual worker up until his/her departure, the development of this situation due to:
- ✓ the expected date of termination of the employment relationship, resignation, redundancy, death, inability to work or retirement (once the requirements have been met);
- ✓ for each worker that remains within the workforce, potential requests for advance salary payments are also taken into account.

9. Provision for risks and charges

Initial recognition/classification
A provision is recorded under “Provisions for risks and charges” (item 110) only when:
- a current obligation (legal or implicit) exists as the result of a past event;
- it is probable that the use of resources will be necessary for meeting the obligation;
- a reliable estimate can be made of the amount of the obligation.

Measurement
The provision is represented by the liabilities which it is supposed will be incurred in order to discharge the obligation.
The provisions for risks and charges include:
- provisions for revocation disputes and third party disputes (including therein those made by staff and former employees);
- any other provision with a specific purpose;
- provision for a redundancy incentive for employees.

No provision is made against potential and improbable liabilities.

Income component recognition
The amount set aside to the provision for risks and charges is recorded in the income statement under item 150 “Net provisions for risks and charges”.
The afore-mentioned item includes the balance, positive or negative, between the provisions and any re-allocations to the income statement of the provisions deemed in excess.
If the provisions concern charges for employees, the income statement item concerned is item 110.a) “Administrative expenses: personnel expenses”.

Derecognition
The provisions made are reviewed as of each year end date and adjusted to reflect the best current estimate. If it is no longer likely that the use of resources for producing economic benefits will be necessary to meet the obligation, the provision is reversed.

A.3 - DISCLOSURE ON THE TRANSFERS BETWEEN FINANCIAL ASSET PORTFOLIOS
The company has not carried out any portfolio transfers during 2017.

A.4 – FAIR VALUE DISCLOSURE

Qualitative information

A.4.1 Fair value levels 2 and 3: measurement techniques and input used
The fair value is the price which would be perceived for the sale of an asset, or which would be paid for the transfer of a liability in a regular transaction between market operators as of the measurements date (*IFRS 13; §9*). In the event of financial instruments listed on active markets (fair value level 1), the fair value is determined as from the official prices of the most advantageous market to which the Company has access (Mark to Market). A financial instrument is considered as listed on an active market if the listed prices are readily and duly available in a price list and these prices represent effective market transactions which regularly take place in normal transactions.
For the purpose of classification in fair value level 2, if the official listing on an active market does not exist for a financial instrument in its entirety, but active markets exist for the parts which it is comprised of, the fair value is determined on the basis of the pertinent market prices for the parts it is comprised of. If the market listings are not available, the Company resorts to measurement models (Mark to Model) in line with the methods generally accepted and used by the market. The measurement models include techniques based on the discounting of the future cash flows and on the estimate of the volatility and are subject to review both during their development and periodically, for the purpose of ensuring their full coherence with the objectives of the measurement.
These methods use inputs based on prices formed in recent transactions in the instrument subject to measurement and/or prices/listings of instruments with similar features in terms of risk profile. These prices/listings are, in fact, important

for the purpose of determining the significant parameters, in terms of credit risk, liquidity risk, price risk and any other significant risk, relating to the instrument being measured.

The reference to these "market" parameters makes it possible to limit the discretion used in the measurement, at the same time ensuring the verifiability of the resulting fair value.

If, due to one or more risk factors, it is not possible to refer to market data, and therefore the financial instruments are classified in fair value level 3, the measurement models employed use estimates based on historical data as inputs.

The parameters which cannot be observed on the markets used for the measurement of the equity instruments which give rise to FV adjustments in the determination of the estimates, refer to the Net Asset Value (with the exclusion of any intangible fixed assets) whose calculation is based on data communicated directly by the Company (financial statements, reports, etc.).

Specifically, as at 31 December 2017, the Company had recorded both unlisted equity investments that are carried at cost, since these are capital instruments whose fair value cannot be measured reliably, as well as unlisted equity investments measured at fair value on equity figures under "Available-for-sale financial assets".

During 2017, no changes took place in the measurement techniques used for estimating the fair value of Levels 2 and 3 of the financial assets and liabilities measured at fair value.

With regard to the financial instruments recognised at amortised cost, with regard to the estimate of the fair value indicated in the Note to the accounts, the following methods and assumptions have been applied:

- for cash and cash equivalents the fair value is represented by the nominal or face value;
- for properties, the fair value is determined on the basis of the analysis of the market values of similar properties;
- with regard to the impaired financial assets, the fair value has been adopted as equal to the estimated realisable value used for financial statement purposes;
- with regard to financial assets, as well as for other asset and liability items without a specific maturity, the book value essentially approximates the fair value.

A.4.2 Processes and sensitivity of the measurements

The unobservable parameters capable of influencing the measurement of the instruments classified as level 3 are represented by the estimates and the assumptions underlying the models used for measuring the investments in equities.

With regard to these investments, no quantitative sensitivity analysis of the fair value with respect to the change in the non-observable inputs has been drawn up, since either the fair value has been obtained from third party sources without making any adjustment or it is the result of a model whose inputs are specific to the entity subject to measurements (e.g., equity values of the company) and in relation to which it is not reasonably possible to hypothesise alternative values.

A.4.3 Fair value hierarchy

IFRS 13 establishes a fair value hierarchy in relation to the degree of observability of the inputs of the valuation techniques adopted. In detail, the following levels are identified:

Level 1: valuations (without adjustments) taken from the active markets of the listings;

Level 2: inputs other than the listed prices as per the previous point, but in any event referring to parameters or prices which can be observed directly or indirectly on the market;

Level 3: inputs which are not based on market observations.

The classification of financial instruments measured at fair value and assets and liabilities not measured at fair value or valued at fair value on a non-current basis is carried out with reference to the afore-mentioned indications. These parameters are also used for the transfer between the various levels which might become necessary during the year.

There were no transfers between the fair value levels during 2017.

A.4.4 Other information

The Company has not availed itself of the possibility envisaged by IFRS 13, § 48 which makes it possible to "measure the fair value of a group of financial assets and liabilities based on the price which would be received from the sale of a long net position (or rather an asset) for a specific exposure to risk or from a transfer of a short net position (or rather a liability) for a particular exposure to risk in a regular transaction between market operators as of the measurement date, under current market conditions."

Quantitative information

A.4.5 Fair value hierarchy

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

(thousands of €)

	2017			2016		
Assets/liabilities at fair value	L1	L2	L3	L1	L2	L3
1. Financial assets held for trading	-	-	-	-	-	-
2. Financial assets at fair value	-	-	-	-	-	-
3. Available-for-sale financial assets	-	-	5,921	-	-	7,285
4. Hedging derivatives	-	-	-	-	-	-
5. Tangible assets	-	-	-	-	-	-
6. Intangible assets	-	-	-	-	-	-
Total	**-**	**-**	**5,921**	**-**	**-**	**7,285**
1. Financial liabilities held for trading	-	232	-	-	359	-
2. Financial liabilities at fair value	-	-	-	-	-	-
3. Hedging derivatives	-	-	-	-	-	-
Total	**-**	**232**	**-**	**-**	**359**	**-**

KEY:
BV = Book Value
L1 = Level 1
L2 = Level 2
L3 = Level 3

At year end, the company did not have any reclassification of the financial instruments among the portfolios. Available-for-sale financial assets are represented by investments in unlisted companies.

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

(thousands of €)

		Financial assets held for trading	Financial assets at fair value	Available-for-sale financial assets	Hedging derivatives	Tangible assets	Intangible assets
1.	**Opening balances**		-	**7,285**	-	-	-
2.	**Increases**	-	-	**-**	-	-	-
2.1.	Purchases	-	-	-	-	-	-
2.2.	Profits booked to:	-	-	-	-	-	-
2.2.1	Income statement	-	-	-	-	-	-
	- of which capital gains	-	-	-	-	-	-
2.2.2.	Shareholders' Equity	X	X	-	-	-	-
2.3	Transfers from other levels	-	-	-	-	-	-
2.4.	Other increases	-	-	-	-	-	-
3.	**Decreases**	-	-	**1,364**	-	-	-
3.1	Sales		-	-	-	-	-
3.2	Reimbursements	-	-	563	-	-	-
3.3	Losses booked to:	-	-	801	-	-	-
3.3.1	Income statement	-	-	350	-	-	-
	- of which capital losses	-	-	350	-	-	-
3.3.2	Shareholders' Equity	X	X	451	-	-	-
3.4	Transfers to other levels	-	-	-	-	-	-
3.5	Other decreases	-	-	-	-	-	-
4.	**Closing balances**	-	-	**5,921**	-	-	-

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

(thousands of €)

		Financial liabilities held for trading	Financial liabilities at fair value	Hedging derivatives
1.	**Opening balances**	-	-	-
2.	**Increases**	-	-	-
2.1.	Bond issues	-	-	-
2.2.	Losses booked 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.	Reimbursements	-	-	-
3.2.	Purchases	-	-	-
3.3.	Profits booked to:	-	-	-
3.3.1.	Income statement	-	-	-
	- of which capital gains	-	-	-
3.3.2.	Shareholders' Equity	x	x	-
3.4.	Transfers from other levels	-	-	-
3.5.	Other decreases	-	-	-
4.	**Closing balances**	-	-	-

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 level

(thousands of €)

Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis	2017 VB	2017 L1	2017 L2	2017 L3	2016 VB	2016 L1	2016 L2	2016 L3
1. Held-to-maturity financial assets	-	-	-	-	-	-	-	-
2. Receivables	7,381,203	-	-	7,381,203	7,553,487	-	-	7,553,487
3. Investments	-	-	-	-	-	-	-	-
4. Tangible assets held for investment	2,724	-	2,724	-	2,863	-	2,863	-
5. Non current assets and groups of assets undergoing disposal	-	-	-	-	-	-	-	-
Total	**7,383,927**	**-**	**2,724**	**7,381,203**	**7,556,350**	**-**	**2,863**	**7,553,487**
1. Payables	6,579,063	-	-	6,579,063	6,836,535	-	-	6,836,535
2. Securities issued	-	-	-	-	-	-	-	-
3. Liabilities associated with assets undergoing disposal	-	-	-	-	-	-	-	-
Total	**6,579,063**	**-**	**-**	**6,579,063**	**6,836,535**	**-**	**-**	**6,836,535**

KEY:
BV = Book Value
L1 = Level 1
L2 = Level 2
L3 = Level 3

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

The company did not carry out any transactions which generated the so-called "day one profit/loss",

PART B – INFORMATION ON THE BALANCE SHEET

ASSETS

Section 1 – Cash and cash equivalents – Item 10

(thousands of €)

	31/12/2017	31/12/2016
a) Cash	9	14
b) Unrestricted deposits with central banks	-	-
Total	**9**	**14**

The item comprises cash and cash equivalents and revenue stamps at company headquarters.

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

4.1 Breakdown of Item 40 “Available-for-sale financial assets”

(thousands of €)

Items/Balances	31/12/2017			31/12/2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1 Debt securities	-	-	-	-	-	-
Structured securities	-	-	-	-	-	-
Other debt securities	-	-	-	-	-	-
2 Equity investments and UCI units	-	-	5,921	-	-	7,285
3 Loans	-	-	-	-	-	-
Total	**-**	**-**	**5,921**	**-**	**-**	**7,285**

The item concerns unlisted equity investments held by Ifitalia in the companies detailed below:

(thousands of €)

DESCRIPTION	No. of Ifitalia shares	Holding %	Nominal value	Book value
Unlisted securities:				
Serfactoring SpA Via Fabiani 1 B 20097 San Donato Milanese Share capital EUR 5.160.000	180,000	18%	929	4,607
Business Partner Italia ScpA Via Vittorio Veneto 119 00187 Roma Share capital EUR 5.710.300	172,111	3.01%	172	172
Other holdings				1,142
Total				5,921

The amount of EUR 1,142 thousand (EUR 2,055 thousand in 2016), recorded in the item “other” refers to the investment holdings held by Ifitalia inherent to cinema productions. During the year, reimbursements of EUR 563 thousand and write-downs of EUR 350 thousand were recognised. It has not been possible to reliably establish the fair value of the investments since they are not traded on an active market.
In 2017, the equity investment in Serfactoring was written down for EUR 451 thousand as a matching balance under equity.

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

(thousands of €)

Items/Balances	31/12/2017	31/12/2016
Financial assets		
a) Governments and Central Banks	-	-
b) Other government agencies	-	-
c) Banks	-	-
d) Financial institutions	4,607	5,058
e) Other issuers	1,314	2,227
Total	**5,921**	**7,285**

Section 6 – Loans and receivables - Item 60

(thousands of €)

Breakdown	Total 31/12/2017	Total 31/12/2016
Deposits and current accounts	1.539	4.341
Factoring receivables	6.698.784	6.869.367
- with recourse	1.245.626	1.532.838
- without recourse	5.453.158	5.336.541
Other loans	681.110	679.810
Other assets	-	-
Total	7.381.433	7.553.531
Total Fv	**7.381.433**	**7.553.531**

6.1 "Due from banks"

(thousands of €)

Breakdown	Total 31/12/2017				Total 31/12/2016			
	Book Value	Fair Value			Book Value	Fair Value		
		L 1	L 2	L 3		L 1	L 2	L 3
1. Deposits and current accounts	1.539	-	-	1.539	4.341	-	-	4.341
2. Loans	167.742	-	-	167.742	135.024	-	-	135.024
2.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.2 Financial leasing	-	-	-	-	-	-	-	-
2.3 Factoring	167.742	-	-	167.742	135.024	-	-	135.024
- with recourse	142.505	-	-	142.505	118.796	-	-	118.796
- without recourse	25.237	-	-	25.237	16.228	-	-	16.228
2.4 Other loans	-	-	-	-	-	-	-	-
3. Debt securities	-	-	-	-	-	-	-	-
- structured securities	-	-	-	-	-	-	-	-
- other debt securities	-	-	-	-	-	-	-	-
4. Other assets	-	-	-	-	-	-	-	-
Total	**169.281**	**-**	**-**	**169.281**	**139.365**	**-**	**-**	**139.365**

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

The item "Deposits and current accounts" concerns the on-demand amounts due from lending institutions represented by temporary creditor balances of Euro and currency current accounts.

6.2 “Due from financial institutions”

(thousands of €)

Breakdown	Total 31/12/2017						Total 31/12/2016					
	Book Value			Fair Value			Book Value			Fair Value		
	Performing	Impaired		L 1	L 2	L 3	Performing	Impaired		L 1	L 2	L 3
		Purchased	Other					Purchased	Other			
1. Deposits and current accounts	50.829	-	628	-	-	51.457	146.611	-	723	-	-	147.334
2. Loans	-	-	-	-	-	-	-	-	-	-	-	-
2.1 Repurchase agreements	-	-	-	-	-	-	-	-	-	-	-	-
2.2 Financial leasing	50.829	-	628	-	-	51.457	146.611	-	723	-	-	147.334
2.3. Factoring	28.180	-	620	-	-	28.800	117.111	-	622	-	-	117.733
- with recourse	22.649	-	8	-	-	22.657	29.500	-	101	-	-	29.601
- without recourse	-	-	-	-	-	-	-	-	-	-	-	-
2.4 Other loans	-	-	-	-	-	-	-	-	-	-	-	-
3. Debt securities	-	-	-	-	-	-	-	-	-	-	-	-
- structured securities	-	-	-	-	-	-	-	-	-	-	-	-
- other debt securities	-	-	-	-	-	-	-	-	-	-	-	-
4. Other assets	-	-	-	-	-	-	-	-	-	-	-	-
Total	**50.829**	**-**	**628**	**-**	**-**	**51.457**	**146.611**	**-**	**723**	**-**	**-**	**147.334**

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

6.3 “Due from customers”

Breakdown	Total 31/12/2017						Total 31/12/2016					
	Book Value			Fair Value			Book Value			Fair Value		
	Performing	Impaired		L 1	L 2	L 3	Performing	Impaired		L 1	L 2	L 3
		Purchased	Other					Purchased	Other			
1. Loans	6.912.048	-	248.647	-	-	7.160.695	6.990.551	-	276.280	-	-	7.266.831
1.1 Financial leasing	-	-	-	-	-	-	-	-	-	-	-	-
of which: without final purchase option	-	-	-	-	-	-	-	-	-	-	-	-
1.2 Factoring	6.230.938	-	248.647	-	-	6.479.585	6.310.741	-	276.280	-	-	6.587.021
- with recourse	928.082	-	146.239	-	-	1.074.321	1.150.774	-	145.535	-	-	1.296.309
- without recourse	5.302.856	-	102.408	-	-	5.405.264	5.159.967	-	130.745	-	-	5.290.712
1.3 Consumer credit	-	-	-	-	-	-	-	-	-	-	-	-
1.4 Credit cards	-	-	-	-	-	-	-	-	-	-	-	-
1.5 Loans on pledge	-	-	-	-	-	-	-	-	-	-	-	-
1.6. Loans granted in relation to the payment services performed	-	-	-	-	-	-	-	-	-	-	-	-
1.7 Other loans	681.110	-	-	-	-	681.110	679.810	-	-	-	-	679.810
of which: from enforcement of guarantees and commitments	-	-	-	-	-	-	-	-	-	-	-	-
2. Debt securities	-	-	-	-	-	-	-	-	-	-	-	-
2.1 structured securities	-	-	-	-	-	-	-	-	-	-	-	-
2.2 other debt securities	-	-	-	-	-	-	-	-	-	-	-	-
3. Other assets	-	-	-	-	-	-	-	-	-	-	-	-
Total	**6.912.048**	**-**	**248.647**	**-**	**-**	**7.160.695**	**6.990.551**	**-**	**276.280**	**-**	**-**	**7.266.831**

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

6.4 "Loans and Receivables": guaranteed assets

(thousands of €)

Breakdown	Total 31/12/2017						Total 31/12/2016					
	Due from banks		Due from financial institutions		Due from customers		Due from banks		Due from financial institutions		Due from customers	
	VE	VG	VE	VG	VE	VG	VE	VG	VE	VG	VE	VG
1. Performing assets guaranteed by:												
- Leased assets												
- Factoring receivables	142,244	142,244	24,677	24,677	968,267	965,537	118,627	118,627	115,636	115,636	1,221,162	1,218,423
- Mortgages					2	2					44	44
- Pledges												
- Unsecured guarantees	51	51			685,618	478,045					710,889	442,027
- Derivatives on receivables												
2. Impaired assets guaranteed by:												
- Leased assets												
- Factoring receivables			612	612	143,550	143,549			596	596	141,439	141,416
- Mortgages												
- Pledges												
- Unsecured guarantees					3,533	3,263					5,167	4,972
- Derivatives on receivables												
Total	**142,295**	**142,295**	**25,289**	**25,289**	**1,800,970**	**1,590,396**	**118,627**	**118,627**	**116,232**	**116,232**	**2,078,701**	**1,806,882**

VE = book value of exposures
VG = fair value of the guarantees (for the type of guarantees outstanding it equates to the contractual value)

Section 10 – Tangible assets – Item 100

10.1 Tangible assets for business use: breakdown of assets valued at cost

(thousands of €)

Assets/Balances	31/12/2017	31/12/2016
1. Owned	**17,976**	**18,809**
a) land	13,186	13,186
b) buildings	3,991	4,365
c) furniture	88	159
d) electronic systems	672	1,099
e) other	39	-
2. Assets acquired under financial lease	**-**	**-**
a) land	-	-
b) buildings	-	-
c) furniture	-	-
d) electronic systems	-	-
e) other	-	-
Total	**17,976**	**18,809**

10.2 Tangible assets held for investment: breakdown of assets valued at cost

(thousands of €)

Assets/Balances		31/12/2017				31/12/2016			
		Book Value	Fair Value L1	Fair Value L2	Fair Value L3	Book Value	Fair Value L1	Fair Value L2	Fair Value L3
1.	**Owned**	**2,724**		**2,724**		**2,863**		**2,863**	
	- land	1,030		1,030		1,030		1,030	
	- buildings	1,694		1,694		1,833		1,833	
2.	**Assets acquired under financial lease**	**-**				**-**			
a)	land	-				-			
b)	buildings	-				-			
	Total	**2,724**		**2,724**		**2,863**		**2,863**	

"Assets held for investment" are represented by certain leased parts of the owned property in Via Vittor Pisani 15, Milan and the property in Via Vittorio Veneto 7, Rome.

10.3 Tangible assets for business use: breakdown of revalued assets

There were no amounts in this section.

10.4 Tangible assets held for investment: breakdown of assets measured at fair value

There were no amounts in this section.

10.5 Tangible assets for business use: changes during the year

The tangible assets for business use of the company are all valued at cost.

(thousands of €)

			Land	Buildings	Furniture	Electronic systems	Other	Total
A.	**Gross opening balances**		**13,186**	**12,459**	**1,789**	**7,084**	**0**	**34,518**
A.1	**Total net impairment**			**(8,094)**	**(1,630)**	**(5,985)**	**-**	**(15,709)**
A.2	**Net opening balances**		**13,186**	**4,365**	**159**	**1,099**	**0**	**18,809**
B.	**Increases**				**1**	**143**	**183**	**327**
	B.1	Purchases					183	**183**
	B.2	Capitalised improvement costs						
	B.3	Value writebacks						
	B.4	Positive fair value changes booked to:						
		a) equity						
		b) income statement						
	B.5	Positive exchange rate differences						
	B.6	Transfers from properties held for investment						
	B.7	Other increases			1	**143**		**144**
C.	**Decreases**		**-**	**374**	**72**	**571**	**143**	**1,160**
	C.1	Sales			1			**1**
	C.2	Depreciation		374	71	571		**1,016**
	C.3	Value adjustments from impairment booked to:						
		a) equity						
		b) income statement						
	C.4	Negative fair value changes booked to:						
		a) equity						
		b) income statement						
	C.5	Negative exchange rate differences						
	C.6	Transfers to:						
		a) tangible assets held for investment						
		b) assets undergoing disposal						
	C.7	Other decreases					143	**143**
D.	**Gross closing balances**		**13,186**	**3,991**	**88**	**671**	**40**	**17,976**
D.1	**Total net impairment**			**(8,468)**	**(1,700)**	**(6,413)**		**(16,581)**
D.2	**Net closing balances**		**13,186**	**12,459**	**1,788**	**7,084**	**40**	**34,557**
E.	Valued at cost		**13,186**	**3,991**	**88**	**671**	**40**	**17,976**

10.6 Tangible assets held for investment: changes during the year

The tangible assets held for investment of the company are all valued at cost.

(thousands of €)

			31/12/2017	
			Land	**Buildings**
A.	**Opening balances**		**1,030**	**1,834**
B.	**Increases**		**-**	-
	B.1	Purchases		-
	B.2	Capitalised improvement costs		
	B.3	Positive fair value changes		
	B.4	Value writebacks		
	B.5	Positive exchange rate differences		
	B.6	Transfers from properties for business use	-	-
	B.7	Other increases		-
C.	**Decreases**		**-**	140
	C.1	Sales		-
	C.2	Depreciation		140
	C.3	Negative net fair value changes		
	C.4	Value adjustments from impairment		
	C.5	Negative exchange rate differences		
	C.6	Transfers to other asset portfolios:		
		a) properties for business use		
		b) non current assets undergoing disposal		
	C.7	Other decreases		
D.	**Closing balances**		**1,030**	**1,694**
E.	**Valued at fair value**		**1,030**	**1,694**

In the financial statements, the value of the land is separated from the company's property located in Milan (Via Vittor Pisani), based on the estimate of the company which appraised the property in 2000, assigning the land a value equating to 55% of the revalued historic cost recorded in the financial statements for the property (monetary revaluation as per Italian Law no. 342 dated 21 November 2000).

The value of the land for the property located in Rome (Via V. Veneto) has not been spun-off, since Ifitalia does not own the entire building.

10.7 Commitments to purchase tangible assets (IAS 16/74.c)

There were no amounts in this section.

Section 11 – Intangible assets – Item 110

11.1 Breakdown of item 110 "Intangible assets"

(thousands of €)

Items/Valuation	31/12/2017		31/12/2016	
	Assets valued at cost	Assets valued at fair value	Assets valued at cost	Assets valued at fair value
1. Goodwill	-	-	-	-
2. Other intangible assets:				
2.1 owned	**9,985**	-	**9,055**	-
- generated internally	1,834	-	1,679	-
- other	8,151	-	7,376	-
2.2 acquired under financial lease	**-**	-	**-**	-
Total 2	**9,985**	-	**9,055**	-
3. Assets pertaining to financial lease:				
3.1 unopted assets	**-**	-	**-**	-
3.2 assets withdrawn following termination	**-**	-	**-**	-
3.3 other assets	-	-	-	-
Total 3	**-**	-	**-**	-
4. Assets granted under operating lease				
Total (1+2+3+4)	**9,985**		**9,055**	
Total	**9,985**	**-**	**9,055**	**-**

The IT costs attributable to internal software development projects amount to EUR 1,834 thousand, generated entirely by Ifitalia resources. The intangible fixed assets also include "software licenses" for EUR 428 thousand (EUR 542 thousand in 2016) and "software development" for EUR 7,723 thousand (EUR 6,834 thousand in 2016), purchased from third-party suppliers.

11.2 Tangible assets: changes during the year

(thousands of €)

			Total
A.	**Opening balances**		**9,055**
B.	**Increases**		**3,115**
	B.1	Purchases	3,115
	B.2	Value writebacks	-
	B.3	Positive fair value changes	-
		- equity	-
		- income statement	-
	B.4	Other increases	**-**
C.	**Decreases**		**2,185**
	C.1	Sales	**-**
	C.2	Depreciation	2,185
	C.3	Value adjustments	-
		- equity	
		- income statement	-
	C.4	Negative fair value changes	-
		- equity	
		- income statement	
	C.5	Other decreases	-
D.	**Net closing balances**		**9,985**

The purchases during the year, amounting to EUR 3,115 thousand, refer to capitalisations of IT costs, of which EUR 598 thousand (496 thousand in 2016) referring to capitalisation of internal effort.

11.3 Intangible assets - other information

Nothing to report

Section 12 – Tax assets and tax liabilities

12.1 Breakdown of item 120 “Tax assets: current and prepaid”

(thousands of €)

	31/12/2017				31/12/2016			
	IRES	IRAP	other	total	IRES	IRAP	other	total
Current tax assets:								
- Tax advances	10,145	3,076		13,221	14,961	4,039	471	19,471
- Amounts withheld	12	-	-	12	30	-	-	30
- Tax credits pending rebate by the tax authorities	2,215	-	-	2,215	2,215	-	-	2,215
	12,372	**3,076**	**-**	**15,448**	**17,206**	**4,039**	**471**	**21,716**
Prepaid tax assets:								
- Writedowns of credits exceeding the deductible portion for the year	31,100	3,378	-	34,478	33,961	3,688	-	37,649
- Provisions for risks and charges	4,401	61	-	4,462	4,330	48	-	4,378
- Other	145	-	-	145	106	-	-	106
	35,646	**3,439**	**-**	**39,085**	**38,397**	**3,736**	**-**	**42,133**
Total	**48,018**	**6,515**	**-**	**54,533**	**55,603**	**7,775**	**471**	**63,849**

12.2 Breakdown of item 70 “Tax liabilities: current and deferred”

(thousands of €)

	31/12/2017			31/12/2016		
	IRES	IRAP	total	IRES	IRAP	total
Current tax liabilities:						
- Taxes for the year	9,393	2,500	11,893	11,133	3,673	14,806
	9,393	**2,500**	**11,893**	**11,133**	**3,673**	**14,806**
Deferred tax liabilities:						
- Amortisation/depreciation of tangible fixed assets	1,547	313	1,860	1,548	313	1,861
- Provision for employee termination benefits	223	24	247	278	-	278
- Tax writedowns of credits	-	-	-	-	-	-
	1,770	**337**	**2,107**	**1,826**	**313**	**2,139**
Total	**11,163**	**2,837**	**14,000**	**12,959**	**3,986**	**16,945**

12.3 Change in prepaid taxes (matching balance in income statement)

	31/12/2017	31/12/2016
1. Opening balance	**42,026**	**44,327**
2. Increases	**1,058**	**1,656**
2.1 Prepaid taxes recorded during the year	990	1,578
a) relating to previous years	-	-
b) due to change in accounting policies		
c) value writebacks		
d) other	990	1,578
2.2 New taxes or increases in tax rates		
2.3 Other increases	68	78
2.4 Other increases due to business combination		
3. Decreases	**4,144**	**3,957**
3.1 Prepaid taxes cancelled during the year	4,144	3,957
a) amounts reversed	4,144	3,957
b) writedowns due to non-recoverability		
c) due to change in accounting policies		
d) other	-	-
3.2 Reductions in tax rates		
3.3 Other decreases	-	-
a) transformation into tax credits pursuant to Law 214/2011		
b) other	-	-
4. Closing balance	**38,940**	**42,026**

Prepaid tax assets have been recorded in the financial statements based on the assumption that taxable income will be generated against which the deductible timing differences can be used.

The increase of EUR 1,058 thousand refers almost entirely to the provision to risks and charges for the year; the reduction of EUR 4,144 thousand relating to prepaid taxes cancelled during the year concerns the deductible portion of receivables (EUR 3,170 thousand) and the use of the risk and charges provisions (EUR 974 thousand).

12.3.1 Change in prepaid taxes pursuant to Law 214/2011 (matching balance in income statement)

(thousands of €)

	31/12/2017	31/12/2016
1. Opening balance	**37,648**	**39,656**
2. Increases	**-**	**-**
3. Decreases	**3,170**	**2,008**
3.1 Amounts reversed	3,170	2,008
3.2 Transformation into tax credits	-	-
a) from losses for the year		
b) from tax losses		
3.3 Other decreases	-	-
4. Closing balance	**34,478**	**37,648**

12.4 Changes in deferred taxes (matching balance in income statement)

(thousands of €)

	31/12/2017	31/12/2016
1. Opening balances	**1,861**	**1,861**
2. Increases	**-**	**-**
2.1 Deferred taxes recorded during the year	-	-
a) relating to previous years	-	-
b) due to change in accounting policies	-	-
c) other	-	-
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**1**	**-**
3.1 Deferred taxes cancelled during the year	-	-
a) amounts reversed	-	-
b) due to change in accounting policies	-	-
c) other	-	-
3.2 Reductions in tax rates	-	-
3.3 Other decreases	1	-
4. Closing balance	**1,860**	**1,861**

12.5 Changes in prepaid taxes (matching balance under equity)

(thousands of €)

	31/12/2017	31/12/2016
1. Opening balance	**106**	**100**
2. Increases	**39**	**6**
2.1 Prepaid taxes recorded during the year	39	6
a) relating to previous years		
b) due to change in accounting policies		
c) other	39	6
2.2 New taxes or increases in tax rates		
2.3 Other increases		
3. Decreases		
3.1 Prepaid taxes cancelled during the year		
a) amounts reversed		
b) writedowns due to non-recoverability		
c) due to change in accounting policies		
d) other		
3.2 Reductions in tax rates		
3.3 Other decreases		
4. Closing balance	**145**	**106**

12.6 Changes in deferred taxes (matching balance under equity)

(thousands of €)

	31/12/2017	31/12/2016
1. Opening balance	**278**	**55**
2. Increases	**-**	**223**
2.1 Deferred taxes recorded during the year	-	223
a) relating to previous years		
b) due to change in accounting policies		
c) other		223
2.2 New taxes or increases in tax rates		
2.3 Other increases		
3. Decreases	**31**	**-**
3.1 Deferred taxes cancelled during the year	31	
a) amounts reversed		
b) due to change in accounting policies		
c) other	31	
3.2 Reductions in tax rates		
3.3 Other decreases	-	-
4. Closing balance	**247**	**278**

Section 14 – Other assets – Item 140

14.1 Breakdown of item 140 "Other assets"

(thousands of €)

	31/12/2017	31/12/2016
Guarantee deposits	9	10
Amounts receivable for supply of services/advance payments	88	152
Items in transit	43	12
Securities credited to customers subject to collection services awaiting collection from the bank	1,506	1,505
Other amounts receivable	12,600	12,730
Total	**14,246**	**14,409**

LIABILITIES

Section 1 – Payables – Item 10

1.1 Payables

(thousands of €)

Items	31/12/2017			31/12/2016		
	due to banks	due to financial institutions	due to customers	due to banks	due to financial institutions	due to customers
1. **Loans**	5.530.969	172	-	5.639.832		-
1.1. Reverse repurchase agreements						
1.2 other	5.530.969	172		5.639.832		
2. **Other payables**	500.530		290.492	801.896		254.807
Total	**6.031.499**	**172**	**290.492**	**6.441.728**	**-**	**254.807**
Fair value - level 1						
Fair value - level 2						
Fair value - level 3	6.031.499	172	290.492	6.441.728		254.807
Total fair value	**6.031.499**	**172**	**290.492**	**6.441.728**	**-**	**254.807**

Payables due to banks are almost entirely represented by the exposure to the Parent Company BNP Paribas. Other loans due to banks concern loans falling due. Other payables to customers concern the payables due to transferors for the portion of the fee not advanced relating to without recourse loans/receivables.

1.2 Subordinated payables

There were no amounts in this section.

Section 2 – Securities outstanding – Item 20

(thousands of €

Type of securities /Balances	31/12/2017				31/12/2016			
	Book Value	Fair value			Book Value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Securities								
- Bonds								
- Other securities	256.900			256.900	140.000			140.000
Totale	**256.900**	**-**	**-**	**256.900**	**140.000**	**-**	**-**	**140.000**

Section 3 – Financial trading liabilities – Item 30

3.1 Breakdown of item 30 "Financial trading liabilities"

(thousands of €)

Liabilities	Total 31/12/2017					Total 31/12/2016				
	Fair Value			FV	NV	Fair Value			FV	NV
	L1	L2	L3			L1	L2	L3		
A. Cash liabilities	-	-	-	-	-	-	-	-	-	-
1. Payables										
3. Debt securities	-	-	-	-	-	-	-	-	-	-
- Bonds	-	-	-	-	-	-	-	-	-	-
- Structured										
- Other bonds										
- Other securities	-	-	-	-	-	-	-	-	-	-
- Structured										
- Other										
B. Derivatives	-	232	-	232	2,493	-	359	-	359	3,123
1. Financial derivatives	-	232	-	232	2,493	-	359	-	359	3,123
2. Loan derivatives										
Total	-	232	-	232	2,493	-	359	-	359	3,123

L1 = Level 1
L2 = Level 2
L3 = Level 3
NV = Nominal/notional value
Fv* = Fair value calculated excluding the changes on variation of the creditworthiness of the issuer with respect to the issue date.

3.2 "Financial trading liabilities": Subordinated liabilities

There were no amounts in this section.

IFITALIA
GRUPPO BNP PARIBAS

3.3 “Financial trading liabilities”: derivative financial instruments

(thousands of €)

Liabilities	Interest rates	Currencies	Investment securities	Other	Total 31/12/2017	Total 31/12/2016
1. Over the counter						
Financial derivatives						
- Fair value	232				232	359
- Notional value	2,493				2,493	3,123
Loan derivatives						
- Fair value					-	-
- Notional value					-	-
Total	232	-	-	-	232	359
2. Other						
Financial derivatives						
- Fair value						
- Notional value						
Loan derivatives						
- Fair value						
- Notional value						
Total	-	-	-	-	-	-
Total	**232**	**-**	**-**	**-**	**232**	**359**

Section 9 – Other liabilities – Item 90

9.1 Breakdown of item 90 "Other liabilities"

(thousands of €)

Description	Total 31/12/2017	Total 31/12/2016
Collections being registered	108.723	65.912
Amounts due to employees	1.030	1.345
Amounts due to the tax authorities	617	485
Amounts due to social security and welfare institutions	1.038	924
Payables and invoices to be received from suppliers and professionals	20.974	19.367
Liabilities due to transferors	5.636	6.633
Other payables	6.176	9.245
Advances from customers	28.971	26.371
Residual holiday entitlement fund	361	428
Expected loss for without-recourse credit risk recorded among commitments	1.531	1.527
Total	**175.057**	**132.237**

Section 10 − Provision for employee termination benefits − Item 100

10.1 "Provision for employee termination benefits": changes during the year

(thousands of €)

		Total 31/12/2017	Total 31/12/2016
A.	**Opening balances**	**4,912**	**5,226**
B.	**Increases**	**185**	**73**
B.1	Provision for the year	43	51
B.2	Other increases	142	22
C.	**Decreases**	**357**	**387**
C.1	Payments made	343	372
C.2	Other decreases	14	15
D.	**Closing balances**	**4,740**	**4,912**

(*) The provision for employment termination benefits calculated in compliance with Article 2120 of the Italian Civil Code equals EUR 4,310,039 and represents the effective obligation towards employees. The allocation for the year is EUR 93,044.

10.2 Other information

11.2.1 Description of the provision and related risks

Employee termination benefits, disbursed by the employer to the employee when the employment relationship terminates, are one of the worker's rights disciplined by Article 2120 of the Italian Civil Code and by Italian Laws no. 297/1982 and 296/2006. The provision has been recorded as a benefit subsequent to the employment relationship with defined benefits. The related liability is recorded in financial statements based on the amount to be paid to each employee and is valued using the actuarial method as a "defined benefit obligation", taking into account future due dates when the financial disbursement will actually occur.

More specifically, Italian Law No. 296/2006 (2007 Budget Act) essentially states that the portion of employee termination benefits:

- accrued through the beginning of 2007 will remain in-house and must be disbursed to employees in accordance with statutory regulations, creating a liability to be recorded in the financial statements;
- accrued from the beginning of 2007 must, according to the employee's choice: a) be transferred to supplementary welfare funds; or b) be transferred to the INPS Treasury Fund.

Therefore, the amount recorded under the item "Employee termination benefits" refers solely to the defined benefit obligations connected with the benefits accrued up to a specific date within the first half of 2007 which is different for every employee, valued by an independent actuary without applying the “pro-rata” of the service supplied. As a result, costs relating to future work provided are not considered for valuation purposes.

The current method for calculating employee termination benefits starts from the detailed situation, at the moment of entry, of each worker and envisages each year, for each individual worker up until his/her departure, the development of the provision due to:

1. the expected date of termination of the employment relationship, resignation, redundancy, death, inability to work or retirement (once the requirements have been met);
2. for each worker that remains within the workforce, potential requests for advance salary payments are also taken into account.

11.2.2 Changes during the year of net defined benefit liabilities (assets) and reimbursement rights

The change in the provision for employee termination benefits is shown in Section 11 "Employee termination benefits - Item 110 - table 11.1 “Employee termination benefits: annual changes”. The allocation for the year represents the change due to the passage of time and is equivalent to EUR 43 thousand.

The social security cost related to employment benefits, as illustrated above, is not set aside, but recorded directly in the income statement following the supplementary welfare reform, which provides for the allocation of accrued employee termination benefits to supplementary funds or the INPS Treasury Fund (Legislative Decree no. 252/2005 and Law no. 296/2006). The allocation for the year is recorded in the income statement under personnel costs.

11.2.3 Information on the fair value of assets serving the plan

Employee termination benefits are fully paid by the Company and there are no assets serving the plan.

11.2.4 Description of the principal actuarial assumptions

The liability recognised in the balance sheet is equal to the present value of the defined benefit obligations accrued as at 31 December 2017 estimated by an independent actuary.

The benefits owed by the Company were estimated based on developmental assumptions for the population of relevant personnel (forecast of length of employment with company, probability of early disbursements), in addition to the use of appropriate demographic and economic financial bases (mortality tables, monetary inflation). For 2017, the following parameters were used: discount rate of 0.8%; inflation rate of 1.7%; 2% salary increase; estimated employment duration of 12 years.

Section 11 – Provisions for risks and charges − Item 110

11.1 Breakdown of item 110 “Provisions for risks and charges”

(thousands of €)

	Total 31/12/2017	Total 31/12/2016
1. In-house pension funds		
2. Other provisions for risks and charges	13,577	12,724
2.1 legal disputes	6,981	7,684
2.2 revocation actions	2,948	3,631
2.3 personnel charges	3,647	1,409
Total	**13,577**	**12,724**

11.2 Changes during the year of item 110 “Provisions for risks and charges”

(thousands of €)

		Pension funds	Other	Total 31/12/2017	Total 31/12/2016
A.	**Opening balances**	-	**12,724**	**12,724**	**12,835**
B.	**Increases**	-	**2,591**	**2,591**	**4,091**
B.1	Provision for the year		2,588	2,588	3,848
B.2	Changes due to passage of time		3	3	57
B.3	Changes due to variation in discount rate			-	-
B.4	Other increases			-	523
C.	**Decreases**		**1,738**	**1,738**	**4,202**
C.1	Use during the year		1,738	1,738	3,206
C.2	Changes due to variation in discount rate				
C.3	Other decreases		-		1,333
D.	**Closing balances 31/12/2012**	-	**13,577**	**13,577**	**12,724**

Allocations for the year for other provisions included EUR 2 million for the incentive plan for the voluntary redundancy program.

Section 12 – Equity – Items 120, 130, 140 and 150

12.1 Breakdown of item 120 "Share capital"

(thousands of €)

Type	amount
1. Share capital 1.1 Ordinary shares 1.2 Other shares	55,900

The ordinary shares totalling 55,900,000 have been fully subscribed and paid up.

12.2 Breakdown of item 130 "Treasury shares"

There were no amounts in this section.

12.3 Breakdown of item 140 "Equity instruments"

There were no amounts in this section.

12.4 Breakdown of item 150 "Share premium reserve"

(thousands of €)

Type	amount
Share premium	
Share premium	61,799

The share capital and the share premium reserve have not changed with respect to 31 December 2016. Item 120, Share capital, now amounts to EUR 55,900 thousand and is made up of 55,900,000 shares with a par value of EUR 1 each

12.5 Other information

Breakdown and changes in item 160 "Reserves"

(thousands of €)

	Legal reserve	Statutory reserve	Other	Total
A. Opening balances	**11.180**	**471.723**	**11.573**	**494.476**
B. Increases	**-**	**45.214**	**5**	**45.219**
B.1 Allocations of profits	-	45.214	5	45.219
B.2 Other increases	-	-		0
C. Decreases	**-**	**-**	**-**	**0**
C.1 Uses	-	-	-	0
coverage of losses	-	-	-	0
distribution				0
transfer to capital				0
C.1 Other decreases	-	-	-	0
D. Closing balances	**11.180**	**516.937**	**11.578**	**539.695**

Breakdown and changes in item 170 “Valuation reserves”

(thousands of €)

		Available-for-sale financial assets	Tangible assets	Intangible assets	Hedging of financial flows	Special revaluation laws	Other	Total
A.	**Opening balances**	**3,741**	**-**	**-**	**-**	**5,870**	**(912)**	**8,699**
B.	**Increases**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	B.1 Positive fair value changes	-	-	-	-	-	-	-
	B.2 Other increases	-	-	-	-	-	-	-
C.	**Decreases**	**420**	**-**	**-**	**-**	**-**	**103**	**523**
	C.1 Negative fair value changes	420						420
	C.1 Other decreases	-	-	-	-	-	103	103
D.	**Closing balances**	**3,322**	**-**	**-**	**-**	**5,870**	**(1,015)**	**8,176**

The "Other" column refers to defined benefit plans.

With regards to the provisions of Article 2427 no. 7-*bis* of the Italian Civil Code, the following table provides an analytical breakdown of equity items by origin, potential use and distributable nature. No use was made in the last three years.

(thousands of €)

Ifitalia S.p.A. - Financial Statements as at 31 December 2017

	Amount	Potential use		Amount available
Share capital	55.900	-		-
Capital reserve:				
Share premium reserve	61.799	A-B-C		61.799
Profit reserve:				
Legal reserve	11.180	B		
Statutory reserve	516.937	A-B-C		516.937
Other reserve:				
Stock options/Dspp/Freeshares reserve	102	A-B-C		102
FTA Reserve and Goodwill	10.442	A-B-C		10.442
Merger surplus	1.029	A-B-C		1.029
Other	5	A-B		5
Valuation reserve	8.177	-	(1)	-
Profit for the year	34.579	A-B-C		34.579
Total group shareholders' equity	**700.150**	**-**		**624.893**
Third party equity	**10**			
Total consolidated shareholders' equity	**700.160**			**624.893**

Key:

A: share capital increase

B: coverage of losses

C: distribution to shareholders

(1) As provided for by art. 6 of Legislative Decree no. 38 of 28 February 2005, the valuation reserves formed in accordance with IAS cannot be distributed and are unavailable for allocation to capital, coverage of losses and the uses provided for by articles 2350 third section, 2357 first section, 2358 third section, 2359-bis first section, 2342,2478-bis fourth section of the Italian Civil Code

Section 13 – Third party equity

13.1 Composition of item 190 "Third party equity"

(thousands of €)

Items/Value	Total 2017	Total 2016
1 - Share capital	10	10
2 - Ordinary Shares		
3 - Capital Instruments		
4 - Share premium		
5 - Reserve		
6 -Valuation reserve		
7 - Profit /Loss for the year		
Total	10	10

PART C – INFORMATION ON THE CONSOLIDATED INCOME STATEMENT

Section 1 – Interest – Items 10 and 20

1.1 Breakdown of item 10 "Interest income and similar income"

(thousands of €)

Items/Technical forms	Debt securities	Loans	Other transactions	Total 31/12/2017	Total 31/12/2016
1. Financial assets held for trading				-	-
2. Financial assets at fair value					
3. Available-for-sale financial assets				-	-
4. Held-to-maturity financial assets				-	-
5. Receivables				-	-
5.1 Due from banks		159	388	547	735
5.2 Due from financial institutions		2,001		2,001	238
5.3 Due from customers		56,308	4,972	61,280	71,797
6. Other assets	X		-	-	-
7. Hedging derivatives	X	X		-	-
Total	-	58,468	5,360	63,828	72,770

As at 31 December 2017 interest (other than interest recognised under "value write-backs") accrued during the year on positions classified as "impaired" at the reporting date came to EUR 3,885 thousand.

1.2 Interest and similar income: other information

The interest in item "5. Loans and receivables" essentially refers to interest accrued for factoring activities on payments, advances to transferors and on extensions granted to factored debtors.

1.3 Breakdown of item 20 "Interest expense and similar income expense"

(thousands of €)

Items/Technical forms	Loans	Debt	Other	Total 31/12/2017	Total 31/12/2016
1. Due to banks	4,052	X		4,052	482
2. Due to financial institutions	190	X		190	-
3. Due to customers	-	X		-	-
4. Securities issued	X			-	-
5. Financial liabilities held for trading				-	-
6. Financial liabilities at fair value				-	-
7. Other liabilities	X	X		-	-
8. Hedging derivatives	X	X		-	-
Total	**4,242**	**-**	**-**	**4,242**	**482**

The positive balance of interest on loans received is generated by interest income due at negative interest rates for EUR 7,756 thousand and interest expense for EUR 3,514 thousand, paid mainly on loans in foreign currency, medium/long-term loans, and for the securitisation transaction.

Section 2 – Commissions – Items 30 and 40

2.1 Breakdown of item 30 "Commission income"

(thousands of €)

Analysis	**31/12/2017**	**31/12/2016**
1. financial lease transactions		
2. factoring transactions	57.529	62.013
3. consumer credit	-	-
4. guarantees given	-	-
5. services:		
- fund management for third parties	-	-
- exchange brokerage	-	-
- distribution of products	-	-
- other	-	-
6. collection and payment services	-	-
7. servicing in securitisation transactions	-	-
8. other commission	-	-
Total	**57.529**	**62.013**

2.2 Breakdown of item 40 "Commission expense"

(thousands of €)

Detail/Sectors	31/12/2017	31/12/2016
1. guarantees received	1.085	966
2. distribution of services to third parties	-	-
3. collection and payment services	1.419	1.964
4. other commission	10.232	8.608
of which: brokerage	10.232	88.608
Total	**12.737**	**11.538**

Section 3 – Dividends and similar income – Item 50

3.1 Breakdown of item 50 "Dividends and similar income"

(thousands of €)

Items/Income	Total 31/12/2017		Total 31/12/2016	
	Dividends	Income from UCI units	Dividends	Income from UCI units
1. Financial assets held for trading	-	-	-	-
2. Available-for-sale financial assets	27	-	118	-
3. Financial assets at fair value	-	-	-	-
4. Investments		-		-
Total	**27**	**-**	**118**	**-**

Section 4 – Net trading profit (loss) – Item 60

4.1 Breakdown of item 60 “Net trading profit (loss)”

(thousands of €)

Analysis	Capital gains	Trading gains	Capital losses	Trading losses	Net result
1. Financial assets	**-**	**-**	**-**	**-**	**-**
1.1 Debt securities	-	-	-	-	-
1.2 Investment securities and UCI units	-	-	-	-	-
1.3 Loans	-	-	-	-	**-**
1.4 Other assets	-	-	-	-	**-**
2. Financial liabilities	**-**	**-**	**-**	**-**	**-**
2.1 Debt securities	-	-	-	-	-
2.2 Payables	-	-	-	-	**-**
2.3 Other liabilities	-	-	-	-	**-**
3. Other financial assets and liabilities: exchange rate differences	**-**	**-**	**(356)**	**-**	**(356)**
4. Financial derivatives	**126**	-			**126**
5. Derivatives on receivables	**-**	**-**			**-**
Total	**126**	**-**	**(356)**	**-**	**(230)**

SECTION 7 – Profit (loss) from the sale or repurchase – Item 90

7.1 Breakdown of item 90 "Profit (loss) from the sale or repurchase"

(thousands of €)

Transactions/Income components	31/12/2017			31/12/2016		
	Gains	Losses	Net result	Gains	Losses	Net result
1. Financial assets	**-**	**-**	**-**	**-**		
1.1 Receivables	-	-	-	-	-	-
1.2 Available-for-sale financial assets	-	-	-	-	**(1)**	**(1)**
1.3 Held-to-maturity financial assets	-	-	-	-	-	-
Total (1)		-	-		**(1)**	**(1)**
2. Financial liabilities	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Payables	-	-	-	-	-	-
2.2 Securities issued	-	-	-	-	-	-
Total (2)	**-**	**-**		**-**		
Total (1+2)	**-**	**-**	**-**	**-**		

Section 8 – Net value adjustments for impairment - Item 100

8.1 "Net value adjustments/write-backs for impairment of loans/receivables"

(thousands of €)

Transactions/Income components	Value adjustments		Value writebacks		Total 31/12/2017	Total 31/12/2016
	Specific	Portfolio	Specific	Portfolio		
1. Due from banks						
- for leasing						
- for factoring						
- other amounts receivable						
2. Due from financial institutions						
Impaired receivables acquired						
- for leasing						
- for factoring						
- other amounts receivable						
Other amounts receivable						
- for leasing						
- for factoring	(304)		1,069		765	3,420
- other amounts receivable						
3. Due from customers						
Impaired receivables acquired						
- for leasing						
- for factoring						
- for consumer credit						
- other amounts receivable						
Other amounts receivable						
- for leasing						
- for factoring	(29,059)	(1,810)	14,199		(16,670)	(17,378)
- for consumer credit						
- loans on pledge						
- other amounts receivable						
C. Total	**(29,363)**	**(1,810)**	**15,268**		**(15,905)**	**(13,958)**

8.2 "Net value adjustments/write-backs for impairment of available-for-sale financial assets"

There were no amounts in this section.

8.3 "Net value adjustments/write-backs for impairment of financial assets held to maturity"

There were no amounts in this section.

8.4 Breakdown of sub-item 100.b "Net value adjustments/write-backs for impairment of other financial transactions"

(thousands of €)

Transactions/Income components	Value adjustments		Value writebacks		TOTALE	TOTALE
	Specific	Portfolio	Specific	Portfolio	31/12/2017	31/12/2016
A. Guarantees given	(75)	(12)	83		**(4)**	**181**
B. Derivatives on receivables						
C. Commitments to grant funds						
D. Other transactions						
E. Total	**(75)**	**(12)**	**83**		**(4)**	**181**

Key
A= from interest
B= Other writebacks

Section 9 – Administrative expenses – Item 110

9.1 Breakdown of item 110.a “Personnel expenses”

(thousands of €)

Type of expense/Balances	31/12/2017	31/12/2016
1) Employees	**18.786**	**16.906**
a) wages and salaries	11.481	11.468
b) social security contributions	3.453	3.361
c) termination benefits		-
d) social security and welfare costs		-
e) provision for termination benefits	43	51
f) provisions for post-employment benefits and similar obligations:	438	449
- defined contribution	438	449
- defined benefit	-	-
g) payments to supplementary outside pension funds:	769	753
- defined contribution	769	753
- defined benefit	-	-
h) other expenses (net)	2.602	824
2) Other active employees	115	178
3) Directors and Statutory Auditors	149	149
4) Retired personnel		-
5) Expense recharges for employees seconded with other companies	(405)	(362)
6) Expense reimbursements for third-party employees seconded with other com	2.901	2.540
Total	**21.546**	**19.411**

9.2 Average number of employees by category

	31/12/2017	31/12/2016
Employees	**217**	**216**
a) Executives	7	7
b) 3rd and 4th level managers	79	81
b) 1st and 2nd level managers	41	41
d) Remaining employees	90	87
Other employees	**20**	**20**
Total	**237**	**236**

9.3 Breakdown of item 110.b "Other administrative expenses"

(thousands of €)

Type of expense/Balances	31/12/2017	31/12/2016
Indirect expenses and dues	**1.251**	**1.104**
Sundry services rendered by third parties	**8.340**	**7.773**
Sundry services rendered by third parties (IT)	7.970	7.290
Sundry services rendered by third parties (Internal Auditing)	370	483
Fees for professionals	**4.737**	**4.160**
Fees for consultancy	1.259	955
Fees for legal and notarial costs	2.623	1.942
Fees for debt collection	751	1.168
Compensation to independent Auditors	104	96
Costs relating to properties/furniture	**325**	**354**
Postal, printed matter, surveillance of premises and stock values	**1.666**	**1.782**
Management expenses GFCC	**476**	**506**
Advertising and entertainment	**196**	**248**
Searches and information	**1.411**	**1.334**
Other expenses	**7.743**	**7.446**
TOTAL	**26.145**	**24.706**

The compensation for services rendered by the audit company in 2017, net of VAT, is EUR 80,000.

Section 10 – Net value adjustments/write-backs on tangible assets – Item 120

10.1 Breakdown of item 120 "Net value adjustments/write-backs on tangible assets"

(thousands of €)

Asset/Income component		Depreciation	Value adjustments for impairment	Value writebacks	Net result
1.	**Assets for business use**	**1,016**	**-**	**-**	**1,016**
1.1	**owned**	**1,016**	**-**	**-**	**1,016**
a)	land	-	-	-	-
b)	buildings	374	-	-	374
c)	furniture	71	-	-	71
d)	operating assets	571	-	-	571
e)	other	-	-	-	-
1.2	**acquired under financial lease**		**-**	**-**	**-**
a)	land	-	-	-	-
b)	buildings	-	-	-	-
c)	furniture	-	-	-	-
d)	operating assets	-	-	-	-
e)	other	-	-	-	-
2	**Assets held for investment**	**140**	**-**	**-**	**140**
2.1	**owned**	**140**	-	-	**140**
b)	buildings	140	-	-	140
	Total	**1,156**	**-**	**-**	**1,156**

Section 11 – Net value adjustments/write-backs on intangible assets – Item 130

11.1 Breakdown of item 130 “Net value adjustments/write-backs on intangible assets”

(thousands of €)

Items/Value adjustments and writebacks	Depreciation	Value adjustments for impairment (B)	Value writebacks	**Net result**
1. Goodwill	**-**	**-**	**-**	**-**
2. Other intangible assets	**2,185**	**-**	**-**	**2,185**
2.1 owned	2,185	-	-	2,185
2.2 acquired under financial lease	-	-	-	-
3. Assets pertaining to financial lease	**-**	**-**	**-**	**-**
4. Assets granted under operating lease	**-**	**-**	**-**	**-**
Total	**2,185**	**-**	**-**	**2,185**

Section 13 – Net provisions for risks and charges – Item 150

13.1 Breakdown of item 150 “Net provisions for risks and charges”

(thousands of €)

Analysis	Total 31/12/2017	Total 31/12/2016
PROVISIONS	**(350)**	**(3.848)**
Legal disputes	(350)	(3.848)
Revocation actions		
Pending disputes	(350)	(3.848)
Personnel charges		
Other provisions		
USES	**1.187**	
Legal disputes	*1.187*	
Revocation actions	683	
Pending disputes	504	
Personnel charges		
Other uses		
INTEREST FROM DISCOUNTING BACK	**(3)**	**(56)**
Legal disputes	(3)	(56)
Revocation actions		(13)
Pending disputes	(3)	(44)
Total	**834**	**(3.905)**

Section 14 – Other operating income and expenses – Item 160

14.1 Breakdown of item 160 "Other operating income"

(thousands of €)

Analysis	Total 31/12/2017	Total 31/12/2016
Other income		
Rental income	481	853
Other income	3,147	3,409
Other charges		
Losses for sundry causes	(81)	(622)
Other charges	(867)	(927)
Total	**2,680**	**2,713**

Section 17 – Income taxes for the year on current operations – Item 190

17.1 Breakdown of item 190 "Income taxes for the year on current operations"

(thousands of €)

Income components/Balances		31/12/2017	31/12/2016
1.	Current taxes	(11.754)	(14.700)
2.	Changes in current taxes for previous years		171
3.	Reduction in current taxes for the year	-	-
3.bis	Reduction in current taxes for the year for tax credits		
	of which under Law no. 214/2011	-	-
4.	Change in prepaid taxes	(3.086)	(2.301)
5.	Change in deferred taxes		
	Taxes for the year	**(14.840)**	**(16.830)**

17.2 Reconciliation between the theoretical tax liability and the effective tax liability in the financial statements

(thousands of €)

Analysis	IRES	IRAP
Economic result useful for calculating taxation	49,040	49,040
Permanent non-deductible differences	965	411
Permanent non-taxable differences	(5,773)	
Total taxable income	44,232	49,451
Theoretical tax rate	27.50%	5.55%
Theoretical tax liability/recovery	12,164	2,745
Other differences	(69)	
Effective tax liability as per financial statements	**12,095**	**2,745**

Section 19 – Income statement: other information

19.1 - Detailed breakdown of interest income and commission income

(thousands of €)

Transactions/Income components	Interest income			Commission income			Total	Total
	Banks	Financial institutions	Customers	Banks	Financial institutions	Customers	31/12/2017	31/12/2016
1. Financial leasing								
- property assets								
- movable assets								
- operating assets								
- intangible assets								
2. Factoring	***33***	***4,496***	***59,299***		***87***	***57,448***	**121,363**	**134,785**
- on current receivables	*33*	*4,496*	*56,268*		*87*	*56,949*	117,833	134,151
- on future receivables			*282*				282	359
- on receivables acquired definitely								
- on receivables acquired under nominal value								
- for other loans			*2,749*			*499*	3,248	275
3. Consumer credit								
- personal loans								
- targeted finance								
- loans on salaries								
4. Loans on pledge								
5. Guarantees and commitments								
- commercial								
- financial								
Total	**33**	**4,496**	**59,299**		**87**	**57,448**	**121,363**	**134,785**

19.2 - Other information

Nothing to report

Section 22 – Gain (loss) of the period pertaining to third party

PART D – OTHER INFORMATION

Section 1 – Specific references to transactions carried out

A. FINANCIAL LEASE
There were no amounts in this section.

B. FACTORING AND TRANSFER OF LOANS/RECEIVABLES

B.1 Gross and book values

B.1.1 Factoring transactions

(thousands of €)

Items/Counterpart	31/12/2017			31/12/2016		
	Gross value	Value adjustments	Net value	Gross value	Value adjustments	Net value
1. Performing assets	**6.455.074**	**5.565**	**6.449.509**	**6.596.132**	**3.756**	**6.592.376**
- exposures to transferors (with recourse)	1.100.957	2.190	1.098.767	1.388.154	1.473	1.386.681
- factoring of future receivables	29.211	-	29.211	20.813	-	20.813
- other	1.071.746	2.190	1.069.556	1.367.341	1.473	1.365.856
- exposures to transferred debtors transferors (without recou	5.354.117	3.375	5.350.742	5.207.978	2.283	5.205.695
2. Impaired assets	**519.462**	**270.187**	**249.275**	**566.396**	**289.393**	**277.003**
2.1 Non-performing	**290.976**	**205.339**	**85.637**	**289.892**	**201.631**	88.261
- exposures to transferors (with recourse)	180.121	113.373	66.748	180.292	105.071	75.221
- factoring of future receivables	10.369	6.246	4.123	10.370	5.586	4.784
- other	169.752	107.127	62.625	169.922	99.485	70.437
- exposures to transferred debtors (without recourse)	110.855	91.966	18.889	109.600	96.560	13.040
- purchases below nominal value	-	-	-	-	-	-
- other	110.855	91.966	18.889	109.600	96.560	13.040
2.2 Unlikely to pay	**150.902**	**62.494**	**88.408**	**236.070**	**85.355**	**150.715**
- exposures to transferors (with recourse)	89.200	36.012	53.188	107.245	40.196	67.049
- factoring of future receivables	139	139	-	5.988	2.900	3.088
- other	89.061	35.873	53.188	101.257	37.296	63.961
- exposures to transferred debtors transferors (without recou	61.702	26.482	35.220	128.825	45.159	83.666
- purchases below nominal value	-	-	-	-	-	-
- other	61.702	26.482	35.220	128.825	45.159	83.666
2.4 Past due positions	**77.584**	**2.354**	**75.230**	**40.434**	**2.407**	**38.027**
- exposures to transferors (with recourse)	26.970	47	26.923	3.958	71	3.887
- factoring of future receivables	-	-	-	-	-	-
- other	26.970	47	26.923	3.958	71	3.887
- exposures to transferred debtors transferors (without recou	50.614	2.307	48.307	36.476	2.336	34.140
- purchases below nominal value	-	-	-	-	-	-
- other	50.614	2.307	48.307	36.476	2.336	34.140
Total	**6.974.536**	**275.752**	**6.698.784**	**7.162.528**	**293.149**	**6.869.379**

B.1.2 Purchase transactions for impaired receivables other than factoring
There were no amounts in this section.

B.2 – Breakdown by residual life

B.2.1 – With recourse factoring transactions: advances and "total loans/receivables"

(thousands of €)

Maturity	Advances		Total loans/receivables	
	2017	2016	2017	2016
- on demand	299.823	359.016	2.689.006	2.487.063
- up to 3 months	482.226	711.918	4.403.482	4.463.833
- 3 to 6 months	108.066	184.157	1.028.458	964.813
- 6 months to 1 year	72.673	151.276	470.928	861.992
- beyond 1 year	282.838	126.471	441.294	470.750
- unspecified duration	-	-	-	-
Total	1.245.626	1.532.838	9.033.168	9.248.451

B.2.2 – Without recourse factoring transactions: exposures

(thousands of €)

Maturity	Exposures	
	2017	2016
- on demand	589,662	112,483
- up to 3 months	3,480,018	3,220,740
- 3 to 6 months	731,997	618,517
- 6 months to 1 year	254,831	692,002
- beyond 1 year	114,686	314,804
- unspecified duration	281,964	377,995
Total	5,453,158	5,336,541

B.2.3 – Purchase transactions for impaired receivables other than factoring

There were no amounts in this section.

B.3 – Changes in value adjustments

B.3.1 Factoring transactions

(thousands of €)

Item	Opening value adjustments	Increases				Decreases					Closing value adjustments
		Value adjustments	Losses from sale	Transfer from other status	Other positive changes	Value writebacks	Profits on disposal	Transfer to other status	Cancellations	Other negative changes	
Specific adjustments on impaired assets	**289,393**	**25,458**	**-**	**21,449**	**-**	**(11,397)**	**-**	**(21,449)**	**-**	**(33,267)**	**270,187**
Exposures to transferors	145,338	13,835	-	3,092	-	(7,405)	-	(3,092)	-	(2,336)	149,432
- Non-performing	105,071	10,577		3,092		(3,031)				(2,336)	113,373
- Unlikely to pay	40,196	3,258				(4,350)		(3,092)			36,012
- Past due positions	71					(24)					47
Exposures to transferred debtors	144,055	11,623	-	18,357	-	(3,992)	-	(18,357)	-	(30,931)	120,755
- Non-performing	96,560	6,452		18,357		(2,022)				(27,381)	91,966
- Unlikely to pay	45,159	5,171				(1,941)		(18,357)		(3,550)	26,482
- Past due positions	2,336					(29)					2,307
Portfolio on other assets	**3,756**	**1,809**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**5,565**
Exposures to transferors	1,473	717	-	-	-	-	-	-	-	-	2,190
Exposures to transferred debtors	2,283	1,092	-	-	-	-	-	-	-	-	3,375
Total	**293,149**	**27,267**	**-**	**21,449**	**-**	**(11,397)**	**-**	**(21,449)**	**-**	**(33,267)**	**275,752**

B.3.2 Purchase transactions for impaired receivables other than factoring
There were no amounts in this section.

B.4 – Other information

B.4.1 – Turnover of factored loans/receivables

(thousands of €)

Items	Totale 31/12/2017	Total 31/12/2016
1. ***Without-recourse transactions***	25,756,946	24,792,757
of which: purchases below the nominal value		-
2. ***With-recourse transactions***	3,532,110	3,974,763
Total	**29,289,056**	**28,767,520**

The table was drawn up in accordance with the standards illustrated in section A.2.3. “Loans/receivables – Classification”.

B.4.2 – Collection services

(thousands of €)

Item	Totale 31/12/2017	Total 31/12/2016
Loans and receivables collected in the year	482,817	366,426
Amount of loans and receivables at year end	157,440	129,108

B.4.3 – Nominal value of factoring contracts for future loans/receivables

(thousands of €)

Item	Totale 31/12/2017	Total 31/12/2016
Flow of factoring contracts for future in the year	278,366	253,040
Amount of the contracts at year end	467,688	397,175

D. GUARANTEES GIVEN AND COMMITMENTS

D.1 – Value of guarantees (secured or unsecured) given and commitments

(thousands of €)

	Transactions	Amount 31/12/2017	Amount 31/12/2016
1)	Financial guarantees given upon first request	**142,408**	**147,504**
	a) Banks	10,057	19,426
	b) Financial institutions	6	25
	c) Customers	132,345	128,053
2)	Other financial guarantees given	**-**	**-**
	a) Banks	-	-
	b) Financial institutions	-	-
	c) Customers	-	-
3)	Commercial guarantees given	**-**	**-**
	a) Banks	-	-
	b) Financial institutions	-	-
	c) Customers	-	-
4)	Irrevocable commitments to grant funds	**221,190**	**263,002**
	a) Banks	-	-
	i) certain to be called on	-	-
	ii) uncertain to be called on	-	-
	b) Financial institutions	-	-
	i) certain to be called on	-	-
	ii) uncertain to be called on	-	-
	c) Customers	221,190	263,002
	i) certain to be called on	-	-
	ii) uncertain to be called on	221,190	263,002
5)	Commitments underlying credit derivatives: protection sales	-	-
6)	Assets made to guarantee third party obligations	-	-
7)	Other irrevocable commitments	-	-
	Total	**363,598**	**410,506**

D.2 – Loans recorded in the financial statements due to enforcement

(thousands of €)

Exposures	31/12/2017			31/12/2016		
	Valore lordo	Rettifiche di valore	Valore netto	Valore lordo	Rettifiche di valore	Valore netto
1. Performing assets						
- from guarantees	**-**	**-**	**-**	**-**	**-**	**-**
- commercial						
- financial						
2. Impaired assets						
- from guarantees	**151,719**	**(109,094)**	**42,624**	**176,040**	**(131,365)**	**44,674**
- commercial						
- financial	151,719	(109,094)	42,624	176,040	(131,365)	44,674
Total	**151,719**	**(109,094)**	**42,624**	**176,040**	**(131,365)**	**44,674**

D.3 Guarantees given (secured or unsecured): status of risk undertaken and quality

(thousands of €)

Type of assumed risk	Not impaired guarantees given				Impaired guarantees given: non-performing				Other impaired guarantees			
	Counterguaranteed		Other		Counterguaranteed		Other		Counterguaranteed		Other	
	Gross value	Value adjustments	Gross value	Value adjustments	Gross value	Value adjustments	Gross value	Value adjustments	Gross value	Value adjustments	Gross value	Value adjustments
Guarantees given with assumption of risk of initial loss	**-**			**-**		**-**		**-**		**-**		**-**
- financial guarantees upon first request	-					-		-		-		
- other financial guarantees	-			-		-		-		-		-
- commercial guarantees	-			-		-		-		-		-
Guarantees given with assumption of mezzanine type risk	**-**			**-**		**-**		**-**		**-**		**-**
- financial guarantees upon first request	-			-		-		-		-		-
- other financial guarantees	-			-		-		-		-		-
- commercial guarantees	-			-		-		-		-		-
Pro rata guarantees given	**-**		**141,935**	**(1,454)**		**-**		**-**		**-**	**473**	**(77)**
- financial guarantees upon first request	-		141,935	(1,454)		-		-		-	473	(77)
- other financial guarantees	-		-	0		-		-		-	-	0
- commercial guarantees	-		-	0		-		-		-	-	0
Total	**-**		**141,935**	**(1,454)**		**-**		**-**		**-**	**473**	**(77)**

D.10 Changes in impaired guarantees given (secured or unsecured): other

(thousands of €)

Amount of the changes	Financial guarantees upon first request		Other financial guarantees		Commercial guarantees	
	Counterguaranteed	Other	Counterguaranteed	Other	Counterguaranteed	Other
(A) Initial gross value		**469**				
(B) Increases:	**-**	**514**	**-**	**-**	**-**	**-**
- transfers from performing guarantees	-	340	-	-	-	-
- transfers from other impaired guarantees	-		-	-	-	-
- other increases	-	174	-	-	-	-
(C) Decreases:	**-**	**(510)**	**-**	**-**	**-**	**-**
- outgoings to performing guarantees	-	(27)	-	-	-	-
- outgoings to other impaired guarantees	-	-	-	-	-	-
- enforcement	-		-	-	-	-
- other decreases	-	(483)	-	-	-	-
E. Other						
(D) Gross final value		**473**	**-**	**-**	**-**	**-**

D.11 Changes in unimpaired guarantees given (secured or unsecured)

(thousands of €)

Amount of the changes	Financial guarantees upon first request		Other financial guarantees		Commercial guarantees	
	Counterguaranteed	Other	Counterguaranteed	Other	Counterguaranteed	Other
(A) Initial gross value		**147,034**				
(B) Increases:	**-**	**58,000**	**-**	**-**	**-**	**-**
- Guarantees given	-	26,381	-	-	-	-
- other increases	-	31,619	-	-	-	-
(C) Decreases:	**-**	**(63,099)**	**-**	**-**	**-**	**-**
- guarantees not enforced	-		-	-	-	-
- transfers to impaired guarantees	-	(340)	-	-	-	-
- other decreases	-	(62,760)	-	-	-	-
(D) Gross final value	**-**	**141,935**				

IFITALIA
GRUPPO BNP PARIBAS

D.15 Distribution of guarantees (secured or unsecured) given by sector of economic activities of the guaranteed debtors (amount guaranteed and underlying asset)

(euro thousand)

Type of risk assumed	Given guarantees with first loss risk-taking		Given guarantees with mezzanine risk-taking		Given guarantess pro-quota
	Amount guaranteed	Underlying asset	Amount guaranteed	Underlying asset	Amount guaranteed
- 'Subgroup 1: SAE 430 - Non financial companies - Production companies					108,257
- 'Subgroup 2: SAE 49a - Non financial companies - Others					272
- 'Subgroup 3: SAE 615 - Other producer households					3,690
- 'Subgroup 4: Others					30,189
Total					142,408

D.16 Geographic distribution of guarantees (secured or unsecured) given by region of residence of the guaranteed debtors (amount guaranteed and underlying asset)

(euro thousand)

Type of risk assumed	Given guarantees with first loss risk-taking		Given guarantees with mezzanine risk-taking		Given guarantess pro-quota
	Amount guaranteed	Underlying asset	Amount guaranteed	Underlying asset	Amount guaranteed
- 'Region 1 North-West Italy					43,732
- 'Region 2 Centre Italy					32,585
- 'Region 3 North-East Italy					42,297
- 'Region 4 South Italy and islands					21,283
- 'Region 5 Others					2,511
Total					142,408

Section 3 – Information on risks and related hedging policies

3.1 CREDIT RISK

QUALITATIVE INFORMATION

1. General aspects

Factoring activities involve numerous services which can be structured in various ways by means of the with- and without-recourse factoring of commercial loans and receivables.

A peculiar feature of factoring transactions is the correlated involvement for various reasons of three parties, which can be classified, in brief, as:

- The Factor (transferee);
- The Client (transferor);
- The Debtor (transferred party).

If observed from the standpoint of the underlying services, it is therefore a composite product, where the credit management, the guarantee of the debtor's solvency and the disbursement of advances on loans/receivables accepted under factoring can be combined in various ways.

Therefore, the risk assessment of factoring transactions must be carried out by means of preliminary analysis of numerous factors such as: the solvency of the transferred debtors, the degree of fragmentation of the risk, the characteristics of the underlying commercial relationship, the transferor's ability to repay – in the event of disbursement of advances – also in light of the figures of the Bank of Italy's Credit Reference Bureau and the financial statements, ratings – internal or ECAI - on the party and/or associated companies, connections or simple dependence on Groups, supply difficulties, technological innovation which could place a product out of the market, etc.

Clearly, these are appraisals which can only partly overlap with lending activities carried out by banks, indispensable for permitting an adequate control of the credit risk which partly expresses itself in aspects[1] not present in banking activities.

---

[1] Measurement of the asset risk: a wider concept of the measurement of creditworthiness of the individual debtors factored, since it refers to the interaction of the individual names within the factored portfolio, whose risk profile is determined by the concentration of the debtors and their domestic-export nature, the ageing, DSO and payments terms, payment methods, statistics on bad debt, etc.;

Measurements of the "factorability" risk, associated with the nature and the characteristics of the supply relationship being factored, which influences the tendency of the transferred receivables to self-liquidate, especially with reference to a hypothetical terminal phase of said relationship. This risk is appreciable from the analysis of the subject matter of the supply and the type of debtors involved, the invoicing process and the statistics relating to the invoices (number, amounts...), the contracts, etc.

Measurement of the concentration risk of the relationship, falls between the asset risk and the factorability risk, since in the factoring transaction one of the most significant risk mitigation factors is represented by the large number of commercial relationships with the parties granted credit which it is possible to place under observation and on which it is possible to intervene. In fact, adequate diversification not only permits the portfolio factored to "survive" the default of one or more debtors, but also contributes towards isolating and containing any problematic issues linked to the commercial transactions underlying the factored receivables and limits the impact of potential fraud.

Measurement of the facility risk, associated with the contractual and operating features of the factoring transaction which contribute to determining the related risk profile. It requires the assessment of the reason for the technical form proposed and the opinion on the ongoing operations (e.g., global transfer vs. spot transfer, confidential vs. disclosed, QN vs. recognition, invoice forwarding method, accompanying documents, dunning).

Where several products are offered and/or several transactions for which the client undertakes the dual role of transferor and transferred debtor, these situations may give rise - from a conceptual standpoint - to a correlation risk between the transactions, understood as the possibility of unexpected changes in the overall risk of the transaction due to correlation between the risks deriving from the characteristics of the various transactions offered to the customer (the latter being particularly complex to identify and quantify).

With regard to the provision of the above services, the factor may undertake the credit risks in different ways, which can be, in turn, broken down into certain elementary types:

- credit risk in the strictest sense, represented by the risk of loss due to default of the debtors[2];
- dilution risk is the risk that the amount of a receivable decreases through the granting of receivables, in cash or another form, in favour of the debtor;
- commingling risk, which emerges in loan/receivable acquisition transactions each time the funds due to the factor may be confused with those of the transferor;
- late payment risk, which may occur if the without-recourse guarantee is also extended to the payment by the debtor as at a pre-established date (so-called conventional expiry).

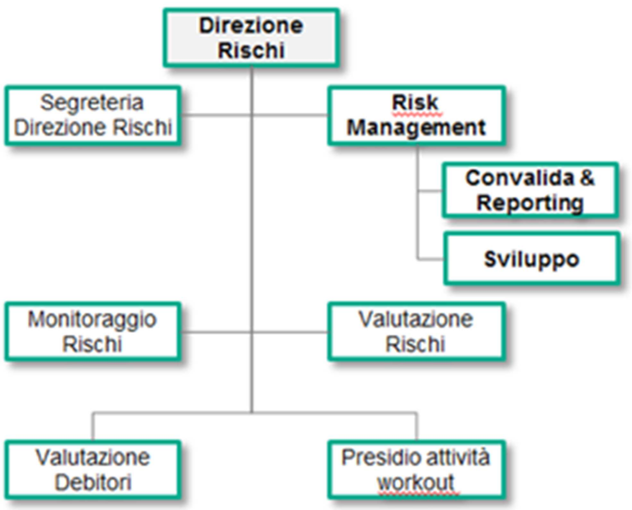
The internal control system set up by the company proposes to mitigate the manifestation of the above risks, which could lead to losses should they arise.

The planned progressive integration towards the Parent Company's credit risk control model, in addition to the scenario, in recent years, of exceptional macro-economic factors which have required and will require measures to be taken, including legislative, by the Regulators, who have facilitated the introduction of a gradual implementation of the credit risk control process.

2. Credit risk management policies

2.1 Organisational aspects

The Division's organisational structure is as follows:



The Head of the Risk Division, acting as pertinent risk control unit, is appointed by the Board of Directors, having consulted the audit body; he/she functionally reports to the Board of Directors and has a functional relationship with the Italy Risk Manager at Group level (Country Chief Risk Officer).

The Operational Risk Point of Contact functionally reports to the Head of the Risk Division, to whom he/she sends suitable information flows on pertinent risks, their recording and periodic monitoring and the mitigation actions implemented with the related Risk Owners.

[2] I.e., those with whom the factor has risks which must be discharged by those counterparties; therefore, these also include transferors for advances received.

The Permanent Controls are present in two units - in the Risk Manager's staff - and are carried out by the Risk Management Department and the Risk Monitoring Department. The Risk Division Office unit gathers together the secretarial activities, in the Risk Manager's staff. The remaining units of the Division are at line level.

Risk Division

- oversees the processes relating to the assumption of credit risk and ensures the maintenance of the customer portfolio quality over time in keeping with the corporate and BNP Paribas Group objectives and strategies.
- handles the doubtful positions, co-ordinating at BNP Paribas Group level.
- ensures constant monitoring of credit risks and those envisaged as part of the ICAAP process for the relevant areas of responsibility.
- ensures, in co-ordination with the competent BNP Paribas Group Units, the definition and maintenance of the methods and instruments aimed at identifying, measuring, assessing and handling the credit risks.

As a result of the outsourcing to Business Partner Italia S.C.p.A. of Workout activities, the Workout Activities Oversight Unit performs the role of Point of Contact for the Workout services outsourced (Problem asset management; Servicing on behalf of third parties and government authorities management; Revocation management, Lawsuit management of parties in Arrears Unlikely to Pay – Agreed Unlikely to Pay and Non-Performing statuses and of any positions subject to Complaints; Planning, operational management and monitoring).
The general mission is established by means of the Business Units indicated above, whose missions are summarised below.

Risk Division Office

- supports the Sales Division, the Risk Assessment and the Debtor Assessment service in handling the transferor and debtor approval procedures for the Credit Committee (Ordinary and Integrated sessions) and the Board of Directors. fulfils the obligations set forth by the Committee and forwards the documentation for which the opinion of the competent units of other entities of BNPP Paribas Group has been requested and performs any follow-up for the outcome, seeing to any changes set forth;
- oversees the preparation of the Default Committees as well as the Judgemental Impairment and Stock Session, supporting the Risk Manager in administering the resolutions taken by the Committee, receiving the opinion of BNL where required (allocations to risk provisions);
- handles the formalisation of risk measures, entering in the information system the results of the resolutions of the statistical rating override process (publication of the rating in TOR) and judgemental assignment of the rating, for the GRR process (CRF);
- oversees the process of publishing ratings in FIS attributed at the end of the quarter (SME Policy Performance) reported in the "flat" file licensed by Risk Assessment;
- handles requests from Val.DE. to enter data in the master file for foreign parties and enter limits in Mediana/FIS, directly or through the use of services, for the assessment of the corresponding risks by the appointed requesting units (Val.DE);
- manages the flow of requests from the potential clients resulting from approval of without-recourse Feasibility Reports (opinions), ensuring, directly or through the use of the service, the correct entry of the reports and the related assignment to the units assigned to assess the corresponding risks;
- handles the safekeeping of the documents acquired that support the approval process and decision-making activities (feasibility report);
- supervises the service relating to document archiving insofar as it is responsible;
- ensures for the approved limits, the control of the accuracy of the data entered in FIS, by comparing the data summarised in the table and 1) original resolutions received from the Debtor Assessment service, if paper-based, 2) with the PEF (electronic applications) extract produced, processed daily by DIT; manages the restrictive measures resolved for without-recourse risks (revocations/reductions), performing the related tasks (entry in FIS, etc.)
- ensures the adjustment of any errors detected in the FIS company information system relating to the processing of without-recourse limits.

Risk Monitoring Department

The purpose of the structure is to see to the definition, planning and implementation of controls aimed at monitoring credit risk. Specifically:
1) it defines, plans and implements credit control activities. In this area, the Department:

- conducts checks regarding the lending process and the management of the relationship and collections based on internal regulations;
- monitors the process and the merits of the assignment and revisions of ratings and reports periodic worsening in statistical ratings for the purpose of suitable management/review of the positions;
- makes sure that the facilities granted are regularly used with respect to the resolution reached at the time and the progression of the risk elements expressed by the development of the relationship;
- conducts controls on the process of allocating for impaired accounts; monitors the achievement of lending objectives in the activities of disbursement and management of lending positions, reporting any critical issue to the Divisions concerned;
- conducts checks regarding the lending process and the management of the relationship based on internal regulations;
- controls the consistency of the risk status classifications of the positions according to the guidelines of BNP Paribas Group and the Banking System, reporting any misalignment to the competent Divisions;

2) it ensures, working with the Business Lines, the effectiveness of the process of watchlist management, to define and implement the corrective actions on positions subject to systematic supervision;

3) it contributes, in line with the rules of the BNP Paribas Group and together with the competent Divisions, to the planning, application and maintenance of the procedures aimed at overseeing the credit risks;

4) it ensures a periodic flow of information towards BNL to allow the consolidation - at BNP Paribas Group level - of the data regarding credit monitoring;

5) it ensures that specific reports regarding the results of the control activities conducted and the corrective actions for the anomalies detected are prepared for the Top Management and/or the boards;

6) it reports any operational risk found as part of its permanent control activities to the Operational Risks Department and PCC.

The structure carries out these activities on a monthly or quarterly basis, based on the type of control to be conducted.

The activities are carried out based on the Operational Plan of Controls (OPC), which includes both controls on performance and on merits and correctness of form, broken down by type of process:

- Assumption and Review of credit risk;
- Credit risk management;
- Collection of impaired loans.

Risk Management Department

The organisational unit is divided up into two spheres with separate teams and responsibilities.
The Pillar 2 Product and Controls / Models Development Sphere sees to the activities associated with the development of the risk measures with regard to Ifitalia while, for the part developed by the BNL skill centre, it performs a support function for the implementation, application, applicative monitoring and periodic up-dating of said analysis as well as support for the issue of the regulations relating to its sphere.

This sphere's mission also includes the control on the Second Pillar risks, where considered significant by Senior Management, as well as the analysis with regard to the development on new products in terms of impact on the level of risk and support for the achievement insofar as it is responsible.
In conclusion, it works together with the Finance Division in the ICAAP process insofar as this fall under the responsibility of the Risk Division.

The Reporting and Models Validation Sphere, in co-ordination with the corresponding units of DR BNL,

- with regard to Model Validation, defines the validation guidelines for the credit risk models consistent with the guidelines of BNP Paribas Group, follows the development of analysis methods for the validation of the afore-mentioned models and performs the second-level validation/qualification (initial and periodic) of the local/central risk parameters for the purpose of checking the reliability of the results and the persistence of the coherence with the legislative requirements and the evolution of the reference market. It ensures the monitoring of performance and the accuracy of estimates produced by local models following the resolution of any critical aspects detected within its activities. A specific periodic disclosure is prepared to report on these activities to the Company's Governance and Control Bodies. In conclusion, it collaborates within the sphere of the above activities for the correct implementation of the algebra underlying the local estimation models with respect to the validated versions. Lastly, it oversees data quality control in the area of models, to the extent of its remit.
- with regard to reporting activities, it implements a control reporting system intended for Senior and Top Management on the performance of asset quality (e.g. changes in asset quality, shortcuts/excesses on LGD with respect to the coverages in NPL, changes in the distribution of EL by product/responsibility centre, significant changes in the granularity of the portfolio risk, analysis with focus on the change of significant sector risks, drafting of information sent to the Risk Policy Committees, etc.), provides the necessary disclosure support to management so that it can carry out its functions as part of the budgeting and periodic audit process (forecast), as well as disclosure support for the performance of the risk cost control activities carried out by management (Action Plan), performs second-level data quality controls for its area of responsibility on the internal rating system and on the information forwarded to central application software for calculating requirements, and, in conclusion, ensures its support for the consolidation process for the country risk limits of BNP Paribas in co-ordination with the Brussels GFCC.

Both the spheres of activities direct and collaborate with the IT Division, insofar as they are responsible, in relation to the development and maintenance of the databases necessary for the implementation of their analysis objectives.

Risk Assessment

- analyses the transferor and related with-recourse debtor approval procedures established by the Sales Division according to the methods envisaged by the "4Eyes" process, in particular:
- provides risk opinions on the without recourse debtor and transferor risks assessing the consistency with the lending policies of the Company and the BNP Paribas Group, as well as with the internal regulations in force;
- express a fairness opinion on the rating automatically calculated by the software as part of the transferor credit proposals;
- validates the changes in the without-recourse transferor and debtor ratings triggered by the override requests submitted by the Sales Division or the Debtor Assessment Department of the statistical ratings automatically assigned by the system (local models);
- validates the risk measures (rating and GRR) assigned in judgemental mode (central models) for both without-recourse transferors and debtors.
- supports the Default Committee in applying deviations from the Company Allocation Standards, expressing the Risk Opinion on the departure proposals put forward.

Debtor Assessment

- prepares and assesses without-recourse Debtor files and oversees the quality of these risks over time, in particular:

– resolves within the authorised limits or submits without-recourse risks to the competent bodies;

– assesses the consistency of the rating assigned by the software with the general risk profiles of the without-recourse Debtor, activating override processes, if necessary;
– formulates proposals for assigning risk measures (rating and GRR SU) in judgemental mode for without-recourse debtors and submits them for validation to the Risk Assessment Department.
– sees to, directly or via the use of services, the entry of the results of the resolutions relating to without-recourse limits and any reinsurance of the same in the Electronic Procedure or in the FIS company information system;
– manages, with the credit insurance companies, the requests for granting, renewal or revocation of the individual insurance coverage;
– sees to the review of outstanding without-recourse risks;
– manages the limits subordinated to the acquisition of accessory guarantees in co-ordination with the Management Division (responsibility of VAL.DE)
– examines the prepayment plans proposed or the requests for related extensions, submitting them to the competent bodies for authorisation;
– adopts restrictive measures aimed at safeguarding the risk undertaken by means of decreases, changes and revocations of without-recourse limits;
– handles the updates of the map of the Associated Customer Groups and their composition in a co-ordinated manner with the other company structures and the other entities of BNP Paribas Group;
– sees to the main without-recourse debtor risk concentration, including by assigning portions of Major Debtor Limits or Debtor Group Limits, entering in the FIS company information system the results of the related resolutions and carrying out the appropriate controls in observance of the limits approved;
– analyses the periodic downgrades of internal ratings of risks under its responsibility for case-by-case decisions;
- as part of managing counterparty risk:
– supports the Head of the Department in identifying new credit insurance policies or reviewing the ones in place;
– verifies the calculation and authorises the payment of the reassurance policy premiums, services provided by external providers, and information agencies;
– draws up suitable disclosure for the Owners with regard to the requirements of *pro tempore* policies in force so as to permit the correct operational handling; monitors the suitability of the CPAs resolved for foreign correspondents and insurance companies, handling the Annual Review process in collaboration with GFCC.

Workout Activities Unit

It oversees the Workout activities outsourced, periodically monitoring the observance of the service levels/execution times, the trend in the relationships with third parties, any problematic aspects emerging, and the identification of the appropriate solutions, and produces the related reporting.
This unit draws up the reporting on all disputes and revocation actions for parties managed by the Workout unit of BPI.
For "legal deeds", it manages acceptance and activates the Workout unit of BPI for parties with the status Non-Performing – Arrears Unlikely to Pay – Agreed Unlikely to Pay.
It collects the proposals for reclassification of status of without-recourse transferors and debtors and submits them for the review and authorisation of the decision-making bodies, handling the entry in the company information system of the change of status resolved with regard to without-recourse debtors.

2.2 Management, Measurement and Control Systems

Internal Rating System (IRS)

The Ifitalia IRS, established in 2005, has undergone a progressive change which continued throughout 2016, as reported in relation to activities associated with the Basel 2 Programme. The Probability of Default (PD) models which apply to the Large Corporate, Small Mid Corporate and SME Retail segments adopt a methodology that is in line with Group standards for the portion locally implemented. The Large Corporate portion uses a process implemented by the parent company BNP Paribas and applied on a transnational basis to determine the value of the internal rating and the GRR (Global Recovery Rate=1-LGD).

All releases safeguard the principle of the uniqueness of the rating value by supplementing these values with those expressed by the BNP Paribas banking network, which are used, each time they are present, as a driver in the loan process. In line with the other entities of BNP Paribas Group, a single master scale is used to assess the one-year PD of counterparties included in the application scope of the models.

In addition to being a management control instrument and compliant with IFRS 9 requirements, the PD models in use were implemented as part of regulatory provisions to determine supervisory capital requirements, since our Company is a credit institution which plans to migrate to the internal rating application method using the advanced approach. The existing Ifitalia IRS is based on statistical models estimated by BNL and applied to our population. These consider, for their operation, pertinent financial, qualitative, and performance variables. The probabilities of default obtained are corrected to consider the influence of the economic cycle in a way to reduce its influence and cyclicality. The SME Retail part adopts estimation methodologies with the construction of HCR (Homogeneous Class of Risk) in line with the Group's standards.

The internal rating system as a whole is subject to a general governance process and a set of application rules that guarantee the utmost reliability over time of the process to estimate and input the risk measures and their correct application in company processes. LGD and Dilution were developed internally, with the support of the BNL competence centre.

The master scale adopted ranks the customers into 10 classes for the performing part and two classes for the default part, which includes past due, unlikely to pay and non-performing positions.

The risk managers and the principals of the approval process are allowed to request a review of the internal rating in accordance with a regulated process which entrusts the risk department with the authority to accept or refuse the related requests, each of which must be duly and promptly justified. The rating value is updated at the time the approval process begins and periodically, on the occurrence of specific events or at deadlines defined by the risk department.

The statuses expressed by the Parent Company on shared customers have direct effects on the internal classification, with particular reference to the various degrees of impairment. As regards other risk measures, which, together with the PD, make up the IRS, note that the Loss Given Default (LGD) is used in management reporting, particularly in reference to analyses highlighting the distribution of expected loss and consistency with coverage levels (shortcut/excess), as well as for IFRS 9 purposes.

Credit risk management policies

- Reporting

The reporting process drawn up by the Risk Management Dept. takes the form of periodic disclosure to the Risk Policy Committee (RPC)[3] of BNPP Paribas Group, Senior Management, and the first level of responsibility of business management, and contains, among other things, qualitative-quantitative information on portfolio risk and the level of sector concentration. In compliance with the credit policies expressed by the Group, periodic disclosure has also been prepared for the process Owners, with the aim of facilitating observance of the indicated limits and permitting periodic reporting. Additional reports are drawn up by the Risk Monitoring Dept. and intended for Senior Management – subject to discussion if necessary with the process Owners – with the aim of informing Senior Management on observance of certain

[3] Credit Policy Committee

aspects of the credit process deemed to be particularly critical, also in relation to the indications received from the Parent Company.

The reporting process will be subject to additional implementations due to the gradual expansion of the use of risk measures, which is currently underway, with an extension of use and improved visibility of aspects such as expected loss and RWAs on credit risk and dilution risk, etc.

- Delegation system

The system of lending powers systematically supplements the use of the rating in the credit authorisation process with depth in the structure for exercising the authorisation in relation to the expected loss levels.

The decision-making process, taking into account Ifitalia's merger within the BNP Paribas Group, has adopted the Group model.

This model entails the involvement of two organisation chains in the credit granting process: a "commercial chain[4]" and a "risk chain[5]". According to this process, all lending resolutions relating to the with-recourse transferor and debtor risk are made by the commercial chain, which avails itself of the support of a team of specialised credit risk analysts, who express credit opinions (so-called risk opinions) on the credit proposals developed.

By means of this constant and joint assessment of the transferor proposal, by the commercial chain and the risk chain, the credit process has been defined as "4 Eyes".
The 4 Eyes organisational process applies at every decision-making level, from the lowest (Zone) up to Head Office and, in the event of disagreement between the commercial opinion and the lending opinion, the concept of resolution escalation applies at all levels, on the basis of which the decision is referred to the higher decision-making body.

Resolution escalation applies each time the risk opinions express a more restrictive (or negative) lending opinion with respect to the proposed transaction and the decision-making body identified by the lending powers does not intend to comply with the risk opinion expressed.

With regard to the without-recourse debtor role, the Risk Division maintained the initial approval process and part of the decision-making activities as per the assigned powers.

For both the without-recourse debtor and transferor role, the power delegations take into account not only the absolute amounts but also the internal rating values expressed by the Group and by the internal rating system for the customers and debtors that are not shared.

The presence of insurance coverage on without-recourse debtor risk influences the lending process and the application of the delegation system.

In any event, the collective Decision-Making Bodies (Credit Committee and Board of Directors) are entrusted all the risks involving greater amounts, which are also subject to review by the Parent Company for the largest amounts or which, due to lender type, are reserved for the exclusive competence of the Board of Directors.

- Lending policies

The structure of the lending policies was implemented in 2017 with a set of "Specific Credit Policies" approved by the Board of Directors, which supplement the strategic guidelines formulated by the Parent Company's Risk Policy Committee (RPC) as regards specific local aspects, aimed at supporting and guiding the factoring activities at Group level.

---

[4] "Commercial chain" means the business units of the Sales Division tasked with initial approval/decision-making activities.
[5] "Risk chain" means the business units of the Risk Division tasked with credit risk assessment activities in the initial approval process.

The “Specific Credit Policies” concern aspects such as:

- coordination at Group level of the risk assumption methods, taking account of sector performance, default risk of the counterparty, and the aspects inherent in managing the relationship;
- methods of assumption and review of without-recourse debtor risk for specific brackets of amounts and segments;
- methods of assumption of transferor risk with regard to specific types of products and/or credit underlyings.

The implementation of strategies as well as the implementation of the “Specific Credit Policies” are subject to verification and reporting to the company governance bodies, according to specifically defined processes.

- Supervision of performing and past due loans/receivables

The systematic supervision system takes and adapts to the factoring context the “IPEG” and “Watch List” procedure already in use at BNL, known as “IFIPEG”.

“Systematic Supervision” is the set of management rules and processes for the individual risk positions of transferor and debtor counterparties, hereinafter referred to as “customers”, aimed at ensuring constant reporting and assessment of risk, the consequent classification and the timely and effective application of management strategies designed to minimise the impact from risk increase, with a view to preserving the quality of these credit assets. Anticipatory management is envisaged, both in Basel regulations and in Bank of Italy supervisory instructions, as one of the fundamental principles of prudential control, where the focus is on the need for banks and financial brokers to set up a suitable system of monitoring and reporting risk exposures, which also assesses the manner in which the changing risk profile of the institution could influence its capital requirements. These rules promote the constant strengthening of the ability to prospectively assess risk profiles, defining the following, *inter alia*:
 Measurement criteria based on “internal ratings" as the predictive nature of those models allows for the definition of guidelines for governing credit risk, for the purpose of early management of possible impairment of assets;
 The fundamental principles of prudential control, where the focus is on the need for banks and financial brokers to set up a suitable system of monitoring and reporting risk exposures, which also assesses the manner in which the changing risk profile of the institution could influence its capital requirements.

The Systematic Supervision process is organised into 3 pillars:
– **On-going classification of Customers**, by virtue of which the customer base must be permanently classified in relation to the current and forecast risk, making a distinction between low risk customers and high risk ones;
– **Focus on customers subject to increasing risk**, whose main objective is the early management of the deterioration of loan quality as well as its permanent and on-going monitoring;
– **Action plans**, focused on the reduction/reclassification of the risk vis-à-vis high risk customers.

These pillars are strictly linked to the Monitoring process, which constitutes the final phase of the broader process of Systematic Supervision and Monitoring. The Customer enters the Systematic Supervision process when:
- it is possible to apply a risk assessment and consequent management action to the same;
- a limit is granted or resolved or when an exposure emerges;
- the Customer is reclassified as performing or Restructured Unlikely to Pay, Automatic Unlikely to Pay, or Management Unlikely to Pay from a status of Arrears Unlikely to Pay, Non-Performing or Agreed Unlikely to Pay.

Conversely, the Customer leaves the process when:
- he/she no longer has dealings with Ifitalia;
- the position is classified as Arrears Unlikely to Pay, Non-Performing or Agreed Unlikely to Pay.

Positions which, due to the significance of the level of risk and/or performance or management anomalies detected, must be subject to specific monitoring, are classified as Watch List and periodically subject to examination by the Risk Monitoring Committee.
The Watchlist is broken down into:
- **Ordinary**: includes all positions in accounting status Performing, Past Due and those in accounting status Unlikely to Pay but defined as Automatic, Non-Arrears Unlikely to Pay without forborne flag in the management accounts, which have a counterparty risk higher than or equal to the threshold of EUR 200,000 and are marked red or orange.

- **Doubtful**: includes all positions in management status Management Unlikely to Pay, Restructured Unlikely to Pay or Automatic, Non-Arrears Unlikely to Pay with forborne flag, with counterparty risk >0 and/or transferor credit line and/or debtor credit limit.

The process is being fully reviewed as part of the process to implement the new IFIPEG 2.0 tool.

Organisation of the Committees

For the purpose of ensuring an integrated management of the processes, the Company has established an organisational structure which envisages the meeting of Committees where the relevant business units are occasionally called to provide their contribution through an integrated approach.

In particular:

Credit Committee

It decides on the granting of loans and authorises their disbursements, within the limits of the powers granted.

It expresses opinions regarding lending in line with the delegated powers and approves, upon the proposal of the General Manager and within the maximum limits established by the Board of Directors, the decision-making and administrative sub-delegation and use of the credit facilities, including registered by name, to be assigned to certain defined business roles.

The Credit Committee meets in "ordinary" and "integrated" sessions. In the "integrated" session, the Credit Committee resolves solely on granting loans that exceed the powers of the "ordinary" session, without prejudice to the powers reserved exclusively to the Board of Directors.

Non-Standard Product Validation Committee

It authorises all the “non-standard products”, understood as those which cannot be activated, marketed, controlled, handled or registered for reputational, accounting, tax-related, supervisory and risk and management control purposes, in accordance with current practices and legislation.

The Committee is responsible for assessing the impacts:

- on the measures and other components of risk and on the system of controls;
- on accounting and administrative processes/systems and on commercial, financial and supervisory reporting;
- on tax aspects;
- on legal and reputation aspects;
- on IT systems and/or infrastructure components;
- on distribution processes;
- on organisational aspects.

Risk Monitoring Committee

The Risk Monitoring Committee, consistent with the Group model, is an analysis and decision-making body which ensures the integrated supervision of significant risks, also with a view to valuation of the level of adequacy of the available capital.

This Committee is the venue in which business management discusses the valuation of risks carried out by the competent units and assesses the mitigation action proposed by the responsible units, individually or jointly.
Furthermore, the company control units share the results of the respective activities within said Committee.

The Committee therefore represents one of the main venues in which - for its areas of responsibility - control is exercised by the Risk Control Units, and represents a point of business synthesis which ensures a single view of risks.
The Committee is organised in multiple issue-based sessions, and its composition varies in relation to the issues handled in each session.
Specifically, the Committee is responsible for:

- examining the trends in impairment on the performing portfolio;
- validating the Operational Plans for Control of the risks, prepared by the responsible units, to be submitted for the approval of the Board of Directors;
- assessing the corrective action plans proposed by the competent units for the positions included on the watchlists, consistent with the processes defined at BNP Paribas Group level;
- directly downgrading, if necessary, the rating assigned to the customer;
- assessing the action/initiatives to mitigate risks and modify developmental trends in activities to contain risks and RWAs;
- providing a global and systematic vision of the situation within the sphere of the permanent control system and operational risk;
- analysing and acquiring collective decisions with regard to the permanent control system and operational risks;
- supporting the Business Continuity manager in reporting, sharing and validating the information and initiatives aimed at maintaining Business Continuity solutions;
- in implementation of the governance of Internal Rating System:
    - ensuring a joint examination on initial application, as well as in the subsequent evolutions of risk measures that are applied in the business;
    - ensuring a joint examination on initial application, as well as in the subsequent evolutions of the tools for using the risk measures to govern credit and dilution risk;
    - ensuring an integrated view of the results of data quality and data integrity controls relating to the use of the internal rating system;
- ensuring an integrated communication flow on significant risks: collecting and reviewing reports on trends in the adequacy of the available capital (ICAAP) and of the significant risks drawn up by the competent business units; communicating the outcome of the discussions to the BoD, formalised in specific reports;
- supervising, in an integrated manner, the current and forecast trend of the risk profile and the level of capital adequacy of the Company, assessing the action/initiatives to mitigate risks and modify developmental trends in activities to contain risks and the RWAs;
- ensuring the supervision of supplier risk so as to efficiently manage any issues deriving from the commercial dealings with suppliers, ensuring the quality and continuity of the related activities.

Default Committee

The Default Committee is the body that analyses and resolves on lending disputes and the collection or loss forecasts.

This Committee works through two internal sessions: ***Ordinary*** (assesses and resolves the reclassification of risks exceeding EUR 3 million from performing and non-performing, assesses any deviation from the global Past Due and Unlikely to Pay provision determined by the level of the past due positions (Automatic IPA/IP), assesses and resolves allocations to provisions for risk starting from EUR 600 thousand) and ***Stock*** (assesses the management activity of risk positions with the Debt Collection Dept. with financial exposure starting from EUR 3 million). Promptly reports its decisions to the Risk Division of BNL.

2.3 Techniques for mitigating credit risk

The mitigation of credit risk in the factoring transaction is essentially entrusted to an efficient and effective process for checking the ability of the debtor to pay the trade receivable acquired on maturity, which, since 2016 has been increasingly accompanied by insurance on without-recourse debtor risk, previously contracted essentially on foreign

transactions and for transactions with specific customers. This choice is consistent with the strategies implemented within the factoring hub of BNP Paribas Group, where normally the assumption of without-recourse debtor risk is accompanied by an insurance guarantee or a guarantee from a foreign correspondent.
The compliance of correspondents and insurers is subject to periodic assessment.

Nevertheless, as regards unsecured and secured guarantees, the Company has already organised itself, defining tasks and responsibilities inherent to the definition of:

- standard forms for the types of guarantees normally assumed;
- processes for gathering the subscription of guarantees;
- processes for the control, custody and registration of the guarantees.

The organisational and technological processes take into due account the necessary functional distinction which must be assigned among the party that defines the standard texts, the party that collects the guarantees, and the party that checks/holds/validates them.
The credit protection usually undertaken is unsecured (unfunded), while the use of secured (funded) credit protection instruments is typically associated with protection of already non-performing loans/receivables and, therefore – contrary to banking activities - is more of an exception than a usual risk mitigation instrument.

2.4 Non-performing loans/receivables in the scope of workout and collection process

The supervision of the collection process for impaired positions – other than past due and some of the unlikely to pay and restructured positions – is entrusted to the Workout Division of Business Partners Italia which, as mentioned previously, is an outsourced unit and followed internally by the Workout Activities Unit.

As part of this process, the Unit implements collection strategies which consider:

- the status of the position and counterparties resulting from the data in its possession at the time the documentation is received and subsequently acquired;
- the effective amount to be collected and economic advantages of possible actions to be carried out;
- the presence of any guarantee which can be usefully enforced.

In relation to the above, it periodically takes steps to formulate collection forecasts and to quantify the amount of provisions deemed adequate in light of the status of the position when the forecasts are formulated and each time there are new elements which allow to change it.

In relation to the unlikely to pay/non-performing positions with contained risk amounts, external servicers are used, whose activities and efficiency is accurately monitored.

The Group methodology, shared with BNL, was introduced in 2012 with regard to the definition of the scope of impaired receivables and the rules to quantify the provisions to the performing portfolio (known as Collective Write-down) and non-performing receivables (known as Global impairment and analytic impairment). The process for provisioning and status changeover is co-ordinated by the Default Committee referred to above.

Projects underway that will be realised as from 2018

The project entitled "Basel II Programme" to adopt the IRB Advanced approach for the calculation of the credit risk capital requirement has currently reached a very advanced stage and the application to the supervisory authority is expected during 2018. This project involved a significant evolution of processes and tools supporting the business divisions overseeing and governing credit and dilution risk.

With regard to dilution risk, a specific control framework was identified that pertains to the various phases of the credit process and is designed to maintain the amount of this risk within limits that are considered insignificant.

Along with these developments, a substantial intervention is envisaged for the scoring system already in place to extend its application as well as to increase its ability to classify even more selectively, consistent with the *pro tempore* risk objectives defined by the business.

QUANTITATIVE INFORMATION

1. Distribution of credit exposures by portfolio and loan quality (Book value)

(thousands of €)

Portfolios/quality	Non-performing	Unlikely to pay	Past due positions	Performing Past due positions	Other Assets	Total
1. Available-for sale financial assets						**-**
2. Held-to maturity financial assets					-	**-**
3. Due from banks	16	-	612	11.142	208.969	**220.739**
4. Due from customers	85.621	88.407	74.618	1.395.133	5.516.914	**7.160.693**
7. Financial assets at fair value						
8. Disposal financial assets	-					**-**
Total 31/12/17	85.637	88.407	75.230	1.406.275	5.725.883	7.381.432
Total 31/12/16	88.261	150.715	38.027	1.105.042	6.171.485	7.553.531

(migliaia di euro)

Portafogli/qualità	Attività di scarsa qualità creditizia	Altre attività	Totale
1. Attività finanziarie detenute per la negoziazione	-	-	-
2. Derivati di copertura	-	-	-
Totale 31/12/2017	-	-	-
Totale 31/12/2016	-	-	-

2. Credit exposures

2.1 Credit exposures to customers: gross and net values and maturity bracket

(thousands of €)

Exposure types/Balances	Gross exposure					Specific value adjustments	Portfolio value adjustments	Net exposure
	Impaired assets				Performing assets			
	Up to 3 months	3 to 6 months	6 months to 1 year	beyond 1 year				
A CASH EXPOSURES								
a) Non-performing	6,170	805	653	281,637	X	(203,644)	X	85,621
-of which forborne exposures	1,860	-	-	15,084	X	(13,258)	X	3,686
b) Unlikely to pay	7,329	1,052	21,909	120,612	X	(62,494)	X	88,408
-of which forborne exposures	2,131	152	3,702	5,761	X	(4,129)	X	7,617
c) Past due positions	-	36,018	40,954	-	X	(2,354)	X	74,618
-of which forborne exposures	-	-	-	-	X	-	X	-
d) Performing Past due positions	X	X	X	X	1,396,962	X	(1,829)	1,395,133
-of which forborne exposures	X	X	X	X	-	X	-	-
e) Other Assets	X	X	X	X	5,520,652	X	(3,737)	5,516,915
-of which forborne exposures	X	X	X	X	538	X	(2)	536
TOTAL A	**13,499**	**37,875**	**63,516**	**402,249**	**6,917,614**	**(268,492)**	**(5,566)**	**7,160,695**
OFF BALANCE SHEET EXPOSURES								
a) Impaired assets	-	210	36	25,214	X	(77)	X	25,384
b) Performing assets	X	X	X	X	328,049	X	(1,454)	326,595
TOTAL B	**-**	**210**	**36**	**25,214**	**328,049**	**(77)**	**(1,454)**	**351,979**
TOTAL (A+)B	**13,499**	**38,085**	**63,552**	**427,463**	**7,245,663**	**(268,569)**	**(7,020)**	**7,512,674**

(thousands of €)

Credit exposures to customers - Performing assets	
Maturity	Performing Past due exposures
past due up to 3 months	1,068,961
past due 3 to 6 months	57,900
past due 6 months to 1 year	47,038
past due beyond 1 year	223,063
TOTAL	**1,396,962**

2.2 Credit exposures to banks and financial institutions: gross and net values and maturity bracket

(thousands of €)

Exposure types/Balances	Gross exposure					Specific value adjustments	Portfolio value	Net exposure
	Impaired assets				Performing assets			
	Up to 3 months	3 to 6 months	6 months to 1 yea	beyond 1 year				
A CASH EXPOSURES								
a) Non-performing	-	-	-	1.711	X	(1.695)	X	16
-of which forborne exposures	-	-	-	-	X	-	X	-
b) Unlikely to pay	-	-	-	-	X	-	X	-
-of which forborne exposures	-	-	-	-	X	-	X	-
c) Past due positions	-	-	612	-	X	-	X	612
-of which forborne exposures	-	-	-	-	X	-	X	-
d) Performing Past due positions	X	X	X	X	11.142	X		11.142
-of which forborne exposures	X	X	X	X	-	X		-
e) Other Assets	X	X	X	X	208.969	X		208.969
-of which forborne exposures	X	X	X	X	-	X		-
TOTAL A	**-**	**-**	**612**	**1.711**	**220.111**	**(1.695)**	**-**	**220.739**
OFF BALANCE SHEET EXPOSURES								
a) Impaired assets	-				X		X	-
b) Performing assets	X	X	X	X	10.088	X	-	10.088
TOTAL B	**-**	**-**	**-**	**-**	**10.088**	**-**	**-**	**10.088**
TOTAL (A+)B	**-**	**-**	**612**	**1.711**	**230.199**	**(1.695)**	**-**	**230.827**

2.3 Classification of exposures based on external and internal ratings

2.3.1 Distribution of cash and "off-balance sheet" credit exposures by external rating classes

(thousands of €)

Exposures	External rating classes						Without rating	Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
A. Cash exposures			**1,485,527**				**5,988,621**	**7,474,148**
B. Derivatives								**-**
B.1 Financial derivatives								**-**
B.2 Derivatives on receivables								**-**
C. Guarantees given			10,097				132,311	**142,408**
D. Commitments to grant funds							221,190	**221,190**
E. Other								**-**
TOTAL	**-**	**-**	**1,495,624**	**-**	**-**	**-**	**6,342,122**	**7,837,746**

For exposures belonging to the Central Administrations and Central Banks portfolio, public sector entities, and supervised intermediaries, Ifitalia uses the external ratings of the following ECAI:

	RISK CLASS	RATING	ITALY RATING 31/12/17
1 Standard & Poor's	3	da BBB+ a BBB-	BBB-
2 Moody's	3	da Baa1 a Baa3	Baa2
3 Fitch	3	da BBB+ a BBB-	BBB

IFITALIA GRUPPO BNP PARIBAS

2.3.2 Distribution of cash and "off-balance sheet" credit exposures by internal rating classes

The Company does not use internal ratings.

3. Lending concentration

3.1 Distribution of cash and off-balance sheet exposures by sector of economic activities of the counterparty

(thousands of €)

Exposure types/Balances	Government authorities				Non-financial businesses				Banks and financial institutions			
	Gross exposure	Specific value adjustments	Portfolio value adjustments	Net exposure	Gross exposure	Specific value adjustments	Portfolio value adjustments	Net exposure	Gross exposure	Specific value adjustments	Portfolio value adjustments	Net exposure
A. Receivables												
A.1 Non-performing	11.767	(3.799)	X	**7.968**	267.510	(192.274)	X	**75.236**	1.711	(1.695)	X	**16**
-of which forborne exposures	1.860	(14)	X	**1.846**	14.094	(12.344)	X	**1.750**	-	-	X	**-**
A.2 Unlikely to pay	11.474	(19)	X	**11.455**	128.945	(57.087)	X	**71.858**	-	-	X	**-**
-of which forborne exposures	649	-	X	**649**	10.293	(3.784)	X	**6.509**	-	-	X	**-**
A.3 Past due positions	48.168	(2.000)	X	**46.168**	28.386	(300)	X	**28.086**	612	-	X	**612**
-of which forborne exposures	-	-	X	**-**	-	-	X	**-**	-	-	X	**-**
A.4 Other Assets	1.462.593	X	-	**1.462.593**	5.313.431	X	(5.508)	**5.307.923**	220.111	X	-	**220.111**
-of which forborne exposures	-	X	-	**-**	497	X	(2)	**495**	-	X	-	**-**
TOTAL	**1.534.002**	**(5.818)**	**-**	**1.528.184**	**5.738.272**	**(249.661)**	**(5.508)**	**5.483.103**	**222.434**	**(1.695)**	**-**	**220.739**

(thousands of €)

Exposure types/Balances	Households				Other parties				Total			
	Gross exposure	Specific value adjustments	Portfolio value adjustments	Net exposure	Gross exposure	Specific value adjustments	Portfolio value adjustments	Net exposure	Gross exposure	Specific value adjustments	Portfolio value adjustments	Net exposure
A. Receivables												
A.1 Non-performing	8.746	(7.420)	X	**1.326**	1.242	(151)	X	**1.091**	**290.976**	**(205.339)**	X	**85.637**
-of which forborne exposures	991	(899)	X	**92**	-	-	X	**-**	**16.945**	**(13.257)**	X	**3.688**
A.2 Unlikely to pay	8.051	(4.381)	X	**3.670**	2.432	(1.007)	X	**1.425**	**150.902**	**(62.494)**	X	**88.408**
-of which forborne exposures	803	(346)	X	**457**	-	-	X	**-**	**11.745**	**(4.130)**	X	**7.615**
A.3 Past due positions	274	(54)	X	**220**	144	-	X	**144**	**77.584**	**(2.354)**	X	**75.230**
-of which forborne exposures	-	-	X	**-**	-	-	X	**-**	**-**	**-**	X	**-**
A.4 Other Assets	126.809	X	(57)	**126.752**	14.780	X	-	**14.780**	**7.137.724**	X	**(5.565)**	**7.132.159**
-of which forborne exposures	41	X	-	**41**	-	X	-	**-**	**538**	X	**(2)**	**536**
TOTAL	**143.880**	**(11.855)**	**(57)**	**131.968**	**18.598**	**(1.158)**	**-**	**17.440**	**7.657.186**	**(270.187)**	**(5.565)**	**7.381.433**

Off balance sheet exposures

(thousands of €)

Exposure types/Balances	Government authorities				Non-financial businesses				Banks and financial institutions			
	Gross exposure	Specific value adjustments	Portfolio value adjustments	Net exposure	Gross exposure	Specific value adjustments	Portfolio value adjustments	Net exposure	Gross exposure	Specific value adjustments	Portfolio value adjustments	Net exposure
Guarantees given and commitments												
A.1 Non-performing			X	**-**	-		X	**-**			X	**-**
A.2 Unlikely to pay			X	**-**	25.184	(29)	X	**25.156**	-		X	**-**
A.3 Non Performing assets			X	**-**	222	(37)	X	**185**			X	**-**
A.4 Other assets	39	X		**39**	320.866	X	(214)	**320.652**	10.113	X		**10.113**
TOTAL	**39**	**-**	**-**	**39**	**346.272**	**(66)**	**(214)**	**345.992**	**10.113**	**-**	**-**	**10.113**

(thousands of €)

Exposure types/Balances	Households				Other parties				Total			
	Gross exposure	Specific value adjustments	Portfolio value adjustments	Net exposure	Gross exposure	Specific value adjustments	Portfolio value adjustments	Net exposure	Gross exposure	Specific value adjustments	Portfolio value adjustments	Net exposure
Guarantees given and commitments												**-**
A.1 Non-performing			X	**-**			X	**-**	**-**	**-**	X	**-**
A.2 Unlikely to pay	30	(7)	X	**23**			X	**-**	**25.214**	**(35)**	X	**25.179**
A.3 Non Performing assets	25	(5)	X	**20**			X	**-**	**247**	**(42)**	X	**205**
A.4 Other assets	6.996	X	(39)	**6.957**	122	X		**122**	**338.137**	X	(254)	**337.883**
TOTAL	**7.052**	**(12)**	**(39)**	**7.001**	**122**	**-**	**-**	**122**	**363.598**	**(77)**	**(254)**	**363.267**

3.2 Distribution of cash and off-balance sheet exposures by counterparty's geographic area

Cash exposures

(thousands of €)

	Geographic distribution					
	North-West	North-East	Centre	South and Islands	Other countries	Total
Receivables						
A.1 Non-performing	15.381	10.033	33.676	26.289	258	**85.637**
A.2 Unlikely to pay	22.210	5.898	27.359	27.907	5.034	**88.408**
A.3 Past due positions	4.439	718	36.277	24.156	9.640	**75.230**
A.4 Other assets	2.114.521	975.612	2.198.940	719.861	1.123.224	**7.132.158**
TOTAL A	**2.156.551**	**992.261**	**2.296.252**	**798.213**	**1.138.156**	**7.381.433**

Off balance sheet exposures

(thousands of €)

	Geographic distribution					
	North-West	North-East	Centre	South and Islands	Other countries	Total
Off balance sheet exposures						
A.1 Non-performing	-	-	-	-	-	
A.2 Unlikely to pay	25.018	9	99	89	-	**25.214**
A.3 Past due positions	70	29	6	142	-	**247**
A.4 Other assets	239.935	42.298	32.574	21.285	2.045	**338.137**
TOTAL B	**265.022**	**42.336**	**32.680**	**21.515**	**2.045**	**363.598**

3.3 Significant exposures

(thousands of €)

Significant exposures		Book value	Weighted value
a	Amount	2,390,966	1,027,866
b	Total number of shares	11	11

4. Models and other methods for gauging and handling the credit risk

The description of the models for gauging the credit risk is indicated in Section 3 - Credit Risk: Qualitative Information, in paragraph 2.2 "*Management, measurement and control systems*".

5. Other quantitative information

There were no amounts in this section.

3.2 MARKET RISK

3.2.1 INTEREST RATE RISK

QUALITATIVE INFORMATION

1. General aspects

The interest rate risk deriving from the timing mismatch between asset and liability items associated with funding and lending transactions is handled by the Finance Division.

As part of its core activities, due to company policy, funding reflects the same market parameters to which the structure of the loans is linked.

In consideration of the types of lending and funding which characterise Ifitalia's activities, the risk of a change in the market rates has a marginal impact on the value of assets and liabilities.

QUANTITATIVE INFORMATION

Given that all funding is currently provided to the company by the Parent Company, the mismatch by maturity bracket with respect to the amount of the funding is marginal as at 31 December 2017.

1. Distribution by residual maturity (re-pricing date) of financial assets and liabilities

Currency: euro *(thousands of €)*

Items/residual maturity	On demand	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	5 to 10 years	Beyond 10 years	Unspecified duration
1. Assets								
1.1 Debt securities								
1.2 Receivables	1.619.775	4.490.479	412.948	213.667	144.863	11.515		281.964
1.3 Other assets								5.921
2. Liabilities								
2.1 Payables	318.362	5.621.803	50.828	9.040	86.927			37.319
2.2 Securities issued	41.176	190.358						
2.3 Other liabilities								105.076
3. Financial derivatives								
Options								
3.1 Long positions								
3.2 Short positions								
Other derivatives								
3.1 Long positions								232
3.2 Short positions								

Other currencies *(thousands of €)*

Items/residual maturity	On demand	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	5 to 10 years	Beyond 10 years	Unspecified duration
1. Assets								
1.1 Debt securities								
1.2 Receivables	13.013	184.825	6.971	1.413	-	-	-	-
1.3 Other assets								
2. Liabilities								
2.1 Payables	137.011	41.947	18.926	-	-	-	-	
2.2 Securities issued								
2.3 Other liabilities								
3. Financial derivatives								
Options								
3.1 Long positions								
3.2 Short positions								
Other derivatives								
3.1 Long positions								
3.2 Short positions								

2. Models and other methods for gauging and handling the interest rate risk

The interest rate risk is monitored on a quarterly basis by the Financial Division – Treasury Dept. The model used by Ifitalia to monitor interest rate risk is that indicated in the provisions contained in Bank of Italy Circular no. 288, whose model is based on the principle of a 200 bp shock.
At the end of 2017, the portfolio's sensitivity to interest rate risk for Ifitalia amounted to EUR 7.9 million, equal to 1.8% of the supervisory capital, below the 20% threshold.

3. Other quantitative information on interest rate risk

There were no amounts in this section.

3.2.2 PRICE RISK

The Company does not purchase or sell financial instruments other than trade receivables and therefore is not exposed to the market risks associated with the price volatility of said instruments.

3.2.3 EXCHANGE RISK

QUALITATIVE INFORMATION

1. General aspects

Exchange risk is negligible within the scope of core business activities, since all assets acquired are consistently assisted by identical liabilities in the same currency and with the same duration features.

QUANTITATIVE INFORMATION

1. Distribution by currency of assets, liabilities and derivatives

(thousands of €)

Items	Currencies					
	US Dollars	GB Sterling	Yen	Canadian Dollars	Swiss Francs	Other currencies
1. Financial assets						
1.1 Debt securities						
1.2 Investment securities						
1.3 Receivables	168,337	14,455	-	-		36,243
1.4 Other financial assets						
2. Other assets						
3. Financial liabilities						
3.1 Payables	161,632	12,040				36,207
3.2 Debt securities						
3.3 Other financial liabilities						
4. Other liabilities						
5. Derivatives						
5.1 Long positions						
5.2 Short positions						
Total assets	168,337	14,455	-	-	-	36,243
Total liabilities	161,632	12,040	-	-	-	36,207
Imbalance (+/-)	6,705	2,415	-	-	-	36

2. Models and other methods for gauging and handling the exchange risk

As stated above, exchange risk is negligible, since all assets acquired are consistently assisted by identical liabilities in the same currency and with the same duration features.

3. Other quantitative information on exchange risk

There were no amounts in this section.

3.3 OPERATIONAL RISK

QUALITATIVE INFORMATION

1. General aspects, management processes and methods for gauging the operational risk

The Operational Risk Management Model adopted by Ifitalia is based on the logic and principles defined by the TSA Methodology (Traditional Standardised Approach) for calculating capital requirements; the Company was certified by Bank of Italy to use this Methodology in July 2010.

The main aspects of the entire operational risk management and control framework are described below in reference to 2017.

Organisational structure

The governance structure for Operational Risks is made up of **Governance Bodies** (Board of Directors, General Manager and Board of Statutory Auditors) and the following Divisions:

- **Operational Risks and Permanent Control Unit**, which has the task of enlivening and handling the entire Operational Risk Management Model in compliance with prudential supervisory instructions and consistent with the provisions of BNP Group. This Model involved the integrated management of “Operational Risks” and “Permanent Controls”, so as to perform coordinated actions in this process, both in the phase of identifying and reporting operating losses as well as in the risk assessment, control, monitoring and mitigation stage, following the adoption of common metrics and gaugings.
  In the Unit, which is part of the General Manager’s staff, the role of Operational Risk Point of Contact was identified, who reports hierarchically to the Head of the Unit and functionally to the Head of the Risk Division, with whom he/she coordinated to perform the activities on pertinent risks, on their reporting and periodic monitoring and the mitigation actions implemented in agreement with the related Risk Owners and to whom he/she sent suitable information flows. The Head of the Risk Division acted as the Operational Risk Correspondent and Coordinator of Permanent Controls for the Company.
  The staff of the Unit, who do not participate in specific operating activities of the other departments, were dedicated to executing Permanent Controls according to the formalities and the deadlines defined in the Plan of Controls and prepared “day by day” operational disclosure on the checks carried out, emerging issues, and any mitigation activities carried out. This information was sent to operational management, Heads of the relevant Units, and the Operational Risk Point of Contact.

Also in regard to 2017, the organisation was completed by:

- **Risk Monitoring Committee - Permanent Control Operational Risk Session**, in line with the Parent Company model, assured the coordination and oversight of the permanent control and operational risk system. The Committee was confirmed as responsible for:

  - approving the Operational Plans for Permanent Control of risks, prepared by the responsible divisions;
  - providing a global, organic vision of the permanent control and operational risk system;
  - analysing and acquiring collective decisions on the permanent control and operational risk framework;
  - generating an alarm and escalation level on recurring critical issues;
  - determining the involvement of operational units responsible for managing these issues and activating the monitoring of mitigating actions.

Committee meetings were attended by the Heads of the Company Divisions identified, for each session, in relation to the topics discussed and to their respective responsibilities. In addition, the Contact Persons for Essential Outsourced Services[6] and the relevant BNL SpA functions (Compliance and Risk Management Division) participated.

- **Finance Division,** which was responsible for ensuring that incidents generating a significant financial impact were appropriately reported in the Company's financial documents; this Division also worked with the Operational Risks and Permanent Control Unit to perform an accounting reconciliation of operating incidents. It was also responsible for calculating the capital requirements to be established in relation to the operational risks.

Lastly, on 20 December 2017, the Board of Directors resolved to transfer the Operational Risks and Permanent Control Unit to the **Operational Management Division**, assigning it as a "*first line of defence*", in accordance with the BNP Paribas Group model. On the same date, the Board of Directors assigned responsibility for overseeing and coordinating the Company's Operational Risks and Permanent Controls system ("*second line of defence*") to the Risk Division. The new organisational structure became effective on 1 February 2018.

Method

Management of operational risk, in the definition adopted by BNP Paribas, is based on an alignment of cause analysis (internal process or external fact), event (incident), and effect (risk of economic loss). In detail, the BNP Group has defined an incident as "every real or potential event deriving from the inadequacy or malfunctioning of internal processes or external events, which has, would have, or could generate a loss, a revenue or a lack of earnings". The frequency/impact analysis of historic incidents and their forecasted trend constitutes a fundamental element for developing the risk map.

The Operational Risk Management Model within Ifitalia concerns the following processes:

- **Loss Data Collection Process**: activities for the identification, entry, and registration of historic incidents of Operational Risk through input to the BNP FORECAST Group tool. The FORECAST (Full Operational Risk & Control Analysis System) management system is the IT platform used by the companies of BNP Paribas Group to record historic incidents, the related recognised, estimated, or potential losses, any amounts collected as a result of insurance or by other means that occur within the Group's organisations;

- **Risk Mapping Process**: valuation of the exposure to operational and non-compliance risks within Ifitalia; the mapping of the risks has been one of the qualifying elements for the adoption of the TSA model. It is essentially based on a self-assessment process to identify, classify, and measure in advance the risks which business operations are potentially exposed to and as such, is a managerial operating tool useful for planning the most appropriate mitigation measures for said risk;

- **Permanent Control Plan**: activation of permanent control procedures on areas at greatest operational risk identified in the Risk Mapping Process; the outcomes of the controls are reported through the Ve.Re.Co. (Control Reports) Group application;

- **Issue Resolution Activities**: adoption of suitable corrective measures in relation to the critical areas indicated, to ensure the efficiency of the company procedures and processes (in terms of integration, variation or support). These activities are carried out according to two different operating methods: definition of short-term corrective actions and structuring of medium/long-term action plans;

- **Reporting**: reporting activities ensures operational risk monitoring and enables the efficacy of controls and hedging procedures to be assessed. The main report produced, "Permanent Controls and Operational Risks Report", contains the outcomes of the permanent controls and the results of the Loss Data Collection process and management of potential incidents. A section of the report contains any mitigation action adopted and the related status of activities.

[6] Important Operating Functions pursuant to Bank of Italy Circular no. 288/2015.

QUANTITATIVE INFORMATION

Assessment of the main sources and nature of risk events

The breakdown by percentage of operational risk events recorded in 2017 according to the type of loss event (Event Type) defined by the Basel II Committee is provided below. In 2017, 25 risk events occurred, involving:

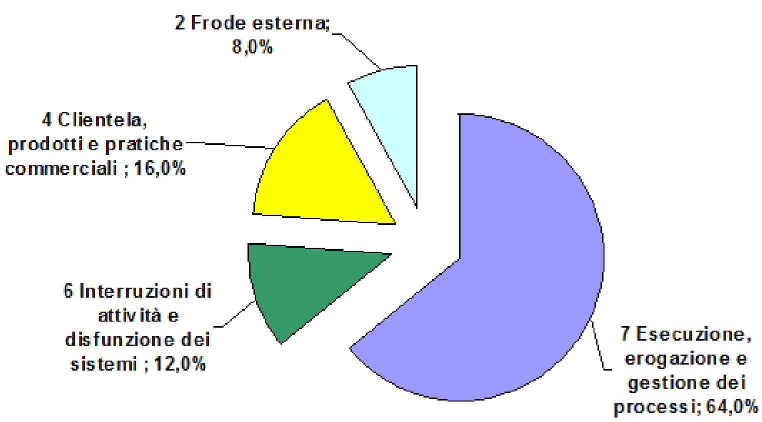
- **phenomena related to process execution, delivery and management (ET 7)**: these events are due to deficiencies in the completion of the transaction or in the management of processes, as well as events deriving from transactions with commercial counterparties (sellers and suppliers); these events constitute the main source of operational risk, as they account for 64% of the total number of events recorded in 2017 (versus 70.8% in 2016);

- **phenomena related to interruptions of activities and system malfunctions (ET 6)**: these events derive from activity interruptions or from system malfunctions; they represent 12% of the total events recorded in 2017 (compared to 8.3% in 2016);

- **phenomena related to customers, products and business practices (ET 4)**: these are events deriving from breaches of professional obligations to customers or from the nature or characteristics of the product or of the service rendered; such phenomena are mainly represented by revocation actions and lawsuits, which account for 16% of the total events occurred in 2017 (versus 12.5% in 2016);

- **phenomena related to external frauds (ET 2)**: these are events due to fraud, embezzlement or violation of laws by persons outside the Company and account for 8% of the total events in 2017 (versus 4.2% in 2016).

Percentage composition by each type of event:



3.4 LIQUIDITY RISK

QUALITATIVE INFORMATION

1. General aspects, management processes and methods for gauging the liquidity risk

The policies for managing liquidity risk, i.e. the ability to fulfil, at any time, one's payment obligations at the set due dates, are an expression of the strategy defined by the Parent Company BNP Paribas, which is essentially based on centralised liquidity management for all Group companies.

QUANTITATIVE INFORMATION

1. Time distribution by residual maturity of financial assets and liabilities - Euro

Euro *(thousands of €)*

	Items/Timeframe	On demand	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Beyond 5 years	Unspecified duration
	Cash assets										
A.1	Government bonds										
A.2	Other debt securities										
A.3	Loans	1.559.659	-	-	1.607.444	2.201.424	809.315	321.435	323.749	70.222	281.964
A.4	Other assets										5.921
	Cash liabilities										
B.1	Deposits and current accounts										
	- Banks	268.763	890.325	957.025	1.427.753	726.060	421.066	1.309.040	86.927		37.319
	- Financial institutions										
	- Customers										105.076
B.2	Debt securities	41.176			75.067	115.291	25.366				
B.3	Other liabilities										
	Off balance sheet transactions										
C.1	Financial derivatives with capital exchange										
	- Long positions										
	- Short positions										
C.2	Financial derivatives without capital exchange										
	Long positions									232	
	Short positions										
C.3	Deposits and loans to be received										
	- Long positions										
	- Short positions										
C.4	Irrevocable commitments to grant funds										
	- Long positions										
	- Short positions	-	-	-	-	-	-	-	-		
C.5.	Financial guarantees given	-	-	-	-	-	-	-	-		-

1. Time distribution by residual maturity of financial assets and liabilities – Other currencies

Other currencies *(thousands of €)*

	Items/Timeframe	On demand	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Beyond 5 years	Unspecified duration
	Cash assets										
A.1	Government bonds										
A.2	Other debt securities										
A.3	Loans	12,474			47,346	106,030	30,748	6,070	3,553		
A.4	Other assets										
	Cash liabilities										
B.1	Deposits and current accounts										
	- Banks	137,011		24,568	10,106	7,273	18,926				
	- Financial institutions										
	- Customers										
B.2	Debt securities										
B.3	Other liabilities										
	Off balance sheet transactions										
C.1	Financial derivatives with capital exchange										
	- Long positions										
	- Short positions										
C.2	Financial derivatives without capital exchange										
	Long positions										
	Short positions										
C.3	Deposits and loans to be received										
	- Long positions										
	- Short positions										
C.4	Irrevocable commitments to grant funds										
	- Long positions										
	- Short positions										
C.5.	Financial guarantees given	-			-	-	-				-

SECTION 4 CONSOLIDATED EQUITY INFORMATION

4. 1 Consolidated Company equity

4.1.1 Qualitative information

The Company's equity is made up of the aggregation of share capital, share premium reserve, reserves, valuation reserves and profit for the period.
For supervisory purposes, the capital aggregate significant for this purpose is determined based on the current provisions envisaged by the Bank of Italy and represents the reference oversight for prudential supervisory provisions.
In accordance with said provisions, the Company is obliged to maintain a comprehensive capital requirement, which is calculated as the sum of the requirements relating to the single risk types (so-called "building block").

4.1.2 Quantitative information

4.1.2.1 Consolidated Company equity: breakdown

The Company's equity as at 31 December 2017 amounted to EUR 700.160 thousand.

(thousands of €)

Items/Balances	2017	2016
1. Share capital	55.900	55.900
2. Share premium	61.799	61.799
3. Reserves	539.696	494.476
- profit	528.122	482.903
a) legal reserve	11.180	11.180
b) statutory reserve	516.937	471.723
c) treasury shares		
d) other	5	
- other	11.573	11.573
4. (Treasury shares)	-	-
5. Valuation reserves	8.176	8.699
- Available-for-sale financial assets	3.321	3.741
- Tangible assets	-	-
- Intangible assets	-	-
- Foreign investment hedging	-	-
- Hedging of financial flows		
- Exchange rate differences	-	-
- Non current assets undergoing disposal	-	-
- Special revaluation laws	5.870	5.870
- Actuarial gains (losses) relating to defined benefit welfare plans	(1.015)	(912)
- Portion of the valuation reserves related to equity investments valued at equity	-	-
6. Equity instruments		
7. Profit (loss) for the year	34.579	45.219
Total group shareholders' equity	**700.150**	**666.093**
Third party equity	**10**	**10**
Total consolidated shareholders' equity	**700.160**	**666.103**

Information about the Company's equity components is indicated in Part B - Section 12 of these notes to the accounts.

4.1.2.2 Reserves from valuation of the available-for-sale financial assets: breakdown

(thousands of

Items/Balances		2017		2016	
		Positive reserve	Negative reserve	Positive reserve	Negative reserve
1	Debt securities	-	-	-	-
2	Equity investments	3.321	-	3.741	-
3	UCI units	-	-	-	-
4	Loans	-	-	-	-
	Total	**3.321**	**-**	**3.741**	**-**

4.1.2.3 Reserves from valuation of the available-for-sale financial assets: changes during the year

(thousands of €)

		Debt securities	Equity investments	UCI units	Loans
1.	**Opening balances**	**-**	**3.741**	**-**	**-**
2.	**Increases**	**-**	**-**	**-**	**-**
2.1	Positive fair value changes	-	-	-	-
2.2		-	-	-	-
			-	-	-
		-	-	-	-
2.3	Other increases	-	-	-	-
3.	**Decreases**	**-**	**(420)**	**-**	**-**
3.1	Negative fair value changes	-	(420)		-
3.2			-		-
3.3		-	-		-
3.4	Other decreases	-	-		-
4.	**Closing balances**	**-**	**3.321**	**-**	**-**

4.2 Supervisory capital and ratios

The Bank of Italy Circular no. 288 "Regulatory provisions for financial intermediaries", in Title I "Subjects and assets", Chapter 2 "Financial Group", Section II "Financial Group, 1 "Composition of the Financial Group" provides that the financial companies that constitute the Group also include:
— corporate organisms with a corporate purpose limited to the carrying out of determinate operations of a financial nature, which is conducted essentially in the interest of the group."
However Circular 288 also specifies that "Vehicles constituted in Italy or abroad with the only purpose to provide a corporate structure to individual funding or lending operations and destined to be liquidated once the operation is concluded, in which the intermediary or a company of the financial group holds an equity interest not qualifiable as an interest for the purpose of supervisory purposes, are not included in the financial group on condition that they are consolidated in the parent company's consolidated financial statements."

Therefore, as Ifitalia has no share equity in the vehicle and given that it has arranged for this document relating to the consolidated financial statements, the vehicle must not be included in the financial group.
Furthermore, for as long as the vehicle is the only entity controlled by Ifitalia (and, as stated earlier, there being no need for it to be included in the financial group), it is deemed that the prerequisites for the creation of the same financial group and the application of the relative legislation have not been met.

Therefore, on the basis of the legislation referred to above, the Financial Group is not constituted in accordance with Circular 288 with the subsequent exemption of all the administrative/accounting obligations for the purpose of Supervision for Financial Groups.

SECTION 5 – ANALYTICAL STATEMENT OF COMPREHENSIVE INCOME

ANALYTICAL STATEMENT OF COMPRENSIVE INCOME

(thousands of €)

	ITEMS	Gross amount	Income taxes	Net amount
10.	**Profit (loss) for the year**	**49.419**	**(14.840)**	**34.579**
	Other income components without transfer to income statement			
20.	Tangible assets	-	-	-
30.	Intangible assets	-	-	-
40.	Defined benefit plans	(142)	39	(103)
50.	Non current assets undergoing disposal	-	-	-
60.	Portion of the valuation reserves of investments valued at equity	-	-	-
	Other income components with transfer to income statement			
70.	Hedging of foreign investments:	-	-	-
	a) fair value changes	-	-	-
	b) transfer to income statement	-	-	-
	c) other changes	-	-	-
80.	Exchange rate differences:	-	-	-
	a) value changes	-	-	-
	b) transfer to income statement	-	-	-
	c) other changes	-	-	-
90.	Hedging of financial flows	-	-	-
	a) fair value changes	-	-	-
	b) transfer to income statement	-	-	-
	c) other changes	-	-	-
100.	Available-for-sale financial assets:	(451)	32	(419)
	a) fair value changes	-		-
	b) transfer to income statement	-	-	-
	- adjustments from impairment	-	-	-
	- profit/ loss from realisation	-	-	-
	c) other changes	(451)	32	(419)
110.	Non current assets undergoing disposal:	-	-	-
	a) fair value changes	-	-	-
	b) transfer to income statement	-	-	-
	c) other changes	-	-	-
120.	Portion of the valuation reserves of investments valued at equity:	-	-	-
	a) fair value changes	-	-	-
	b) transfer to income statement	-	-	-
	- adjustments from impairment	-	-	-
	- profit/ loss from realisation	-	-	-
	c) other changes	-	-	-
130.	**Total other income components**	**(593)**	**71**	**(522)**
140.	**Comprensive income (Item 10+130)**	**48.826**	**(14.769)**	**34.057**
150	**Third party consolidated comprensive income**			
160	**Parent company consolidated comprensive income**	**48.826**	**(14.769)**	**34.057**

SECTION 6 – TRANSACTIONS WITH RELATED PARTIES

The introduction of the international accounting standards involves the application of the provisions relating to disclosure on transactions with related parties established by IAS 24.

6.1 Information on the remuneration of executives with strategic responsibilities

During the year, remuneration for the Board of Directors was recognised for EUR 46 thousand, while fees pertaining to the Board of Statutory Auditors amounted to EUR 100 thousand.

6.2 Loans and guarantees given in favour of directors and statutory auditors

At year end, there were no cash and endorsement credit facilities used by members of the Board of Directors or the Board of Statutory Auditors or by parties referring to the same.

6.3 Information on transactions with related parties

Reference should be made to the comments in the corresponding item of the Report on Operations – intercompany transactions and those with related parties – page 28.

Income statement transactions for the period and balance sheet balances as at 31 December 2017 between the Parent Company and other BNPP Group companies, deriving from financial or trade transactions, are presented below.

(thousands of €)

Counterpart	Interest and similar income	Interest and similar expense	Commission income	Commission expense	Dividends	Derivatives	Administrative expenses	Other operating income and charges
PARENT COMPANY	7.840	(633)		(848)				
ASSOCIATED COMPANIES	491	(1.743)	254	(3.655)	14	126	(16.730)	(338)
OTHER								
Total	**8.331**	**(2.375)**	**254**	**(4.503)**	**14**	**126**	**(16.730)**	**(338)**

(thousands of €)

Counterpart	IFITALIA creditor	IFITALIA debtor	Factoring receivables	Guarantees received (*)	Guarantees given	Derivative liability
A) PARENT COMPANY	**10.342**	**5.486.870**	**-**	**219.041**	**-**	**-**
BNP PARIBAS PARIS		876				
BNP PARIBAS SUCC. MILANO	10.342	5.485.994		219.041		
B) BNPP GROUP COMPANIES	**7.492**	**554.413**	**53.729**	**100.092**	**10.041**	**232**
ARVAL SERVICE LEASE ITALIA S.P.A.		222	53.708			
BNL SpA	7.426	550.079		100.092	10.041	232
BNL FINANCE S.P,A.		24				
BNL POSITIVITY SRL		40				
BNP PARIBAS FACTOR		487				
BNP PARIBAS FORTIS	2	478				
BNP PARIBAS LEASE GROUP		575				
BNPP REAL ESTATE		31				
BUSINESS PARTNER ITALIA	64	1.773				
CNH INDUSTRIAL CAPITAL EUROPE			21			
FINDOMESTIC BANCA S.P.A.		704				
TIERRE SECURITISATION SRL						
C) ASSOCIATED COMPANIES		**34**				
INTERNATIONAL TRADE PARTNER		34				
	17.834	**6.041.317**	**53.729**	**319.133**	**10.041**	**232**

(*) Including guarantees provided to cover the exceeding of risk concentration limits.

Financial Statement Data for the Parent Company BNP Paribas

With reference to the matters envisaged by Article 2497-*bis*, paragraph 4 of the Italian Civil Code, regarding disclosure on management and co-ordination activities, tables are presented below containing a summary of the highlights taken from the last set of financial statements approved on 31 December 2016 by BNP Paribas S.A. in its capacity as direct parent company.

Consolidated income statement of the BNP Paribas Group

In millions of euros	Notes	Year to 31 Dec. 2016	Year to 31 Dec. 2015
Interest income	2.a	40,894	41,381
Interest expense	2.a	(18,518)	(18,828)
Commission income	2.b	12,765	13,335
Commission expense	2.b	(5,563)	(5,720)
Net gain on financial instruments at fair value through profit or loss	2.c	6,189	6,054
Net gain on available-for-sale financial assets and other financial assets not measured at fair value	2.d	2,211	1,485
Income from other activities	2.e	36,532	38,289
Expense on other activities	2.e	(31,099)	(33,058)
REVENUES		43,411	42,938
Salary and employee benefit expense	6.a	(16,402)	(16,061)
Other operating expenses	2.f	(11,279)	(11,539)
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	4.n	(1,697)	(1,654)
GROSS OPERATING INCOME		14,033	13,684
Cost of risk	2.g	(3,262)	(3,797)
Costs related to the comprehensive settlement with US authorities	2.h	-	(100)
OPERATING INCOME		10,771	9,787
Share of earnings of equity-method entities	4.m	633	589
Net gain on non-current assets		(12)	996
Goodwill	4.o	(182)	(993)
PRE-TAX INCOME		11,210	10,379
Corporate income tax	2.i	(3,095)	(3,335)
NET INCOME		8,115	7,044
Net income attributable to minority interests		413	350
NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS		7,702	6,694
Basic earnings per share	7.a	6.00	5.14
Diluted earnings per share	7.a	6.00	5.13

Consolidated balance sheet of the BNP Paribas Group

In millions of euros	Notes	31 December 2016	31 December 2015
ASSETS			
Cash and amounts due from central banks		160,400	134,547
Financial instruments at fair value through profit or loss			
Trading securities	4.a	123,679	133,500
Loans and repurchase agreements	4.a	152,242	131,783
Instruments designated as at fair value through profit or loss	4.a	87,644	83,076
Derivative financial instruments	4.a	328,162	336,624
Derivatives used for hedging purposes	4.b	18,133	18,063
Available-for-sale financial assets	4.c	267,559	258,933
Loans and receivables due from credit institutions	4.f	47,411	43,427
Loans and receivables due from customers	4.g	712,233	682,497
Remeasurement adjustment on interest-rate risk hedged portfolios		4,664	4,555
Held-to-maturity financial assets	4.j	6,100	7,757
Current and deferred tax assets	4.k	7,966	7,865
Accrued income and other assets	4.l	115,967	108,018
Equity-method investments	4.m	6,910	6,896
Investment property	4.n	1,911	1,639
Property, plant and equipment	4.n	22,523	21,593
Intangible assets	4.n	3,239	3,104
Goodwill	4.o	10,216	10,316
TOTAL ASSETS		**2,076,959**	**1,994,193**
LIABILITIES			
Due to central banks		233	2,385
Financial instruments at fair value through profit or loss			
Trading securities	4.a	70,326	82,544
Borrowings and repurchase agreements	4.a	183,206	156,771
Instruments designated as at fair value through profit or loss	4.a	54,076	53,118
Derivative financial instruments	4.a	318,740	325,828
Derivatives used for hedging purposes	4.b	19,626	21,068
Due to credit institutions	4.f	75,660	84,146
Due to customers	4.g	765,953	700,309
Debt securities	4.i	153,422	159,447
Remeasurement adjustment on interest-rate risk hedged portfolios		4,202	3,946
Current and deferred tax liabilities	4.k	3,087	2,993
Accrued expenses and other liabilities	4.l	99,407	88,629
Technical reserves of insurance companies	4.p	193,626	185,043
Provisions for contingencies and charges	4.q	11,801	11,345
Subordinated debt	4.i	18,374	16,544
TOTAL LIABILITIES		**1,971,739**	**1,894,116**
CONSOLIDATED EQUITY			
Share capital, additional paid-in capital and retained earnings		86,794	82,839
Net income for the period attributable to shareholders		7,702	6,694
Total capital, retained earnings and net income for the period attributable to shareholders		94,496	89,533
Changes in assets and liabilities recognised directly in equity		6,169	6,736
Shareholders' equity		**100,665**	**96,269**
Retained earnings and net income for the period attributable to minority interests		4,460	3,691
Changes in assets and liabilities recognised directly in equity		95	117
Total minority interests		**4,555**	**3,808**
TOTAL CONSOLIDATED EQUITY		**105,220**	**100,077**
TOTAL LIABILITIES AND EQUITY		**2,076,959**	**1,994,193**

AUDITORS' REPORT

MAZARS

Independent auditor's report in accordance with articles 14 and 19-bis of Legislative Decree No. 39 of 27 January 2010

To the Shareholders of International Factors Italia S.p.A.

Report on the audit of the financial statements

Opinion

We have audited the financial statements of International Factors Italia S.p.A. (the Company), which comprise the statement of financial position as at 31 December 2017, 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 explanatory notes, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2017, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union as well as with the regulations issued to implement article 43 of Legislative Decree No. 136/2015.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the section of this report titled *Auditor's responsibilities for the audit of the financial statements*. We are independent of the Company pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the directors and board of statutory auditors for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union as well as with the regulations issued to implement article 43 of Legislative Decree No. 136/2015 and, according to the terms prescribed by law, for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the Company's ability to continue as a going concern and for the appropriateness of the use of the going concern assumption in the preparation of the financial statements, and for appropriate disclosure thereof. In preparing the financial statements, the directors use the going concern basis of accounting unless directors either intend to liquidate the Company or to cease operations or has no realistic alternative but to do so.

MAZARS ITALIA SPA
LARGO AUGUSTO, 8 - 20122 MILANO
TEL: +39 02 32 16 93 00 - www.mazars.it

SPA - CAPITALE SOCIALE DELIBERATO, SOTTOSCRITTO E VERSATO € 120.000,00 – SEDE LEGALE: LARGO AUGUSTO, 8 - 20122 MILANO
REA MI-2076227 - COD. FISC. E P. IVA 11176691001 – ISCRIZIONE AL REGISTRO DEI REVISORI LEGALI N. 163788 CON D.M. DEL 14/07/2011 G.U. N. 57 DEL 19/07/2011

The board of statutory auditors ("collegio sindacale") is responsible for overseeing, according to the terms prescribed by law, the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain a reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit performed in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of the audit in accordance with International Standards on Auditing (ISA Italia), we exercised professional judgement and maintained professional scepticism throughout the audit. Furthermore:

- we identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error; we designed and performed audit procedures in response to those risks; we obtained sufficient and appropriate audit evidence on which to base our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control;
- we obtained an understanding of the internal control relevant to the audit in order to design the audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- we evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- we concluded on the appropriateness of the director's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. Where a material uncertainty exists, we are required to draw attention, in our auditor's report, to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, subsequent events or conditions may cause the Company to cease to continue as a going concern;
- we evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in such a manner as to give a true and fair view.

We communicated to those charged with governance, identified at an appropriate level as required by ISA Italia, among other matters, the scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identified during our audit.

Report on compliance with other laws and regulations

Opinion in accordance with article 14, paragraph 2, letter e), of Legislative Decree No. 39/10

The directors of International Factors Italia S.p.A. are responsible for preparing a directors' report of International Factors Italia S.p.A. as at 31 December 2017, including its consistency with the relevant financial statements and its compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the directors' report with the financial statements of International Factors Italia S.p.A. as at 31 December 2017 and on its compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the directors' report is consistent with the financial statements of International Factors Italia S.p.A. as at 31 December 2017 and is prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39/10, issued based on our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have nothing to report.

Milan, 6 April 2018

Mazars Italia S.p.A.
(signed on the original)
Marco Lumeridi
Partner

This report has been translated into English from the Italian original solely for the convenience of international readers

Independent auditor's report in accordance with articles 14 and 19-bis of Legislative Decree No. 39 of 27 January 2010

To the Shareholders of International Factors Italia S.p.A.

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of IFITALIA Group (the Group), which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated cash flows statement for the year then ended and the explanatory notes, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of the consolidated result of its operations and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union as well as with the regulations issued to implement article 43 of Legislative Decree No. 136/2015.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the section of this report titled *Auditor's responsibilities for the audit of the consolidated financial statements*. We are independent of International Factors Italia S.p.A. (the Company) pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other matter

The consolidated financial statements of IFITALIA Group for the year ended 31 December 2016 have not been audited.

Responsibilities of the directors and board of statutory auditors for the consolidated financial statements

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union as well as with the regulations issued to implement article 43 of Legislative Decree No. 136/2015 and, according to the terms prescribed by law, for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the Group's ability to continue as a going concern and for the appropriateness of the use of the going concern assumption in the preparation of the consolidated financial statements, and for appropriate disclosure thereof. In preparing the consolidated financial statements, the directors use the going concern basis of accounting unless directors either intend to liquidate the parent company International Factors Italia S.p.A. or to cease operations or has no realistic alternative but to do so.

The board of statutory auditors ("collegio sindacale") is responsible for overseeing, according to the terms prescribed by law, the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain a reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit performed in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of the audit in accordance with International Standards on Auditing (ISA Italia), we exercised professional judgement and maintained professional scepticism throughout the audit. Furthermore:

- we identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; we designed and performed audit procedures in response to those risks; we obtained sufficient and appropriate audit evidence on which to base our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control;
- we obtained an understanding of the internal control relevant to the audit in order to design the audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- we evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- we concluded on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. Where a material uncertainty exists, we are required to draw attention, in our auditor's report, to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, subsequent events or conditions may cause the Group to cease to continue as a going concern;
- we evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements

represent the underlying transactions and events in such a manner as to give a true and fair view;

- we obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion on the consolidated financial statements.

We communicated to those charged with governance, identified at an appropriate level as required by ISA Italia, among other matters, the scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identified during our audit.

Report on compliance with other laws and regulations

Opinion in accordance with article 14, paragraph 2, letter e), of Legislative Decree No. 39/10

The directors of International Factors Italia S.p.A. are responsible for preparing a directors' report of International Factors Italia S.p.A. as at 31 December 2017, including its consistency with the relevant consolidated financial statements and its compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the directors' report with the consolidated financial statements of International Factors Italia S.p.A. as at 31 December 2017 and on its compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the directors' report is consistent with the consolidated financial statements of International Factors Italia S.p.A. as at 31 December 2017 and is prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39/10, issued based on our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have nothing to report.

Milano, 6 April 2018

Mazars Italia S.p.A.
(signed on the original)
Marco Lumeridi
Partner

This report has been translated into English from the Italian original solely for the convenience of international readers

BOARD OF STATUTORY AUDITORS' REPORT

IFITALIA S.p.A.
INTERNATIONAL FACTORS ITALIA S.p.A.
Company subject to the management and co-ordination of BNP Paribas S.A. – Paris
Registered offices in Via Vittor Pisani 15 — 20124 Milan, Italy
Share capital EUR 55,900,000 fully paid-in
Milan Companies' Register No. and Tax Code 00455820589
Economic & Administrative Roster No. 683665
Register of Financial Brokers - mechanised code no. 19016

BOARD OF STATUTORY AUDITORS' REPORT TO THE SHAREHOLDERS' MEETING pursuant to Article 2429, par. 2 of the Italian Civil Code and Article 19 of Italian Legislative Decree no. 39/2010

Shareholders,

During the year ended 31 December 2017, we carried out the supervisory activities envisaged by law, in observance of the provisions of Article 2403, par. 1 of the Italian Civil Code, Article 19-bis and 19-ter of Italian Legislative Decree no. 39 dated 27 January 2010 and subsequent amendments as well as the Supervisory Instructions for financial brokers issued with Bank of Italy Circular no. 288/2015, for brokers enrolled in the Register as per Article 106 of the consolidation act of banking and lending laws (TUB - Italian Legislative Decree no. 385/1993) and according to the standards of conduct recommended by the Italian Accounting Profession.

Ifitalia S.p.A.'s separate financial statements have been drawn up in accordance with IASB/IFRS international accounting standards and the related IASB/IFRIC interpretations adopted by the European Commission as per the Procedure pursuant to Article 6 of EC Regulation no. 1606/2001 of the European Parliament and Council of the European Union dated 16 July 2002, as well as in accordance with the instructions issued by Bank of Italy on 22 December 2017 "IFRS Financial Statements of Brokers other than Banking Intermediaries".

The Board of Statutory Auditors acquired the information necessary to perform its work, both through constant participation in the meetings of the Board of Directors and through meetings with the heads of the various business units and divisions.

Specifically, the Board of Statutory Auditors discloses the following.

The Board oversaw the observance of the law and the Articles of Association.

It obtained information from the Directors, quarterly and for participation in Board meetings, on the activities performed and the transactions of greatest economic, financial and equity importance carried out by the Company and it can reasonably state that the actions resolved and carried out are compliant with the law and the Articles of Association and do not appear manifestly imprudent, reckless, in potential conflict of interest, or in contrast with the resolutions adopted by the Shareholders' Meeting or such as to compromise the integrity of the Company's assets.

Intercompany and related party transactions of an ordinary nature have been adequately described in the Report on Operations and are deemed suitable and compliant with the interests of the Company; where applicable, the regulations laid down by Article 2497-*ter* of the Italian Civil Code have been observed.

In compliance with Group instructions and IAS/IFRS international accounting standards, the Board of Directors took steps to draw up and forward the quarterly and interim data for purposes of the consolidated reports.

The Board of Statutory Auditors acquired knowledge of and monitored, insofar as it is responsible, the adequacy of the Company's organisational structure and its evolution within BNP Paribas Group, as well as the observance of standards of correct administration and of instructions imparted by the Parent Company, by means of gathering information from the heads of the business divisions and meetings with the independent auditors for the purpose of a reciprocal exchange of significant data and information, regarding which it has no particular observations to make.

Note that, during 2017, the Company continued to outsource important operating functions as initiated in previous years, both to Banca Nazionale del Lavoro and to Business Partner Italia S.c.p.a.

The Board oversaw that activity through meetings and information obtained from the individual heads of the outsourced activities as well as through reviewing the specific report on the important operating functions, based on which it drew up the considerations set out in Circular no. 288 of 3 April 2015 issued by the Supervisory Authority.

The Board of Statutory Auditors assessed and monitored the adequacy of the internal audit system and the administrative accounting system as well as the reliability of the latter in correctly representing operating events, by obtaining information from the heads of the respective divisions, examining business documents, and analysing the results of the work performed by the independent auditors, overseeing the activities of those in charge of internal auditing, in observance of the Supervisory Provisions for Financial Brokers pursuant to Article 106 of the TUB referred to in Bank of Italy Circular no. 288/2015, Title III regarding administrative and accounting organisation and internal audits.

Accordingly, the Board of Statutory Auditors - both during board meetings and meetings with the outsourced Compliance and Internal Audit Divisions - received information on the annual audit plans and the reports issued, assessing the results and monitoring the implementation of the corrective actions.

In general, the Board of Statutory Auditors noted an essentially satisfactory trend in the results of the Internal Audit reports as well as suitable compliance bases on conclusion of the activities of the Compliance Division.

The Board of Statutory Auditors monitored the observance of supervisory instructions and the observance of legislation to prevent money laundering and financing of terrorism, with particular regard to obligations to report suspect transactions and other obligations as per Italian Legislative Decree no. 231 dated 21 November 2007, regarding the implementation of Directive 2005/60/EC and subsequent amendments, with particular reference to the establishment and activities of the anti-money laundering function in observance of the Bank of Italy Instruction of 10 March 2011 containing "Implementing provisions regarding organisation, procedures and internal audits aimed at preventing use of intermediaries and other persons who carry out financial activities for purposes of money laundering and financing of terrorism", pursuant to Article 7, par. 2 of Italian Legislative Decree no. 231.

The Board also monitored compliance with new obligations introduced in Italian Legislative Decree no. 90 of 25 May 2017 implementing Directive (EU) 2015/849 on preventing the use of the financial system for laundering proceeds of criminal activities and financing terrorism and amending Directives 2005/60/EC and 2006/70/EC and implementation of Regulation (EU) no. 2015/847 on information accompanying transfers of funds and repealing Regulation (EC) no. 1781/2006. On today's date, the independent auditors issued the audit report on the separate financial statements as at 31 December 2017 without findings or evidence of other issues.

During the 2 meetings with the firm appointed to perform the official audit, held for the purposes of a reciprocal exchange of significant data and information, the Board of Statutory Auditors was informed that there were no events or facts deemed reprehensible or worthy of mentioning.

The Board of Statutory Auditors did not issue any written opinions as per the law.

During the year, the Board of Statutory Auditors carried out its supervisory activities, taking part in 10 meetings of the Board of Directors and holding 6 audit meetings.

In compliance with the matters envisaged by Italian Legislative Decree no. 231/2001, the Company has developed an Organisation and Management Model to prevent the offences envisaged therein.

In relation to the responsibility assigned to the Supervisory Body, the Board of Statutory Auditors, given the legislative amendments relevant for purposes of Italian Legislative Decree no. 231/2001, which were approved subsequent to the current version of the Model:

- suggested to proceed with the updating of the Organisation and Management Model pursuant to Legislative Decree 231/2001, especially with regard to the changes made to Article 2635 of the Italian Civil Code (Corruption between private individuals) and the introduction of Article 2635-bis of the Italian Civil Code (Instigation of bribery among private individuals) and of accessory penalties as a relevant offence for purposes of Italian Legislative Decree no. 231/2001, as well as subsequent amendments;

- monitored the completion of the corrective measures identified by PricewaterhouseCoopers during the Risk Assessment carried out prior to updating the 231/01 Model;
- updated its internal rules and the Company's reporting flow.

In conclusion, the Board of Statutory Auditors can confirm that the supervisory activities carried out during the year and up until today's date have not revealed any omissions, reprehensible facts or irregularities.

Given the above, the Board of Statutory Auditors reveals that there is no impediment to approving the separate financial statements as at 31 December 2017, which report a profit of EUR 34,200,107, along with the proposal to allocate the profit formulated by the Board of Directors.

Rome, Italy, 6 April 2018

The Board of Statutory Auditors

Mr. Francesco Schiavone Panni
Chairman

Mr. Guido Nori
Acting Auditor

Mr. Roberto Serrentino
Acting Auditor

IFITALIA S.p.A.
INTERNATIONAL FACTORS ITALIA S.p.A.
Company subject to the management and co-ordination of BNP Paribas S.A. – Paris
Registered offices in Via Vittor Pisani 15 – 20124 Milan, Italy
Share capital EUR 55,900,000 fully paid-in
Milan Companies' Register No. and Tax Code 00455820589
Economic & Administrative Roster No. 683665
Register of Financial Brokers - mechanised code no. 19016

BOARD OF STATUTORY AUDITORS' REPORT TO THE SHAREHOLDERS' MEETING ON THE CONSOLIDATED FINANCIAL STATEMENTS pursuant to Article 2429, par. 2 of the Italian Civil Code and Article 19 of Italian Legislative Decree no. 39/2010

Shareholders,

Ifitalia has prepared the consolidated financial statements for the first time, which include in the scope of consolidation, other than Ifitalia, only Tierre Securitization Srl, the SPV used for securitisation transactions and a de facto subsidiary of Ifitalia.

Although Ifitalia does not hold any of the SPV's share capital, based on the reference accounting standards (IFRS 10), it controls the SPV, since it is the main party that determines its cash flows and is also exposed to variable returns of the subsidiary.

Thus, having a subsidiary, Ifitalia is required to prepare the consolidated financial statements as at 31 December 2017, in accordance with the regulations governing the preparation of financial statements of banks and financial companies as well as international accounting standards. Given the structure of the securitisation transactions that do not allow the receivables assigned to the SPV to be derecognised from Ifitalia's balance sheet assets, the values of the various items of the consolidated financial statements do not differ substantially from those of Ifitalia's separate financial statements. Therefore, the Company took advantage of the option to prepare a single Report on Operations to accompany both the separate and consolidated financial statements.

Ifitalia S.p.A.'s consolidated financial statements have been drawn up in accordance with IASB/IFRS international accounting standards and the related IASB/IFRIC interpretations adopted by the European Commission as per the Procedure pursuant to Article 6 of EC Regulation no. 1606/2001 of the European Parliament and Council of the European Union dated 16 July 2002, as well as in accordance with the instructions issued by Bank of Italy on 22 December 2017 "IFRS Financial Statements of Brokers other than Banking Intermediaries".

In the Notes to the consolidated accounts, Part A - Accounting Policies - A.1 - General Section, the accounting standards applied in preparing the consolidated financial statements are presented.

On today's date, the independent auditors issued the audit report on the consolidated financial statements as at 31 December 2017 without findings or evidence of other issues.

The 2017 consolidated financial statements closed with a consolidated net profit for the year of EUR 34,579,288 and consolidated equity of EUR 700,159,666.

For all other information relating to Ifitalia's business activities, please refer to the report of the Board of Statutory Auditors on Ifitalia's 2017 separate financial statements.

The Board of Statutory Auditors, to the extent of its responsibility, did not find any significant facts other than the above that required mentioning in this report.

Rome, Italy, 9 April 2018

The Board of Statutory Auditors

Mr. Francesco Schiavone Panni
Chairman

Mr. Guido Nori
Acting Auditor

Mr. Roberto Serrentino
Acting Auditor

ORDINARY SHAREHOLDERS' MEETING HELD ON 24 APRIL 2018

Resolutions: (EXTRACT)

The Shareholders' Meeting, chaired by Mario Girotti, met on 24 April 2018 and resolved:

- a) to approve the financial statements as at 31 December 2017, as presented by the management body, as well as the report accompanying the same;
- b) to allocate the profits of EUR 34,200,107 to the statutory reserve, as the legal reserve has already reached one-fifth of share capital.