UBI Factor

Gruppo UBI Banca

FINANCIAL STATEMENTS

AT 31 DECEMBER 2016

Translation from the Italian which remains the definitive version

Contents

COMPANY OFFICERS AND MANAGEMENT

Board of Directors

CHAIRMAN	Alberto Valdembri
DEPUTY CHAIRMAN	Federico Ghiano
DIRECTORS	Piero Fenaroli Valotti
	Giovanni Lupinacci
	Marco Mandelli
	Simona Pezzolo De Rossi
	Gian Cesare Toffetti

Board of statutory auditors

CHAIRMAN	Marco Confalonieri
STANDING STATUTORY AUDITORS	Giorgio Ferrino
	Paolo Golia

Management

GENERAL MANAGER	Marco Castelli
DEPUTY GENERAL MANAGER	Sergio Passoni

Independent auditors Deloitte & Touche S.p.A.

DIRECTORS' REPORT

The current context

The global outlook during 2016 was increasingly affected by geopolitical variables that rendered the general picture even more problematic and unstable, accentuating economic uncertainties and the volatility of financial markets. Specific issues included:

- the unresolved problem of how to manage the flow of migrants into Europe;
- the repeated, large-scale terrorist attacks;
- the tensions between Russia and the United States, not least in the search for a peace agreement in Syria;
- the repeated nuclear experiments and threats by North Korea to test intercontinental ballistic missiles;
- the outcome of the British referendum at the end of June on the position of the United Kingdom within the European Union*:* the impact of the result on the financial and currency markets was immediate. This impact was offset, on the one hand, by the extremely accommodating approach taken by the monetary authorities, not least the *Bank of England*, and, on the other, by the steady depreciation of sterling against the leading international currencies. Looking forward, although recent macroeconomic indicators have been encouraging - albeit in a context of slower growth and rising inflation – the intensity of the effects of Brexit on the United Kingdom and the Euro area will depend on the new arrangements for financial and trade exchanges. The related negotiations will be complex and the outcome cannot be predicted;
- the increased strategic importance of Turkey following the failed coup in July;
- the unexpected outcome of the US Presidential election: this raised uncertainties about the feasibility and possible consequences of the changes in economic policy promised during the election campaign. The strategic approach of the new President - oriented towards an increase in protectionism, with support for growth via greater infrastructure spending and expansionary fiscal policies - could result in higher inflation and, therefore, an accelerated rise in interest rates, but would also increase the level of public sector borrowing and might result in a stronger dollar, causing further difficulties for the countries that produce commodities and for the emerging economies in general.

Despite the cohesive efforts of EU leaders, the process of European integration remains both fragile and exposed to the dominance of nationalism, with growing populist pressure for less austerity and greater fiscal stimulus.

Although further expansion of the Quantitative Easing (QE) programme was decided in March, the differential between 10-year BTPs and the equivalent German Bund became more volatile, particularly around the time of the referenda in the United Kingdom and Italy. After reaching a peak since 2014 ahead of the Italian constitutional referendum, the spread descended to 161 basis points by the end of December following the quick resolution of the government crisis and continuation of the Eurosystem bond-buying programme (97 basis points at the end of 2015).

Given the weak economic recovery and the various international issues, the principal central banks continued to pursue their accommodating monetary policies, although the tendency for the United States and Europe to move out of step became more marked at the end of 2016.

With regard to the European Central Bank:

- on 10 March, the ECB decided to expand its monthly intervention under the Asset Purchase Programme (APP) in order to support the recovery in the Euro area and counter the risks associated with an excessively long period of low price growth;
- at the December meeting, the ECB determined that Quantitative Easing would continue at least until the end of 2017 and, in any case, until the rate of inflation in the Euro area becomes consistent with the related monetary policy target (of about 2%), while also announcing a reduction in the level of monthly purchases to 60 billion from April 2017;
- on 10 March, the principal rate for refinancing operations was reduced to and subsequently confirmed at the historical minimum of 0% (from 0.05% in December 2015), while the rate for bank deposits with the ECB was cut by 10 basis points to the current level of -0.40%.

The *Federal Reserve* has started the process of normalising monetary policy. Given the marked improvement in the employment statistics and rising inflation, the range of the Fed Funds reference rate was raised by 25 basis points in December, after an initial tweak of the same amount at the end of 2015.

The *Bank of Japan* dropped its reference rate into negative territory for the first time in January 2016, fixing it at -0.10% and continuing the expansionary strategy that, from September, has focused on controlling the yield curves for the different maturities, rather than on achieving a monetary target (confirmed at 80 trillion yen per annum) that may vary depending on control of the yield curves (*Qualitative and Quantitative Easing*, QQE).

The euro/dollar exchange rate fluctuated over the twelve-month period, reflecting changing expectations about the timing of FED intervention and the fears of political instability consequent to the electoral challenges in the two areas. In the fourth quarter, the outcome of the US Presidential election and the growing divergence of the central banks in their approaches to their respective economies resulted in the dollar strengthening against all leading international currencies, including the yuan, whose progressive weakness did not seem to worry the markets.

During 2016, the world economy grew by slightly less than in the previous year, with fluctuations among the different geographical areas. A slowdown in the advanced countries, especially the United States, was partially offset by the stable growth of the emerging economies.

Despite edging up slightly in the final months of the year, inflation remains particularly low in all leading industrialised countries - excluding the United States - and high in the emerging economies, with the sole exception of China.

Growth in the Euro area is contained, but steady. GDP rose by 0.3% in the third quarter, consistent with the previous month (+0.5% in the first quarter), supported by a persistent but modest rise in consumption and a marginal contribution from inventories, while trade fell and capital investment stagnated.

Although *Brexit* has not yet had a significant effect on the economy of the Euro area, any recovery is heavily conditioned by the uncertainties surrounding the delicate departure of the United Kingdom from the EU, by the possible results of the upcoming elections and the international political landscape.

The monthly trend in industrial production remains unclear (+1.5% in November, compared with +0.1% in October and -0.8% in September), reflecting the situation in the principal economies (+0.3% in Germany; +2.2% in France; +0.7% in Italy). On an annualised basis, on the other hand, the 3.2% rise in November confirms the growth seen since August (+1.4% in September; +0.8% in October).

The slow improvement in the jobs market has continued, with the unemployment rate down from the start of the year, reaching 9.8% in November (10.4% at the end of 2015), despite the ongoing challenges in Greece (23.1% in September) and in Spain (19.2%).

After holding at minimum levels, occasionally even negative, until August, inflation started to pick up, reaching 1.1% in December (0.2% at the end of 2015) following an upturn in energy prices. Against this, the core index, excluding food and energy products, was stable at the 0.9% reported twelve months earlier, reflecting the still considerable level of unused production capacity. On average over the year, inflation was just 0.2% (0% in 2015).

Within the Euro area, the Italian economy picked up steam in the summer months after a slowdown in the spring. GDP grew by 0.3% in the third quarter (+0.1% and +0.4% respectively in the second and first quarters) benefiting from the marginally positive contributions made by consumption, inventories and capital investment, as offset by a decline in net exports. Although this growth was in line with that of the Euro area, after having lagged significantly since the start of the latest recovery, the pace is certainly slower than that experienced by the larger European partners.

All leading financial markets, except for the Italian market, performed well in 2016 despite some strong volatility during the year.

Following the excellent results achieved in 2015, the markets managed by Borsa Italiana were penalised - more than those in other European countries - by the performance of the banking sector, given the fears about future profitability, the high level of impaired loans, and the outcome of efforts to recapitalise certain banks as part of the desirable consolidation of the sector. The quoted prices for Italian banks rose slightly towards the end of the year, following the introduction of government measures to support their liquidity and recapitalisation.

The fragile reference context continued to affect the banking sector, with negative funding and continued weak lending activities, which improved slightly during the year with a minimum improvement in credit quality.

Based on the information for November published by the Bank of Italy, loans to private residents rose on an annualised basis by 0.5% (-0.3% at the end of 2015) highlighting, in terms of their recipients, the gradual recovery from June 2015 in lending to households and the stagnation of lending to non-financial companies, despite the increasingly easier terms available. Over the twelve-month period, the growth in lending to households (+1.8% compared with +0.7% in December 2015) mainly related to consumer credit and, marginally, to home loans, while the dynamics continued to fluctuate with regard to businesses (unchanged in November; +0.8% in October; -0.6% at the end of 2015), affected by economic conditions and the level of capital investment.

In terms of credit quality, the decline in the flow of new impaired loans is consolidating. In November, gross non-performing loans to the private sector declined to €198.6 billion, representing the first, albeit slight, downward indicator (-1% from +9.3% in 2015). Households accounted for €53.1 billion (-1.6%; +8.5%) and businesses for more than €142 billion (-0.9%; +9.5%).

The ratio of gross non-performing loans to the private sector/total lending to the private sector was 12.18% (12.19% in December 2015).

By 30 September 2016, the Italian factoring market had generated total turnover of €141.5 billion, up 6.18% on the same period of the previous year. Advances and fees paid of €42.1 billion were 5.05% higher than in the period to 30 September 2015.

The survey includes all Assifact (factoring trade association) members, including counterparties which carry out atypical activities that cannot be compared with that of UBI Factor. The main Italian bank-based factoring companies recorded an increase in line with the total of the market in terms of turnover (+6.10%) and in advances and fees paid (+6.21%).

Commercial performance

In this context[1], UBI Factor also achieved higher operating volumes. Turnover was €6.5 billion, up by 7.08% from €6.09 billion in the period to September 2015.

Advances and fees paid for factoring transactions amounted to €2.3 billion, up by 20.76% from €1.9 billion in the period to September 2015.

As for the company's competitive position, in September 2016, it ranked sixth in terms of turnover with a market share of 4.61% (4.57% in the same period of 2015), and fifth in terms of outstandings, with a market share of 5.27% (5.17% of 2015), and advances and fees paid, with a market share of 5.45% (4.75% of 2015; source: Assifact).

With regard to the full year ended 31 December 2016, total turnover amounted to €8.95 billion, up by 6.7% since 31 December 2015 (€8.39 billion), while lending to customers averaged €1.93 billion, up by 6.1% since the end of 2015 (€1.82 billion).

[1] UBI Factor data is presented for the period to September 2016, consistent with the latest market update provided by *Assifact*.

In 2016, UBI Factor further intensified its strategic focus on customers referred from the UBI Group network banks, acting as a "product factory" in line with the Group's mission to be deeply involved in its local community and economy.

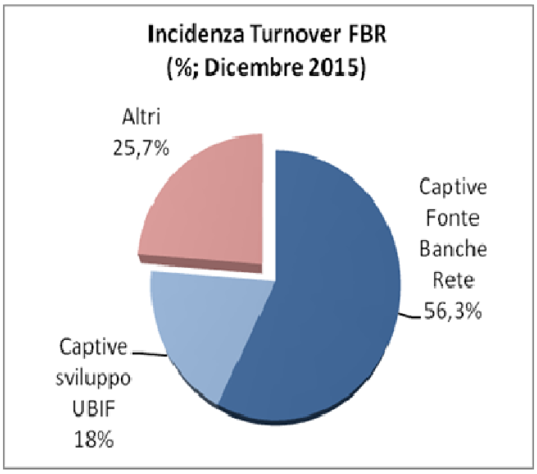
The commercial partnership strategy rolled out years ago with the network banks to jointly develop business with new customers has been continued, reaping significant benefits in terms of shared profitability.

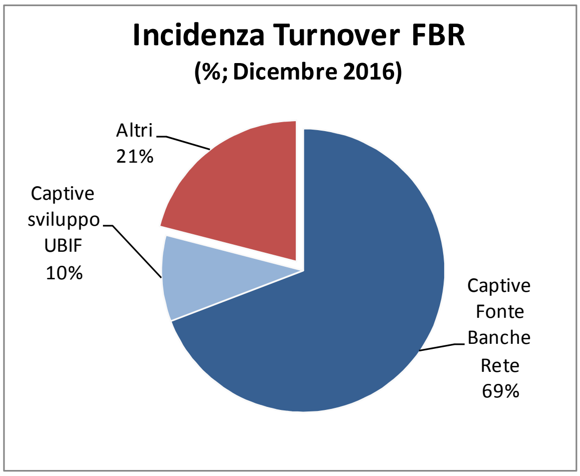
This commercial strategy has also ensured effective credit risk management.

Following the adoption of this increasingly synergy-based approach, turnover volumes with network banks rose by €1,473 million on the same period in 2015 (+31.2%), up from €4.72 billion to €6.19 billion, and accounting for 69.2% of total turnover (56.3% at December 2015). Average advances increased by €140 million (+17.3%) up from €807 million in December 2015 to €947 million in 2016.

Overall, operating volumes and profitability generated with UBI Banca Group's captive customers are considerably higher than the above amounts and also account for most of the company's volumes and profitability.

Combining business growth with group customers through synergies with the UBI Group network banks with direct business growth generated independently by UBI Factor, total turnover generated with UBI customers amounted to €7.07 billion (79% of total turnover of €8.95 billion versus 74.3% of December 2015). Captive average advances amount to €1.18 billion out of a total core business of €1.66 billion (accounting for 71.2% of total average core advances and fees paid).





In the near future, the company will continue to increase services in close partnership with the network banks to support UBI Group customers, ensuring they enjoy comprehensive assistance, in the context of an all-inclusive and complete offer.

Furthermore, the high quality of captive customers' loans and receivables should be noted, together with the substantially nil cost of credit on such exposures in the year.

Excluding the non-core business with the public administration, the turnover is 5.37 in December 2016; in other words, the core loans and receivables have an average term of 68 days.

Abroad

UBI Factor's business abroad has grown over the last few years by targeting high-standing customers through export and import factoring.

Total turnover in December 2016 comprises:

- domestic turnover of approximately 52.6%;
- international turnover of approximately 47.4%.

Captive customers account for 59% of international factoring customers, being those shared with the Group's network banks.

The international factoring business is carried out directly for 83% and via the related foreign factors for 17%, which represents a decrease with respect to 30% recorded in December 2016.

Direct transactions come to €3.53 billion of the 4.24 billion total turnover of the international segment.

In this regard, UBI Factor is continuing to rationalise the import factoring business, both in terms of the granting of revolving limits on assignments and by focusing on work with larger operators, thus ensuring better quality relationships. This approach seeks to increase the financial income generated from the financing of correspondent foreign factors, as well as from the usual guarantee commissions.

Accordingly, the volumes of receivables factored with the foreign factors, members of Factors Chain International (FCI), declined from €1,276 million in December 2015 to €702 million in 2016, while average advances increased by 14% from €67.4 million to €76.8 million.

The company aims at controlled growth in the export factoring sector, assessing potential partnerships with qualified operators that work in the banking sector of countries the company is interested in.

With respect to UBI Factor's direct presence abroad, the Polish branch's 2016 operations were down on the previous year: turnover amounts to €386 million, compared with €457 million in December 2015 (down 15.5%); similarly, average advances decreased to €96.7 million from €99.4 million in 2015 (-2.7%). This decrease was mainly due to the termination of business with a major Italian assignor operating in Poland via a legal entity belonging to the group concerned. Most of the related volume has however been absorbed by business with the holding company in the domestic market.

Performance

UBI Factor closed with a net loss of €8.7 million, compared with a net profit of €2.5 million in 2015.

In terms of overall profitability, total core business income of €22.1 million was lower than in 2015 (-27.2%), with declines both in net interest income to €22.1 million (-15.5%) and in net fee and commission income to €14 thousand (-99.7%).

In particular, net interest income was affected by the general contraction in the spreads of the banking system as a whole, falling in line with the market trend.

The same applies to the commission income of €12.9 million, down 9.6%, which reflects a reduction in the average pricing applied to customers given the more competitive conditions in the banking and factoring market compared with 2015; the downturn was countered by the 6.7% rise in turnover (€9.0 billion at 31 December 2016 compared with €8.4 billion at 31 December 2015).

Fee and commission expense of €12.8 million was 28.5% higher than in 2015 and mainly related to the network banks for business referrals (€8.1 million), the parent for its guarantee on regulatory capital (€3.1 million) and, to a lesser extent, large debtors that have an agreement with the company and third parties for the referral of business (€1.2 million).

With respect to the cost of credit, the company recognised net impairment losses of €4.4 million on impaired financial assets at 31 December 2016 (€7.5 million at 31 December 2015), mainly due to: i) the recovery of €8.3 million on an individual position following a settlement reached with the counterparty, ii) the adverse effect of discounting impaired loans and receivables, € 11.3 million, following revision of the collection dates for certain outstanding amounts subject to legal proceedings, iii) impairment losses on performing loans and receivables for €0.6 million, and iv) net adjustments to impaired loans and receivables for €0.8 million.

The component relating to the discounting of impaired loans and receivables principally reflects the expected extension of the collection period for amounts due from the Public Administration, having regard for their likely recoverability. The profit or loss impact of these positions is € 14.0 million at 31 December 2016.

The portfolio of loans and receivables due from customers assigning Public Administration debt continued to decline in 2016.

The isolated exceptions to this policy related to a limited number of captive counterparties, being customers shared with Group banks, whose amounts due (generated by routine supplies) from agencies belonging to the Public Administration have much shorter payment terms than the national average.

Given conditions of this type, the company may identify additional specific opportunities in the future.

The process of collecting non-core receivables from the Public Administration - mainly due from counterparties within the Lazio Region healthcare system - is still subject to court recognition of the amount of the assigned receivables and consequent sentencing of the Public Administration debtor to make payment; the related judicial process is influenced by the time scales of the legal system and by the related jurisprudence, which is not always consistent with regard to the circumstances examined.

Commencing from the second half of 2013, there has been a significant acceleration in the average payment times of the Public Administration, especially in relation to its current payables. This is a consequence of Decrees 35/2013 and 66/2014 (on measures for the payment of past-due amounts by the Public Administration), as well as of Constitutional Court ruling 186/2013, which declared unconstitutional the measure suspending enforcement proceedings against the Health Authorities of Regions that have signed specific deficit rescheduling plans covering the healthcare sector.

This acceleration was particularly evident in 2014, associated with payment of the most significant portion of the State funding provided to reduce the ageing of debt, but has been less incisive in subsequent years.

Collections from non-core operators within the Public Administration totalled €19.3 million in 2016 (including €15.3 million from those within the Lazio Region). This was essentially in line with 2015 and has helped to lower the balance of old outstanding amounts.

Given changes in the forecast collection times for assigned receivables due from the Public Administration that are subject to judicial review, as discussed above, especially with regard to 3 major defaults, a prudent review of forecast collections was carried out during the year - in accordance with guidelines issued by the parent company - and resulted in an increase in the level of the related provisions against these exposures.

Net impaired assets (non-performing exposures) decreased to €208.9 million at 31 December 2016 compared with €218.8 million at 31 December 2015. They include net advances to customers for 8.5% (9.8% in 2015), with a coverage ratio of 18.3% (16.1% at 31 December 2015).

Unlikely to pay exposures decreased to €33.2 million (at 31 December 2015: €60.0 million) representing 1.3% of net advances to customers with a coverage ratio of 12.1% (13.4% at 31 Dec ember 2015).

This change was mainly due to the combined effect of cancelling the exposure to an assignor of €61.6 million - under a settlement without adverse economic effects for UBI Factor - and the classification as unlikely to pay of an exposure of €30.8 million, again deriving from a counterparty that works with the Public Administration, with which negotiations are pending for the rescheduling of the amount.

Net exposures past due by more than 90 days, mostly related to the Lazio healthcare sector, amount to €32.2 million at 31 December 2016 (32.1 million at 31 December 2015).

With respect to the Lazio healthcare sector, in prior years the company identified contingent legal risks totalling €60 million in its financial statements, as better explained in the notes. These relate to the legal proceedings pending against the Rome H local healthcare unit, initiated jointly by the company and the assignor, the Tosinvest-Angelucci Group. This risk has been reduced to €6 million following the rulings of the Court of Cassation dated 25 November 2015 and the Court of Appeal dated 30 January 2017, both of which were favourable to UBI Factor and the assignor.

The legal proceedings related to invoices issued by the above assignor to the Rome H local healthcare unit and paid to UBI Factor by the latter following an enforcement decree that was subsequently challenged.

The above rulings confirmed the criterion of remuneration under the national tariff for the services to which the paid invoices related, limiting the risk of having to make repayments to the debtor to a residual amount of €6 million. This amount is dependent on the interest rate chargeable on late payments, which will be decided definitively by the Court of Appeal.

With respect to operating expenses, administrative expenses came to €21.8 million, compared with €20.6 million in 2015 (+5.7%), of which:

- personnel expense amounted to €12.2 million, up by 15.7% from €10.5 million in 2015. This is due to the increase in the average number of employees (142 in 2016, 134 of 2015) and to leaving incentives of €1.3 million;
- other administrative expenses of €9.6 million, down by 4.8% from €10.1 million of 2015.

Net provisions for risks and charges totalled €9.1 million (2015: net release of €140 thousand), mainly comprising €5.0 million in relation to the settlement referred to above and €4.3 million for the risk of losing a bankruptcy claim.

Other net operating income amounted to €0.9 million, down 33.3% compared with 2015 (€1.3 million). This mostly reflects the 33.2% reduction in “Other operating income”.

The income tax credit for 2016 was €3.7 million, compared with a charge of €1.1 million for the year ended 31 December 2015.

Key events of the year

As designated by the competent bodies of UBI Banca, the Board of Directors resolved to appoint Marco Castelli as the General Manager of UBI Factor with effect from 3 March 2016. Formerly the Deputy General Manager and Manager of the Commercial and Operations Macro Area, he replaced the previous General Manager who had been assigned to a different role within the UBI Banca Group. With effect from 21 November 2016, Sergio Passoni was appointed as the Deputy General Manager and Manager of the Commercial and Operations Macro Area (managed on an interim basis by the General Manager until then).

It will be recalled that, in 2015, the company implemented all the measures set out in Bank of Italy Circular 288 of 3 April 2015, which contains supervisory instructions for financial sector operators (financial intermediaries, large credit guarantee consortia, pawn loan agencies and trustees regulated by article 199.2 of the Consolidated Finance Act). The Italian central bank has had responsibility for supervising these operators since the reform of Title V of the Consolidated Banking Act by Decree 141 of 13 August 2010 and subsequent amendments and additions. UBI Factor presented its application for inclusion in the new single register as per article 106 of the Consolidated Banking Act via its parent within the deadline of 11 October 2015.

Subsequently, the Bank of Italy – in Note ref. 0601397/16 dated 5 May 2016, sent by the Supervisory Authority to both UBI Banca and the Company – notified Measure 0460119/16 dated 6 April 2016 authorising UBI Factor to make loans to the public pursuant to art. 106 et seq. TUB.

The Company has therefore been recorded on the new Register of Financial Intermediaries pursuant to art. 106 TUB (the “Single Register”) since 19 May 2016.

During the second half of 2015, while preparing the 2015-2018 forecasts accompanying the Circular 288 application, the Company also prepared the 2016-2018 Business Plan together with UBI Banca and an external advisor.

With reference to the UBI Banca Business Plan for the period until 2019/2020, the Board of Directors examined the preliminary projections of UBI Factor for the period 2016-2020, prepared in support of the Business Plan for the UBI Banca Group, which essentially confirm the strategic guidelines identified in the 2016-2018 Business Plan.

In particular, the 2016-2018 Business Plan - approved by the Board of Directors of the Company and by UBI Banca’s competent bodies in early 2016 - presents the following guidelines:

<u>Commercial development</u>

- Increase the number of *large captive corporate customers*;
- Develop the *captive mid corporate segment*;
- Selectively develop the captive PA/healthcare customers;
- Consolidate the non-captive channel both for international partnerships and direct customers.

<u>Greater operating efficiency</u>

- Overhaul the organisational structure, especially the commercial area;
- Strengthen the sales force and support for the branch network;
- Complete the project to optimise operating processes and the supporting IT systems, aligning the company with market benchmarks.

<u>Group policies and processes</u>

- Improve UBI-network banks-UBI Factor interaction and make changes to commercial and credit processes/policies.

Full achievement of the above objectives should allow the company to increase its volumes and profitability considerably over the three years of the plan, and make a greater contribution to the results of the UBI Banca Group.

In order to achieve the established corporate objectives within the operational context defined in the "Single Bank" project implemented by the UBI Banca Group, the organisational structure of the Commercial Area has been redefined, in the manner summarised below, with effect from February 2017:

• creation of two departments dedicated to the Large Corporate segment, intended to provide full support for Corporate & Investment Banking at Group level, as well as to develop the Company's existing portfolio of Large Corporate customers;

• creation of three departments dedicated to the remaining Corporate segments, providing full support for the 5 new Territorial Macro Areas and guaranteeing "close mesh" supervision of the entire territory, avoiding delays in decision making and, at the same time, managing the commercial needs of all Territorial Macro Areas for specific products, as well as devising a specialist training plan for the commercial network.

With respect to the application platform, K4F Keystone For Finance - Factoring 2.1, introduced by the company in the second half of 2014, development work has continued as part of the more wide-ranging development plan, which includes measures underpinning the 2016-2018 business plan, that is monitored closely by both the parent company and UBI Factor.

Note that, starting from 2015, responsibility for the above activities has been transferred to UBI Sistemi e Servizi.

Again with reference to the organisational structure and pursuant to specific instructions from the Bank of Italy, the Risk Control Department now - from 1 July 2016 - reports directly to the Board of Directors rather than to the General Manager.

The company is currently updating a significant part of the internal regulations governing core operating procedures and related controls.

The mandate to perform the legal audit of the accounts, assigned to KPMG S.p.A. at the Ordinary Shareholders' Meeting of UBI Factor held on 5 April 2007, expired on approval of the financial statements as of 31 December 2015.

On a recommendation from the Board of Statutory Auditors. the Ordinary Shareholders' Meeting held on 1 March 2016 resolved to appoint Deloitte & Touche S.p.A. as the legal auditors of the accounts of UBI Factor, pursuant to Decree 39/2010, for the years ending from 31 December 2016 until 31 December 2024, as well as for the limited examinations of the reports on the economic and financial position for the six-month periods ending from 30 June 2016 until 30 June 2024, prepared in order to determine the supervisory capital of the Company.

Human resources

The company’s workforce numbered 144 employees at 31 December 2016 (including 138 full-time employees) 34 of whom on secondment from other group companies and excluding the 14 seconded to other group companies.

The workforce increase by 7 persons during the year:

- 13 hires, including 3 external persons for the commercial area (1 at the Polish branch) and 10 transferred from other group companies.
  With regard to employee turnover: 5 to strengthen the commercial area as Corporate Account managers at the local network banks; 2 to strengthen the Credit Area, partly via the retraining of an existing employee; 1 for Operations, 1 following the move of the General Management Support Manager and, lastly, 1 in November in the role of Deputy General Manager and Manager of the Commercial and Operations Macro Area (Dr. Passoni).
- 6 departures, including the transfer of the General Manager (Dr. Serioli), replaced by Dr. Castelli who was already on the payroll, and the transfer of the Corporate Affairs Manager, as already mentioned; 2 persons retrained within the UBI Group for work at the network banks; 2 persons who left the Group.

To complete the strengthening of the commercial area envisaged in the 2016-2018 Business Plan, in order to increase the penetration of factoring products among the Group's captive customers, especially in the mid corporate segment, Human Resources and the competent parent company bodies are seeking to recruit 2 additional persons and replace one account manager position, in further support of the Territorial Macro Area concerned.

Working together with the parent company and with expert support from UBI Academy, the Company dedicated constant attention to the various training paths during 2016, with classroom training in foreign languages and IT tools, as well as distance learning courses dedicated largely to regulatory changes and behavioural topics. Particular attention was dedicated to the training days delivered by internal teachers, mainly in Milan and Pordenone, on IT matters and on the Gianos and Adequate Verification processes.

Internal controls

Since 2013 UBI Factor has implemented a regulatory model that complies with the prudential supervision instructions for banks – "System of internal controls, IT system and business continuity" (Bank of Italy Circular 263 dated 2 July 2013 – 15th update). This model is updated constantly[2], in line with the strategies adopted by the UBI Group to strengthen further the supervision and governance of Product Companies, and has been further developed on instructions from the Management Board and the Supervisory Board of UBI Banca by adopting:

- the group ICT regulation, updated in 2016;
- the group data management system regulation;
- the documentation comprising the Group's risk appetite framework (based on the RAF of the UBI Banca Group - 2014), which includes: Policy on internal control of risks and conflicts of interest regarding transactions with related parties – 2016; Financial risk policy - 2015 - and related operating limits document - 2015; Regulation implementing the financial risk policy – 2016; Credit risk policy – 2015, and related operating limits document - 2015; Regulation implementing the policy on controlling credit risk – 2016, and the Regulation on IInd level credit control activities – 2016; Operating and IT risk policy – 2016 – "Method to analyse the IT risk" appendix; Regulation implementing the operational and IT risk policy – 2016; Appendix to the regulation implementing the operational and IT risk policy; Insurance risk management regulation – 2016; Reputational risk policy – 2016; Investment risk policy and related implementation regulation – 2016; Regulation on the management of equity instruments included in investment risk and of other equity investments – 2016);
- the documentation of the legislative framework to check the UBI Banca Group's internal risk measurement systems (UBI Banca Group's internal measurement policy – 2016; Regulation implementing the UBI Banca's internal measurement policy - First pillar risks - 2016; Process to check UBI Banca Group's internal models not used for regulatory purposes);
- UBI Banca Group's safety policy and regulation;

[2]See, for example, UBI Factor Circular 29/2016 that, following update of the Risk Appetite Framework, confirmed adoption of the policy on controlling reputational risk, the regulation implementing the policy on controlling investment risk and the regulation for IInd level credit control activities.

- UBI Banca Group’s non-compliance risk management policies (2015) and organisational regulation to manage the compliance process. updated in 2016;
- the document entitled “Criteria to identify more significant transactions”;
- Group policy for product development and management. (new edition adopted in March 2016).

With respect to anti-money laundering and anti-terrorism legislation (Legislative decree no. 231/2007), the parent’s chief risk officer has been in charge of monitoring the company’s risks since 2014 (Anti-Money Laundering & Claims Area). In July, the company published a new anti-money laundering regulatory notebook and adopted the *Gianos Finanziarie – Factoring* application (together with the new operating manual), addressing in particular the operating practices. The reference regulations and these practices have been explained in classroom training delivered to personnel of the "First-level assessment" teams.

With respect to the corporate administrative liability for crimes covered by Decree no. 231/2001 (the Board of Statutory Auditors performs the functions of the Supervisory Body required by article 6 of that legislation), the Group whistle-blowing policy was adopted during the first half of the year and, during the second half, the Organisation, Management and Control Model was revised completely and updated. This Model, aligned and standardised with the new version of the UBI Banca Model approved by the parent company at the end of 2015, is currently being validated by UBI Compliance (Compliance Governance And Other Processes). The revision by the parent company, used as a basis for the above update, took account of the new crimes identified, further changes in the legislation and internal changes in its governance and organisational structure.

Procedures designed to strengthen the parent’s guidance and coordination role and ensure harmonisation and greater integration of the governance and control systems at group level include the specific project called "Model of management control of product companies”. This project, launched at the start of 2016, to integrate the operational monitoring and reporting tools of product companies, previously excluded, is coordinated by the parent company's Management Control department: activities involve the analysis, development and complete integration of the Company's management control models and methodologies, ensuring availability of the specific information required by the business. The group’s intention is to give UBI Factor appropriate reporting and monitoring tools to analyse economic, financial and risk elements, as well as appropriate support for the definition and checking of strategic business decisions.

In terms of progress, the daily and monthly reports have already been released (the latter relating to the financial margin), while full reporting and monitoring of total core business income is expected during the second half of 2017. Work on the remainder of the income statement has not yet been planned.

With regard to the planning and control of commercial activities, a specific IT platform has been adopted for the management of customer information (Dynamics CRM). This system, which went live in September 2016 and is becoming fully operational, also supports production of the related reports.

The "Implementation phase of the CRO Data Quality Project" has continued accordingly to plan and has resulted in the identification of “IT controls”, to be implemented following completion of the “Single Bank” project, and of “manual controls” listed in specific checklists to be used as part of the preliminary adequate verification work when initiating customer relationships, carrying out periodic reviews and performing special reviews, which will enter into force with the update of the UNI Factor AML QN.

The objective of this work is to ensure the adequacy of controls over the quality of the data used in the risk management processes and the AML and Claims system, via the definition and implementation of dedicated Data Quality framework.

The project complies with the external regulatory instructions (Bank of Italy Circular 263/2006, BCBS standards 239), consistent with the internal Group regulation governing the system of data management - Data Governance Standards.

With respect to Law no. 136 of 13 August 2010 “Extraordinary plan against the mafia and anti-mafia legislation proxy to the government”, the company adopts specific operating procedures to ensure compliance with the obligations of article 3 “Traceability of cash flows”.

Prescriptive obligations

With respect to *privacy* (Legislative decree no. 196/2003), the company has complied with the Group's guidelines since 2013 about the appointment of internal data processing managers. It has also revised its organisational model.

Accordingly, it appointed three internal managers as follows:

- "*Manager in charge of processing customers' personal data for all reasons*", namely the commercial area manager;
- "*Manager in charge of processing employees' personal data (and that of all consultants, trainees, etc.) and potential employees for all reasons*", namely the HR department manager;
- "*Manager in charge of processing data of company representatives, other parties, affiliated parties and, if they exist, those of the shareholders*", namely the general management assistance function manager.

The general manager has also been given the "... *role of coordinator of the activities of the personal data processing managers performed in the company for which they ensure compliance with article 11 of the Code, pursuant to the instructions received from the process owner, reporting regularly to the board of directors on the company's compliance with the ruling legislation,* [as well as] *the power to sign, in the name of and on behalf of the process owner, letters appointing the individual managers as per article 30.2 of the Privacy Code*".

The company complies with the requirements of the occupational health and safety legislation (Legislative decree no. 81/2008).

The company has complied with legislative provisions concerning risk assets and conflicts of interest with affiliated parties, related party transactions and directors' interests, in accordance with IAS 24.

In conjunction with its parent, the company meets the legal requirements concerning the correct keeping of the "Register of persons with access to privileged information" established by UBI Banca pursuant to article 115-*bis* of the Consolidated Finance Act.

The company uses the alternative digital filing procedure, regulated by specific legal provisions (Legislative decree no. 52 of 20 February 2004, Legislative decree no. 82 of 7 March 2005 and subsequent specific technical regulations), for the journal, management subsystem ledgers and inventories book. Performance and related control activities have been assigned to UBI Sistemi e Servizi.

Tax aspects, summary of new issues of the year

There were numerous tax updates during the year: the most important measures included two regulations comprising the so-called "budget manoeuvre": Decree 193 of 22 October 2016 (enacted by Law 225 of 1 December 2016) and the 2017 Budget Law (Law 232 of 11 December 2016).

Decree 193 of 22 October 2016 "Urgent provisions on tax matters and the financing of irreversible needs"

This Decree, enacted by Law 225 of 1 December 2016, contains various tax measures that affect the UBI Group.

The main novelties are:

- Closure of Equitalia from 1 July 2017: tax collection activities are assigned to a new entity called "*Revenue Agency - Collection*". The new agency will take over all assets and liabilities of the Equitalia group companies, as their universal successor, and will be subject to the guidance and supervision of the Ministry of the Economy and Finance and controlled by the Tax Authorities;
- introduction from 1 January 2017 of a quarterly VAT reporting requirement for invoices, replacing the notification of VAT transactions that exceed Euro 3,600 (so-called "VAT expensometer"). Parties registered for VAT will be required to make a quarterly electronic filing to the Tax Authorities (by the last day of the second month following each quarter), detailing all the invoices issued in the quarter and all the invoices received and recorded during that period. The reporting format and electronic filing process will be established in a communication from the Tax Authorities;
- introduction from 1 January 2017 of a quarterly requirement to report the accounting data underlying the periodic VAT returns. This quarterly filing must be made by the deadline for the transmission of the invoice details, even if a credit is due. In this case too, the reporting format and electronic filing process will be established in a communication from the Tax Authorities;
- the deadlines for the presentation of supplementary declarations in favour of the taxpayer (necessary for the correction of errors or omissions that resulted in the declaration of too much income, an excess tax liability or a lower tax credit) are extended. As a consequence of the regulatory changes, supplementary declarations in favour of the taxpayer can now be presented by the deadline for the assessment of the related taxes due;
- the method of presentation of the declarations relating to the flat tax on loans, pursuant to art. 15 et seq. of Presidential Decree 601 of 29 September 1973, has been modified and the deadlines for making the periodic payments have been revised;
- the deadlines for presenting the annual VAT declarations and the combined certifications for third parties (employees, suppliers, customers etc.) have been amended;
- the deadlines for paying the first advance and the balance of the income taxes due have been changed;

- with regard to tax liabilities, the taxpayer is allowed to settle the amounts registered for recovery in the period 2000-2016 by making a payment without penalties, late interest or additional amounts on outstanding pension contributions. The amounts payable therefore comprise the principal and interest (other than the late payment charge), together with the amounts due to the collection agency for (i) commission, (ii) reimbursement of the enforcement expenses and (iii) reimbursement of the notification expenses;
- with regard to voluntary disclosure, the decree re-opens access to the procedure until 31 July 2017. By that deadline, parties that have not already filed an acceptance of assessment declaration can settle any violations committed up to 30 September 2016, except in certain situations established by law.

Law 232 of 11 December 2016 ("2017 Budget Law")

The 2017 Budget Law supplements Decree 193 of 22 October 2016 to complete the budget manoeuvre. This law introduced the following amendments to the tax regulations of interest to the UBI Banca Group:

- extension to include all of 2017 of the "super-depreciation" measures (tax depreciation of 140% of purchase cost), with the exclusion of vehicles and means of transportation other than those used operationally in the business and those used for public transportation;
- introduction of "hyper-depreciation" (tax depreciation of 250% of the purchase cost of capital investment carried out during 2017), restricted to certain specific assets with the objective of promoting production almost entirely based on the use of intelligent, interconnected machines linked to the Internet;
- addition of the "VAT group" to Italian tax law, enabling the VAT taxpayers established in Italy that meet certain financial, economic and organisational requirements to establish a VAT group and, therefore, to be treated as a single VAT taxpayer, albeit comprised of firms that are legally independent. Although this regulation must be supplemented by enabling decrees and is applicable from 2019, the UBI Banca Group has commenced internal analyses to determine the consequences of making a group VAT election;
- the reduction of ACE base rate (growth incentive) applicable to capital increases is now set at 2.3% for 2017 and 2.7% from 2018;
- extension of the tax credit regulations to include R&D investment;
- amendments to the taxation of productivity bonuses and employee welfare. As mentioned earlier, the ceiling on untaxed variable productivity bonuses has been raised and eligibility for this form of tax relief has been extended. In addition, the new regulations now include company cars, accommodation and employee loans among the benefits deemed "equivalent" to performance bonuses. These changes are of great interest to the UBI Banca Group;
- exemption of asset management companies (SGR) from payment of the additional 3.5% IRES tax from 2017;
- addition to Italian tax law of untaxed forms of investment in financial instruments, solely available to compulsory pension institutions, providers of supplementary pensions and natural persons (personal

savings plans - “PIR”). In practice, having complied with all the conditions and restrictions (including time limits) established by the law, income from capital and financial income from the above investments, earned by the above categories, are exempt from income taxes. This new regulation is of great interest to the entire banking and financial sector, including the UBI Banca Group: however, the rules are somewhat difficult to understand and official clarification on many points is needed before they can be applied. Additionally, is it reasonable to expect that implementation will require significant changes to the relevant IT procedures;

– possibility to transfer the tax losses realised by new-formed companies within groups controlled by listed companies;
– extended applicability of the rules governing the revaluation of business assets and equity investments;
– amendment of the VAT rules on changes in the taxable amount and the related tax;
– block on the increase in VAT rates.

Risk management

UBI Factor’s business mainly consists of granting advances against the sale of self-liquidating loans and receivables. It is exposed to various types of risk, the definitions of which are common to all the UBI Banca banking group companies. The risk measurement methods are revised continuously as part of the process to centralise the second level control functions under the parent’s chief risk officer and the compliance function, positions introduced on 26 May 2014.

The company has its own risk management, compliance and AML manager, who is part of the risk control service and reports to management. Starting from 1 July 2016, he reports directly to the Board of Directors.

Analysing the individual risks, with respect to **credit risk**, the criteria adopted to define the portfolio categories and make individual impairment losses comply with the company’s current Credit Regulation, which in turn complies with that of the Group and is updated regularly (the last update was decided in March 2016 and includes the revision of the company's credit committee composition).

The “collective” impairment adjustment is calculated by the parent company's CRO team – UBI Credit Risk Management Area – from the first quarter of 2016. The parent’s estimate of impairment losses is based on an automated extrapolation process which duplicates the supervisory extrapolator, based on the following three factors like for the previous UBI's unautomated processing:

- the portfolio of performing exposures at the measurement date, to calculate the exposure at default (EAD), based on counterparties at risk identified by reference to the type of transaction and grouped by macro categories;
- the deterioration rate of each cluster of performing exposures: this is similar to the probability of default (PD), calculated as the weighted average of the most recent quarterly deterioration rates available allocated on an annual basis;
- Loss given default (LGD): this shows the percentage of loss on a loan or receivable of a defaulting

counterparty, with the exception of the public administration segment (for which UBI Factor estimates the rate based on the events of four years); a flat regulatory rate is used

With respect to quantification of the capital requirement for credit risk, the company does not currently fall under the scope of the roll-out plan for adoption of internal methods (IRB). Accordingly, it uses the standardised approach.

With respect to **operational risk**, the company has a control system as part of its organisational model, set up to comply with the relevant group regulations. The loss data collection activities, designed to monitor the company's operating losses, are carried out in accordance with the UBI Group's policy and implementing regulation as the updates on risk assessment, aimed at estimating future operating losses and identifying potential significant mitigation actions. The activities of the Operations and Commercial Area were significantly refined as part of the self risk assessment work carried out during the first half of 2016.

UBI Factor currently uses the standardised approach to calculate its capital requirements to cover operational risk, as provided for by the relevant legislation. The timetable for the adoption of Advanced Measurement Approaches (AMA) will be updated following discussions between the Parent Company and the Supervisory Authorities in the period from October 2015 to February 2016. The revised timetable, the basis and timing for which will be agreed with the competent authorities, will also take account of ongoing changes in the external regulatory environment.

With respect to the last of the Pillar I risks, **market risk** is not currently an issue for UBI Factor as it entirely relates to unexpected changes in exchange rates, mitigated by operating instructions which establish that foreign currency transactions shall be hedged by funding in the same currency and with the same maturity.

The company's net open foreign currency position at 31 December 2016 was 0.52% of regulatory capital (that is under 2.0%, the limit of the prudential supervisory regulations. Therefore, capital to cover this risk was not necessary.

The most significant other risks (which do not currently need a specific capital requirement) are:

- **compliance risk**: compliance with self- and external regulations is monitored at group level by the parent's compliance area since May 2014, with a specific unit for the product companies, which provides the related services to UBI Factor as well. Work continued during the period on the extension to UBI Factor of the standard methodologies adopted by the Group to assess compliance risk, together with use of a common IT platform;
- with specific reference to compliance with the **AML** regulations, the Company consolidated and strengthened the supervision of this area during 2016; accordingly, timely action was taken as necessary, the effectiveness of which has been confirmed by Internal Audit; in addition, the factoring module of the "Gianos" application (standard system adopted by the Group) was activated in July 2016. The project team, coordinated by UBI - Anti-Money Laundering & Claims, assisted users with

the adoption of the system and activation of the related operating procedures during the second half of 2016;

- **concentration risk**: management of this risk does not currently require adoption of specific quantitative models agreed with the parent, except for the greater integration between the company's database in its IT system and that on the parent's portal used to obtain information about shared counterparties; in any case, the information available on the "Group databases" is accessible by UBI Factor personnel;
- **reputational risk**: events that could damage the company's reputation are not expected; this aspect is almost entirely linked to management of the claims received from customers. Their volume (2 during *2016*) and content are managed, without particular problems, by the Company in compliance with the guidelines defined by the parent company (the new policy for the management of claims was communicated in circular 36/2016);
- **risk versus affiliated parties**: the "Regulation governing transactions with parties related to the UBI Group" was updated in March 2016, clarifying which transactions are not covered by the regulation.

Finally, in relation to the above, following the inclusion of UBI Factor in the new Register of Financial Intermediaries pursuant to art. 106 TUB (Bank of Italy ref. 460119/16 of 06/04/2016), two instructions have been applied that require ex ante monitoring in case it is necessary to ask the parent company for guarantees:

- with respect to credit risk, the rules provide that financial intermediaries that do not collect savings from the general public (like UBI Factor) shall have a capital requirement of 6%, without additional deductions from the total requirement (currently 25%);
- with respect to concentration risk, the current "individual limit" of 40% will gradually be decreased to 25% starting from 1 January 2018; however, considering the additional requirements relating to the absorption of capital, UBI Factor has elected to apply the new limit of 25% from 2016.

Main risks and uncertainties to which the company is exposed

The report on risks and uncertainties at December 2016 required by article 154-bis of the Consolidated Finance Act is set out below.

RISK	DEFINITION	EXISTENCE	COMMENT ON RISK
CREDIT RISK	The risk of incurring losses resulting from the default of a counterparty with whom a credit exposure exists. This also comprises ***counterparty risk***, which is the risk that a counterparty defaults before final settlement of the transaction's cash flows. Exposure to ***country risk*** (the risk of losses caused by events occurring in a country other than Italy) and [3]transfer risk (the risk that a bank, exposed to a counterparty which is financed in a currency that is different from that in which it receives its main sources of income, incurs losses due to the difficulties of a debtor in converting its currency into the currency in which the exposure is denominated) are also monitored as part of credit risk.	Medium	The Group and company's specific regulations cover all stages of the credit procedure and counterparty monitoring to mitigate the related risks. In addition, the company has a staff unit (Credit quality monitoring) as part of its lending area to analyse this risk. Quantification of the collective impairment losses was based on criteria agreed with the parent's CRO unit. Doubtful loans on total loans is around 16%. Most of these loans are due from the Lazio and Abruzzo health authorities as a consequence of terminated business activities that are being managed on a run-off basis. With regard to new defaults identified during 2016, about 96% relate to €37.7 million due from just one counterparty (likely to be recoverable), representing about 13% of total doubtful loans. The company used the standardised method for supervisory purposes, as it has not yet adopted the internal rating method. The country risk and transfer risk are not material. In particular, the branch in Poland mainly focuses on the three "major debtors" for which it was formed and developed (Electrolux, FCA and Whirpool). The inclusion of UBI Factor in the new Register pursuant to art. 106 TUB has had a significant impact on the capital requirement, reducing the amount of "free capital", which implies a need for additional coverage from the parent company.
FINANCIAL RISK	Risk of changes in the market value of financial	Not applicable	The trading portfolio is non-existent.

[3] The concept of country risk refers to all exposures regardless of the counterparty's nature, be they individuals, entities, banks or public administrations. Country risk is measured considering that deterioration in credit risk in a given country may imply default by numerous contracts, even when this is not tied to specific restrictions imposed by the government. In other words, country risk is the possibility that political and/or economic events may affect loan quality.

RISK	DEFINITION	EXISTENCE	COMMENT ON RISK
	instruments held, due to unexpected changes in market conditions and in the issuer's credit rating. Financial risks arise in both the trading book (first pillar market risk) and in the banking book as changes in the value of the proprietary portfolio, excluding the equity investments and debt securities obtained on the restructuring of loans. The category of financial risks includes sovereign risk, being the ability/willingness of the sovereign debtor to meet its commitments, in relation to the exposures classified in the AFS and HTM portfolios. It is also necessary to consider the core risk of losses due to mismatches in the positions of opposite sign.		
OPERATIONAL RISK	The risk of incurring losses resulting from the inadequacy of malfunction of procedures, human resources and internal events or from external events. This includes losses resulting from fraud, human error, business disruption, system failure, non-performance of contracts and natural disasters. It also includes ***legal risk***, defined as the risk of losses due to violations of laws or regulations, contractual or non-contractual liability or other disputes. Operational risk also includes ***IT risk***, defined as the risk of incurring economic losses, loss of reputation and market share in relation to the use of information and communication technology (ICT) as well as the ***behaviour risk,*** defined as the risk of incurring economic losses due to breach of laws, intentional and/or careless actions or omissions.	Medium	During the second half of 2016, Loss Data Collection activities identified just one significant event in relation to a summons regarding a position already managed by lawyers (PICFIC - Provincia Italiana Congregazione Figli Immacolata Concezione in Special Administration). The updated risk assessment information shows that, of the 11 significant risks identified in 2015, 16 actions have been taken to mitigate the situation, 82% of which are either still in progress (44%) or have already been completed (38%): there are no particular issues with the actions still in progress. With specific reference to IT risks, these are mitigated by the fact that the entire Information System is outsourced to UBI Sistemi e Servizi, which provides application and facility management, security and business continuity services, as well as support. The first reports on operational risks using the AMA internal system (previously scheduled for 2016) will be rescheduled in accordance with the timing and methods to be agreed at group level with the competent authorities.
CONCENTRATION RISK	Risk resulting form exposures to counterparties, including central counterparties, groups of connected counterparties and counterparties in the same economic sector, in the same geographical region or that carry out the same activity or deal in the same goods, and the application of credit risk mitigation techniques including, in particular, risks resulting from indirect exposures such as, for example, with	Medium	In order to estimate this risk, the Company receives information from the parent company about the facilities/draw-downs of common counterparties (Group database) and periodic information about the operating limits authorised by the latter: the company does not have

RISK	DEFINITION	EXISTENCE	COMMENT ON RISK
	regard to single suppliers of guarantees. Concentration risk may be split into two sub-groups: single name concentration risk and sector concentration risk.		quantitative models shared with the parent. Critical issues related to this risk concern to long-standing transactions with assignors of receivables due from Lazio-based local healthcare units.
INTEREST RATE RISK	The current or future risk of a change in net interest income and in the company's economic value following unexpected changes in interest rates which have an impact on the banking book.	Low	The immateriality of this risk is due to the company's specific business • assets include loans and receivables with customers with maturities (usually short-term) which are monitored carefully and are not subject to unforeseen variations. • sources of funding are established considering the loans and receivables (which usually have an average short-term maturity). Financial management seeks to balance lending and funding, without any form of speculation: the policies adopted for adjusting the conditions applied reflect trends in the money market and are agreed with the parent company. The parent monitors this risk using gap analysis and sensitivity analysis models at group level. It also considers the guidance set out in the Group's policy for financial risk management.
BUSINESS RISK	The risk of adverse and unexpected changes in profits/margins compared to forecasts, connected with volatility in volumes of business due to competitive pressure and market conditions.	Medium	The commercial objectives include the contribution of the network bank's commercial structures, whose activities are not controlled by the company. Therefore, business risk is mainly due to quality of the competition of other operators in the sector, which have similar distribution models.
SECURITISATION RISK	The risk that the underlying economic substance of a securitisation is not fully reflected in decisions made to measure and manage risk.	Not applicable	No such transactions have been performed.
LIQUIDITY RISK	The risk of the failure to meet payment obligations which can be caused either by an inability to raise funds or by raising them at higher than market costs (funding liquidity risk) or by the presence of restrictions on the ability to sell assets (market liquidity risk) with losses of principal. This also includes medium to long term (structural) equity risk resulting from a mismatch between the sources of funding and lending.	Low	The Company raises funds within the Group, depending on actual requirements, on market terms and conditions. The parent company prepares weekly reports on the sources of funds and flags if the early warning thresholds are exceeded ([4]). The company agrees its investment policy with the parent considering its

4 for example, the early warning threshold for Net Interbank Funding from the parent company was exceeded on 13/12/2016, resulting in the arrangement of a loan of €224 million.

RISK	DEFINITION	EXISTENCE	COMMENT ON RISK
			available funding, as well as the parent's structural balance policy.
REPUTATIONAL RISKS	The present or future risk of incurring loss of profits or capital resulting from a negative perception of the image of a bank by its customers, counterparties, shareholders, investors or supervisory authorities.	Low	No significant facts or circumstances were identified.
RESIDUAL RISK	The risk that established methods of mitigating credit risk used by a bank are less effective than expected.	Low	Noting that the Company uses the standard methodology, no losses of this kind have been identified and the tools used to monitor credit risk are deemed to be adequate overall.
STRATEGIC RISK	The current or future risk of a fall in profits or in capital resulting from changes in the operating context, errors in corporate decision-making, inadequate implementation of decisions failure to react to change in a competitive environment.	Low	Strategic risks are substantially non-existent: the company's business is substantially stable and the development of the strategies and commercial policies is seamless and in line with the group's strategies.
COMPLIANCE RISK	The risk of incurring legal or administrative penalties, substantial financial losses of damage to reputation resulting from violations or laws and mandatory external regulations or internal regulations (e.g. by-laws, codes of conduct and codes of ethics. The compliance risks associated with the issue of guaranteed bank bonds are also monitored. This includes assessing the ***risk of money laundering and financing of terrorism***, which is the risk of coming into contact with criminal conduct such as money laundering and the financing of terrorism that are serious threats for the legal economy, given their possible international nature, and can also lead to destabilising effects, especially on the banking and financial sector.	Medium	The parent's specialist units have monitored this risk and ensure compliance. Specific projects are in progress in the areas of usury, compound interest and transparency. With regard to AML compliance, the internal regulations have been fully revised and the "Gianos Finanziarie – factoring" suite has been implemented.
INVESTMENT RISK	Risk of changes in the value of equity investments that are not fully consolidated. The portfolio includes all the equity investments held by group companies in third parties, i.e., companies excluded from the consolidation scope as the investments are non-controlling.	Not applicable	The company does not have equity investments in companies not in the Group.
REAL ESTATE RISK	Risk of changes in the value of property, plant and equipment.[5]	Not applicable	The Company does not hold any real estate or investments in real estate mutual funds.
ACTIVITIES AT RISK WITH AFFILIATED PARTIES	Risk that the vicinity of certain parties to the bank's decision-making centres could compromise the objectivity and impartiality of decisions about the granting of financing and other transactions with the same parties, with possible distortions in the process to allocate the resources, exposing the bank to risks that are not properly measured or monitored and potential damage for customers and shareholders.	Low	All affiliated parties have been identified and flagged in the Group database (with reasons) used by PEF and other applications. The details are maintained by UBI - Chief Lending Officer/ Policies, Tools and Lending Data department/ Database and Lending Data Supervision function, which also issues periodic updates.
EXCESSIVE FINANCIAL LEVEL RISK	The risk that a particularly high level of borrowing, with respect to own capital, might make the bank vulnerable, requiring the adoption of corrections to the business plan, including the sale of assets with the recognition of losses that might result in impairment adjustments to the remaining assets.	Low	The amount of own funds is determined by the parent company, which is also the source of borrowed funds.
MODEL RISK	Risk correlated with the malfunctioning, inadequate calibration or inappropriate use of the internal systems for the measurement of risk, which might result in the	Low	The risk management models are guided and managed by specialist

[5] Measurement of this risk includes possible investments in real estate mutual funds.

RISK	DEFINITION	EXISTENCE	COMMENT ON RISK
	underestimation of capital requirements and/or losses deriving from improper use of the results in the decision-making processes.		units within the parent company.
RISK OF ASSET ENCUMBRANCE	Risk associated with the value of restricted assets, deriving from the presence of ownership claims over an asset by a party that is not an owner, with an impact on the transferability and use of that asset.	Not applicable	There are no assets which could determine this risk
OTHER	Other risk categories not included above.	Not applicable	There are no other risk categories.

With reference to the uncertainties, the Report also highlights the following:

"Given that the uncertainties relate to unforeseeable events with an unquantifiable impact, deriving from the analysis of future scenarios that, by their nature, cannot be attributable to a single line of business, reference is made to those identified by the specific analyses carried out at Group level, which are documented in the consolidated financial statements.

No specific uncertainties can be identified in relation to the Company, as anything specific to UBI Factor alone would be included immediately in the risk documentation and subjected to constant monitoring."

Research and development

The company did not carry out any research and development activities during the year.

Treasury shares and parent shares

The company does not directly or indirectly own treasury shares or shares of its parent. It did not acquire and/or sell treasury shares or shares of the parent either directly or through trustees or nominees during the year.

Management and coordination and transactions with group companies

Pursuant to article 2497-bis.4 of the Italian Civil Code, it is noted that within the scope of management and coordination by UBI Banca S.p.A., as parent, the company benefited from synergies arising from its membership of the group, using such synergies to improve business management and development.

Transactions with UBI Banca and the group companies, which mainly consist of bank credit facilities, are carried out on an arm's length basis. These transactions are assessed to identify any potential conflicts of interest involving the directors, pursuant to art. 2391 of the Italian Civil Code, and with reference to the RPT Regulation issued by UBI Banca S.p.A. and the Regulation governing transactions with parties affiliated with the UBI Banca Group.

Guarantees issued by UBI Banca cover large exposures to important debtors. Fee and commission expense is recognised on such guarantees.

The costs of other services provided by the parent or group companies, governed by specific service agreements, are charged on the basis of master agreements for the provision of technical and administrative services. They refer to the following activities described in the "General service catalogue":

- administration and management accounts;
- strategic planning, capital management and studies;
- *audit*;
- human resources;
- cost optimisation;
- risk control and rating;
- controls over the risks of money laundering and relationships with the investigating authorities;
- *compliance*;
- ALM management;
- training;
- administrative and support services;
- purchases;
- *information and communication technology*;
- security and business continuity;
- real estate services;
- assistance services.

The risk management, AML, compliance, administration and reporting, planning and management control activities of UBI Factor are centralised within the competent departments of UBI Banca, reporting to the Chief Risk Officer, the Compliance Manager and the Chief Financial Officer.

The Company also uses the full service IT support and purchasing cycle services provided by UBI Sistemi e Servizi. In particular, consistent with other businesses within the UBI Banca Group, Group IT management of the purchasing cycle was extended in full to UBI Factor during the year, as part of the "CFO – Centralisation of Factor Accounting" project.

Furthermore, a business partnership agreement is in place with the Group's network banks for the acquisition of factoring transactions, whereby commissions are recharged for the transactions carried out.

The company participates in the UBI Banca Group domestic tax consolidation scheme.

The nature of the Items and amounts is detailed in the individual statement of financial position and income statement Items in Section 6 - "Related party transactions".

Branches

The company does not have any branches.

Events after the reporting date

The company did not perform any atypical or unusual transactions after the reporting date, nor were any underway at that date, whereby such transactions are those outside the scope of normal operations and that could significantly impact the company's financial position and results of operations.

Outlook

UBI Factor expects an increase in the volume of transactions and lending to customers in the Large Corporate and Mid Corporate segments; Specifically, the weighting of the latter segment is forecast to increase, with a consequent improvement in profitability.

Proposal to the shareholders

We propose to carry forward the net loss of the year of € 8,656,232.

Milan, 7 February 2017

Chairman of the board of directors
Alberto Valdembri

FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION
(Euro)

Assets	**31-Dec-16**	**31-Dec-15**
10. Cash and cash equivalents	3,256	4,945
60. Loans and receivables	2,531,435,880	2,269,193,808
90. Equity investments	392,836	392,836
100. Property, plant and equipment	70,740	132,192
110. Intangible assets	1,899	11,041
120. Tax assets	15,171,575	13,090,381
a) current	*1,280,487*	*1,691,603*
b) deferred	*13,891,088*	*11,398,778*
- including as per Law no. 214/2011	*10,837,641*	*10,837,641*
140. Other assets	4,263,391	8,336,056
TOTAL ASSETS	**2,551,339,579**	**2,291,161,258**

Liabilities and equity	**31-Dec-16**	**31-Dec-15**
10. Financial liabilities	2,391,349,241	2,128,026,714
70. Tax liabilities	435,684	565,404
a) current	*435,684*	*565,404*
90. Other liabilities	17,993,753	18,794,601
100. Post-employment benefits	2,401,810	2,300,709
110. Provisions for risks and charges:	10,437,292	1,525,670
b) other provisions	*10,437,292*	*1,525,670*
120. Share capital	36,115,820	36,115,820
150. Share premium	2,065,828	2,065,828
160. Reserves	99,730,926	99,705,526
170. Valuation reserves	(534,543)	(425,294)
180. Profit (loss) for the year	(8,656,232)	2,486,280
TOTAL LIABILITIES AND EQUITY	**2,551,339,579**	**2,291,161,258**

INCOME STATEMENT
(Euro)

Items	31-Dec-16	31-Dec-15
10. Interest and similar income	25,345,013	29,485,351
20. Interest and similar expense	(3,227,689)	(3,307,481)
NET INTEREST INCOME	**22,117,323**	**26,177,870**
30. Fee and commission income	12,851,811	14,218,114
40. Fee and commission expense	(12,837,929)	(9,990,631)
NET FEE AND COMMISSION INCOME	**13,882**	**4,227,483**
TOTAL	**22,131,205**	**30,405,353**
100. Net impairment losses on:	(4,400,580)	(7,603,099)
a) financial assets	*(4,383,487)*	*(7,472,976)*
b) other financial transactions	*(17,093)*	*(130,123)*
110. Administrative expenses:	(21,798,062)	(20,630,449)
a) personnel expense	*(12,201,558)*	*(10,547,319)*
b) other administrative expenses	*(9,596,504)*	*(10,083,130)*
120. Depreciation, amortisation and net impairment losses on property, plant and equipment	(28,937)	(50,525)
130. Depreciation, amortisation and net impairment losses on intangible assets	(9,141)	(12,041)
150. Net accruals to provisions for risks and charges	(9,133,128)	139,922
160. Net other operating income and charges	885,451	1,327,198
OPERATING PROFIT	**(12,353,192)**	**3,576,358**
PRE-TAX PROFIT FROM CONTINUING OPERATIONS	**(12,353,192)**	**3,576,358**
190. Income taxes on continuing operations	3,696,960	(1,090,078)
POST-TAX PROFIT FROM CONTINUING OPERATIONS	**(8,656,232)**	**2,486,280**
PROFIT (LOSS) FOR THE YEAR	**(8,656,232)**	**2,486,280**

STATEMENT OF COMPREHENSIVE INCOME
(Euro)

	Items	31.12.2016	31.12.2015
10.	**Profit (loss) for the year**	**(8,656,232)**	**2,486,280**
	Other comprehensive income (expense), net of income tax, that will not be reclassified subsequently to profit or loss		
40.	Defined benefit plans	(109,249)	85,110
130.	**Total other comprehensive income (expense), net of income tax**	**(109,249)**	**85,110**
140.	**Comprehensive income (Item 10+130)**	**(8,765,481)**	**2,571,390**

STATEMENT OF CHANGES IN EQUITY

(Euro)

Statement of changes in equity for the year ended 31 December 2015

	Balance at 31-12-2014	**Adjustment to opening balance**	**Balance at 01-01-2015**	**Allocation of prior year profit**		**Changes of the year**						**2015 comprehensive income**	**Equity at 31-12-2015**
						Changes in reserves	**Equity transactions**						
				Reserves	**Dividends and other allocations**		**Issue of new shares**	**Repurchase of treasury shares**	**Extraordinary distribution of dividends**	**Change in equity instruments**	**Other changes**		
Share capital	36,115,820	-	36,115,820										36,115,820
Share premium	2,065,828	-	2,065,828										2,065,828
Reserves:	97,232,742	-	97,232,742	2,452,308	-			-	-	-	20,475	-	99,705,526
a) income-related	89,017,720	-	89,017,720	2,452,308									91,470,028
b) other	8,215,023	-	8,215,023								20,475		8,235,498
Valuation reserves	(510,404)	-	(510,404)									85,110	(425,294)
Equity instruments	-	-	-										-
Treasury shares	-	-	-										
Profit (loss) for the year	8,174,361	-	8,174,361	(2,452,308)	(5,722,053)							2,486,280	2,486,280
Equity	**143,078,347**	**-**	**143,078,347**	**-**	**(5,722,053)**			**-**	**-**	**-**	**20,475**	**2,571,390**	**139,948,159**

Statement of changes in equity for the year ended 31 December 2016

	Balance at 31-12-2015	Adjustment to opening balance	Balance at 01-01-2016	Allocation of prior year profit		Changes of the year						2016 comprehensive income	Equity at 31-12-2016
							Equity transactions						
				Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Repurchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Other changes		
Share capital	36,115,820	-	36,115,820										36,115,820
Share premium	2,065,828	-	2,065,828										2,065,828
Reserves:	99,705,526	-	99,705,526	-				-	-	-	25,400	-	99,730,926
a) income-related	91,470,028	-	91,470,028										91,470,028
b) other	8,235,498	-	8,235,498								25,400		8,260,898
Valuation reserves	(425,294)	-	(425,294)									(109,249)	(534,543)
Equity instruments	-	-	-										-
Treasury shares		-	-										
Profit (loss) for the year	2,486,280	-	2,486,280		(2,486,280)							(8,656,232)	(8,656,232)
Equity	**139,948,159**	**-**	**139,948,159**	**-**	**(2,460,880)**	**-**		**-**	**-**	**-**	**-**	**(8,765,481)**	**128,721,798**

STATEMENT OF CASH FLOWS
(Direct method) - (Euro)

A. OPERATING ACTIVITIES	31.12.2016	31.12.2015
1. Operations	**2,423,244**	**9,924,512**
- Interest income collected (+)	25,345,013	29,485,351
- Interest expense paid (-)	(3,227,689)	(3,307,481)
- Dividends and similar income (+)		
- Net fee and commission income (+/-)	13,882	4,227,483
- Personnel expense (-)	(12,201,558)	(10,547,319)
- Other costs (-)	(9,596,504)	(10,083,130)
- Other revenue (+)	885,451	1,327,198
- Taxes and duties (-)	1,204,650	(1,177,590)
- Expense/revenue of disposal groups, net of tax effect (+/-)		
2. Cash flows generated/(used) by financial assets	**(229,279,065)**	**(227,494,885)**
- Financial assets held for trading		
- Financial assets at fair value through profit or loss		
- Available-for-sale financial assets		
- Loans and receivables with banks	1,979,470	(164,885)
- Loans and receivables with financial institutions	(22,640,214)	(238,377,137)
- Loans and receivables with customers	(213,134,616)	9,322,932
- Other assets	4,516,295	1,724,205
3. Cash flows generated/(used) by financial liabilities	**262,162,305**	**206,385,406**
- Due to banks	264,325,200	218,739,656
- Due to financial institutions		
- Due to customers	(1,002,673)	2,097,352
- Securities issued		
- Financial liabilities held for trading		
- Financial liabilities at fair value through profit or loss		
- Other liabilities	(1,160,222)	(14,451,602)
Net cash flows used in operating activities A	**35,306,483**	**(11,184,967)**
B. INVESTING ACTIVITIES		
1. Cash flows generated by	**-**	**10,112,338**
- Sales of equity investments		
- Dividends collected		
- Sales/repayments of held-to-maturity investments		9,589,489
- Sales of property, plant and equipment		
- Sales of intangible assets		522,849
- Sales of business units		
2. CASH FLOWS USED BY	**-**	**(20,783)**
- Acquisitions of equity investments		
- Acquisitions of held-to-maturity investments		
- Purchases of property, plant and equipment	-	(20,773)
- Purchases of intangible assets	-	(10)
- Purchases of business units		
Net cash flows generated by/(used in) investing activities B	**-**	**10,091,555**
C. FINANCING ACTIVITIES		
- Issue/repurchase of treasury shares	-	-
- Issue/purchase of equity instruments	25,400	20,475
- Distribution of dividends and other allocations	(2,486,280)	(5,722,053)
Net cash flows generated by/(used in) financing activities C	**(2,460,880)**	**(5,701,578)**
NET CASH FLOWS OF THE YEAR A+B+C	**32,845,603**	**(6,794,990)**

RECONCILIATION

	31.12.2016	31.12.2015
Opening cash and cash equivalents	26,933,342	33,728,332
Total net cash flows of the year	32,845,603	(6,794,990)
Closing cash and cash equivalents	59,778,946	26,933,342

NOTES TO THE FINANCIAL STATEMENTS

PART A – ACCOUNTING POLICIES

A.1 – GENERAL PART

Section 1 - Statement of compliance with international accounting standards

The financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS)[6] issued by the IASB (International Accounting Standards Board) and approved by it at the date of preparation thereof and the related interpretations of the International Financial Reporting Interpretations Committee (IFRIC) endorsed by the European Commission and applicable at the reporting date, as incorporated into Italian law by Legislative Decree no. 38/2005 which exercised the option allowed by Regulation 1606/2002/EC about the IFRS. The company did not make any departures from the IFRS.

Reference should be made to the "*List of the main IFRS endorsed by the European Commission*" at the end of section A.1. The standards are applied when the relevant events arise from the year in which they become applicable.

The financial statements, consisting of a statement of financial position, an income statement, a statement of comprehensive income, a statement of cash flows, a statement of changes in equity and these notes, accompanied by the directors' report, have been audited by Deloitte & Touche S.p.A.. They comprise the separate financial statements of UBI Factor S.p.A., a Unione Banche Italiane Group company.

Section 2 - Basis of preparation

The financial statements have been prepared in accordance with measurement criteria adopted on the basis of a going concern assumption and in compliance with accruals-based accounting, the materiality of information and the predominance of substance over form.

The financial statements are clearly stated and give a true and fair view of the company's financial position and performance, changes in equity and cash flows.

Unless otherwise indicated, the amounts in these financial statements are expressed in Euros as the reporting currency. The related rounding of the figures has been performed on the basis of Bank of Italy's instructions.

The financial statement formats used comply with the Bank of Italy Instructions dated 09/12/2016 on the "*IFRS financial statements of intermediaries other than banking intermediaries*", which replaced the "*Instructions for the preparation of financial statements and reports by financial intermediaries, payment institutions, electronic money institutions*, SGRs and SIMs" dated 15/12/2015, which in turn replaced, with amendments, the instructions attached to the regulation dated 14/02/2006 on the "*Instructions for the*

[1] The IFRS and interpretations are applied when the events regulated by them arise after their mandatory application, unless specified otherwise. Reference should be made to the section on the "*List of the main* IFRS endorsed by the European Commission" for more information".

preparation of financial statements by financial intermediaries recorded on the Special List, electronic money institutions (IMEL), asset management companies (SGR) and stockbroking companies (SIM)" - renamed by the regulation dated 13/03/2012 as the "Instructions for preparation of financial statements and reports by financial intermediaries pursuant to art. 107 of the Consolidated Banking Law (TUB), payment institutions, IMELs, SGRs and SIMs" - as amended by the regulations dated 13/03/2012, 21/01/2014 and 22/12/2014.

The financial statements present the figures for 2016 with previous year corresponding figures (which have not been restated compared to the figures published in the 2015 financial statements). They do not include Items with a nil balance in both years.

To complete the information, the company also considered the following when preparing its financial statements:

- the ESMA document of 20 July 2016, "*Issues for consideration in implementing IFRS 15: Revenue from Contracts with Customers*" designed, inter alia, to regulate the information to be provided in the financial statements as well as the interim financial statements regarding the process of implementation of this accounting standard;
- the ESMA document of 28 October 2016 "European common enforcement priorities for 2016 financial statements" designed to promote uniform application of IFRS to ensure transparency and the proper functioning of financial markets by identifying certain issues considered particularly significant for the financial statements at 31 December 2016 of listed European companies, in consideration, inter alia, of current market conditions;
- the ESMA document of 10 November 2016, "*Issues for consideration in implementing IFRS 9: Financial Instruments*" also designed to regulate the information to be provided in the financial statements as well as the interim financial statements regarding the process of implementation of IFRS 9.

Accounting policies

The accounting policies contained in Part A.2 of these notes concerning the classification, measurement and derecognition of the financial statements Items are the same as those adopted to prepare the 2015 financial statements.

Where it is impossible to measure Items in the financial statements with precision, the application of these policies involves the use of estimates and assumptions which may have a significant effect on the amounts recognised in the statement of financial position and the income statement.

The use of reasonable estimates is an essential part of the preparation of financial statements and the financial statements Items for which the use of estimates and assumptions is most significant are listed below:

- measurement of loans and receivables;
- measurement of financial assets not listed on active markets;
- measurement of intangible assets with an indefinite useful life and equity investments;
- quantification of accruals to provisions for risks and charges;
- quantification of deferred taxes;
- calculation of the amortisation and depreciation charges for finite-life intangible assets and property, plant and equipment;
- measurement of post-employment benefits.

An estimate may change due to variations in the circumstances on which it was based or if new information comes to light or on the basis of greater experience.

A change in an estimate is applied prospectively and, therefore, it affects profit or loss of the year in which the change is made and, possibly also future years.

No changes were made in 2016 to the criteria previously employed for estimates in the financial statements at 31 December 2015.

With respect to changes in the IFRS, the following should be noted:

Standards applicable since 2016

The provisions of some EU regulations became applicable in 2016. The key aspects are described below.

On 17 December 2014, the European Commission endorsed the following regulations:

- **Regulation no. 28/2015** which introduces the 2010-2012 annual cycle of improvements to the IFRS developed in the context of the normal rationalisation and clarification of the standards.
  The main changes relate to the following:
  - *IFRS 2 - Share-based payment*
    Changes were made to the definitions of "vesting conditions" and "market conditions" and further definitions of "performance conditions" and "service conditions" were added; they were previously included in the definition of "vesting conditions";
  - *IFRS 3 - Business combinations*
    The amendment clarifies that a "contingent consideration" pursuant to IFRS 3 recognised as a financial asset or liability (in accordance with IAS 39/IFRS 9) shall be subsequently measured at fair value at each reporting date and changes in fair value shall be recognised through profit or loss or other comprehensive income on the basis of the requirements of IAS 39 (or IFRS 9);
  - *IFRS 8 - Operating segments*

The amendments require an entity to disclose judgements made by management in applying the criteria for the aggregation of operating segments, including a description of the aggregated segments and the economic indicators considered in determining whether the operating segments share "similar economic characteristics".

Furthermore, the amendments specify that the reconciliation between the total of the segment assets subject to disclosure and the entity's assets shall be reported if the segment assets are reported periodically to the chief operating decision-maker;

- *IAS 16 - Property, plant and equipment and IAS 38 - Intangible assets*

  The amendments have eliminated the inconsistencies in the calculation of accumulated depreciation/amortisation when an item of property, plant and equipment or an intangible asset is revalued (i.e., when the option to measure at cost is discarded in favour of the alternative option to measure at fair value). The new requirements clarify that the gross carrying amount shall be adjusted in a manner consistent with the revaluation of the carrying amount of the asset and that the accumulated depreciation/amortisation must, therefore, be equal to the difference between the gross carrying amount and the carrying amount net of the impairment recognised;

- *IAS 24 - Related party disclosures*

  The new provisions clarify that when an entity provides key management personnel services to a reporting entity, that entity is deemed a related party;

- **Regulation no. 29/2015** which amends IAS 19 - *"Employee benefits*".

  The amendments are designed to regulate the recognition of employee (or third party) contributions where defined benefit plans require them to contribute to the cost of the plan. In fact, in some countries, pension plans require employees (or third parties) to contribute to a pension plan.

  The amendment makes it possible to only deduct contributions from personnel expense that are connected to the service provided in the period in which the service is provided[7]. Contributions that are connected to the service, but vary on the basis of the duration of the service provided, shall be allocated to the period of service using the same method of allocation applied to the benefits.

On 23 November 2015, the European Commission endorsed *Regulation (EU)* ***no. 2113/2015***, which endorses the amendments published by the IASB on 30 June 2014 to IAS 16 - *Property, plant and equipment* and IAS 41 - *Agriculture*".

While this amendment is of very little relevance to a bank, it provides that bearer plants should be accounted for in the same way as property, plant and equipment".

On 24 November 2015, the European Commission endorsed Regulation (EU) ***no. 2173/2015*** which endorses the amendment published by the IASB on 6 May 2014 to IFRS 11 - Joint arrangements".

This amendment provides new guidance about the accounting treatment for acquisitions of interests in joint operations which constitute a business.

[7] The current standard provides that contributions are offset against personnel expense in the year in which they are paid.

In other words, the amended standard requires the application of the provisions of IFRS 3 in terms of the purchase method for recognising the purchase of a joint operation, commensurate naturally to the percentage acquired. Under the purchase method, the identifiable assets acquired (inclusive of any intangible assets previously not recognised by the acquired entity) and the identifiable liabilities assumed (inclusive of the contingent liabilities) shall be recognised at their respective fair value at the acquisition date.

On 2 December 2015, the European Commission endorsed Regulation (EU) ***no. 2231/2015*** which endorses the amendment published by the IASB on 12 May 2014 to IAS 16 - *Property, plant and equipment* and IAS 38 - *Intangible assets*".

The amendment clarifies when it might be appropriate to use depreciation methods based on revenue or on the basis of a schedule that depreciates/amortises property, plant and equipment and intangible assets on the basis of revenue generated by the use of those assets.

On 15 December 2015, the European Commission endorsed Regulation (EU) ***no. 2343/2015***, which introduces the 2012-2014 annual cycle of improvements to IFRSs. The main changes made relate to the following:

- *IFRS 5 - Non-current assets held for sale and discontinued operations*

  The amendment introduces specific guidance on IFRS 5 for cases when an entity reclassifies an asset out of the held-for-sale category into the held-for-distribution category (or vice versa), or when the requirements for the classification of an asset held-for-distribution are no longer met.

  The amendments state that:

  - these reclassifications do not constitute a change to a plan (to sell or distribute) and, therefore, the classification and measurement criteria remain valid;
  - assets that no longer meet the criteria for reclassification as held-for-distribution should be treated in the same way as an asset that ceases to be classified as held-for-sale.

- *IFRS 7 - Financial instruments: disclosures*

  The amendment regulates the introduction of further guidance to clarify whether a servicing contract constitutes a remaining involvement in a transferred asset for the purposes of the disclosure required in relation to transferred assets.

  It also clarifies that disclosures on offsetting financial assets and liabilities are not explicitly required for all interim financial statements, but that nevertheless those disclosures could be necessary to comply with the requirements of IAS 34 in cases where the information is significant.

- *IAS 19 - Employee benefits*

  The document clarifies that, in order to identify the discount rate for post-employment benefits, reference must be made to high quality corporate bonds denominated in the same currency used for the payment of the benefits and that the depth of the relative market should therefore be currency level.

- *IAS 34 - Interim financial reporting*

The document introduces amendments to clarify that some information requested must be included in interim financial statements or at least in other parts of the documents such as the interim financial report but with the proviso that cross-references to that other section must be given in the interim financial statements. In this last case, the report must be made available to readers of the financial statements in the same way and at the same time as for the interim financial statements, otherwise, the latter is to be considered incomplete.

On 18 December 2015, the European Commission endorsed the following regulations:

- ***Regulation no. 2406/2015*** which endorses the amendment published by the IASB on 18 December 2014 to IAS 1 - "Presentation of financial statements”. As part of the broader process to improve financial reporting disclosures, the amendment in question makes limited changes to IAS 1 designed to provide clarification on matters which might be perceived as an impediment to the clear and intelligible preparation of financial statements;
- ***Regulation no. 2441/2015*** which endorses the amendment published by the IASB on 12 August 2014 to IAS 27 - "Separate financial statements”. The amendment introduces the possibility to measure investments in subsidiaries, joint ventures or associates using the equity method in the investor’s separate financial statements.

On 23 September 2016 the European Commission published *Regulation (EU)* ***1703/2016*** endorsing the amendment entitled “*Investment entities: applying the consolidation exception*”, published by the IASB on 18 December 2014, to IFRS 10 “*Consolidated financial statements*”, IFRS 12 “*Disclosure of interests in other entities*” and IAS 28 “*Investments in associates and joint ventures*” governing the exceptions from consolidation applicable to “Investment entities”.

Standards applicable after 2016

On 29 October 2016 the European Commission published *Regulation (EU)* ***1905/2016*** endorsing IFRS 15 “*Revenue from contracts with customers*”, published by the IASB on 28 May 2014.

On 22 November 2016 the European Commission published *Regulation (EU)* ***2067/2016*** endorsing IFRS 9 “*Financial Instruments*”, published by the IASB on 24 July 2014.

The requirements of these standards are discussed later in this section.

International accounting standards not endorsed at 31 December 2016

Principio (IAS/IFRS) Interpretazione (SIC/IFRIC)	Modifiche	Data di pubblicazione
IFRS 14	Regulatory deferral accounts	30/01/2014
IFRS 10, IAS 28	Sale contribution of assets between an investor and its Associate or Joint Venture	11/09/2014
IFRS 16	Leases	13/01/2016
IAS 12	Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses	19/01/2016
IAS 7	Amendments to IAS 7: Disclosure initiative	29/01/2016
IFRS 15	Clarification to IFRS 15 Revenue Contracts with Customers	12/04/2016
IFRS 2	Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transaction	20/06/2016
IFRS 4	Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	12/09/2016
IFRS 1, IFRS 12, IAS 28	Annual improvements to IFRS Standards 2014-2016 Cycle	08/12/2016
IFRIC 22	IFRIC Interpretation 22 Foreign Currency Transaction and Advance Consideration	08/12/2016
IAS 40	Amendment to IAS 40: Transfers of Investment property	08/12/2016

The above standards are not applicable for the purpose of preparing the financial statements as of 31 December 2016, as they have not yet been endorsed by the European Commission via the issue of related EC regulations.

Amendments to IAS 39

The publication of Commission Regulation (EU) 2016/2067 in Official Journal 323 dated 29 November 2016 completed the process of endorsing IFRS 9 “Financial Instruments”[8], which will replace IAS 39 “Financial Instruments: Recognition and Measurement” from 1 January 2018.

This standard establishes new requirements for:

- “Classification and Measurement”;
- “Impairment;” and
- “General Hedge accounting”.

The main provisions of the new standard are summarised below:

Recognition and derecognition

With IFRS 9, the criteria for initial recognition and derecognition of financial assets and liabilities are substantially the same as those of IAS 39.

Classification and measurement

[8] Issued by IASB on 24 July 2014.

IFRS 9 sets out the following criteria for the classification of financial assets[9]:

a) the business model of the entity to manage financial assets; and

b) the characteristics of the contractual cash flows from the financial assets,

and, on this basis, it establishes the following three categories for the classification and measurement of financial assets:

- "Amortised Cost (AC)";
- *"fair value through other comprehensive income (FVOCI)"*;
- *"fair value through profit or loss (FVPL)"*.

Amortised cost

Financial assets held to collect their contractual cash flows are classified and measured using this criterion.

The occurrence of a sale is not necessarily inconsistent with the definition of a business model required for measurement at "amortised cost". For example, infrequent sales of modest amounts may take place as part of that business model. Furthermore, disposals carried out due to increases in credit risk[10] in financial assets subject to disposal are not important.

Fair value through other comprehensive income (FVOCI)

This category is for the classification of financial assets:

- for which the contractual cash flows consist exclusively of the payment of principal and interest;
- held to collect the contractual cash flows and also cash flows from the sale of the assets. This business model may involve greater sales activity than that of the business model associated with the "Amortised cost" category.

The interest income, exchange rate gains and losses and impairment losses on financial instruments classified in the FVOCI category together with reversals of impairment losses are recognised through profit or loss, while other changes in fair value are recognised through other comprehensive income (OCI).

At the time of sale (or possible reclassification into other categories due to a change of business model), accumulated gains or losses recognised in OCI are reclassified to profit or loss.

Fair value through profit or loss

Financial assets that are not managed on the basis of the two business models specified for the "amortised cost" and "fair value through other comprehensive income" categories are classified and measured according to this criterion.

[9] Financial assets are recognised in full; hence, those that include embedded derivatives are not split.

[10] Moreover, if the sales made by the entity are not infrequent and for insignificant amounts, the entity shall assess within what limits this sales activity is consistent with a business model with an objective of collecting contractual cash flows.

For equity instruments only, an irrevocable option may be exercised on initial recognition for the classification and measurement of the financial assets at FVOCI. Exercise of this option involves recognising all changes in fair value through other comprehensive income (OCI) without the possibility of reclassifying them to profit or loss (neither for impairment nor for subsequent disposal). Dividends are recognised in profit or loss.

With respect to financial liabilities, the provisions of IAS 39 have been reproduced almost entirely in IFRS 9. As provided for by IAS 9, the new standard allows them to be measured at “fair value through profit or loss (i.e., the fair value option) if certain conditions exist, but nevertheless providing for changes in the fair value of financial liabilities due to changes in the credit rating of the issuer to be recognised through other comprehensive income and no longer through profit or loss.

Impairment

The IFRS 9 impairment model, which has a forward-looking vision, requires immediate recognition of credit losses even if they are only expected as opposed to IAS 39, according to which the measurement of credit losses is based solely on those resulting from past events and current conditions.

This model requires an estimate of credit losses to be made on the basis of supportable information that is available without undue cost or effort and that includes historical, current and forecast information[11].

As opposed to IAS 39, IFRS 9 has a single impairment model to be applied to different financial instruments such as financial assets measured at amortised cost and those measured at fair value through other comprehensive income.

Specifically, with the exception of purchased or originated credit impaired financial assets (see below), expected credit losses are required to be measured through a loss allowance at an amount equal to:

- the 12-month expected credit losses (expected credit losses that result from those default events on the financial instrument that are possible within 12 months after the reporting date). This method is applied when the credit risk at the reporting date is low or has not increased significantly since initial recognition; or
- full lifetime expected credit losses (expected credit losses that result from all possible default events over the life of the financial instrument). This method is applied when the credit risk has increased significantly since initial recognition.

The standard provides for the division of financial assets into three stages on the basis of the credit risk specific to each relationship:

[11] The Standard defines expected credit losses as "the weighted average of credit losses with the respective risks of a default occurring as the weightings”. The entity should consider reasonable and supportable information about past events, current conditions and reasonable and supportable forecasts of future economic conditions when measuring expected credit losses (forward looking approach”).

- Stage 1: performing financial assets for which no significant increase in the credit risk has been found. Calculation of the expected loss is carried out over a time horizon of 12 months;
- Stage 2: performing financial assets for which a significant increase in the credit risk has been found. Calculation of the expected loss is carried out for the full lifetime of the instrument;
- Stage 3: non-performing financial assets.

Implementation stage

The project architecture requires the Implementation phase during 2017 to plan and execute the actions identified and defined in the earlier phases.
The Implementation phase, now at the start-up stage, will therefore:

- agree the analyses and results of the Design phase with the operational units involved;
- implement within the various business processes the decisions and interpretations of the standard made during the Assessment and Design phases;
- commence preparations for the First-Time Application (FTA) of the standard.

The IFRS 9 project in UBI Banca Group

Given the significance of the prospective changes[12] introduced by IFRS 9, the UBI Banca Group participated from the beginning in the project work carried out by the Italian Banking Association (ABI) and, during the second half of 2015, also launched its own transition project. The architecture of this project envisages the following three phases:

1. *Assessment*;

2. *Design*;

3. *Implementation*.

Assessment Phase

The Assessment phase commenced in 2015 and was completed during the first quarter of 2016. This phase assessed the potential impact of the new standard, considering the various regulatory, risk model, administration, organisation, IT and business aspects.

The principal results of this preliminary activity are summarised below:

[12] In particular, with regard to the nature of the expected loss model applicable when measuring financial instruments,

and considering the consequent complexity of implementing the standard

- identification of the regulatory and accounting changes and consequent preliminary definition of the accounting approach to the aspects concerned;
- identification of the preliminary impact on the business, risk models, systems and IT;
- definition of criteria for the classification and transfer of financial instruments, especially loans and receivables, among the three stages identified in IFRS 9 based on credit quality, with a resulting different estimate of the respective carrying amounts (12 month expected credit loss vs. lifetime expected credit loss).

The detailed analysis of the above preliminary results, carried out during the first quarter of 2016, confirmed the significance of the changes introduced by the new standard, especially with regard to the impairment model applicable to all financial assets (excluding those measured at Fair value through Profit or Loss - FVTPL). This supported the expectation of the entire domestic and international banking system that additional writedowns will be necessary with respect to those estimated using the current model, specifically with regard to those financial assets not already classified as in default, being those to be classified in stages 1 and 2, as defined in the standard.

Design Phase

The Design phase commenced during the first quarter of 2016 and was further developed throughout the year. Work is now essentially complete. This phase involved the following activities:

- detailed definition of the accounting policies;
- preparation of risk models;
- definition of technical specifications for IT systems and processes;
- management of regulatory updates and specific requests from Regulators;
- definition of detailed specifications for organisational purposes.

Implementation stage

The project architecture requires the Implementation phase during 2017 to plan and execute the actions identified and defined in the earlier phases.

The Implementation phase, now at the start-up stage, will therefore:

- agree the analyses and results of the Design phase with the operational units involved;
- implement within the various business processes the decisions and interpretations of the standard made during the Assessment and Design phases;
- commence preparations for the First-Time Application (FTA) of the standard.

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

As mentioned, on 29 October 2016 the European Commission endorsed **IFRS 15** "*Revenue from contracts with customers*", published by the IASB on 28 May 2014, which from 1 January 2018 will replace IAS 18 "*Revenue" and* IAS 11 "*Construction contracts*", as well as IFRIC 13 "*Customer Loyalty Programmes*", IFRIC 15 "*Agreements for the construction of real estate*", IFRIC 18 "*Transfer of assets from customers*" and SIC 31 "*Revenue – Barter transactions involving advertising services*".

The standard establishes a new model for the recognition of revenue that will apply to all contracts with customers, except for those falling within the scope of application of other IAS/IFRS, such as leases, insurance contracts and financial instruments.

The fundamental steps for the recognition of revenue using the new model are:

- identification of the contract with the customer;
- identification of the contractual performance obligations;
- determination of the price;
- allocation of the price to the contractual performance obligations;
- recognition of revenue when the entity has satisfied each performance obligation.

The principal components of Group income are not covered by IFRS 15, as they are governed by IAS 39 (and IFRS 9).

With regard to the commission income and expense not covered by IAS 39/IFRS 9, assessments will have to be made on the first-time adoption of IFRS 15 in order to determine:

- the prices of the related transactions, including the variable components, that will have to be allocated to one or more performance obligations; and
- if the performance obligations are met "over time" or "point in time".

In addition, the presentation of the revenue on a gross or net basis will depend on an analysis of the "*principal*" or "*agent*" role played in the transaction by the entity.

A detailed analysis of the requirements of this standard is currently in progress, with a view to grouping contracts with customers together, based on their characteristics, and carrying out a specific analysis of each group. Given this process, it is not currently possible to make a reasonable estimate of the effects on the Group of applying this standard. They are not however expected to be significant, especially considering - as stated - that the principal components of Group income are not covered by IFRS 15, as they are governed by the current IAS 39 and, in future, by IFRS 9.

Section 3 – Events after the reporting period

As required by IAS 10, it is noted that no events requiring adjustment of the information reported in these financial statements have occurred between 31 December 2016, the reporting date, and 7 February 2017, being the date on which the draft financial statements were approved by the Board of Directors for presentation to the Shareholders' Meeting.

Section 4 – Other matters

Use of estimates and assumptions in the preparation of financial statements

The financial statements Items are measured using the accounting policies set out in Part A.2 "Main financial statements Items" of the accounting policies section. Application of these policies and the impossibility to exactly measure some Items mean that management has to make estimates and assumptions which may have a significant impact on the carrying amounts recognised in the financial statements.

The use of reasonable estimates is an essential part of the preparation of financial statements and does not affect their reliability. The financial statements Items for which the use of estimates and assumptions is most significant are listed below:

- measurement of loans and receivables;
- measurement of intangible assets;
- quantification of accruals to provisions for risks and charges;
- quantification of deferred taxes;
- definition of the amortisation and depreciation charges for finite-life intangible assets and property, plant and equipment.

An estimate may change due to variations in the circumstances on which it was based or if new information comes to light or on the basis of greater experience. A change in an estimate is applied prospectively and, therefore, it affects profit or loss of the year in which the change is made and, possibly also future years.

No changes were made in 2015 to the criteria previously employed for estimates in the financial statements at 31 December 2015.

Domestic tax group election

The Consolidated Income Tax Law (TUIR) allows companies belonging to the same group to report just one amount of total taxable income corresponding, in principle, to the sum of the taxable incomes of each company (parent and direct and/or indirect subsidiaries in which, applying certain criteria, the interest held exceeds 50%) and, consequently, to determine just one amount of income tax for the group ("domestic tax group", governed by arts. 117-129 TUIR).

Making this election, UBI Factor S.p.A. is a member of the domestic tax group organised by UBI Banca and, after calculating the tax charge for the year, transfers the related taxable income to the parent company.

List of the main IFRS endorsed by the European Commission

The standards applicable at the date of preparation of these financial statements adopted in these financial statements due to the occurrence of events that they regulate, are listed below:

IAS/IFRS	STANDARDS	ENDORSEMENT
IAS 1	Presentation of financial statements	Reg. 1274/08, 53/09, 70/09, 494/09, 243/10, 149/11, 475/12, 1254/12, 1255/12, 301/13, 2113/15, 2173/15, 2406/15, 1905/16, 2067/16
IAS 2	Inventories	Reg. 1126/08, 1255/12 Reg. 1905/16, 2067/16
IAS 7	Statement of cash flows	Reg. 1126/08, 1274/08, 70/09, 494/09, 243/10, 1254/12, 1174/13
IAS 8	Accounting policies, changes in accounting estimates and errors	Reg. 1126/08, 1274/08, 70/09, 1255/12, 2067/16
IAS 10	Events after the reporting period	Reg. 1126/08, 1274/08, 70/09, 1142/09, 1255/12, 2067/16
IAS 11	Construction contracts	Reg. 1126/08, 1274/08
IAS 12	Income taxes	Reg. 1126/08, 1274/08, 495/09, 475/12, 1254/12, 1255/12, 1174/13, 1905/16, 2067/16
IAS 16	Property, plant and equipment	Reg. 1126/08, 1274/08, 70/09, 495/09, 1255/12, 301/13, 28/15, 2113/15, 2231/15, 1905/16
IAS 17	Leases	Reg. 1126/08, 243/10, 1255/12, 2113/15
IAS 18	Revenue	Reg. 1126/08, 69/09, 1254/12, 1255/12
IAS 19	Employee benefits	Reg. 1126/08, 1274/08, 70/09, 475/12, 1255/12, 29/15, 2343/15
IAS 20	Accounting for government grants and disclosure of government assistance	Reg. 1126/08, 1274/08, 70/09, 475/12, 1255/12, 2067/16
IAS 21	The effects of changes in foreign exchange rates	Reg. 1126/08, 1274/08, 69/09, 494/09, 149/11, 475/12, 1254/12, 1255/12, 2067/16
IAS 23	Borrowing costs	Reg. 1260/08, 70/09, 2113/15, 2067/16
IAS 24	Related party disclosures	Reg. 632/10, 475/12, 1254/12, 1174/13, 28/15
IAS 26	Accounting and reporting by retirement benefit plans	Reg. 1126/08
IAS 27	Separate financial statements	Reg. 1254/12, 1174/13, 2441/15
IAS 28	Investments in associates and joint ventures	Reg. 1254/12, 2441/15, 1703/16, 2067/16
IAS 29	Financial reporting in hyperinflationary economies	Reg. 1126/08, 1274/08, 70/09
IAS 32	Financial instruments: presentation	Reg. 1126/08, 1274/08, 53/09, 70/2009, 495/09, 1293/09, 149/11, 475/12, 1254/12, 1255/12, 1256/12, 301/13, 1174/13 Reg. 1905/16, 2067/16
IAS 33	Earnings per share	Reg. 1126/08, 1274/08, 495/09, 475/12, 1254/12, 1255/12, 2067/16
IAS 34	Interim financial reporting	Reg. 1126/08, 1274/08, 70/09, 495/09, 149/11, 475/12, 1255/12, 301/13, 1174/13, 2343/15, 2406/15, 1905/16
IAS 36	Impairment of assets	Reg. 1126/08, 1274/08, 69/09, 70/09, 495/09, 243/10, 1254/12, 1255/12,

		1374/13, 2113/15 Reg. 1905/16, 2067/16
IAS 37	Provisions, contingent liabilities and contingent assets	Reg. 1126/08, 1274/08, 495/09, 28/15 Reg. 1905/16, 2067/16
IAS 38	Intangible assets	Reg. 1126/08, 1274/08, 70/09, 495/09, 243/10, 1254/12, 1255/12, 28/15, 2231/15, 1905/16
IAS 39	Financial instruments: recognition and measurement	Reg. 1126/08, 1274/08, 53/2009, 70/09, 494/09, 495/09, 824/09, 839/09, 1171/09, 243/10, 149/11, 1254/12, 1255/12, 1174/13, 1375/13, 28/15, 1905/16, 2067/16
IAS 40	Investment property	Reg. 1126/08, 1274/08, 70/09, 1255/12, 1361/14, 2113/15, 1905/16
IAS 41	Agriculture	Reg. 1126/08, 1274/08, 70/09, 1255/12, 2113/15
IFRS 1	First-time adoption of International Financial Reporting Standards	Reg. 1126/09, 1164/09, 550/10, 574/10, 662/10, 149/11, 475/12, 1254/12, 1255/12, 183/2013, 301/13, 313/13, 1174/13, 2343/15, 2441/15.1905/16, 2067/16
IFRS 2	Share-based payment	Reg. 1126/08, 1261/08, 495/09, 243/10, 244/10, 1254/12, 1255/12, 28/15, 2067/16
IFRS 3	Business combinations	Reg. 495/09, 149/11, 1254/12, 1255/12, 1174/13, 1361/14, 28/15, 1905/16, 2067/16
IFRS 4	Insurance contracts	Reg. 1126/08, 1274/08, 1165/09, 1255/12, 1905/16, 2067/16
IFRS 5	Non-current assets held for sale and discontinued operations	Reg. 1126/08, 1274/08, 70/09, 494/09, 1142/09, 243/10, 475/12, 1254/12, 1255/12, 2343/15, 2067/16
IFRS 6	Exploration for and evaluation of mineral resources	Reg. 1126/08
IFRS 7	Financial Instruments: disclosures	Reg. 1126/08, 1274/08, 53/09, 70/2009, 495/09, 824/09, 1165/09, 574/10, 149/11, 1205/11, 475/12, 1254/12, 1255/12, 1256/12, 1174/13, 2343/15, 2406/15, 2067/16
IFRS 8	Operating segments	Reg. 1126/08, 1274/08, 243/10, 632/10, 475/12, 28/15
IFRS 9	Financial Instruments	Reg. 2067/16
IFRS 10	Consolidated financial statements	Reg. 1254/12, 313/13, 1174/13, 1703/16
IFRS 11	Joint arrangements	Reg. 1254/12, 313/13, 2173/15
IFRS 12	Disclosure of interests in other entities	Reg. 1254/12, 313/13, 1174/13, 1703/16
IFRS 13	Fair value measurement	Reg. 1255/12, 1361/14.2067/16
IFRS 15	Revenue from contracts with customers[13]	Reg. 1905/16

[13]Commencing from the required application date of this standard, 1 January 2018, the following standards and interpretations will cease to be effective: IAS 11 and 18, IFRIC 13, 15 and 18 and SIC-31.

A.2 – MAIN FINANCIAL STATEMENTS ITEMS

The recognition, classification, measurement and derecognition criteria for the main financial statements Items are described below.

A.2.2 Loans and receivables

Loans and receivables consist of non-derivative financial assets with customers and banks with fixed or determinable payments, which are not listed on an active market.

Recognition

In accordance with the general principle of substance over form, a company may derecognise a financial asset only if, due to transfer, it has transferred the risks and rewards associated with that asset.

Indeed, IAS 39 requires a company to derecognise a financial asset if and only if:

a) the financial asset has been transferred and, with it, substantially all the risks and contractual rights to cash flows from the asset expire;

b) the rewards associated with ownership of the asset no longer exist.

A company transfers a financial asset if, and only if, it either:

a) transfers the contractual rights to receive the cash flows of the financial asset;

b) retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients in an arrangement that meets all the following conditions:

- the company has no obligation to pay amounts to the eventual recipients unless it collects equivalent amounts from the original asset;
- the company cannot sell or pledge the financial asset;
- the company has an obligation to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the company is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents during the short settlement period from the collection date to the date of required remittance to the eventual recipients, nor is it entitled to any interest earned on such investments.

When the company transfers a financial asset resulting in its derecognition in the assignor’s financial statements, upon transfer, the company must evaluate the extent to which it retains the risks and rewards of ownership of the financial asset.

The transfer of risks and rewards is evaluated by comparing the originator’s exposure, before and after the transfer, to the variability in the amounts and timing of the net cash flows of the transferred asset.

The originator substantially retains all the risks and rewards of ownership of a financial asset if its exposure to the variability in the present value of the future net cash flows from the financial asset does not change significantly as a result of the transfer. Conversely, it substantially transfers all the risks and rewards of ownership of a financial asset if its exposure to such variability is no longer significant.

In short, one of three situations may arise, with certain specific effects, as follows:

1) if the company transfers substantially all the risks and rewards of ownership of the financial asset, the company shall derecognise the financial asset and recognise separately as assets or liabilities any rights and obligations created or retained in the transfer;

2) if the company retains substantially all the risks and rewards of ownership of the financial asset, the company shall continue to recognise the financial asset;

3) if the company neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, the company shall determine whether it has retained control of the financial asset. In this case:

- if the company has not retained control, it shall derecognise the financial asset and recognise separately as assets or liabilities any rights and obligations created or retained in the transfer;
- if the company has retained control, it shall continue to recognise the financial asset to the extent of its continuing involvement in the financial asset.

Whether the company has retained control of the transferred asset depends on the transferee’s ability to sell the asset. If the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer, the company has not retained control. In all other cases, the company has retained control.

The accounting treatment for the most frequently used types of transfer of a financial asset are significantly different:

1) in the event of factoring without recourse (without any guarantee), the assignor may derecognise the transferred assets;

2) in most cases of factoring with recourse, the risk associated with the transferred asset remains with the assignor and, accordingly, the transfer does not meet the requirements for derecognition of the transferred asset.

The company has recognised receivables acquired without recourse only after verifying that there are no contractual clauses that would eliminate the effect of the substantial transfer of all risks and rewards. With respect to the portfolio of receivables transferred with recourse, only the amounts paid to the assignor as advances on the fee are recognised and maintained in the financial statements.

More specifically, these types of contracts relate to the following:

a) receivables transferred with recourse and without legal recourse (without derecognition by the assignor) are recognised, but only to the extent of amounts paid to the assignor as an advance on the fee, including interest and accrued charges. They are initially recognised on the basis of the advanced fee to the assignor for the transfer of the receivables;

b) receivables acquired definitively without recourse, with the substantial transfer of risks and rewards and maturity receivables paid at the due date are recognised at the nominal amount of the transferred invoices (with derecognition by the assignor). They are initially recognised at the nominal amount of the receivable (equal to its fair value).

c) receivables acquired for significantly less than their nominal amount are recognised at the amount actually paid upon acquisition, due to the transferred debtor's financial situation;

d) loans granted for future receivables not underlying factoring transactions and instalment loans are recognised at the amount of the loan, including interest and accrued fees.

Measurement

Loans and receivables are initially recognised at their nominal amount and subsequently measured at amortised cost, using the effective interest method.

Other than performing loans and receivables, which consist of those classified as non-performing, unlikely to pay and impaired past due, are measured individually, considering the objective possibility of impairment.

The criteria applied when calculating the impairment losses to be recognised on loans and receivables are based on the discounting of expected cash flows, including both principal and interest, considering any guarantees securing the amounts. In order to calculate the present value of the cash flows, the identification of estimated collections, the related due dates and the discount rate to be applied are fundamental elements when each of the loans/receivables is classified as non-performing".

When projecting the recovery of other than performing loans and receivables, the company refers to individual recovery plans, if such are available, and, if they are not, estimated flat amounts based on internal historical data, research in the sector and third party appraisals, on the basis of objective data and information inferable about each position. These estimates are performed considering the specific solvency of the debtor, the assignor and the guarantor.

A loan or receivable is considered "other than performing" when it is probable that the company will not recover the entire amount, on the basis of the original contractual terms, or an equivalent amount. It is fully cancelled when it is believed to be unrecoverable or if it is entirely derecognised.

Impairment losses recognised on impaired loans and receivables are reversed only when it is reasonably certain that more of the loan or receivable will be recovered than the post-impairment amount, within the limit of amortised cost.

Performing loans and receivables relate to assets for which the company has not noted any objective losses and, accordingly, has measured collectively. In particular, impairment losses are estimated using measurement methods based on a calculation algorithm (EAD x PD x LGP), aligned for compliance with the relevant legislation.

The methodology used to calculate the fair value of loans and receivables is described in Part A.4 – Fair value disclosure of these notes. The fair value of all receivables is calculated for disclosure purposes only.

Derecognition

Loans and receivables are derecognised when the contractual rights to their cash flows expire, when they are sold, with the substantial transfer of all the risks and rewards of ownership or when they are considered definitively unrecoverable. They are reinstated when the reasons for their impairment no longer apply. The amount of the losses is recognised in profit or loss, net of previous impairment losses. Reversals of previously impaired amounts are recognised in profit or loss, as a reduction in net impairment losses on loans and receivables.

A.2.3 Equity investments

Recognition and measurement

This Item consists of investments in associates, which the company has acquired and holds as long-term investments. Investments in associates are measured at cost, adjusted to reflect any necessary impairment losses.

When there is evidence of an impairment loss, the recoverable amount of the equity investment is estimated, considering the present value of future cash flows that the equity investment could generate, including its final sale price.

The impairment process begins when there are indications that lead the company to assume that the investment's carrying amount may not be recovered. These indications may be either qualitative or quantitative. The former include the profitability of the company concerned and its income-earning prospects. The latter include estimates of any significant or prolonged reduction in fair value below the initial carrying amount of the equity investment.

If the recoverable amount of an equity investment is less than its carrying amount, the difference is recognised in profit or loss. If the reasons for the impairment no longer apply following an event that occurs after the recognition of the impairment loss, it is reversed in profit or loss, up to the amount of historical cost.

Derecognition

Equity investments are derecognised when the contractual rights to cash flows arising from the assets expire or when the financial asset is sold, with the substantial transfer of all associated risks and rewards.

A.2.4 Property, plant and equipment

Recognition and classification

This Item includes furniture, plant and other machines and equipment owned for use by the company for a period longer than one year.

Property, plant and equipment are initially recognised at cost, including all expenses directly related to the use of the asset. Ordinary maintenance costs are recognised directly in profit or loss.

Measurement

Subsequent to initial recognition, items of property, plant and equipment are measured at cost, net of accumulated depreciation and any impairment losses. Their depreciable amount, which is equal to cost less residual value (i.e., the amount the company would normally expect to receive from disposal, less expected disposal costs), is distributed systematically over their useful life, with depreciation charged on a straight-line basis. Depreciation begins when the asset becomes available for use and ends when the asset is derecognised. Accordingly, depreciation does not end when an asset is idle or withdrawn from use, unless it has already been completely depreciated.

Material leasehold improvements, which mainly relate to the cost of renovating leased property, are depreciated for no longer than the term of the related lease agreement.

Derecognition

An item of property, plant and equipment is derecognised when sold or when it is permanently withdrawn from use and the company does not expect any future economic benefits from its disposal.

A.2.5 Intangible assets

An intangible asset is an identifiable, non-monetary asset without physical substance used in the company's activity.

An asset is identifiable when:

- it is separable, i.e. capable of being separated or divided and sold, transferred, licensed, rented or exchanged;

- it arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from other rights and obligations.

Assets are characterised by the fact that they can be controlled by the company as the result of past events and it is assumed that the asset will generate future economic benefits that will flow to the company and that the company may limit third parties from accessing such benefits.

The future economic benefits of an intangible asset may include income from the sale of goods or services, cost savings or other benefits arising from the company's use of the asset.

An intangible asset is recognised as such if, and only if:

a) it is probable that the future estimated economic benefits attributable to the asset will flow to the company;

b) the cost of the asset can be reliably determined.

Recognition and classification

Intangible assets mainly consist of application software to be used in the long-term. They are recognised at cost, and any expenses incurred following initial recognition are capitalised only if they generate future economic benefits and only if they can be reliably determined and allocated to the asset.

Measurement

Intangible assets with definite useful lives are recognised at cost, net of accumulated amortisation and any impairment losses.

Amortisation is calculated systematically over the best estimate of the asset's useful life, on a straight-line basis. Amortisation begins when the asset becomes available for use and ends when the asset is derecognised.

Derecognition

Intangible assets are derecognised upon disposal or when the asset is permanently withdrawn from use.

A.2.6 Tax assets and liabilities

Tax assets and liabilities are recognised in statement of financial position Items 120 – Tax assets and 70 – Tax liabilities.

Current tax assets and liabilities

Current taxes and those relative to prior years, but not yet paid, are recognised as liabilities. Any amounts paid in excess of the balance due are recognised as assets.

Current tax assets and liabilities relative to the current or prior years are measured at the amount expected to be paid to/recovered from the tax authorities, applying current tax rates and tax legislation. Tax assets/liabilities also include the risk of any tax dispute.

As the company has opted to participate in the domestic tax consolidation scheme with its parent, the above applies only to IRAP (regional tax on production activities).

Assets and liabilities from/to the parent in relation to IRES (corporate income tax) are recognised under Other assets and Other liabilities.

Deferred tax assets and liabilities

Deferred tax liabilities are recognised on all taxable temporary differences.

Deferred tax liabilities are recognised in statement of financial position Item 70 – Deferred tax liabilities.

Deferred tax assets are recognised on deductible temporary differences if it is probable that taxable profit will be generated against which the deductible temporary difference may be used.

Deferred tax assets are recognised in statement of financial position Item 120 – Deferred tax assets.

Deferred tax assets and liabilities are constantly monitored and calculated at the tax rates expected to be applicable when the tax asset will be realised or the tax liability settled, considering tax legislation currently in effect.

A.2.7 Financial liabilities

Recognition

Financial liabilities include both bank borrowings and the residual fee not yet paid to originators for the definitive acquisition of receivables without recourse.

These liabilities are recognised when the funds raised are received. They are recognised at their fair value, which includes any additional income/expense that is directly attributable to the transaction and determinable from inception, regardless of when it is paid.

Measurement

After initial recognition, financial liabilities are measured at amortised cost, using the effective interest method. Financial liabilities with an original term of less than one year are recognised at the nominal amount collected, as the use of amortised cost does not give rise to significant changes. In these cases, any income and expense directly attributable to the transaction are recognised in profit or loss, under the relevant Items.

The methodology used to calculate the fair value of financial liabilities is described in Part A.4 – Fair value disclosure of these notes.

Derecognition

Financial liabilities are derecognised when settled or expired.

A.2.8 Post-employment benefits

Recognition

Post-employment benefits are considered defined benefit plans and, as such, the relevant obligation must be calculated using actuarial techniques and discounted, as the liability may be settled long after the employees provided the related service.

The amount recognised as a liability is equal to:

(a) the present value of the defined benefit obligation at the reporting date;
(b) plus any actuarial gains (less any actuarial losses) recognised in a specific equity reserve;
(c) less the fair value of any plan assets at the reporting date.

Measurement

Actuarial gains and losses, which are recognised in a specific valuation reserve under equity, include the effects of adjustments arising from the reformulation of previous actuarial assumptions due to actual experience or due to changes in the same assumptions.

For discounting purposes, the projected unit credit method is used, which considers each individual service period as separately giving rise to an additional unit of post-employment benefits, together forming the final obligation. This additional unit is calculated by dividing the total expected service by the number of years from hire to the expected payment date. This method provides for the projection of future expenditure on the basis of historical/statistical analyses and the demographic curve and the discounting of such flows at the market interest rate. The rate used for discounting purposes was determined, with respect to the market yield of high-quality corporate bonds at the reporting date, as an average of swap, bid and ask rates, suitably interpolated for interim maturities.

A.2.9 Provisions for risks and charges

Recognition and measurement

The provisions for risks and charges relate to certain or probable costs and charges of a specific nature, the amount or due date of which are unknown at the reporting date.

Accruals to the provisions for risks and charges are recognised only when:

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

The accrual recognised reflects the best estimate of the outflow required to settle the obligation at the reporting date, as well as the risks and uncertainties that inevitably characterise a plurality of factors and circumstances. The accrual is equal to the present value of the amount expected to be needed to settle the obligation if the time value of money is material.

Future events that could affect the amount needed to settle the obligation are considered only if there is sufficient objective evidence that they will occur.

Contingent liabilities are not recognised but are disclosed, unless they are deemed remote.

A.2.10 Foreign currency transactions

Recognition

Foreign currency transactions are initially recognised in the presentation currency, by applying the exchange rate ruling at the date of the transaction.

Measurement

At each reporting date, foreign currency monetary Items are retranslated at the closing rate.

Exchange rate gains and losses arising from the retranslation of foreign currency monetary items at rates that differ from those applied at initial recognition during the year or in previous financial statements are recognised in profit or loss in the year in which they arise.

A.2.11 Recognition of revenue and expense

Definition

Revenue is the gross inflow of economic benefits arising from the company’s ordinary operating activities, when such flows generate increases in equity other than increases due to shareholders’ injections.

Recognition

Revenue is measured at the fair value of the consideration received or due and is recognised when it can be reliably estimated.

Revenue from the provision of services can be reliably estimated when all of the following conditions have been met:

- the amount of the revenue can be reliably measured;
- it is probable that the economic benefits arising from the transaction will flow to the company;
- the transaction's percentage of completion at the reporting date can be reliably measured;
- costs incurred for the transaction and costs to completion can be reliably calculated.

Revenue recognised on the provision of services is recognised on a percentage of completion basis.

Revenue is only recognised when it is probable that the economic benefits of the transaction will flow to the company. However, when the recoverability of an amount already recognised as revenue becomes uncertain, the non-recoverable amount, or the amount the recoverability of which is no longer probable, is recognised as an expense rather than as an adjustment to the original revenue.

Revenue from third party use of the company's assets, generating interest or dividends, is recognised when:

- it is probable that the economic benefits of the transaction will flow to the company;
- the amount of the revenue can be reliably measured.

Interest is recognised on an accruals basis considering the actual return on the asset: Specifically:

- interest income includes the amortisation of any discounts, premiums or other differences between the initial carrying amount of a security and its value at maturity. The negative components of income charged on financial assets are recognised as "*Interest and similar expense*"; the positive components of income earned on financial liabilities are recognised as "*Interest and similar income*";
- default interest that is considered recoverable is recognised in Item 10 "Interest and similar income".

Dividends are recognised when the shareholders have the right to receive payment.

Expense is recognised when it is incurred, in accordance with the principle of matching expense and revenue that derive directly or jointly from the same transactions or events. Expense that cannot be associated with revenue is immediately recognised in profit or loss.

A.3 – TRANSFER OF FINANCIAL ASSETS BETWEEN PORTFOLIOS

During the current or previous year, the company did not reclassify financial assets from those measured at fair value to those measured at amortised cost as permitted by Commission Regulation (EC) no. 1004/2008.

A.3.1 Other matters

Although the company owns investments in associates, it has exercised its right under current legislation to not prepare consolidated financial statements, as these are prepared by the parent, UBI Banca S.p.A., with registered office in Piazza *Vittorio Veneto 8 - 24122 Bergamo.*

A.4 – FAIR VALUE DISCLOSURE

Qualitative information

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The company measures the fair value of financial assets and liabilities using the quoted price in an active market or, if that price is not available, using measurement models for other financial instruments.

The best evidence of fair value is the existence of official list prices in an active market; these list prices are therefore preferred for the measurement of financial assets and liabilities (level 1 fair value).

A market is considered active when transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

A financial instrument is regarded as listed in an active market if listed prices are readily and regularly available from an exchange, dealer or information provider and those prices represent actual regularly occurring market transactions on an arm's length basis.

Financial instruments that are not considered as listed in an active market are mainly measured using techniques that aim to adequately reflect what their market price might be at the measurement date.

The measurement techniques used include:

- reference to market values indirectly associated with the instrument to be measured, based on similar products in terms of risk profile (level 2 fair value);

- measurements based also on non-market input calculated using meaningful estimates and assumptions prepared by an expert (level 3 fair value).

IAS 39 provides for specific categories into which financial assets and liabilities measured at fair value are classified. The relevant categories are as follows:

- Financial assets held for trading: Item 20
- Financial assets at fair value through profit or loss: Item 30
- Available-for-sale financial assets: Item 40

- Financial liabilities held for trading: Item 30
- Financial liabilities at fair value through profit or loss: Item 40.

None of these categories are included in UBI Factor's financial statements.

However, the following other categories measured at cost or amortised cost are included in UBI Factor's financial statements:

- Loans and receivables: Item 60
- Financial liabilities: Item 10.

In accordance with IFRS 13, the fair values of these types of assets and liabilities, which are *not* recognised at fair value, are disclosed in the notes to the financial statements.

Given the characteristics of the financial assets and liabilities described above and, in particular:

> asset Item 60 and liability Item 10 - consisting of loans and receivables and financial liabilities with unknown or short-term maturities,

the carrying amount, net of any individual impairment losses (including those due to discounting) or collective impairment losses, is a fair approximation of fair value.

Fair value determined on the basis of level 1 inputs

Fair value is determined on the basis of observable inputs, i.e., quoted prices in active markets for the financial instrument, that the entity can access at the measurement date of the instrument. The existence of quoted prices in an active market is the most reliable evidence of fair value and therefore these quoted prices shall be given priority as the input to be used in the valuation process.

According to IFRS 13, a market is considered active when transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Specifically, shares and bonds quoted on a regulated market (e.g., MOT/MTS - electronic corporate/government bond markets) and those not quoted on regulated markets for which prices are available on a continuous basis from the main information platforms, which represent actual and orderly market transactions, are considered to be quoted on an active market.

The fair value of listed securities on regulated markets is normally given by the reference price published on the last trading day of the reporting period on the respective markets on which they are quoted. For securities not quoted on regulated markets, the fair value is given by the price of the last transaction date considered representative on the basis of internal policies.

As concerns other financial instruments with a level 1 input such as, for example, derivatives, exchange trade funds and listed property funds, the fair value is given by the closing price on the respective listed markets on the measurement date or, in the case of listed OEICs, mutual funds, SICAVs and hedge funds, it is given by the official NAV (net asset value), if this is considered representative according to internal policies.

Fair value determined on the basis of level 2 inputs

Where no prices are available on active markets, the fair value is measured by using prices observable on inactive markets or by using measurement models which make use of market inputs.

The valuation is performed by using inputs that are either directly or indirectly observable, such as, for example:

- prices listed on active markets for identical assets or liabilities;
- observable inputs such as interest rates or yield curves, implicit volatilities, early repayment risk, default rates and illiquidity factors.

On the basis of the above, the valuation resulting from the technique adopted involves marginal use of unobservable inputs because the most important inputs used in the valuation are taken from the market and the results of the calculation methods used replicate quotations on active markets.

The following are included in level 2:

- OTC derivatives;
- equity instruments;
- bonds;
- units of private equity funds.

Assets and liabilities measured at cost or at amortised cost, for which the fair value is given in the notes to the financial statements purely for information purposes, are classified in level 2 only if the unobservable inputs do not have a significant impact on the result of the valuation.

Otherwise, they are classified in level 3.

Fair value determined on the basis of level 3 inputs

The valuation is determined by the use of significant inputs not taken from the market, which therefore, involve the adoption of estimates and internal assumptions.

The following are included in level 3 of the fair value hierarchy:

- equity instruments:
    a. with the use of significant unobservable inputs;
    b. using methods based on an analysis of the fundamentals of the investee;
    c. at cost.
- hedge funds, for which consideration is given not only to the official NAVs, but also to liquidity and/or counterparty risk;

• options on financial equity investments;

• bonds resulting from the conversion of loans and receivables.

Finally, fair value is classified in level 3 as a result of the use of market inputs that have been adjusted significantly to reflect valuation aspects inherent to the instrument measured.

Qualitative information

A.4.1 Levels 2 and 3: valuation techniques and inputs used

The carrying amount of loans and receivables with banks and customers and due to banks and customers is used, as it equals their fair value, given also their contractual term.

A.4.2 Valuation processes and sensitivity

The company has applied the following methods and assumptions to estimate the fair value of financial instruments measured at amortised cost as shown in the notes to the statement of financial position:

- the fair value of cash and cash equivalents is their nominal amount;
- the carrying amount of assets and liabilities without a specific term approximates their fair value;
- the fair value of impaired financial assets is their estimated realisable value;
- the fair value of non-current, fixed rate financial assets and liabilities has been estimated for disclosure purposes only.

The fair value of financial instruments is calculated using the above criteria, assuming the use of observable or unobservable inputs.

Observable inputs are inputs that are developed using market data, such as publicly available information about actual events or transactions, and that reflect the assumptions that market participants would use when pricing the asset or liability. Unobservable inputs are inputs for which market data are not available and that are developed using the best information available about the assumptions that market participants would use when pricing the asset or liability.

A.4.3 Fair value hierarchy

In order to identify the correct hierarchical level of loans and receivables with banks and customers and due to banks and customers, the company valued the significance of unobservable inputs and classified them as level 3.

Quantitative information

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

Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis	**Total 31.12.2016**				**Total 31.12.2015**			
	BV	**L1**	**L2**	**L3**	**BV**	**L1**	**L2**	**L3**
1. Held-to-maturity investments	-	-	-	-	-	-	-	-
2. Loans and receivables	2,531,435,880	-	-	2,531,435,880	2,269,193,808	-	-	2,269,193,808
3. Investment property	-	-	-	-	-	-	-	-
4. Non-current assets held for sale and disposal groups	-	-	-	-	-	-	-	-
Total	**2,531,435,880**	**-**	**-**	**2,531,435,880**	**2,269,193,808**	**-**	**-**	**2,269,193,808**
1. Financial liabilities	2,391,349,241	-	-	2,391,349,241	2,128,026,714	-	-	2,128,026,714
2. Securities issued	-	-	-	-	-	-	-	-
3. Liabilities associated with disposal groups	-	-	-	-	-	-	-	-
Total	**2,391,349,241**	**-**	**-**	**2,391,349,241**	**2,128,026,714**	**-**	**-**	**2,128,026,714**

Key
CA = carrying amount
L1= level 1
L2= level 2
L3= level 3

PART B - NOTES TO THE STATEMENT OF FINANCIAL POSITION

ASSETS

Section 1 - Cash and cash equivalents - Item 10

This Item consists of banknotes and coins with legal tender, bank cheques, banker's drafts and revenue stamps.

Item / Amount	31.12.2016	31.12.2015
a) Cash	3,256	4,945
Total	**3,256**	**4,945**

Section 6 - Loans and receivables - Item 60

6.1 Loans and receivables with banks

Breakdown	Total 31.12.2016				Total 31.12.2015			
	Carrying amount	Fair value			Carrying amount	Fair value		
		L1	L2	L3		L1	L2	L3
1. Deposits and current accounts	59,775,690			59,775,690	26,928,397			26,928,397
2. Loans	2,486,390			2,486,390	4,678,896			4,678,896
2.1 Reverse repurchase agreements								
2.2 Finance leases								
2.3 Factoring	2,486,390			2,486,390	4,678,896			4,678,896
- with recourse				-	-			-
- without recourse	2,486,390			2,486,390	4,678,896			4,678,896
2.4 Other financing				-	-			-
3. Debt instruments	-				-			
- structured instruments								
- other debt instruments								
4. Other assets	245,556			245,556	32,519			32,519
Total	**62,507,635**			**62,507,635**	**31,639,813**			**31,639,813**

L1 = level 1; L2 = level 2; L3 = level 3.

These consist of positive balances due to temporary liquidity in current accounts and deposits with banks. The Item shows a €30.9 million increase on 31 December 2015 (+97.6%).

Financing consists of amounts due from banks in relation to factoring activities.

The fair value matches the carrying amount since these are current amounts.

6.2 Loans and receivables with financial institutions

Breakdown	Total 31.12.2016						Total 31.12.2015					
	Carrying amount			Fair value			Carrying amount			Fair value		
	Performing	Impaired		L1	L2	L3	Performing	Impaired		L1	L2	L3
		Acquired	Other					Acquired	Other			
1. Financing	270,404,157		3,376,374			273,780,531	244,228,848		6,908,589			251,137,437
1.1 Reverse repurchase agreements												
1.2 Finance leases												
1.3 Factoring	255,565,810		-			255,565,810	222,201,940		2,125,557			224,327,497
- with recourse	250,476,059		-			250,476,059	222,174,291		2,125,557			224,299,848
- without recourse	5,089,751		-			5,089,751	27,649		-			27,649
1.4 Other financing	14,838,347		3,376,374			18,214,722	22,026,907		4,783,032			26,809,939
2. Debt instruments	-						-					
- structured instruments												
- other debt instruments												
3. Other assets	-		-			-	2,880		-			2,880
Total	**270,404,157**		**3,376,374**			**273,780,531**	**244,231,728**		**6,908,589**			**251,140,317**

L1 = level 1; L2 = level 2; L3 = level 3.

The impaired assets of €3.4 million include exclusively non-performing loans; The Item is shown net of the accumulated impairment losses of €1.4 million, which include individual impairment losses on impaired assets of €0.6 million and collective impairment losses on unimpaired assets of €0.8 million.

The fair value matches the carrying amount since these are current amounts.

6.3 Loans and receivables with customers

Breakdown	**Total 31.12.2016**						**Total 31.12.2015**					
	Carrying amount			**Fair value**			**Carrying amount**			**Fair value**		
	Performing	**Impaired**		**L 1**	**L 2**	**L3**	**Performing**	**Impaired**		**L 1**	**L 2**	**L3**
		Acquired	**Other**					**Acquired**	**Other**			
1. Financing	**1,920,320,840**	**-**	**270,800,041**			**2,191,120,880**	**1,682,070,268**	**-**	**304,060,443**			**1,986,130,711**
1.1 Finance leases												
including: without final purchase option												
1.2 Factoring	**1,838,046,721**	**-**	**265,630,188**			**2,103,676,909**	**1,611,420,286**	**-**	**298,643,704**			**1,910,063,990**
- with recourse	889,664,570		233,805,661			1,123,470,231	870,916,041		261,969,567			1,132,885,608
- without recourse	948,382,151		31,824,527			980,206,678	740,504,245		36,674,137			777,178,382
1.3 Consumer credit												
1.4 Credit cards												
1.5 Pawn loans												
1.6 Loans granted in relation to payment services provided												
1.7 Other financing	82,274,119		5,169,853			87,443,971	70,649,982		5,416,740			76,066,721
including: from enforcement of guarantees and commitments												
2. Debt instruments												
2.1 Structured instruments												
2.2 Other debt instruments												
3. Other assets	3,976,793	-	50,040			4,026,833	278,912	-	4,054			282,966
Total	**1,924,297,632**	**-**	**270,850,081**	**-**	**-**	**2,195,147,713**	**1,682,349,179**	**-**	**304,064,498**	**-**	**-**	**1,986,413,677**

L1 = level 1; L2 = level 2; L3 = level 3.

Loans and receivables with customers mainly arise from factoring activities, the disbursement of financing and special-purpose loans.

The Item increased by €208.7 million (+10.5%) on 31 December 2015 and comprises:

1) receivables factored with recourse, which are recognised in line with the amount advanced;

2) receivables factored without legal recourse, i.e., which do not meet the requirements for recognition, and, accordingly, only the amount advanced is recognised;

3) receivables factored without recourse, which have been definitively acquired;

4) paid at maturity receivables with debtor payment deferrals;

5) receivables acquired for an amount significantly lower than their nominal amount (price paid);

6) advances against future receivable portfolios (without the transfer of the underlying receivable);

7) specific-purpose loans;

8) employee personal loans.

The impaired assets of €270.9 million include:

- non-performing exposures with customers of €205.5 million;
- unlikely to pay exposures with customers of €33.2 million;
- impaired past due exposures with customers of €32.2 million.

The Item is shown net of the accumulated impairment losses of €57.4 million, which include individual impairment losses on impaired assets of €51.4 million and collective impairment losses on unimpaired assets of €6.0 million.

The fair value matches the carrying amount since these are current amounts.

Total loans and receivables relating to the Polish branch amount to €115.3 thousand.

6.4 Loans and receivables: guaranteed assets

	Total 31.12.2016						**Total 31.12.2015**					
	Loans and receivables with banks		**Loans and receivables with financial institutions**		**Loans and receivables with customers**		**Loans and receivables with banks**		**Loans and receivables with financial institutions**		**Loans and receivables with customers**	
	CA	**FV**	**CA**	**FV**	**CA**	**FV**	**CA**	**FV**	**CA**	**FV**	**CA**	**FV**
1. Performing assets guaranteed by:			**249,574,631**	**217,913,147**	**1,297,824,365**	**1,145,789,252**			**222,174,291**	**222,174,291**	**870,916,041**	**870,916,041**
- Assets under finance lease												
- Assigned loans and receivables			177,249,514	177,249,514	884,103,943	883,915,614			222,174,291	222,174,291	870,916,041	870,916,041
- Mortgages												
- Pledges												
- Personal guarantees			72,325,117	40,663,633	413,720,422	261,873,638						
- Credit derivatives												
2. Impaired assets guaranteed by:			-	-	**247,450,264**	**243,444,314**			**2,125,557**	**2,125,557**	**261,969,567**	**261,969,567**
- Assets under finance lease												
- Assigned loans and receivables				-	218,644,736	218,644,737			2,125,557	2,125,557	261,969,567	261,969,567
- Mortgages												
- Pledges												
- Personal guarantees					28,805,528	24,799,577						
- Credit derivatives												
Total		**-**	**249,574,631**	**217,913,147**	**1,545,274,629**	**1,389,233,566**	**-**	**-**	**224,299,848**	**224,299,848**	**1,132,885,608**	**1,132,885,608**

CA = carrying amount of assets

FV = fair value of the guarantees

The guarantees of assigned loans and receivables relates to the outstanding of with recourse factoring.

Equity investments - Item 90

This Item includes the company's interest in the group companies UBI Sistemi e Servizi S.c.p.A. and UBI Academy S.c.r.l., the latter having been acquired in 2012.

9.1 Equity investments: information on investments

Name	Reg. office	Head office	Investment %	Available votes %	Carrying amount	Fair value
A. Subsidiaries						
B. Jointly controlled						
C. Associates						
1. UBI SISTEMI E SERVIZI SCPA	Brescia	Brescia, Bergamo, Cosenza, Milan, Cuneo, Varese, Ancona, Bari	0.72%	0.72%	391,336	391,336
2. UBI ACADEMY	Bergamo	Bergamo	1.50%	1.50%	1,500	1,500

Although the company's investments in UBI Sistemi e Servizi S.c.p.A. and UBI Academy are less than 20%, they are not classified as available-for-sale financial assets, but rather under equity investments because of the UBI Banca Group's investment therein, notwithstanding the fact that exclusive control can only be attributed to the parent, UBI Banca S.p.a.. Accordingly, UBI Factor S.p.A. classifies them as associates.
There is no qualitative and/or quantitative evidence of impairment losses.

9.2 Equity investments: changes in the year

	Group equity investments	**Non-group equity investments**	**Total**
A. Opening balance	**392,836**	**-**	**392,836**
B. Increases	**-**	**-**	**-**
B.1 Purchases			-
B.2 Reversals of impairment losses			-
B.3 Revaluations			-
B.4 Other increases			-
C. Decreases	**-**	**-**	**-**
C.1 Sales			-
C.2 Impairment losses			-
C.3 Other decreases			-
D. Closing balance	**392,836**	**-**	**392,836**

Section 10 – Property, plant and equipment - Item 100

10.1 Property, plant and equipment used in operations: assets measured at cost

Assets/Amount	Total 31.12.2016	Total 31.12.2015
1. Owned assets	**70,740**	**132,192**
a) land		
b) buildings		
c) furniture	63,106	67,799
d) electronic equipment	-	4,831
e) other	7,634	59,562
2. Assets under finance lease	-	-
a) land		
b) buildings		
c) furniture		
d) electronic equipment		
e) other		
Total	**70,740**	**132,192**

This Item consists of owned property, plant and equipment used in operations. It is depreciated in accordance with IAS 16 on the basis of each asset's useful life.

10.5 Property, plant and equipment used in operations: changes in the year

	Furniture	Electronic equipment	Other	Total
A. Opening balance				**-**
D.1 Total net impairment losses				-
A.2 Opening net balance	**67,799**	**4,831**	**59,562**	**132,192**
B. Increases	**12,000**	**-**	**-**	**12,000**
B.1 Purchases				-
B.2 Capitalised leasehold improvements				
B.3 Reversals of impairment losses				
B.4 Fair value gains recognised in:	-	-	-	-
a) equity				
b) profit or loss				
B.5 Exchange rate gains				
B.6 Transfers from investment property				
B.7 Other increases	12,000			12,000
C. Decreases	**(16,693)**	**(4,831)**	**(51,928)**	**(73,452)**
C.1 Sales				-
C.2 Depreciation	(16,693)	(4,831)	(7,413)	(28,937)
C.3 Impairment losses recognised in:	-	-	-	-
a) equity				
b) profit or loss				
C.4 Fair value losses recognised in:	-	-	-	-
a) equity				
b) profit or loss				
C.5 Exchange rate losses				
C.6 Transfers to:				
a) investment property				
b) assets held for sale				
C.7 Other decreases			(44,515)	(44,515)
D. Closing net balance	**63,106**	**-**	**7,634**	**70,740**
D.1 Total net impairment losses				
D.2 Closing gross balance	**63,106**	**-**	**7,634**	**70,740**
E. Measurement at cost	**63.106**	**-**	**7,634**	**70,740**
D.1 Total net impairment losses				-
D.2 Closing gross balance	**63,106**	**-**	**7,634**	**70,740**
E. Measurement at cost				-

Section 11 - Intangible assets - Item 110

11.1 Analysis of Item 110 “Intangible assets”

Items/Measurement	31.12.2016		31.12.2015	
	Assets measured at cost	Assets measured at fair value	**Assets measured at cost**	Assets measured at fair value
1. Goodwill	-	-	-	-
2. Other intangible assets:				
2.1 owned	1,899	-	11,041	-
- internally generated	-	-	-	-
- other	1,899	-	11,041	-
2.2 under finance lease	-	-	-	-
Total 2	1,899	-	11,041	-
3. Assets under finance lease:				
3.1 assets with unexercised purchase option	-	-	-	-
3.2 assets withdrawn following termination	-	-	-	-
3.3 other assets	-	-	-	-
Total 3	-	-	-	-
4. Assets under operating lease	-	-	-	-
Total (1+2+3+4)	**1,899**	**-**	**11,041**	**-**
Total (assets at cost + assets at fair value)		**1,899**		**11,041**

This Item includes software licences. It is amortised in accordance with IAS 38 on the basis of each asset’s useful life. The useful life of software licences is five years.

11.2 Intangible assets: changes in the year

	Total
A. Opening balance	**11,041**
B. Increases	**-**
B.1 Purchases	
B.2 Reversals of impairment losses	
B.3 Fair value gains recognised in:	-
- equity	
- profit or loss	
B.4 Other increases	
C. Decreases	**(9,141)**
C.1 Sales	
C.2 Amortisation	(9,141)
C.3 Impairment losses recognised in	-
- equity	
- profit or loss	
C.4 Fair value losses recognised in:	-
- equity	
- profit or loss	
C.5 Other decreases	
D. Closing balance	**1,899**
D.1 Total net adjustments	
D.2 Closing gross balance	**1,899**
E. Measurement at cost	

Section 12 - Tax assets and liabilities

12.1 Analysis of Item 120 “Tax assets: current and deferred”

	31.12.2016	31.12.2015
A) Current tax assets	1,280,487	1,691,603
B) Deferred tax assets	13,891,088	11,398,778
Deferred tax assets through profit or loss	**13,891,088**	**11,398,778**
- Impairment losses on loans and receivables	10,837,641	10,837,641
- Accruals to provisions for risks and charges	2,844,451	337,471
- Intangible assets	-	-
- Personnel expense	23,054	79,339
- Other sundry	185,942	144,327
Deferred tax assets through equity	**-**	**-**
- Personnel expense	-	-
Total deferred tax assets	**13,891,088**	**11,398,778**
- Temporary differences not included in the calculation of deferred tax assets	-	-
Total recognisable deferred tax assets	**13,891,088**	**11,398,778**

12.2 Analysis of Item 70 “Tax liabilities: current and deferred”

	31.12.2016	31.12.2015
A) Current tax liabilities	435,684	565,404
b) Deferred tax liabilities	-	-
Deferred tax liabilities through profit or loss	**-**	**-**
- Accruals to the allowance for impairment	-	-
- Other	-	-
Deferred tax liabilities through equity	**-**	**-**
- Other sundry	-	-
Total deferred tax liabilities	**-**	**-**
- Temporary differences not included in the calculation of deferred taxes	-	-
Total recognisable deferred tax liabilities	**-**	**-**

12.3 Changes in deferred tax assets (recognised in profit or loss)

	31.12.2016	31.12.2015
1. Opening balance	**11,398,778**	**11,037,350**
2. Increases	**3,212,058**	**806,528**
2.1 Deferred tax assets recognised in the year	2,670,176	748,922
a) relative to prior years	-	-
b) due to change in accounting policies	-	-
c) reversals of impairment losses	-	-
d) other	2,670,176	748,922
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	541,882	57,606
3. Decreases	**(719,748)**	**(445,100)**
3.1 Deferred tax assets cancelled in the year	(719,748)	(445,100)
a) reversals	(719,748)	(445,100)
b) impairment due to non-recoverability	-	-
c) due to change in accounting policies	-	-
d) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	-	-
a) conversion into tax assets pursuant to Law no. 214/2011		
b) other		
4. Closing balance	**13,891,088**	**11,398,778**

Deferred tax assets are recognised when it is probable the company will have sufficient future taxable profits, considering also the domestic tax consolidation scheme adopted pursuant to article 117 and following articles of Presidential decree no. 917/86.

The tax rates used to calculate the deferred tax assets are 27.50% and 5.57% for IRES and IRAP, respectively.

The opening balances show the deferred tax assets generated up until 2015 and recognised in profit or loss.

The deferred tax assets of €2.7 million recognised in the year mainly relate to adjustments to accruals for non-deductible provisions for risks and charges.

Other increases, €542 thousand, reflect the deferred tax assets recognised in relation to tax losses linked to the reversal of the qualified advances referred to in point 3.1.

In addition to the above €542 thousand, the deferred tax assets cancelled during the year, €720 thousand, included €145 thousand following the use of provisions taxed in prior years and €23 thousand on the reversal of impairment adjustments to loans and receivables, as well as other minor changes.

12.3.1 Changes in deferred tax assets as per Law no. 214/2011 (recognised in profit or loss)

	31.12.2016	31.12.2015
1. Opening balance	**10,837,641**	**10,219,986**
2. Increases		**617,655**
3. Decreases	**-**	**-**
3.1 Reversals	-	-
3.2 Conversion into tax assets	-	-
a) deriving from loss for the year	-	-
b) deriving from tax losses	-	-
3.3 Other decreases	-	-
4. Closing balance	**10,837,641**	**10,837,641**

12.4 Changes in deferred tax liabilities (recognised in profit or loss)

There were no changes in the year.

12.5 Changes in deferred tax assets (recognised in equity)

	31.12.2016	31.12.2015
1. Opening balance	**-**	**273,916**
2. Increases	**-**	**-**
2.1 Deferred tax assets recognised in the year	-	-
a) relative to prior 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	**-**	**(273,916)**
3.1 Deferred tax assets cancelled in the year	-	(273,916)
a) reversals	-	-
b) impairment due to non-recoverability	-	-
c) due to change in accounting policies	-	-
d) other		(273,916)
3.2 Reduction in tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	**-**	**-**

12.6 Changes in deferred tax liabilities (recognised in equity)

There were no changes in the year.

Section 14 - Other assets - Item 140

14.1 Analysis of Item 140 “Other assets”

	31.12.2016	**31.12.2015**
Tax consolidation assets with the parent	2,211,765	3,366,608
Receivables from social security institutions	-	-
Portfolio of bills under reserve	378,521	3,736,705
Other items	1,633,678	1,178,739
Prepayments and accrued income (not allocated)	39,427	54,004
Total	**4,263,391**	**8,336,056**

Tax consolidation assets from the parent consist of the IRES advances paid in 2016.

The bills under reserve portfolio balances relate to amounts credited to the company in the first few days of January 2017.

The other items principally relate to suspense items closed out in early January 2017, €0.4 million, amounts due from the parent company for seconded personnel, advances paid to the tax authorities for virtual stamp duty and credit notes receivable from suppliers.

LIABILITIES

Section 1 - Financial liabilities - Item 10

1.1 Financial liabilities

Items	Total 31.12.2016			Total 31.12.2015		
	banks	financial institutions	customers	banks	financial institutions	customers
1. Financing	2,385,053,127	-	-	2,121,496,286	-	-
1.1 Repurchase agreements	-	-	-	-	-	-
1.2 Other financing	2,385,053,127	-	-	2,121,496,286	-	-
2. Other financial liabilities	768,359	-	5,527,755	-	-	6,530,428
Total	**2,385,821,486**	**-**	**5,527,755**	**2,121,496,286**	**-**	**6,530,428**
Fair value - level 3	**2,385,821,486**	**-**	**5,527,755**	**2,121,496,286**	**-**	**6,530,428**

The Item mainly consists of financing from the parent to provide the company with the funds necessary to pay advances to assignors.

Other financial liabilities with banks include current account overdrafts while other due to customers comprises the fees not yet paid to assignors for receivables factored without recourse.

Total financial liabilities relating to the Polish branch amount to €103.9 million.

Section 7 - Tax liabilities - Item 70

Reference should be made to the Assets section on Tax assets and liabilities for an analysis of this Item.

Section 9 - Other liabilities - Item 90

9.1 Analysis of Item 90 "Other liabilities"

	Total 31.12.2016	Total 31.12.2015
Tax consolidation liabilities from the parent	-	919,865
Trade payables	1,993,348	1,793,959
Invoices to be received	7,501,361	5,071,941
Due to employees	1,866,669	337,922
Social security charges payable	375,702	369,183
Collections pending allocation	5,167,461	5,443,903
Guarantees issued to UBI Leasing	294,124	294,124
Other financial liabilities	772,477	4,563,704
Accrued expenses (unallocated)	22,612	-
Total	**17,993,753**	**18,794,601**

Invoices to be received mainly relate to amounts due to group banks for commissions on guarantees received from the parent and services.

Collections pending allocation relate to payments received in relation to factored receivables, which, at the reporting date, the company has not been able to allocate to the relevant assignor position. This allocation was completed in January 2017.

Section 10 - Post-employment benefits - Item 100

10.1 Post-employment benefits: changes in the year

	Total 31.12.2016	Total 31.12.2015
A. Opening balance	**2,300,709**	**2,562,519**
B. Increases	**153,769**	**3,378**
B.1 Accrual	3,081	3,378
B.2 Other increases	150,688	-
C. Decreases	**(52,668)**	**(265,188)**
C.1 Pay-outs	(52,668)	(147,796)
C.2 Other decreases		(117,393)
D. Closing balance	**2,401,810**	**2,300,709**

10.2 Other information

Post-employment benefits vested before the pension plan reform introduced by Legislative decree no. 252/2005 are classified as defined benefit plans b, when they leave the company, the employees receive an amount calculated considering their seniority, remuneration and the inflation rate when they leave the company.

The actuarial valuation of this Item performed by an actuary is based on the following financial and demographic assumptions:

- mortality rate;
- turnover (resignations or dismissals);
- requests for advances;
- real purchasing power of money trends;
- investment rates of available amounts.

The estimates are based on quantitative and qualitative and regulatory/judicial events, facts and circumstances that cannot be foreseen and/or cannot be derived from publicly available information.

The liability accrued after the reform became effective, as described in section A.2 of these notes, is classified as a defined contribution plan and the following assumptions were used to value it:

Mortality rate	The 2014 SIM (Italian male statistics) and SIF (Italian female statistics) tables were used.
Turnover rate	Obtained by appropriately averaging the Group's historical data, updated to include the 2014 data.
Advances on post-employment benefits	The probability of advance payments, calculated on the basis of the company's instructions, is 2.00% while the average amount requested, calculated using the regulations introduced by the 2007 Finance Act, is estimated to be 100%.
Inflation rate	Based on long-term inflation forecasts, an annual rate of 1.5% was used.
Discount rate	The EUR composite AA rate curve at 31/12/2016 was used for the actuarial valuation at the reporting date.

Section 11 - Provisions for risks and charges - Item 110

11.1 Analysis of Item 110 "Provisions for risks and charges"

	Total 31.12.2016	Total 31.12.2015
1. Company pension funds	-	-
2. Other provisions for risks and charges	10,437,292	1,525,670
2.1 litigation	144,026	1,215,445
2.2 personnel expense	83,834	288,505
2.3 other	10,199,432	11,720
2.4 tax litigation	10,000	10,000
Total	**10,437,292**	**1,525,670**

Provisions for litigation relate to legal costs, claw-back claims and lawsuits by third parties and probable disputes with customers; with respect to 31 December 2015 there was a reclassification of €1.1 million to Item "Other".

Provisions for personnel expense include accruals made in 2016 for the bonus and incentive system.

In addition to the above reclassification, the "Other" Item includes new provisions of €5.0 million following a settlement reached with a counterparty and €4.3 million in relation to a bankruptcy claim.

11.2 Changes in the year in Item 110 "Provisions for risks and charges"

Items / Components	31.12.2016		31.12.2015	
	Pension funds	Other provisions	Pension funds	Other provisions
A. Opening balance	-	**1,525,670**	-	**2,519,744**
B. Increases (+)	-	**10,525,281**	-	**318,459**
B.1 Accrual	-	9,453,926	-	317,800
B.2 Changes due to passage of time	-		-	659
B.3 Changes due to adjustments to the discount rate	-	-	-	-
B.4 Other increases	-	1,071,355	-	
C. Decreases (-)	-	**(1,613,660)**	-	**(1,312,533)**
C.1 Utilisations	-	(257,844)	-	(859,131)
C.2 Changes due to adjustments to the discount rate	-		-	
C.3 Other decreases	-	(1,355,816)	-	(453,402)
D. Closing balance	-	**10,437,291**	-	**1,525,670**

11.3 Additional information: "contingent liabilities"

The company has a contingent liability of about €6 million related to the risk on receivables recovered following the payment order declared enforceable on the provisional basis in 2001 and subsequently appealed by the Rome H local health care unit. The Velletri Court confirmed the order in 2005.

With a 2011 order, the Rome Court of Appeals issued a partial sentence reversing the first degree decision and calling for the continuance, in another appeal, of the redefinition of the receivable by a court-appointed expert in the wake of the application of the regional tariffs rather than the ministerial tariffs - which are higher - which the assignor applied when the invoices factored to UBI Factor were issued.

UBI Factor and the assignor (originally Hospital Appia S.r.l., which then merged into San Raffaele S.p.A., which is part of the Tosinvest/Angelucci Group) took the following action against the partial sentence:

a) appealing with the Court of Appeals for the redefinition of the receivable by the court-appointed expert in order to recognise both the original amount of receivables collected (€60 million) and the additional receivable accrued (€10 million); in its partial sentence of 28 January 2015, the Rome Court of Appeals, while allowing Rome H local healthcare unit's claim for payment against San Raffaele S.p.A. and UBI Factor, established the criterion to calculate the greater compensation to be due to San Raffaele S.p.A. (hence to the factor, UBI Factor), being the difference between the net average annual rate of return of government bonds of not more than twelve months and the legal interest rate, starting from the date the injunction order was notified to the date the receivable was factored. Accordingly, the Court of Appeals re-included the case in the general register in order to obtain an appraisal from the court-appointed expert, who determined the additional amount collected by UBI Factor to be €46.8 million.
   The issues raised have already been de facto absorbed in the Court of Cassation's ruling as described in point b). However, UBI Factor took specific legal action before the Court of Cassation against the above ruling of 28 January 2015, referring to the Court of Cassation's already pending case;

b) continuance of the case in the Court of Cassation, identifying 13 reasons for contestation;
c) appeal to the Court of Appeals for revision of the erroneous first degree sentence. With its sentence of 10 January 2014, the Rome Court of Appeals rejected its application for revision. The appeal with the Court of Cassation against the revocation judgement was filed. However, UBI Factor's claims have already been submitted and absorbed in the Court of Cassation's ruling as described in point sub b).

The Court of Cassation allowed UBI Factor's appeal against the Court of Appeal's ruling, which had rejected its application for revision, in its ruling of 25 November 2015. The proceedings will be returned to the Court of Appeals, which shall comply with the ruling in the company's favour (application of the national tariff rather than the regional one) handed down by the Court of Cassation.

In a ruling handed down on 30 January 2017, the Rome Court of Appeal conformed the remuneration due to the assignor in application of the national tariff, consistent with the principle established by the Court of Cassation.

As a result of this ruling, UBI Factor is no longer faced with the risk of having to return the amount of €46.8 million. The residual risk, estimated to be about €6 million by the lawyers of UBI Factor, relates to the interest received at the ministerial rate, should the final ruling of the Court of Appeal require application of the legal rate.

Section 12 - Equity - Items 120, 150, 160 and 170

12.1 Analysis of Item 120 “Share capital”

Types	31.12.2016	31.12.2015
1. Share capital		
1.1 Ordinary shares	36,115,820	36,115,820
1.2 Other shares	-	-
Total	**36,115,820**	**36,115,820**

The fully subscribed and paid-up share capital includes 69,453,500 shares with a nominal amount of €0.52 each.

12.4 Analysis of Item 150 “Share premium”

This Item of €2.1 million was set up in 1993 following the share capital increase.

Analysis of Item 160 “Reserves”

	Legal reserve	Retained earnings	Other	TOTAL
A. Opening balance	**7,223,165**	**1,853**	**92,480,508**	**99,705,526**
B. Increases	**-**	**-**	**25,400**	**25,400**
B.1 Allocation of profit				-
B.2 Changes due to passage of time				-
B.3 Changes due to adjustments to the discount rate				-
B.2 Other increases			25,400	25,400
C. Decreases	**-**	**-**	**-**	**-**
C.1 Utilisations				-
- to cover losses				
- dividends				
- transfer to share capital				
C.2 Other decreases				-
D. Closing balance	**7,223,165**	**1,853**	**92,505,909**	**99,730,926**

An analysis of the other reserves is provided below:

Detail of Other reserves:	
Extraordinary reserve	84,245,010
Negative goodwill	6,574,056
General financial risks	2,483,966
FTA reserves	(843,000)
G/O stock reserve	45,876
Total	**92,505,909**

The FTA reserves substantially consist of the effects of discounting impaired assets (IAS 39) and the actuarial valuation of post-employment benefits (IAS 19).

Analysis of Item 170 "Valuation reserves" and changes in the year

Items / Components	Available-for-sale financial assets	Property, plant and equipment	Intangible assets	Cash flow hedges	Special revaluation laws	Actuarial gains (+)/losses (-) on post-employment benefits	Total
A. Opening balance						**(425,294)**	**(425,294)**
B. Increases	-	-	-	-	-	-	-
B.1 Fair value gains							-
B.2 Other increases							-
C. Decreases	-	-	-		-	**(109,249)**	**(109,249)**
C.1 Fair value losses						(109,249)	**(109,249)**
C.2 Other decreases							-
D. Closing balance	-	-	-	-	-	**(534,543)**	**(534,543)**

Origin and possible use of the equity items (article 2424 of the Italian Civil Code)

	Amount	Possibility of use	Available portion	Summary of uses in the previous three years	
				To cover losses	For other reasons
Share capital	36,115,820				
Share premium	2,065,828				
Income-related reserves:					
- legal reserve	7,223,165	B			
- extraordinary reserve	84,245,010	A,B,C	84,245,010		
Other reserves	8,260,898	A,B,C	8,260,898		
Valuation reserve	(534,543)				
Retained earnings/(losses) carried forward	(8,654,379)				
Total	**128,721,798**		**92,505,909**		

Key:
A: to increase share capital
B: to cover losses
C: dividends

PART C - NOTES TO THE INCOME STATEMENT

Section 1 - Interest - Items 10 and 20

1.1 Analysis of Item 10 "Interest and similar income"

Item / Types	Debt instruments	Financing	Other transactions	Total 31.12.2016	Total 31.12.2015
1. Financial assets held for trading				**-**	**-**
2. Financial assets at fair value through profit or loss				**-**	**-**
3. Available-for-sale financial assets				**-**	**-**
4. Held-to-maturity investments	-			**-**	**281,575**
5. Loans and receivables				**-**	**-**
5.1 Loans and receivables with banks		3,181,105		**3,181,105**	**479,431**
5.2 Loans and receivables with financial institutions				**-**	**-**
5.3 Loans and receivables with customers		22,163,908		**22,163,908**	**28,724,344**
6. Other assets				**-**	**-**
7. Hedging derivatives				**-**	**-**
Total	**-**	**25,345,013**	**-**	**25,345,013**	**29,485,351**

This Item decreased by €4.1 million (-14.0%) on 31 December 2015 due to the contraction in market rates applied to advances to customers, with a weighted average rate of 1.14% in 2016 and 1.54% in 2015.

Interest on advances to with customers relates to factoring activities and is collected on advances to originators and with debtors as a result of payment deferrals, in addition to contract loans. Furthermore, this Item includes interest income on loans for specific purposes.

The interest on loans and receivables with banks has increased by €2.7 million following the recognition of interest income on loans obtained, given the negative rates charged on the Euro.

1.3 Analysis of Item 20 “Interest and similar expense”

Item/ Types	Financing	Securities	Other	Total 31.12.2016	Total 31.12.2015
1. Due to banks	(3,227,689)			**(3,227,689)**	**(3,307,481)**
2. Due to financial institutions				**-**	**-**
3. Due to customers				**-**	**-**
4. Securities issued				**-**	**-**
5. Financial liabilities held for trading				**-**	**-**
6. Financial liabilities at *Fair value* through profit or loss				**-**	**-**
7. Other liabilities					**-**
8. Hedging derivatives				**-**	**-**
Total	**(3,227,689)**	**-**		**(3,227,689)**	**(3,307,481)**

This Item has decreased by €0.1 million since 31 December 2015 (-2.4%) and mainly reflects the interest expense on US dollar and Polish zloty loans, being currencies without negative interest rates, otherwise recorded as bank interest income.

The amounts shown do not include expenses for subordinated liabilities.

Section 2 - Fees and commissions - Items 30 and 40

2.1 Analysis of Item 30 “Fee and commission income”

Breakdown	Total 31.12.2016	Total 31.12.2015
1. finance leases		
2. factoring	12,851,811	14,218,114
3. consumer credit		
4. guarantees given		
5. services:		
- third party mandated fund management		
- forex brokerage		
- product distribution		
- other	-	-
6. collection and payment services		
7. securitisation servicing		
8. other fees and commissions		
	12,851,811	**14,218,114**

This Item mainly consists of flat commissions for with and without recourse factoring, analysed below:

Factoring fee and commission income	Total 31.12.2016	Total 31.12.2015
1. with recourse fees and commissions	8,306,187	9,894,730
2. without recourse fees and commissions	3,672,647	3,262,184
3. mandate fees and commissions	-	1,556
4. expense recoveries with mark-ups	499,518	424,630
5. other	373,459	635,014
Total	**12,851,811**	**14,218,114**

Commission income has decreased by 9.6%, reflecting the reduction in the average pricing applied to customers due to the more competitive conditions in the banking and factoring market with respect to 2015; The downturn was countered by the 6.7% rise in turnover (€ 9.0 billion at 31 December 2016 compared to € 8.4 billion at 31 December 2015).

The balance mostly consists of fees and commissions for with recourse factoring, which decreased by 16.1%.

Expense recoveries with mark-ups mainly relate to: preliminary investigation fees, handling expenses, chamber of commerce inquiry and information expenses, debtor assessment fees, account statement postage, account expenses, account closing expenses and home-factoring fees.

Other fees and commissions mainly relate to credit management commissions and commissions invoiced to debtors.

2.2 Analysis of Item 40 "Fee and commission expense"

Breakdown / Sectors	**Total 31.12.2016**	**Total 31.12.2015**
1. guarantees received	(3,144,913)	(897,242)
2. third party distribution of services		
3. collection and payment services	(240,896)	(96,699)
4. other fees and commissions:		
4.1 reversal of fees and commissions to third parties	(8,980,354)	(8,873,531)
4.2 credit insurance premiums		
4.3 bank charges	(108,768)	(123,159)
4.4 commissions for transfer of loans and receivables	(362,999)	
Total	**(12,837,929)**	**(9,990,631)**

Fee and commission expense of € 12.8 million increased by 28.5% on the previous year and mainly refers to the network banks for business referrals (€8.1 million), the parent for its guarantee on regulatory capital (€3.1 million) and, to a lesser extent, large debtors that have an agreement with the company and third parties for the referral of business (€0.9 billion).

Reversals of fees and commissions to third parties include:

Reversal of fees and commissions to third parties	**Total 31.12.2016**	**Total 31.12.2015**
1. reversal of fees and commissions to banks	(8,088,944)	(7,775,877)
2. reversal of fees and commissions to debtors	(631,957)	(844,549)
3. reversal of fees and commissions to brokers	(5,128)	(75,632)
4. reversal of fees and commissions to foreign correspondents	(254,326)	(177,473)
	(8,980,354)	**(8,873,531)**

Section 8 - Net impairment losses – Item 100

8.1 Net impairment losses on loans and receivables

Items /Adjustments	Impairment losses		Reversals of impairment losses		Total 31.12.2016	Total 31.12.2015
	Individual collective		Individual	Collective		
1. Loans and receivables with banks	-	9,240	-	-	9,240	12,928
- leases					-	-
- factoring		9,240		-	9,240	12,928
- other					-	-
2. Loans and receivables with financial institutions	(85,942)	-	-	-	(85,942)	82,724
Impaired loans and receivables acquired	-	-	-	-	-	-
- leases					-	-
- factoring					-	-
- other					-	-
Other loans and receivables	(85,942)	-	-	-	(85,942)	82,724
- leases					-	-
- factoring	(85,942)				(85,942)	(21,687)
- other					-	104,411
3. Loans and receivables with customers	(13,052,756)	(553,566)	9,299,537	-	(4,306,785)	(7,568,628)
Impaired loans and receivables acquired	-	-	-	-	-	-
- leases					-	-
- factoring					-	-
- consumer credit					-	-
- other					-	-
Other loans and receivables	(13,052,756)	(553,566)	9,299,537	-	(4,306,785)	(7,568,628)
- leases					-	-
- factoring	(13,046,452)	(553,566)	9,299,537		(4,300,482)	(7,538,749)
- consumer credit					-	-
- pawn loans					-	-
- other	(6,304)				(6,304)	(29,879)
Total	**(13,138,697)**	**(544,327)**	**9,299,537**	**-**	**(4,383,487)**	**(7,472,976)**

In detail, these changes relate to the following:

Types	Total 31.12.2016	Total 31.12.2015
1) Individual impairment losses:	**(13,138,697)**	**(13,152,462)**
Impairment losses on loans and receivables	(1,312,454)	(11,820,592)
Discounting expense on impaired assets	(11,826,244)	(1,331,870)
2) Individual reversals of impairment losses:	**9,299,537**	**2,992,486**
Reversals of impairment on loans and receivables	8,773,043	2,564,173
Discounting income on impaired assets	526,494	428,313
3) Collective impairment losses:	**(544,327)**	-
Collective impairment losses on loans and receivables	(544,327)	
4) Reversals of collective impairment losses:	**-**	**2,687,000**
Reversals of collective impairment losses on loans and receivables		2,687,000
Total	**(4,383,487)**	**(7,472,976)**

The component relating to the discounting of impaired loans and receivables (€11.3 million as of 31 December 2016) principally reflects the expected extension of the collection period for amounts due from the

Public Administration, having regard for their likely recoverability. The profit or loss impact on these positions is € 14.0 million at 31 December 2016.

8.4 Analysis of Item 100 b) Net impairment losses on other financial transactions"

Transactions/comprehensive income (expense)	Impairment losses		Reversals of impairment losses		Total 31.12.2016	Total 31.12.2015
	individual	collective	individual	collective		
1. Guarantees given						
2. Derivati su crediti						
3. Impegni ad erogare fondi		(17,093)			(17,093)	(130,123)
4. Other transactions						
Total	**-**	**(17,093)**	**-**	**-**	**(17,093)**	**(130,123)**

Section 9 - Administrative expenses - Item 110

9.1 Analysis of Item 110 a) "Personnel expense"

Items/sectors	Total 31.12.2016	Total 31.12.2015
1. Employees	**(10,404,868)**	**(9,431,735)**
a) wages and salaries	(6,490,006)	(6,403,452)
b) social security contributions	(1,797,451)	(1,795,576)
c) termination benefits	(369,223)	(368,645)
d) pension and similar costs	-	-
e) accrual for post-employment benefits	(3,062)	(3,388)
f) accrual for pension and similar costs:	-	-
- defined contribution plans		
- defined benefit plans	-	-
g) payments to external complementary pension funds:	(274,054)	(260,278)
- defined contribution plans	(274,054)	(260,278)
- defined benefit plans		
h) other expenses	(1,471,073)	(600,395)
2. Other personnel	-	-
3. Directors and statutory auditors	(239,105)	(209,092)
4. Retired personnel	-	-
5. Expense recoveries for personnel seconded to other companies	1,269,500	1,009,728
6. Refunds for employees seconded to the company	(2,827,085)	(1,916,219)
Total	**(12,201,558)**	**(10,547,319)**

Personnel expense amounts to €12.2 million, up 15.7% on €10.5 million of 2015, mainly due to the higher average number of persons (142 in 2016 versus 134 of 2015) and incentives to leave of €1.3 million.

9.2 Average number of employees by category

Average number of employees by category:

Managers	7
Junior managers	54
Remaining employees	63
Other personnel	18
Total	**142**

9.3 Analysis of Item 110 b “Other administrative expenses”

Detail of other administrative expenses	Total 31.12.2016	Total 31.12.2015
Lease expense	(1,196,295)	(1,348,340)
Professional ICT services	-	-
Other professional services	(8,803)	(109,532)
Legal and corporate advisory services	(306,037)	(388,121)
Car and furniture rental	(180,689)	(172,422)
Hardware lease	(22,542)	(293,546)
Hardware maintenance and assistance	(20,252)	(8,634)
Software maintenance and assistance	-	(4,242)
Other building management expenses	(140,104)	(16,850)
Cleaning	(61,172)	(65,770)
Building maintenance	(41,375)	(55,345)
Membership fees	(67,557)	(67,510)
Information and chamber of commerce queries	(372,699)	(379,553)
Periodicals and volumes	(1,049)	(1,596)
Postal costs	(170,600)	(214,449)
Insurance premiums	(34,808)	(40,408)
Advertising and publicity	-	-
Entertainment expenses	(1,610)	(2,040)
Electronic transmission and telephone networks	(44,483)	(65,268)
Infoprovider	(13,269)	(12,387)
Outsourcing to third parties	(62,789)	(150,981)
Outsourcing to group companies	(3,522,393)	(3,269,352)
Travel expenses	(213,433)	(164,935)
Credit recovery expenses	(2,269,809)	(2,362,647)
Printed matter, stationary and consumables	(17,547)	(17,396)
Transport and relocations	(105,874)	(92,338)
Security	(26,246)	(53,420)
Trainees	(16,240)	(760)
Other expenses	(16,225)	(62,073)
Total administrative expenses	**(8,933,901)**	**(9,419,916)**
Indirect taxes and duties	**(662,603)**	**(663,213)**
- VAT on intragroup contracts	(217,426)	(230,167)
- Stamp tax	(163,485)	(172,394)
- Other taxes	(281,692)	(260,652)
Total	**(9,596,504)**	**(10,083,130)**

Other administrative expenses, €9.6 million, decreased by 4.8% compared with €10.1 million in 2015; specifically, there were lower hardware lease amounts and lower expenses for professional services.

Section 10 – Depreciation, amortisation and net impairment losses on property, plant and equipment - Item 120

10.1 Analysis of Item 120 "Depreciation, amortisation and net impairment losses on property, plant and equipment"

Items/Adjustments and reversals of impairment losses	Depreciation	Impairment losses	Reversals of impairment losses	Carrying amount at 31.12.2016	Carrying amount at 31.12.2015
1. Assets used in operations					
1.1 owned	(28,937)	-	-	(28,937)	(50,525)
a) land	-	-	-	-	-
b) buildings	-	-	-	-	-
c) furniture	(16,693)	-	-	(16,693)	(17,363)
d) equipment	(4,831)	-	-	(4,831)	(8,551)
e) other	(7,413)	-	-	(7,413)	(24,612)
1.2 under finance lease	-	-	-	-	-
a) land	-	-	-	-	-
b) buildings	-	-	-	-	-
c) furniture	-	-	-	-	-
d) equipment	-	-	-	-	-
e) other	-	-	-	-	-
2. Investment property	-	-	-	-	-
Total	**(28,937)**	**-**	**-**	**(28,937)**	**(50,525)**

Section 11 – Depreciation, amortisation and net impairment losses on intangible assets - Item 130

11.1 Analysis of Item 130 "Depreciation, amortisation and net impairment losses on intangible assets"

Items/Adjustments and reversals of impairment losses	Amortisation	Impairment losses	Reversals of impairment losses	Carrying amount at 31.12.2016	Carrying amount at 31.12.2015
1. Goodwill	-	-	-	-	-
2. Other intangible assets	(9,141)	-	-	(9,141)	(12,041)
2.1 owned	(9,141)	-	-	(9,141)	(12,041)
2.2 under finance lease	-	-	-	-	-
3. Assets under finance lease	-	-	-	-	-
4. Assets under operating lease	-	-	-	-	-
Total	**(9,141)**	**-**	**-**	**(9,141)**	**(12,041)**

Section 13 - Net accruals to provisions for risks and charges - Item 150

13.1 Analysis of Item 150 "Net accruals to provisions for risks and charges"

Breakdown of accruals	Total 31.12.2016	Total 31.12.2015
Accruals and re-allocations to provisions for claw-back claims	(4,343,491)	23,592
Accruals and re-allocations to provisions for personnel expense		7,387
Accruals and re-allocations to provisions for defaulting bonds		-
Accruals and re-allocations for legal disputes	64	60,540
Other accruals and re-allocations to provisions for risks and charges	(4,789,701)	48,403
Total	**(9,133,128)**	**139,922**

This Item includes provisions of €4.3 million in relation to a bankruptcy claim and €5.0 million regarding a settlement reached with a counterparty that, at the same time, resulted in the recovery of loans and receivables totalling €8.3 million, net of releases of €0.2 million.

Section 14 - Other operating income and charges - Item 160

14.1 Analysis of Item 160 "Net other operating income and charges"

a) Other operating income and charges	Total 31.12.2016	Total 31.12.2015
Expense recoveries	592,900	580,576
Tax recoveries	245,194	287,032
Factoring	94,816	465,223
Prior year income and gains	117,259	382,901
Exchange rate adjustments	-	8,546
Other	14,215	5,484
Total A	**1,064,384**	**1,729,762**
b) Other operating expenses	**Total 31.12.2016**	**Total 31.12.2015**
Prior year expense and losses	(22,859)	(227,537)
Exchange rate losses	(61,446)	(144,536)
Penalties and fines	(528)	(12,516)
Other	(94,099)	(17,976)
Total B	**(178,933)**	**(402,564)**
Total A+B	**885,451**	**1,327,198**

Other operating income and charges amount to € 0.9 million, down by -33.3% compared with 31 December 2015 (€1.3 million), mainly due to the decline of 33.2% in "Other operating income".

This Item is mainly affected by lower factoring income, which principally comprises gains on the collection of loans and receivables purchased for much less than their nominal value.

Expense recoveries refer to recharges to assignors without mark-ups, i.e., legal expenses, registration taxes and bank expenses.

Section 17 - Income taxes - Item 190

17.1 Analysis of Item 190 “Income taxes”

	Total 31.12.2016	Total 31.12.2015
1. Current taxes	1,746,532	(1,177,590)
2. Changes in current taxes of prior years	-	-
3. Decrease in current taxes of the year		
3.bis Reduction in current taxes due to tax assets pursuant to Law no. 214/2011	-	-
4. Change in deferred tax assets	1,950,428	87,512
5. Change in deferred tax liabilities		-
Income taxes of the year	**3,696,960**	**(1,090,078)**

Current taxes (positive) of €1.7 million include taxes on tax loss of €1.3 million and positive adjustments of €0.4 million arising from participation in the domestic tax consolidation scheme.

The net increase of €1.9 million in deferred tax assets reflects the difference between the increases/decreases set out in tables 12.3 net of increases mentioned at paragraph 2.3.

17.2 Reconciliation of the theoretical tax charge with the effective tax charge

IRES	Tax base	IRES	%
Theoretical IRES tax charge/benefit	**(12,353,192)**	**3,397,128**	**27.50%**
Permanent increases			
- Non-deductible donations	10,622	(2,921)	-0.02%
- Non-deductible car costs	114,329	(31,440)	-0.25%
- Non-deductible losses and impairment losses	23,429	(6,443)	-0.05%
- Entertainment expenses	474	(130)	0.00%
- Other non-deductible charges	216,861	(59,637)	-0.48%
Permanent decreases			
- Other decreases	(16,124)	4,434	0.04%
- A.C.E.	(1,439,889)	395,970	3.21%
Effective IRES tax charge/benefit	**(13,443,490)**	**3,696,960**	**29.93%**

IRAP	Tax base	IRAP	%
Theoretical IRAP tax charge/benefit	**(12,353,192)**	**688,073**	**5.57%**
Permanent increases			
- Impairment losses on loans and receivables and other (Item 100 b)	61,158	(3,407)	-0.03%
- Personnel expense (Item 150 a)	12,201,558	(679,627)	-5.50%
- Administrative expenses - 10% (Item 150 b)	959,650	(53,453)	-0.43%
- Accruals to provisions for risks (Item 160)	9,133,129	(508,715)	-4.12%
- Amortisation/depreciation - 10% and not functional (Item 170)	3,808	(212)	0.00%
- Non-deductible interest expense	129,108	(7,191)	-0.06%
- Recovery of taxes on operating income	863,307	(48,086)	-0.39%
- Lombardy/Friuli regions difference 0.92%	107,413	(5,983)	-0.05%
- Other decreases	207,637	(11,565)	-0.09%
- Unrecoverable negative net production	2,044,565	(113,882)	-0.92%
Permanent decreases			
- Untaxed revenue for IRAP purposes (Item 190)	(885,451)	49,320	0.40%
- Tax wedge	(12,001,921)	668,507	5.41%
- Foreign portion	(470,769)	26,222	0.21%
Effective IRAP tax charge/benefit	**0**	**(0)**	**0.00%**

	Gross profit/loss	Effective expense	%
Total effective IRES and IRAP tax	**(12,353,192)**	**3,696,960**	**29.93%**

Section 19 - Income statement: other information

19.1 Analysis of interest and fee and commission income

Items / Counterparty	Interest income			Fee and commission income			Total 31.12.2016	Total 31.12.2015
	Banks	Financial institutions	Customers	Banks	Financial institutions	Customers		
1. Finance leases	-	-	-	-	-	-	-	-
- buildings	-	-	-	-	-	-	-	-
- chattels	-	-	-	-	-	-	-	-
- equipment	-	-	-	-	-	-	-	-
- intangible assets	-	-	-	-	-	-	-	-
2. Factoring	-	-	**22,163,908**	-	-	**12,851,811**	**35,015,719**	**42,917,647**
- current receivables	-		16,128,754	-	-	9,176,218	**25,304,972**	**32,217,970**
- future receivables	-	-	3,788	-	-	-	**3,788**	**12,605**
- receivables acquired definitively	-	-	5,924,981	-	-	3,675,593	**9,600,574**	**10,422,250**
- receivables acquired at below	-	-	-	-	-	-	-	-
the nominal amount	-	-		-	-	-	-	-
- other financing	-	-	106,384	-	-	-	**106,384**	**264,822**
3 Consumer credit	-	-	-	-	-	-	-	-
- personal loans	-	-	-	-	-	-	-	-
- special purpose loans	-	-	-	-	-	-	-	-
- salary-backed loans	-	-	-	-	-	-	-	-
4. Pawn loans	-	-	-	-	-	-	-	-
5. Guarantees and commitments	-	-	-	-	-	-	-	-
- trade	-	-	-	-	-	-	-	-
- financial	-	-	-	-	-		-	-
Total	-	-	**22,163,908**	-	-	**12,851,811**	**35,015,719**	**42,917,647**

PART D - OTHER INFORMATION

SECTION 1 - SPECIFIC INFORMATION ON OPERATIONS

B. FACTORING AND ASSIGNMENT OF LOANS AND RECEIVABLES

B.1 - Gross amount and carrying amount

B.1.1 - Factoring transactions

Item/Amount	Total 31.12.2016			Total 31.12.2015		
	Gross amount	Adjustments	Carrying amount	Gross amount	Adjustments	Carrying amount
1. Performing assets	2,102,661,093	(6,562,172)	2,096,098,921	1,844,318,798	(6,017,676)	1,838,301,123
- exposure to assignors (with recourse):	1,143,716,160	(3,575,543)	1,140,140,617	1,096,669,678	(3,579,345)	1,093,090,332
- assignments of future loans and receivables	293,439	(916)	292,523	67,858	(222)	67,636
- other	1,143,422,721	(3,574,627)	1,139,848,094	1,096,601,820	(3,579,123)	1,093,022,696
- exposure to assigned debtors (without recourse)	958,944,932	(2,986,629)	955,958,303	747,649,121	(2,438,330)	745,210,790
2. Impaired assets	308,860,409	(43,230,221)	265,630,188	355,531,160	(49,526,981)	306,004,180
2.1 Non-performing	238,457,065	(37,907,110)	200,549,956	253,777,323	(39,842,982)	213,934,342
- exposure to assignors (with recourse):	226,548,488	(31,513,333)	195,035,156	240,251,246	(31,629,106)	208,622,140
- assignments of future loans and receivables	85,181	(18,349)	66,832	275,464	(213,010)	62,454
- other	226,463,307	(31,494,983)	194,968,324	239,975,782	(31,416,096)	208,559,686
- exposure to assigned debtors (without recourse):	11,908,577	(6,393,777)	5,514,800	13,526,078	(8,213,876)	5,312,202
- acquired at below nominal amount			-	-	-	-
- other	11,908,577	(6,393,777)	5,514,800	13,526,078	(8,213,876)	5,312,202
2.2 Unlikely to pay	37,638,451	(4,519,300)	33,119,151	69,155,291	(9,222,443)	59,932,848
- exposure to assignors (with recourse):	36,776,640	(3,993,781)	32,782,859	67,311,221	(8,491,322)	58,819,899
- assignments of future loans and receivables			-	-	-	-
- other	36,776,640	(3,993,781)	32,782,859	67,311,221	(8,491,322)	58,819,899
- exposure to assigned debtors (without recourse):	861,811	(525,519)	336,293	1,844,069	(731,121)	1,112,949
- acquired at below nominal amount				-	-	
- other	861,811	(525,519)	336,293	1,844,069	(731,121)	1,112,949
2.3 Impaired past due	32,764,893	(803,812)	31,961,081	32,598,546	(461,556)	32,136,990
- exposure to assignors (with recourse):	6,123,786	(136,139)	5,987,646	1,285,274	(12,981)	1,272,293
- assignments of future loans and receivables			-	-	-	-
- other	6,123,786	(136,139)	5,987,646	1,285,274	(12,981)	1,272,293
- exposure to assigned debtors (without recourse):	26,641,108	(667,673)	25,973,435	31,313,272	(448,574)	30,864,697
- acquired at below nominal amount			-	-	-	-
- other	26,641,108	(667,673)	25,973,435	31,313,272	(448,574)	30,864,697
Total	**2,411,521,502**	**(49,792,393)**	**2,361,729,109**	**2,199,849,958**	**(55,544,656)**	**2,144,305,302**

Note that the gross amount of certain non-performing loans and receivables, €12.1 million, has been reclassified following their more precise allocation as other financing.

B.2 – Breakdown by residual maturity

B.2.1 - Factoring with recourse: advances and outstanding

Time bands	Advances		Outstanding	
	Total 31.12.2016	Total 31.12.2015	Total 31.12.2016	Total 31.12.2015
- on demand	96,387,067	206,700,566	282,900,459	278,564,704
- up to 3 months	894,980,813	672,584,578	1,191,628,931	886,305,929
- from 3 to 6 months	219,983,515	273,451,363	259,906,290	361,762,271
- from 6 months to 1 year	104,513,285	50,609,102	126,265,462	214,168,330
- over 1 year	58,081,598	147,104,795	70,355,409	-
- open term		43,186,304		169,160,728
Total	**1,373,946,278**	**1,393,636,708**	**1,931,056,550**	**1,909,961,962**

The balance includes advances to the assignor for factoring with recourse, advances for receivables factored without “legal recourse”, i.e., when the factoring has not given rise to substantial transfer (“derecognition”) to the factor of the risks and rewards of the assigned receivables, on the basis of IAS 39, and advances for future receivables.

B.2.2 - Factoring without recourse: exposures

Time bands	Exposures	
	Total 31.12.2016	Total 31.12.2015
- on demand	24,044,088	78,019,344
- up to 3 months	811,647,055	552,959,122
- from 3 to 6 months	97,273,664	102,044,228
- from 6 months to 1 year	8,529,538	15,729,126
- over 1 year	14,463,959	14,063,984
- open term	31,824,527	30,088,228
Total	**987,782,831**	**792,904,033**

This balance consists of the outstanding acquired definitively without recourse, i.e., when the factoring has given rise to the substantial transfer (“derecognition”) to the factor of the risks and rewards of the assigned receivables, on the basis of IAS 39.

B.3 - Changes in impairment losses

B.3.1 - Factoring transactions

Item	Opening impairment losses	Increases				Decreases					Closing impairment losses
		Impairment losses	Losses on assignments	Transfers from other categories	Other increases	Reversals of impairment losses	Gains on assignments	Transfers to other categories	Derecognition	Other decreases	
Individual impairment losses on impaired assets	**49,333,121**	**13,029,462**	**-**	**266,512**	**15,262**	**(9,156,292)**		**(266,512)**	**(3,446,624)**	**(6,544,707)**	**43,230,221**
Exposure to assignors	**39,963,579**	**12,069,210**	**-**	**27,980**	**14,994**	**(9,043,693)**		**(27,980)**	**(2,824,480)**	**(4,536,358)**	**35,643,253**
- Non-performing	31,418,129	8,098,855		27,980	9,300	(721,240)			(2,824,480)	(4,495,211)	31,513,333
- Unlikely to pay	8,532,469	3,847,196			5,695	(8,322,453)		(27,980)		(41,147)	3,993,781
- Impaired past due	12,981	123,158									136,139
Exposures to assigned debtors	**9,369,541**	**960,252**	**-**	**238,533**	**268**	**(112,600)**		**(238,533)**	**(622,144)**	**(2,008,349)**	**7,586,968**
- Non-performing	8,166,984	685,215		238,533	268	(98,392)			(622,144)	(1,976,686)	6,393,777
- Unlikely to pay	753,983	52,661				(14,207)		(238,533)		(28,385)	525,519
- Impaired past due	448,574	222,376								(3,278)	667,672
Collective impairment losses on other assets	**6,017,676**	**548,299**	**-**	**-**	**-**	**(3,803)**		**-**	**-**	**-**	**6,562,172**
- Exposure to assignors	3,579,346		-			(3,803)					3,575,543
- Exposure to assigned debtors	2,438,330	548,299						-			2,986,629
Total	**55,350,796**	**13,577,761**	**-**	**266,512**	**15,262**	**(9,160,095)**	**-**	**(266,512)**	**(3,446,624)**	**(6,544,707)**	**49,792,393**

Other decreases include a reclassification of € 6.4 million related to the transfer of loans and receivables to other financing.

B.4 - Other information

B.4.1 - Turnover of assigned loans and receivables

Items	Total 31.12.2016	Total 31.12.2015
1. Without recourse	3,906,915,465	2,542,193,243
- including: acquired at below nominal amount	-	-
2. With recourse	4,806,384,526	5,605,820,925
Total turnover from factoring	**8,713,299,991**	**8,148,014,168**

B.4.2 - Collection services

Item	Total 31.12.2016	Total 31.12.2015
Loans and receivables collected during the year	-	1,594,691
Loans and receivables in place at the reporting date	6,849,697	6,882,363

B.4.3 Nominal amount of factoring agreements for future loans and receivables

Item	Total 31.12.2016	Total 31.12.2015
Contracts to purchase future loans and receivables	3,971,400	15,260,225
Loans and receivables at the reporting date	26,204,624	31,436,722

D. Guarantees given and commitments

D.1 - Value of guarantees given and commitments

Transactions	31.12.2016	31.12.2015
1. First demand financial guarantees given	-	-
a) Banks	-	-
b) Financial institutions	-	-
c) Customers	-	-
2. Other financial guarantees given	224,902	284,826
a) Banks		
b) Financial institutions	224,902	284,826
c) Customers		
3. Commercial guarantees given	-	-
a) Banks	-	-
b) Financial institutions	-	-
c) Customers	-	-
4. Irrevocable commitments to provide funds	122,035,451	120,989,485
a) Banks	-	-
i) of certain use	-	-
ii) of uncertain use	-	-
b) Financial institutions	-	-
i) of certain use	-	-
ii) of uncertain use	-	-
c) Customers	122,035,451	120,989,485
i) of certain use	-	-
ii) of uncertain use	122,035,451	120,989,485
5. Commitments underlying credit derivatives: protection sales	-	-
6. Assets pledged to guarantee third party obligations	-	-
7. Other irrevocable commitments	-	-
a) to issue guarantees		
b) other		
Total	**122,260,353**	**121,274,311**

The value of firm commitments to disburse funds is calculated as the difference between the total approved amount and the total financed amount within the scope of non-IAS without recourse factoring transactions.

Guarantees given solely comprise the guarantee given to UBI Leasing in relation to the loans assigned to UBI Leasing by Veneta Factoring, which was absorbed by UBI Factor (formerly CBI Factor) in 2005.

At 31 December 2016 the amount of the guarantee was € 0.2 million to cover 7 counterparty agreements.

D.3 Guarantees given: risk range and quality

Type of risk taken	**Unimpaired guarantees given**				**Impaired guarantees given: non-performing**				**Other impaired guarantees**			
	Counter guarantees		**Other**		**Counter guarantees**		**Other**		**Counter guarantees**		**Other**	
	Gross amount	Total impairment losses	Gross amount	Total impairment losses	Gross amount	Total impairment losses	Gross amount	Total impairment losses	Gross amount	Total impairment losses	Gross amount	Total impairment losses
Guarantees given with assumption of risk for first loss (by taking the risk of first loss)			224,902									
- first demand financial guarantees												
- other financial guarantees			224,902									
- commercial guarantees												
Guarantees given with assumption of mezzanine type risk												
- first demand financial guarantees												
- other financial guarantees												
- commercial guarantees												
Guarantees given pro quota												
- first demand financial guarantees												
- other financial guarantees												
- commercial guarantees												
Total			**224,902**									

D.11 Changes in unimpaired guarantees given

Amount of changes	First demand financial guarantees given		Other financial guarantees		Commercial guarantees	
	Counter guarantees	Other	Counter guarantees	Other	Counter guarantees	Other
(A) Gross opening balance				**284,826**		
(B) Increases:						
- (b.1) guarantees given						
- (b.2) other increases						
(C) Decreases:				(59,924)		
- (c.1) unenforced guarantees						
- (c.2) transfers to impaired guarantees						
- (c.3) other decreases				(59,924)		
(D) Gross closing balance				**224,902**		

3.1 CREDIT RISK

QUALITATIVE INFORMATION

1 General information

Factoring consists of establishing a continuous relationship in which a company assigns, in accordance with Law no. 52/1991 or pursuant to the Italian Civil Code, a significant portion of its portfolio of existing or future receivables to the factor, which provides a customised service based on three specific activities: credit management, guaranteeing against debtor default and financing by providing advances on the receivables. The financing, therefore, is self-liquidating and, normally short-term, depending on the collection time of the past due trade receivables.

Through this credit management service (accounting, checking due dates, collecting receivables, sending payment reminders and credit collection activities, etc.), the factor forges a continuous relationship with the assignor and, accordingly, with the latter's debtors, acquiring in-depth knowledge of the trade receivable policy developed. Indeed, the factor enters into a business relationship that is already in place between the parties, or that will take place between them in the future, in the event of the factoring of future receivables.

Accordingly, the relationship between the factor, assignor and debtors is not merely occasional and/or temporary, but must instead develop systematically and continuously, enabling the factor to monitor the counterparties' financial positions and performance.

In this context, risk monitoring and consequent risk management (credit risk, in particular) based on factoring logic use analytical/subjective evaluations of the assignors and the assignees that are both quantitative (primarily based on previous, current and prospective financial conditions) and qualitative (level of management, competitiveness and prospects of the product, acquirer market and its economic circumstances), with the large-scale digitalisation of information and settlement of flows, within the scope of an overall activity in which the various company functions operate through synergies, constantly, reactively and flexibly.

Risk containment is then supplemented by the diversification policy, which, first and foremost, considers individual counterparties (concentration of accounts, types of credit granted, duration, type of factored credit and the possibility of its assessment-management-recovery). Risk diversification must then extend to the company's total portfolio of factored receivables, diversifying by product, region, size and financial and service content of the company's overall business, in line with the parent's guidelines.

The company's commercial development, which is a fundamental pillar of its 2016-2018 business plan, will take place by levering on the synergies with the group bank networks (including by amending the commercial and credit processes and policies) and the quality of the available resources. To this end, the bank has already revised the commercial area's organisational structure and is strengthening its sales force and the assistance provided to banks. In this regard, it is noted that, consistent with implementation of the

Group's "Single Bank" project, the commercial organisation of the company will be adopted in order to optimise the release of synergies.

Credit risk management policies

The main principles and operating methods are set forth in the "Governance and control rules" approved by the parent's relevant bodies and implemented by UBI Factor S.p.A..

In this way, on the basis of a structured series of guidelines, the company's "institutional" aspects (company officers, extraordinary equity transactions, strategic business plans, relationships with the supervisory bodies, etc.) and "functional" relationships with the parent (Planning and Control, Organisation and Human Resources, Operations and Services, entering new sectors and products) are regulated as part of a centralised control and monitoring system. Accordingly, credit risk management policies also fall under this system.

The main risk factors

As factor, the company's activities are characterised by its offer of financing, management and guarantee services, which enable it to map the following main risk factors:

	Servizio di finanziamento		Assenza servizio di finanziamento	
Pro solvendo	Servizio di gestione	No servizio di gestione	Servizio di gestione	No servizio di gestione
Pro soluto	Servizio di gestione	No servizio di gestione	Servizio di gestione	No servizio di gestione

	Rischio di credito originato da un'esposizione per cassa
	Rischio di credito originato da un'esposizione di firma
	Assenza di rischio di credito

The purpose of the lending service is to provide customers with advances on receivables that have not yet fallen due. It leads to cash exposure for the factor equal to the agreed advance, which equals the established percentage of the transferred outstanding.

Guarantees against insolvency protect assignors from default by the assigned debtor, with the exception of cases explicitly governed by the factoring agreement (e.g.: non-existent receivable, offsetting and contested supplies). Except for specific products, the factor undertakes to pay, in the absence of an advance, the amount of the transferred receivables after a certain number of days have passed from when they fell due. If the receivables are not acquired definitively or if no advance is provided, this service gives rise to guarantee exposure for the factor, equal to the revolving limit (which becomes available again as the transferred receivables are collected) within which the factor undertakes to guarantee payment of receivables to the assignor. In order to mitigate the assumed risk, the factor may negotiate specific types of restrictions to the guarantee.

Factoring transactions therefore provide for the structural and concurrent presence of three parties: the assignor, the factor and the transferred debtor(s). Accordingly, in order to measure risk, the unit of observation is the assignor/transferee relationship (except for direct lending, in which the financed debtor constitutes the observation unit) in which the intermediary may be exposed in a variety of ways: part of the transferred receivables may be with recourse and part may be without; part of the assigned receivables may be advanced and part not, etc.. The composition of the individual exposures in each assignor/transferee relationship is a crucial element for the factor, as it enables the latter to measure the actual risk level of its exposure. Indeed, the types of factoring transactions are determined on the basis of the assignor/transferee relationship. Similarly, the acquisition of any guarantees from third parties is generally based on that relationship and not the individual transfer.

2.1 Organisational information

In the light of the above, risks are monitored using an organisational structure in order to separately analyse and grant credit to counterparties (assignor, debtor/s) and manage the related financial transactions. Risks are monitored throughout all core phases of the lending process and may be summarised as follows:

- "analysis and evaluation": quantitative and qualitative information is gathered from the relevant counterparties and from the system in order to assign a credit rating to the counterparty and quantify the proposed credit line;
- "approval and formalisation": once the proposal has been approved, the contractual documentation is prepared for the assignor's signature;
- "monitoring": continuous monitoring of counterparties to which credit has been granted, both in relationships with the factor and in the system, in order to identify any irregularities and, accordingly, act in a timely manner.

With specific reference to past due loans, monitoring includes out-of-court activities involving automated and customised reminders, and, if necessary, legal action with the support of legal advisors.

2.2 Risk management, measurement and control

The internal classification rules for loans and receivables are set forth in the new "Credit Regulation", which has been approved by the board of directors and is based on the parent's guidelines. It is an integral part of the company's currently applicable service orders.

Reclassifications between the various categories are specifically defined by company regulations, which have been approved by the board of directors, with the identification of specific circumstances.

The Credit Committee Or the Area specifically responsible for the classification and proposed management of defaulting assets (impaired overdue and/or past due exposures - *past due*, unlikely to pay and non-performing), after having requested and received an opinion of consistency with Group credit guidelines in advance from the parent's Credit or Irregular Credit and Credit Recovery Departments.

Under the aforementioned “Credit Regulation”, such amounts are initially classified as follows:

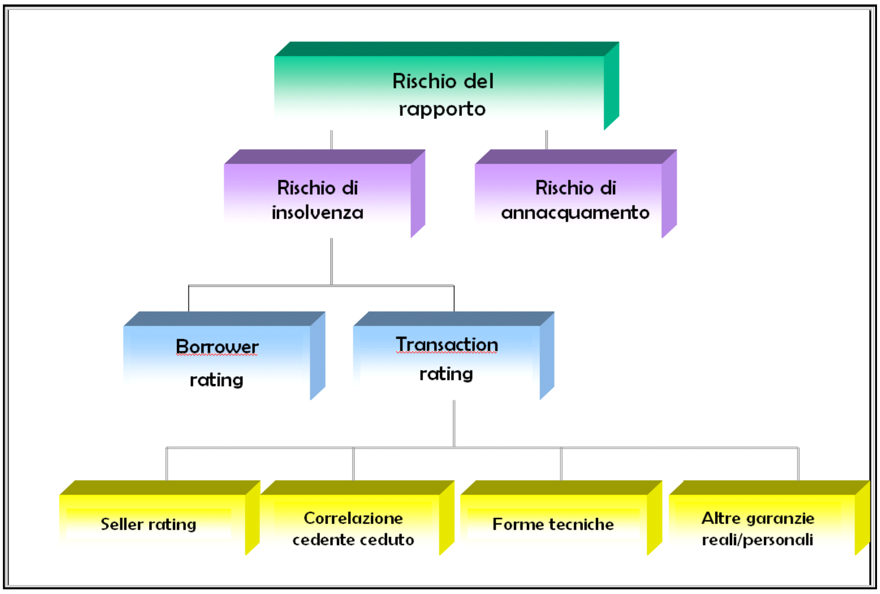
- “level 1 risk” (direct risks), which identifies the party to which the factoring company is initially exposed;
- “level 2 risk”, which identifies the credit granted to the counterparty of the main party to which the factoring company is initially exposed.

Furthermore, within this macro classification, there are sub-groups depending on the type of counterparty with which the obligation has been assumed and the type of underlying transaction.

Assets are classified as “defaulting” (impaired past due and/or overdue, unlikely to pay and non-performing) in accordance with the criteria established in the “Credit Regulation” and the parent’s directives. Classification as such is not the result of discretionary assessment, but it is based on counterparty conduct, which is deemed to anticipate a temporary or definitive difficulty in meeting obligations. Given the particular risk of these loans, they are managed by a specific organisational unit (Irregular Credit Service).

Credit risk monitoring involves the entire structure responsible for managing relationships with originators and transferred debtors. It is defined in the specific internal “Credit Monitoring Manual”.

The definition of a credit risk measurement system in the factoring segment relates closely to this specific type of activity, which, as noted above, differs in structure from that of a banking business. The related conceptual model can be summarised as follows:



The credit risk of the factoring transaction therefore arises from default risk and dilution risk14(), which must be measured separately and then reconciled.

[14] As indicated in paragraph 369 of the New Basel Accord, dilution risk refers to the “possibility that the receivable amount is reduced through cash or non-cash credits to the receivable’s obligor.[...] Examples include offsets or allowances arising from returns of goods sold, disputes regarding product quality, possible debts of the borrower to a receivables obligor, and any payment or promotional discounts offered by the borrower”.

Default risk relates to all borrower ratings and transaction ratings. The former can be defined by the probability of default (PD) regulatory parameter, related to the counterparty’s credit quality, while the latter is an overall rating of the characteristics of the transaction taken as a whole, which, in summary, can be expressed by the loss given default (LGD) regulatory parameter;

This logical scheme serves as the company’s guideline for the development of internal credit risk measurement models.

Moreover, until internal ratings-based (IRB) models are developed with the parent, the company has decided to use the standardised method provided for by the New Basel Accord (and implemented by the Supervisory instructions for financial intermediaries included in the Special List – circular no. 216 of 5 August 1996, 7th update dated 9 July 2007 and subsequent updates), in accordance with the agreement signed by the parent, UBI Banca, with the rating agency, Cerved S.p.A. (formerly Lince S.p.A.), which is an ECAI recognised by the Bank of Italy.

It follows that the borrower rating is currently the result of a joint analysis of quantitative information based on the financial statements of the previous three years (using data provided by a third party market leader approved by the parent) and qualitative information gathered informally by the sales managers.

Although the calculation of the LGD with respect to the transaction rating uses an advanced approach, the company believes that it is strategically advantageous for the factoring segment. It is waiting to agree on a calculation method with the parent for the subsequent preparation of the overall model.

QUANTITATIVE INFORMATION

1 *Credit exposure by portfolio and credit quality*

Portfolio/quality	Non-performing	Unlikely to pay	Impaired past due	Unimpaired past due	Other unimpaired exposures	Total
1. Available-for-sale financial assets						-
2. Held-to-maturity investments					-	-
3. Loans and receivables with banks	-	-	-	95,616	62,412,019	62,507,635
4. Loans and receivables with customers	208,897,139	33,177,883	32,151,432	85,120,196	2,109,581,594	2,468,928,245
5. Financial assets at fair value through profit or loss						
6. Financial assets held for sale						
Total (31.12.2016)	**208,897,139**	**33,177,883**	**32,151,432**	**85,215,812**	**2,171,993,613**	**2,531,435,880**
Total (31.12.2015)	**218,847,069**	**59,989,027**	**32,136,990**	**105,925,066**	**1,852,295,655**	**2,269,193,808**

2 *Credit exposure*

2.1 Loans and receivables with customers: gross amounts, carrying amounts and residual maturity brackets

Type of exposures/amounts	Gross amount					Individual impairment losses	Collective impairment losses	Carrying amount
	Impaired assets				Unimpaired assets			
	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	Over 1 year				
A. CASH EXPOSURE	51,227,415	1,058,845	705,368	269,277,978	1,930,317,122	(51,419,525)	(6,019,490)	2,195,147,713
a) Non-performing			145,748	251,427,011		(46,051,994)		205,520,765
- including: forborne exposures				546,917		(329,307)		217,610
b) Unlikely to pay	31,686,258	941,854	557,438	4,552,775		(4,560,441)		33,177,883
- including: forborne exposures				40,649		(24,021)		16,628
c) Impaired past due	19,541,157	116,992	2,182	13,298,192		(807,090)		32,151,432
- including: forborne exposures								-
d) Unimpaired past due					81,967,143		(256,425)	81,710,718
- including: forborne exposures								-
e) Other unimpaired exposures					1,848,349,980		(5,763,065)	1,842,586,915
- including: forborne exposures								-
Total A	**51,227,415**	**1,058,845**	**705,368**	**269,277,978**	**1,930,317,122**	**(51,419,525)**	**(6,019,490)**	**2,195,147,713**
B. OFF-STATEMENT OF FINANCIAL POSITION	3,153,120	-	-	-	119,029,547	(76,272)	(70,944)	122,035,451
a) Impaired	3,153,120					(76,272)		3,076,848
b) Unimpaired					119,029,547		(70,944)	118,958,603
Total B	**3,153,120**	**-**	**-**	**-**	**119,029,547**	**(76,272)**	**(70,944)**	**122,035,451**
Total A+B	**54,380,534**	**1,058,845**	**705,368**	**269,277,978**	**2,049,346,669**	**(51,495,797)**	**(6,090,434)**	**2,317,183,164**

2.2 Loans and receivables with banks and financial institutions: gross amounts, carrying amounts and residual maturity bracket

Type of exposures/amounts	Gross amount					Individual impairment losses	Collective impairment losses	Carrying amount
	Impaired assets				Unimpaired assets			
	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	Over 1 year				
A. ON-STATEMENT OF FINANCIAL POSITION	-	-	-	3,967,942	333,758,630	(591,568)	(846,837)	336,288,167
a) Non-performing				3,967,942		(591,568)		3,376,374
- including: forborne exposures								
b) Unlikely to pay								
- including: forborne exposures								
c) Impaired past due								
- including: forborne exposures								
d) Unimpaired past due					3,517,979		(10,718)	3,507,260
- including: forborne exposures								
e) Other unimpaired exposures					330,240,652		(836,119)	329,404,532
- including: forborne exposures			-	-	-	-	-	
Total A	**-**	**-**	**-**	**3,967,942**	**333,758,630**	**(591,568)**	**(846,837)**	**336,288,167**
B. OFF-STATEMENT OF FINANCIAL POSITION	-	-	-	-	224,902	-	-	224,902
a) Impaired	-	-	-	-	-	-	-	-
b) Unimpaired	-	-	-	-	224,902	-		224,902
Total B	**-**	**-**	**-**	**-**	**224,902**	**-**	**-**	**224,902**
Total A+B	**-**	**-**	**-**	**3,967,942**	**333,983,532**	**(591,568)**	**(846,837)**	**336,513,069**

2.3 Classification of exposures based on external and internal ratings

2.3.1 Breakdown of credit exposure on- and off-statement of financial position by external rating class

Exposures	External rating class						No rating	Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
A. On-statement of financial position	-	673,505,149	203,819,794	276,900,251	10,793,776	2,154,990	1,364,261,920	2,531,435,880
B. Derivatives								-
B.1 Financial derivatives								-
B.2 Credit derivatives								-
C. Guarantees given							224,902	224,902
D. Commitments to disburse funds						11,207,205	110,828,246	122,035,451
E. Other								-
Total	**-**	**673,505,149**	**203,819,794**	**276,900,251**	**10,793,776**	**13,362,195**	**1,475,315,069**	**2,653,696,233**

The company uses the ratings of Cerved Group S.p.A. (former Lince). Details of the ratings are as follows:

Class 1	-
Class 2	*from A1.1 to A3.1*
Class 3	*B1.1*
Class 4	*from B1.2 to B2.2*
Class 5	*C1.1*
Class 6	*from C1.2 to C2.1*

2.3.1 Breakdown of credit exposure on- and off-statement of financial position by internal rating class

None.

3 *Credit concentration*

3.1 Breakdown of credit exposures on and off-statement of financial position by the counterparty's business segment

	Banks	Financial companies	Public administration	Non-financial companies	Insurance companies	Others
Exposures / Counterparties	**Gross amount**	**Gross amount**	**Gross amount**	**Gross amount**	**Gross amount**	**Gross amount**
A. On-statement of financial position						
A.1 Non-performing		3,967,942	9,308,712	22,309,242		219,954,806
A.2 Unlikely to pay				37,674,990		63,335
A.3 Impaired past due			26,687,093	6,271,429		
A.4 Other	62,507,635	271,251,054	125,126,317	1,788,287,888		16,902,858
Total A	**62,507,635**	**275,218,996**	**161,122,122**	**1,854,543,549**	**-**	**236,920,998**
B. Off-statement of financial position						
B.1 Non-performing						1,077,323
B.2 Unlikely to pay				1,498,911		16,303
B.3 Other impaired assets				560,582		
B.4 Other		224,902		118,555,618		473,929
Total B	**-**	**224,902**	**-**	**120,615,111**	**-**	**1,567,556**
Total 2016 (A+B)	**62,507,635**	**275,443,899**	**161,122,122**	**1,975,158,660**	**-**	**238,488,554**
Total 2015 (A+B)	**31,649,053**	**253,714,587**	**83,789,105**	**1,841,312,996**	**-**	**238,257,462**

3.2 Breakdown of credit exposures on and off-statement of financial position by the counterparty's geographical segment

	31/12/2016					31/12/2015				
	Northwest Italy	Northeast Italy	Central Italy	South Italy and Islands	Abroad	Northwest Italy	Northeast Italy	Central Italy	South Italy and Islands	Abroad
Exposures / Geographical Area	**Gross amount**	**Gross amount**	**Gross amount**	**Gross amount**	**Gross amount**	**Gross amount**	**Gross amount**	**Gross amount**	**Gross amount**	**Gross amount**
A. On-statement of financial position										
A.1 Non-performing	16,141,354	1,170,602	224,359,393	12,357,230	1,512,123	14,340,553	594,823	228,621,699	15,643,170	1,725,424
A.2 Unlikely to pay	2,129,341	2,312,441	33,206,949	70,132	19,462	2,968,146	888,325	64,857,980	517,252	20,131
A.3 Past due	5,541,785	30,124	20,522,203	6,864,410	-	859,548	341,648	27,331,180	4,066,170	-
A.4 Other	870,702,581	182,202,202	600,023,700	45,562,903	565,584,367	644,921,897	218,204,542	525,307,489	49,278,939	526,829,854
Total A	**894,515,061**	**185,715,369**	**878,112,245**	**64,854,674**	**567,115,952**	**663,090,145**	**220,029,337**	**846,118,347**	**69,505,531**	**528,575,409**
B. Off-statement of financial position										
B.1 Non-performing			1,077,323							
B.2 Unlikely to pay		269,298	1,245,916							
B.3 Other impaired assets	425,413	9,437	125,731			21,409		86,705	91,526	
B.4 Other	36,211,994	23,271,045	22,976,105	3,403,678	33,391,728	29,296,826	26,486,451	17,241,490	1,971,839	46,152,926
Total B	**36,637,408**	**23,549,780**	**25,425,076**	**3,403,678**	**33,391,728**	**29,318,235**	**26,486,451**	**17,328,195**	**2,063,365**	**46,152,926**
Total (A+B)	**931,152,468**	**209,265,149**	**903,537,321**	**68,258,352**	**600,507,680**	**692,408,381**	**246,515,787**	**863,446,542**	**71,568,896**	**574,728,335**

3.3 Large exposures

Items	31/12/2016
	Total
a) Carrying amount	2,403,523,030
a) Weighted amount	1,083,177,133
a) Number of positions	52

3.2 MARKET RISK

3.2.1 INTEREST RATE RISK

QUALITATIVE INFORMATION

1. General information

Interest rate risk, i.e., the transformation of due dates or imbalance between the average due dates of assets and liabilities, is immaterial in the scope of the company's activities, as its assets consist of loans and receivables with customers with clear and well-defined due dates. Accordingly, the company's sources of funding are structured on the basis of the type of lending.

Furthermore, the company does not trade on the market and, accordingly, the average ageing of assets is closely monitored and not subject to unexpected fluctuations.

Financial management is not speculative and average spreads remain at more or less steady levels throughout the year.

There are no substantial differences between sources of funding and the application of funds, as the company uses index-linked instruments on both ends.

In the light of the above, overall, the company is not required to use advanced cash management models, as it finds it sufficient to carefully monitor the sources and application of funds, centralised at the parent company, which have short-term lives on average.

Cash management is integrated in the Factoring and General Ledger functions and bank balances are continuously updated using the remote banking services of one of the Group's banks. Accordingly, funding rates are monitored continuously and on a daily basis.

QUANTITATIVE INFORMATION

1 Residual life (repricing date) of financial assets and liabilities

Currency: Euro + all other currencies, total

Item/residual duration	On demand	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	From 5 to 10 years	Over 10 years	Open term
1. Assets	256,585,147	1,935,441,709	96,384,368	6,419,715	27,707,801	208,897,139	-	-
1.1 Debt instruments								
1.2 Loans and receivables	256,585,147	1,935,441,709	96,384,368	6,419,715	27,707,801	208,897,139	-	-
1.3 Other assets								
2. Liabilities	96,294,980	1,321,054,261	974,000,000	-	-	-	-	-
2.1 Financial liabilities	96,294,980	1,321,054,261	974,000,000					
2.1 Debt instruments								
2.3 Other liabilities								
3. Financial derivatives	-	-	-	-	-	-	-	-
Options	-	-	-	-	-	-	-	-
3.1 Long positions								
3.2 Short positions								
Other derivatives	-	-	-	-	-	-	-	-
3.3 Long positions								
3.4 Short positions								

Currency: EURO

Item/residual duration	On demand	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	From 5 to 10 years	Over 10 years	Open term
1. Assets	229,361,899	1,711,597,746	85,082,506	6,419,715	27,707,801	208,833,232	-	-
1.1 Debt instruments								
1.2 Loans and receivables	229,361,899	1,711,597,746	85,082,506	6,419,715	27,707,801	208,833,232	-	-
1.3 Other assets								
2. Liabilities	34,447,453	1,120,725,834	974,000,000	-	-	-	-	-
2.1 Financial liabilities	34,447,453	1,120,725,834	974,000,000					
2.1 Debt instruments								
2.3 Other liabilities								
3. Financial derivatives	-	-	-	-	-	-	-	-
Options	-	-	-	-	-	-	-	-
3.1 Long positions								
3.2 Short positions								
Other derivatives	-	-	-	-	-	-	-	-
3.3 Long positions								
3.4 Short positions								

Currency: Other

Item/residual duration	On demand	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	From 5 to 10 years	Over 10 years	Open term
1. Assets	27,223,248	223,843,963	11,301,862	-	-	63,907	-	-
1.1 Debt instruments								
1.2 Loans and receivables	27,223,248	223,843,963	11,301,862			63,907		
1.3 Other assets								
2. Liabilities	61,847,527	200,328,427	-	-	-	-	-	-
2.1 Financial liabilities	61,847,527	200,328,427						
2.1 Debt instruments								
2.3 Other liabilities								
3. Financial derivatives	-	-	-	-	-	-	-	-
Options	-	-	-	-	-	-	-	-
3.1 Long positions								
3.2 Short positions								
Other derivatives	-	-	-	-	-	-	-	-
3.3 Long positions								
3.4 Short positions								

2 Interest rate risk measurement and management model and other methods

In the light of the above, overall, the company does not use advanced cash management models, as it finds it sufficient to carefully monitor the sources and application of funds, which have short-term lives on average.

Cash management is integrated in the Factoring and General Ledger functions and bank balances are continuously updated using the remote banking services of one of the Group’s banks. Accordingly, funding rates are monitored continuously and on a daily basis.

3.2.2 PRICE RISK

QUALITATIVE INFORMATION

1 General information

The company is not exposed to price risk, intended as the possibility of incurring losses in the trading of securities, as it does not trade on the market. Its application of funds relates solely to self-paying or cash loans and receivables held to maturity.

The company does not use derivatives, nor does it perform securitisations.

In the light of the above, the company's reduced exposure to price risk does not require the use of any particular instruments other than those for ordinary operations.

QUANTITATIVE INFORMATION

1 Price risk measurement and management model and other methods

In the light of the above, the company's reduced exposure to price risk does not require the use of any particular instruments other than those for ordinary operations.

3.2.3 CURRENCY RISK

QUALITATIVE INFORMATION

1 General information

With respect to currency risk, operating procedures require foreign currency transactions to be hedged with the same currency and due date.

The portion of the portfolio in foreign currency is greater than in the past. This is a trend due to the company's growing operations in foreign markets. The overall impact is, however, so limited that currency risk cannot currently be considered material.

QUANTITATIVE INFORMATION

1 Assets, liabilities and derivatives by currency

Items	Currencies						
	US dollar	Polish zloty	Danish krone	British pound	Swedish krona	Swiss franc	Other
1. Financial assets	**191,913,221**	**43,424,764**	**21,612,216**	**1,095,176**	**4,387,578**	**-**	**24**
1.1 Debt instruments							
1.2 Equity instruments							
1.3 Loans and receivables	191,913,221	43,424,764	21,612,216	1,095,176	4,387,578		24
1.4 Other financial assets							
2. Other assets		**487,632**					
3. Financial liabilities	**191,275,140**	**43,919,416**	**21,517,616**	**1,099,900**	**4,363,881**	**-**	**-**
3.1 Financial liabilities	191,275,140	43,919,416	21,517,616	1,099,900	4,363,881		
3.2 Debt instruments							
3.3 Other financial liabilities							
4. Other liabilities		**77,700**					
5. Derivatives							
5.1 Long positions							
5.2 Short positions							
Total assets	**191,913,221**	**43,912,397**	**21,612,216**	**1,095,176**	**4,387,578**	**-**	**24**
Total liabilities	**191,275,140**	**43,997,116**	**21,517,616**	**1,099,900**	**4,363,881**	**-**	**-**
Difference (+/-)	**638,081**	**(84,719)**	**94,600**	**(4,724)**	**23,696**	**-**	**24**

2 Currency risk measurement and management model and other methods

With respect to currency risk, operating procedures require foreign currency transactions to be hedged with the same currency and due date.

3.3 OPERATIONAL RISKS

QUALITATIVE INFORMATION

1 General information, operational risk management processes and measurement methods

Within the scope of business risks, operational risks consist of an extremely broad range, and they are often considered residually after credit and market risks.

In the light of the indications issued in the New Basel Accord (and implemented by the "Supervisory instructions for financial intermediaries included in the Special List – circular no. 216 of 5 August 1996 and subsequent updates"), the concept of operational risk relates to the following causal categories:

- human resource: events due to error, fraud, violations of rules and internal procedures and, in general issues relating to the incompetence or negligence of personnel;
- systems: this category consists of everything relating to the technological systems in use. Accordingly, it encompasses IT system issues, programming errors and interruptions in the network and telecommunications infrastructure;
- processes: these are factors connected to the general credit process, such as violations of IT security due to insufficient controls, transaction registration and accounting errors and errors in the measurement models;
- external factors: these are generally everything that slips past controls, such as changes in the general legislative context (with adverse effects on the company's profitability), criminal or incidental acts of any kind (theft, arson, etc.). This category could also include reputational risk, i.e., potential losses due to poor conduct with counterparties in general. However, the company treats that separately, in line with the New Basel Accord.

The logical scheme described above has been shared with the parent as part of the "Operational risk management policy" of UBI Banca, with significant effects on the risk management and measurement system.

2 Operational risk management policies

Operational risk management begins with the consideration that risks related, in particular, to human resources, systems and processes, can be minimised by introducing clear and well-defined management procedures when responsibilities are assigned and with the appropriate internal control policies.

Accordingly, company processes are documented in internal procedures that provide for specific level 1 controls to ensure that the activities provided for are actually carried out. Any irregularities that arise are investigated through a level 2 control system, in order to assess the content of each irregularity in terms of operational risk (with or without an impact on profit or loss).

As the efficiency and effectiveness of processes is believed to be key to ensuring the company's ability to continue as a going concern, the internal controls include level 3 controls which are also performed to identify any steps to be taken on the individual stages of operating activities.

With respect to operational risk arising from external circumstances, the company takes specific precautions (insurance policies and advisory services from third parties) with the aim of minimising any events that, by their very nature, cannot be directly controlled.

1 Organisational aspects

In accordance with the above guidelines, operational risks are managed on the basis of UBI Banca's "Operational risk management policy". The company currently uses the standardised method (as resolved by the board of directors in 2008): transition to the advanced methods to calculate the capital requirement for operational risks will take place using the methods and timeframe to be agreed during future meetings by the parent with the supervisory authorities. ([15])

At organisational level, the following roles are required:

- Operational Risk Manager (ORM), responsible, within their legal entity, for preparing the group operational risk management policy with respect to operational risk management aspects, reporting to the parent's General Manager and participating, when invited, in the parent's Operational Risk Committee meetings. This position is held by UBI Factor's General Manager;
- Local Operational Risk Support (LORS), mainly supporting the Operational Risk Manager in the creation and coordination of the operational risk management system in accordance with group policy. At UBI Factor, this position is held by the Risk Control Manager;
- Risk Champions (RCs), reporting directly to the Operational Risk Owners (OROs) through Local Operational Risk Support (LORS) and overseeing, from an operational standpoint, that the operational risk management process - in relation to their business area - is performed correctly. They are also responsible for coordinating and supporting the corresponding Risk Owners. At UBI Factor, this position is filled by the heads of the functions who report directly to general management;
- Risk Owners (ROs), who are responsible for recognising and reporting any loss events (loss data collection, "LDC") and/or potential loss events (risk assessment, "RSA") that arise. They report to a Risk Champion. At UBI Factor, these duties are performed by those who, as they operate within the scope of the organisational units relating to the above Risk Champions, can recognise actual and/or potential loss events attributable to operational risk factors in the scope of their day-to-day activities;
- Insurance Function, assigned to specific figures identified within the scope of the structures responsible for claims management necessitating insurance coverage. These structures are also responsible for the correct and complete surveying of insurance compensation and all supporting

[15] -The actions taken to monitor this risk were agreed with the parent as part of the roll-out plan which provided for the inclusion of UBI Factor (after the relevant resolutions by the parent and the company itself) in the procedures for transition to the advanced methods (AMA) to measure operational risk before 31 December 2014.
The company's board of directors approved use of the advanced methods (AMA) on 17 June 2014.
After this resolution and as instructed by the parent in December 2014, the roll-out plan was postponed until 31 December 2015 and informed the board of directors in its meeting of 16 December 2014.
During the first half of 2015, the parent informed all the companies taking part in the roll-out plan (including UBI Factor) that the supervisory authority had informed the group during meetings to defer the first report on operational risk using internal AMA systems by UBI Factor (and other companies) until 2016.

information. At UBI Factor, an employee at the Milan office has been assigned the role of the insurance function.

The above positions are assigned automatically when they correspond with the appointment of a manager (even on an "ad interim" basis) of a structure where the operational risk management system provides for such position. The identification of structures and the list of the people which, from an organisational point of view, are not in charge of organisational units to which the role of Risk Champion and/or Risk Owner can be assigned, is the responsibility of the Operational Risk Manager assisted by the Local Operational Risk Support. The configuration of roles is subsequently approved during the first Board's meeting held after the notification of the changed organisational chart though a specific Board's resolution and finally published in the company's body of rules.

In order to facilitate management of operational losses, the Local Operational Risk Support and the Risk Champion may be assisted by one or more Delegates to whom the operational tasks are transferred, except for the responsibility or burden of control which remains the sole responsibility of the delegating body.

Furthermore, starting from 26 May 2014, following the centralisation of UBI Factor's administration and budgeting, planning and control activities with the parent, management of the operational losses related to these activities is carried out by in service by the Risk Champions and the Risk Owners identified within the parent's Administration and tax area. Moreover, UBI Banca – UBI Factor's Administration and Budging function carries out in service the role of "Accountant" (responsible for ensuring correct and complete recognition of operational losses). However, considering the importance of the operational risk management process, the entire company structure is involved in continuous monitoring activities and not just necessarily when performing a specific line control.

1.1 Risk management, measurement and control

Operational risk events are classified in accordance with the "UBI Banca Group's operational risk management policy" and the related "Implementing Regulation", both approved by UBI Factor's Board of Directors and in line with regulatory capital requirements.

As provided for by the "Operational risk management policy", the detection of operating losses and consequent measurement are performed on the basis of two macro activities: loss data collection and risk assessment.

As part of loss data collection, risk owners survey any operating losses in the specific application made available to UBI Factor (and other group companies) on UBI Banca's portal. The information flow is digitally transmitted to the respective risk champion for validation. The accountant, authorised to access the procedure, electronically validates the accounting data input in relation to the loss. Periodically, Local Operational Risk Support carries out checks to validate the reports made.

The purpose of calculating actual losses is, inter alia, for the parent's subsequent reporting to ABI as part of ABI's "DIPO" (Italian database of operating losses) project.

The purpose of risk assessment activities is to estimate the company's potential operating losses. The company began performing these activities in 2007, with an initial risk mapping stage, mainly by analysing internal rules and external regulations, historical losses and general market losses and by interviewing business unit experts throughout the entire process. The second stage of self risk assessment involved the experts' assessment of the level of operational risk exposure of the analysed activities, through a combination of evaluations of the probability of potential events actually occurring, the potential cost for the company is they were to occur and the perceived effectiveness of controls in place at the time.

The analysis was carried out with support from the parent company and the results (made official in early December) confirmed the downward trend in "estimated annual expected losses" and that "comparison of the assessments made by business experts with historical evidence from the system that monitors internal and external losses, shows that the assessments are reasonable and, on average, more conservative than the empirical evidence. In fact, a broad prudential margin exists with regard to both the probability of events occurring and the Maximum Potential Loss."

QUANTITATIVE INFORMATION

Items/time bands

In 2015, operating losses amounted to €178 thousand (including pure losses of €109 thousand and overlapping market risk of €69 thousand).

3.4 LIQUIDITY RISK

QUALITATIVE INFORMATION

1 General information, liquidity risk management processes and measurement methods

In general, this risk can arise from the company's inability to gather funds or its ability to gather them but at higher-than-market costs (funding liquidity risk), or from limits to the sale of assets (market liquidity risk), leading to losses.

2 Liquidity risk management

In general, this risk is limited for the company as its funding is almost totally concentrated with UBI Banca Group banks, as it shares their funding policy based on the characteristics of loans.

QUANTITATIVE INFORMATION

1. *Breakdown of financial assets and liabilities by residual contractual maturity*

Currency: Euro + all other currencies, total

Items/Time period	On demand	From 1 to 7 days	From 7 to 15 days	From 15 days to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 3 years	From 3 to 5 years	Over 5 years	Open term
Assets	**254,642,443**	**405,341,790**	**83,996,078**	**481,289,151**	**704,990,185**	**324,373,792**	**29,679,241**	**43,865,558**	**1,290,687**	**208,833,283**	**-**
A.1 Government bonds											
A.2 Other debt instruments											
A.3 Financing	254,642,443	405,341,790	83,996,078	481,289,151	704,990,185	324,373,792	29,679,241	43,865,558	1,290,687	208,833,283	
A.4 Other assets											
Cash liabilities	**101,379,296**	**506,415,691**	**-**	**800,615,010**	**9,486,766**	**974,000,000**	**-**	**-**	**-**	**-**	**-**
B.1 Due to:	94,964,646	-	-	-	-	-	-	-	-	-	-
- Banks	94,964,646										
- Financial institutions											
- Customers											
B.2 Debt instruments											
B.3 Other liabilities	6,414,650	506,415,691		800,615,010	9,486,766	974,000,000					
Off-statement of financial position	**224,902**	-	-	-	-	-	-	-	-	-	-
C.1 Financial derivatives with exchange of principal	-	-	-	-	-	-	-	-	-	-	-
- Long positions											
- Short positions											
C.2 Financial derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-	-
- Positive differentials											
- Negative differentials											
C.3 Financing to be received	-	-	-	-	-	-	-	-	-	-	-
- Long positions											
- Short positions											
C.4 Irrevocable commitments to provide funds	-										
- Long positions	16,403,878	28,096,917	9,057,083	28,376,825	32,835,559	7,047,467	217,722				
- Short positions	(16,403,878)	(28,096,917)	(9,057,083)	(28,376,825)	(32,835,559)	(7,047,467)	(217,722)				
C.5 Financial guarantees given	224,902										
C.6 Financial guarantees received											

Currency: EURO

Items/Time period	On demand	From 1 to 7 days	From 7 to 15 days	From 15 days to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 3 years	From 3 to 5 years	Over 5 years	Open term
Assets	**227,348,494**	**338,051,588**	**81,391,665**	**389,300,129**	**650,177,867**	**307,575,253**	**27,329,906**	**43,865,558**	**1,290,687**	**208,769,376**	**-**
A.1 Government bonds											
A.2 Other debt instruments											
A.3 Financing	227,348,494	338,051,588	81,391,665	389,300,129	650,177,867	307,575,253	27,329,906	43,865,558	1,290,687	208,769,376	
A.4 Other assets											
Liabilities	**39,300,611**	**506,415,691**	**-**	**610,000,000**	**-**	**974,000,000**	**-**	**-**	**-**	**-**	**-**
B.1 Due to:	33,231,148	-	-	-	-	-	-	-	-	-	-
- Banks	33,231,148										
- Financial institutions											
- Customers											
B.2 Debt instruments											
B.3 Other liabilities	6,069,463	506,415,691		610,000,000		974,000,000					
Off-statement of financial position	**224,902**	-	-	-	-	-	-	-	-	-	-
C.1 Financial derivatives with exchange of principal	-	-	-	-	-	-	-	-	-	-	-
- Long positions											
- Short positions											
C.2 Financial derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-	-
- Positive differentials											
- Negative differentials											
C.3 Financing to be received	-	-	-	-	-	-	-	-	-	-	-
- Long positions											
- Short positions											
C.4 Irrevocable commitments to provide funds	-										
- Long positions	15,473,243	26,876,735	8,845,575	26,744,103	30,193,366	6,580,608	217,722				
- Short positions	(15,473,243)	(26,876,735)	(8,845,575)	(26,744,103)	(30,193,366)	(6,580,608)	(217,722)				
C.5 Financial guarantees given	224,902										
C.6 Financial guarantees received											

Currency: Other

Items/Time period	On demand	From 1 to 7 days	From 7 to 15 days	From 15 days to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 3 years	From 3 to 5 years	Over 5 years	Open term
Assets	**27,293,949**	**67,290,202**	**2,604,413**	**91,989,021**	**54,812,318**	**16,798,539**	**2,349,335**	**-**	**-**	**63,907**	**-**
A.1 Government bonds											
A.2 Other debt instruments											
A.3 Financing	27,293,949	67,290,202	2,604,413	91,989,021	54,812,318	16,798,539	2,349,335			63,907	
A.4 Other assets											
Cash liabilities	**62,078,685**	**-**	**-**	**190,615,010**	**9,486,766**	-	-	-	-	-	-
B.1 Due to:	61,733,498	-	-	-	-	-	-	-	-	-	-
- Banks	61,733,498										
- Financial institutions											
- Customers											
B.2 Debt instruments											
B.3 Other liabilities	345,187			190,615,010	9,486,766						
Off-statement of financial position	-	-	-	-	-	-	-	-	-	-	-
C.1 Financial derivatives with exchange of principal	-	-	-	-	-	-	-	-	-	-	-
- Long positions											
- Short positions											
C.2 Financial derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-	-
- Positive differentials											
- Negative differentials											
C.3 Financing to be received	-	-	-	-	-	-	-	-	-	-	-
- Long positions											
- Short positions											
C.4 Irrevocable commitments to provide funds	-	-	-	-	-	-					
- Long positions	930,634	1,220,182	211,508	1,632,723	2,642,192	466,859					
- Short positions	(930,634)	(1,220,182)	(211,508)	(1,632,723)	(2,642,192)	(466,859)					
C.5 Financial guarantees given											
C.6 Financial guarantees received											

SECTION 4 - EQUITY

4.1 Equity

4.1.1 Qualitative information

The company's equity is composed of share capital, reserves and losses carried forward.

For prudential supervisory purposes, the company calculates its capital requirement using the ruling instructions of Bank of Italy.

It has a capital excess of €35.2 million considering its capital requirements to comply with the supervisory provisions.

4.1.2 Quantitative information

4.1.2.1 Equity: analysis

Items/amount	Amount at 31.12.2016	Amount at 31.12.2015
1. Share capital	36,115,820	36,115,820
2. Share premium	2,065,828	2,065,828
3. Reserves	99,730,926	99,705,526
- income-related	91,470,028	91,470,028
a) legal reserve	7,223,165	7,223,165
b) statutory reserve	-	-
c) treasury shares	-	-
d) other	84,246,863	84,246,863
- Other	8,260,898	8,235,498
4. (Treasury shares)		
5. Valuation reserves	(534,543)	(425,294)
- Available-for-sale financial assets	-	-
- Property, plant and equipment	-	-
- Intangible assets	-	-
- Hedges of investments in foreign operations	-	-
- Cash flow hedges	-	-
- Exchange rate gains (losses)	-	-
- Non-current assets held for sale and disposal groups	-	-
- Special revaluation laws	-	-
- Net actuarial losses on defined benefit plans	(534,543)	(425,294)
- Portion of valuation reserves of equity-accounted investees	-	-
6. Equity instruments		
7. Profit (loss) for the year	(8,656,232)	2,486,280
Total	**128,721,798**	**139,948,159**

4.2 Regulatory capital and ratios

4.2.1 Regulatory capital

4.2.1.1 Qualitative information

	CURRENT	
	Amount	**May be included in calculation**
COMMON EQUITY TIER 1		
CET1 INSTRUMENTS:		
Paid-up share capital	36,115,820	36,115,820
Reserves	101,262,211	101,262,211
Profit (loss) for the year		
DEDUCTIONS		
Other intangible assets	1,899	1,899
Loss for the year	8,656,232	8,656,232
TOTAL COMMON EQUITY TIER 1	**128,719,899**	**128,719,900**
ADDITIONAL TIER 1 - AT1		
ADDITIONAL TIER 2 - AT2		
TOTAL REGULATORY CAPITAL	**128,719,899**	**128,719,899**

4.2.1.2 Quantitative information

	Total 31.12.2016	**Total 31.12.2015**
A. Common Equity Tier 1 - CET1 before the application of prudential filters	**128,719,899**	**137,876,133**
of which: CET1 instruments subject to transitional provisions	-	-
B. CET1 prudential filters (+/-)		
C. CET1 gross of items to be deducted and of transitional arrangements (A+/-B)	**128,719,899**	**137,876,133**
D. Elements to be deducted from CET1 (+/-)	-	-
E. Transitional arrangements – Impact on CET1 (+/-)	-	-
F. Total Common Equity Tier 1 - CET1 (C-D+/-E)	**128,719,899**	**137,876,133**
G. Additional Tier 1 – AT1 gross of items to be deducted and of transitional arrangements	-	-
of which: AT1 instruments subject to transitional provisions	-	-
H. Elements to be deducted from AT1		**425,294**
I. Transitional arrangements – Impact on AT1 (+/-)	-	-
L. Total Additional Tier 1 – AT1 (G - H +/- I)	-	**(425,294)**
M. Tier 2 – T2 gross of items to be deducted and of transitional arrangements	-	
of which: T2 instruments subject to transitional provisions	-	-
N. Elements to be deducted from T2	-	-
O. Transitional arrangements – Impact on T2 (+/-)	-	-
P. Total Tier 2 –T2 (M - N +/- O)	-	-
Q. Total own funds (F + L + P)	**128,719,899**	**137,450,838**

4.2.2 Capital adequacy

4.2.2.1 Qualitative information

Regulatory capital and prudential requirements	**31.12.2016**	**31.12.2015**
OWN FUNDS	**128,719,899**	**137,450,838**
Total capital requirements	**93,545,820**	**83,778,736**
- credit and counterparty risk - standardised method	88,815,131	105,916,553
- operational risk - standardised method	4,730,689	5,788,428
Reduction in capital requirements for financial intermediaries belonging to banking groups or stock brokerage companies (25% of the sum of the items)		(27,926,245)
Capital position '- - excess / (deficit)	**35,174,080**	**53,672,103**

4.2.2.2 Quantitative information

Categories/Amounts	**Unweighted**		**Weighted/required**	
	31.12.2016	**31.12.2015**	**31.12.2016**	**31.12.2015**
A. RISK ASSETS				
A.1 Credit and counterparty risk	**2,614,175,052**	**2,379,845,058**	**1,480,252,176**	**1,765,275,848**
1. Standardised method	2,614,175,052	2,379,845,058	1,480,252,176	1,765,275,848
2. IRB method				
2.1 Basic				
2.2 Advanced				
3. Securitisations				
B. REGULATORY CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			**88,815,131**	**105,916,553**
B.2 Credit down-rating risk				
B.3 EU Regulation risk				
B.4 Market risk				
1. Standard method				
2. Internal models				
3. Concentration risk				
B.5 Operational risk			**4,730,689**	**5,788,428**
1. Basic method				
2. Standardised method			4,730,689	5,788,428
3. Advanced method				
B.6 Other prudential requirements				
B.7 Other calculation elements				**(27,926,245)**
B.8 Total prudential requirements			**93,545,820**	**83,778,736**
C. RISK ASSETS AND CAPITAL RATINGS				
C.1 Risk-weighted assets			1,559,112,762	1,396,312,259
C.2 Common Equity Tier 1 capital/Risk-weighted assets (CET1 capital ratio)			8.26%	9.87%
C.3 Tier 1 capital/Risk-weighted assets (Tier 1 capital ratio)			8.26%	9.87%
C.4 Total own funds/Risk-weighted assets (Total capital ratio)			8.26%	9.84%

SECTION 5 - BREAKDOWN OF COMPREHENSIVE INCOME

	Items	Gross amount	Income taxes	Net amount
10.	**Profit (loss) for the year**	**(12,353,192)**	**3,696,960**	**(8,656,232)**
	Other comprehensive income that will not be reclassified to profit or loss			
20.	**Property, plant and equipment**			
30.	**Intangible assets**			
40.	**Defined benefit plans**	**(150,688)**	**41,439**	**(109,249)**
50.	**Non-current assets held for sale**			
60.	**Portion of valuation reserves of equity-accounted investees**			
	Other comprehensive expense, net of income tax that will be reclassified subsequently to profit or loss70.			
70.	**Hedges of investments in foreign operations:**			
	a) fair value gains (losses)			
	b) reclassification to profit or loss			
	c) other changes			
80.	**Exchange rate gains (losses):**			
	a) fair value gains (losses)			
	b) reclassification to profit or loss			
	c) other changes			
90.	**Cash flow hedges:**			
	a) fair value gains (losses)			
	b) reclassification to profit or loss			
	c) other changes			
100.	**Available-for-sale financial assets**			
	a) fair value gains (losses)			
	b) reclassification to profit or loss			
	- impairment losses			
	- gains/losses on sales			
	c) other changes			
110.	**Non-current assets held for sale**			
	a) fair value gains (losses)			
	b) reclassification to profit or loss			
	c) other changes			
120.	**Portion of valuation reserves of equity-accounted investees**			
	a) fair value gains (losses)			
	b) reclassification to profit or loss			
	- impairment losses			
	- gains/losses on sales			
	c) other changes			
130.	**Total other comprehensive income (expense), net of income tax**			
140.	**Comprehensive income (Item 10+130)**	**(12,503,880)**	**3,738,399**	**(8,765,481)**

SECTION 6 - RELATED PARTY TRANSACTIONS

IAS 24 provides a definition of a related party.

Specifically, the standard establishes a party is related to a reporting entity if that party:

(a) directly or indirectly, through one or more intermediaries:

(i) has control over, is controlled by or is subject to joint control by the reporting entity (including parents, subsidiaries and related parties);

(ii) has significant influence over the reporting entity; or

(iii) jointly controls the entity;

(b) is an associate (as per the definition in IAS 28 - Investments in associates) of the reporting entity;

(c) is a joint venture of which the reporting entity is a venturer (see IAS 31 - Interests in joint ventures);

(d) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity;

(e) is a close family member of one of the persons identified in points (a) or (d);

(f) is a subsidiary, jointly controlled entity or associate of one of the persons identified in points (d) or (e) and these persons directly or indirectly hold a significant percentage of the reporting entity's voting rights;

(g) is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity.

IAS 24 subsequently defines a related party transaction as a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

Parent

Unione di Banche Italiane Società per Azioni

Abbreviated name: UBI BANCA

Registered office: Piazza Vittorio Veneto, 8 - 24122 Bergamo

Tax code, VAT no. and Bergamo company registration no. 03053920165

Member of the Interbank Deposit Insurance Fund and National Deposit Guarantee Fund

ABI 3111.2, Banks register no. 5678.8, Banking Group Roll no. 3111.2

Parent of the Unione di Banche Italiane Group

Management and coordination

The company is managed and coordinated by Unione di Banche Italiane S.p.A..

As required by article 2497-bis.4 of the Italian Civil Code, the following table provides the key figures taken from the parent's most recently approved financial statements at the date of preparation of this report.

Summary of the key figures of the company that manages and coordinates UBI Factor S.p.A. (article 2497-bis.4 of the Italian Civil Code)

UBI BANCA S.P.A - STATEMENT OF FINANCIAL POSITION

ASSETS (in *thousand of Euro)*	**31.12.2015**	**31.12.2014**
10. Cash and cash equivalents	138,226	160,330
20. Financial assets held for trading	1,088,262	1,544,835
30. Financial assets at fair value through profit or loss	196,034	193,167
40. Available-for-sale financial assets	15,357,571	18,066,883
50. Held-to-maturity investments	3,494,547	3,576,951
60. Loans and advances to banks	15,489,215	14,055,649
70. Loans and advances to customers	21,901,390	23,330,321
80. Hedging derivatives	592,409	647,972
90. Fair value change in hedged financial assets	4,637	5,583
100. Equity investments	9,657,401	9,624,011
110. Property, plant and equipment	615,661	634,178
120. Intangible assets	410	410
130. Tax assets	1,529,553	1,688,730
a) current	364,734	331,162
b) deferred	1,164,819	1,357,568
- of which pursuant to Law n. 214/2011	*1,127,174*	*1,234,949*
140. Non-current assets and disposal groups held for sale	2,032	507
150. Other assets	699,982	642,338
TOTAL ASSETS	**70,767,330**	**74,171,865**

LIABILITIES AND EQUITY (*in thousand of Euro)*	**31.12.2015**	**31.12.2014**
10. Due to banks	15,845,354	19,140,417
20. Due to customers	7,357,586	7,065,270
30. Debt securities issued	36,265,240	36,545,668
40. Financial liabilities held for trading	608,600	722,181
60. Hedging derivatives	700,871	937,018
80. Tax liabilities	265,926	352,883
a) current	93,132	169,396
b) deferred	172,794	183,487
100. Other liabilities	881,275	751,071
110. Post-employment benefits	39,975	45,443
120. Provisions for risks and charges:	43,557	45,218
a) pension and similar costs	1,035	1,144
b) other provisions	42,522	44,074
130. Valuation reserves	304,389	164,951
160. Reserves	2,283,488	2,354,285
170. Share premium	3,798,430	4,716,866
180. Share capital	2,254,371	2,254,371
190. Treasury shares	-5,155	-5,340
200. Profit (loss) for the year	123,423	-918,437
TOTAL LIABILITIES AND EQUITY	**70,767,330**	**74,171,865**

UBI BANCA S.P.A – INCOME STATEMENT

Amounts in thousands of Euro		**31.12.2015**	**31.12.2014**
10.	Interest and similar income	874.726	1,122,471
20.	Interest and similar expense	(888,319)	(1,026,027)
30.	**Net interest income**	**(13,593)**	**96,444**
40.	Fee and commission income	93,412	83,474
50.	Fee and commission expense	(44,433)	(59,219)
60.	**Net fee and commission income**	**48,979**	**24,255**
70.	Dividends and similar income	249,430	276,489
80.	Net trading income	25,902	33,670
90.	Net hedging expense	11,078	(8,069)
100.	Income from disposal or repurchase of:	237,269	149,479
	a) loans and receivables	(4,250)	(9,324)
	b) available-for-sale financial assets	257,102	166,743
	d) financial liabilities	(15,583)	(7,940)
110.	Net income (loss) on financial assets and liabilities at fair value through profit or loss	4,356	3,073
120.	**Gross income**	**563,421**	**575,341**
130.	Net impairment losses on:	(120,013)	(121,551)
	a) loans and receivables	(104,166)	(116,738)
	b) available-for-sale financial assets	(15,556)	(2,995)
	d) other financial transactions	(291)	(1,818)
140.	**Net financial income**	**443,408**	**453,790**
150.	Administrative expenses:	(402,576)	(341,440)
	a) staff costs	(183,099)	(169,970)
	b) other administrative expenses	(219,477)	(171,470)
160.	Net provisions for risks and charges	6,955	(311)
170.	Net impairment losses on property, plant and equipment	(21,454)	(21,503)
190.	Other operating income / (expense)	117,590	120,159
200.	**Operating expenses**	**(299,485)**	**(243,095)**
210.	Profit / (losses) of equity investments	1,551	(1,122,126)
240.	Profit on disposal of investments	43	61
250.	**Profit (loss) loss from continuing operations before tax**	**145,517**	**(911,370)**
260.	Taxes on profit (loss) for the year from continuing operations	(22,094)	(7,067)
270.	**Post-tax profit (loss) from continuing operations**	**123,423**	**(918,437)**
290.	**Profit (loss) for the year**	**123,423**	**(918,437)**

6.1 Remuneration of key management personnel

	31.12.2016	31.12.2015
a. Directors (*)	90,000	103,133
b. Statutory auditors	78,000	66,807
c. Key management personnel	1,000,366	874,904
- including short-term benefits	924,454	778,741
- including termination benefits	75,912	96,163

(*) Including amounts paid to other group companies of €8,000

6.2 Loans and guarantees to directors and statutory auditors

The company has not given loans to or guarantees on behalf of its directors and statutory auditors.

6.3 Information on related party transactions

Transactions with related parties take place on an arm’s length basis or, if suitable market parameters do not exist, based on the incurred costs.

6.3.1. Information on transactions with jointly controlled entities

The company does not have interests in jointly controlled entities.

6.3.2. Information on transactions with other investees with associates

The company does not have investments in associates.

RELATED-PARTY TRANSACTIONS - PRINCIPAL STATEMENT OF FINANCIAL POSITION BALANCES

Related party	Loans and receivables with banks	Loans and receivables with customers	Other assets	Due to banks	Due to customers	Other liabilities
Parent	59,789,411	0	2,211,765	2,371,946,921	0	3,686,382
Subsidiaries						
Associates	0	1,045,810	54,989	0	0	489,835
Joint ventures						
Subsidiaries/Associates from/to Parent Company	2,088,498	13,650	68,521	13,874,565	0	2,715,748
Managers						
Other related parties						

RELATED-PARTY TRANSACTIONS - INCIDENCE

	Loans and receivables with banks	Loans and receivables with customers	Other assets	Due to banks	Due to customers	Other liabilities
Total with related parties a)	61,877,909	1,059,459	2,335,275	2,385,821,486	0	6,891,965
Total statement of financial position b)	62,507,635	2,468,928,245	4,263,391	2,385,821,486	5,527,755	17,993,753
% (a/b*100)	98.99%	0.04%	54.78%	100.00%	0.00%	38.30%

Parent Company	Loans and receivables with banks	Loans and receivables with customers	Other assets	Due to banks	Due to customers	Other liabilities
Unione Banche Italiane	59,789,411		2,211,765	2,371,946,921		3,686,382

Associated Companies	Loans and receivables with banks	Loans and receivables with customers	Other assets	Due to banks	Due to customers	Other liabilities
UBI Sistemi e Servizi		1,045,810	54,989			489,835
Total	**0**	**1,045,810**	**54,989**	**0**	**0**	**489,835**

Subsidiaries/Associates from/to Parent Company	Loans and receivables with banks	Loans and receivables with customers	Other assets	Due to banks	Due to customers	Other liabilities
Banca Popolare di Bergamo	406,434			1,653,300		1,941,515
Banca Popolare di Ancona	220,280			27,960		97,592
Banco di Brescia	808,818			12,175,755		355,504
Banca Carime	245,862					12,614
Banca di Valle Camonica	348,646			17,549		7,107
IWBPI	58,458					
UBI International						7,292
UBI Leasing		13,650	68,521			294,124
Total	**2,088,498**	**13,650**	**68,521**	**13,874,565**	**0**	**2,715,748**

SUMMARY OF TRANSACTIONS WITH RELATED PARTIES

Related party	Net interest income	Dividends and similar income	NET FEE AND COMMISSION INCOME	Other operating income	Personnel expense	Other administrative expenses
Parent	(54,460)	-	(6,333,912)	-	(1,479,121)	(2,114,137)
Subsidiaries						
Associates	-	-	-	-	178,367	(2,534,094)
Joint ventures						
Subsidiaries/Associates from/to Parent Company	3,275	-	(5,007,050)	-	(267,659)	(40,998)
Managers						
Other related parties	32,426		53,985		(395,221)	

PERCENTAGE INCIDENCE OF ECONOMIC TRANSACTIONS WITH RELATED PARTIES

	Net interest income	Dividends and similar income	NET FEE AND COMMISSION INCOME	Operating income	Personnel expense	Other Administrative expenses
Total with related parties a)	(18,759)	-	(11,286,977)	-	(1,963,633)	(4,689,230)
Total income statement b)	22,117,323	-	13,882	885,451	(12,201,558)	(9,596,504)
% (a/b*100)	N/A	-	N/A	N/A	16.09%	48.86%

Parent Company	Net interest income	Dividends and similar income	NET FEE AND COMMISSION INCOME	Operating income / expense	Personnel expense	Other administrative expenses
Unione Banche Italiane	(54,460)		(6,333,912)		(1,479,121)	(2,114,137)
Associated Companies	**Net interest income**	**Dividends and similar income**	**NET FEE AND COMMISSION INCOME**	**Operating income /expense**	**Personnel expense**	**Other administrative expenses**
UBI Sistemi e Servizi					178,367	(2,528,998)
UBI Academy						(5,096)
Total					**178,367**	**-2,534,094**
Subsidiaries/Associates from/to Parent Company	**Net interest income**	**Dividends and similar income**	**NET FEE AND COMMISSION INCOME**	**Operating income /expense**	**Personnel expense**	**Other administrative expenses**
Banca Popolare di Bergamo	(142)		(3,555,338)		(394,103)	(15,212)
Banca Popolare di Ancona			(358,311)		(55,747)	(5,535)
Banco di Brescia	7,719		(963,490)		30,621	(18,757)
Banca Carime			(50,707)			
Banca di Valle Camonica	298		(79,203)		(70,406)	(1,657)
UBI International	(4,601)					
UBI Leasing					221,977	163
Total	**3,275**	**-**	**(5,007,050)**	**-**	**(267,659)**	**(40,998)**

SECTION 7 - OTHER INFORMATION

Disclosure of fees for the legally-required audit and other non-audit services pursuant to article 149-duodecies of the Consob Issuer Regulation and article 2427.1.16-bis of the Italian Civil Code

As required by article 149-duodecies of the Consob Issuer Regulation, the following table provides information on fees paid to the independent auditors, Deloitte & Touche S.p.A., and its network companies for the following services:

1. Audit services, which include:
    a. Audit of the annual reports to express an opinion thereon;
    b. Review of the interim reports.
2. Attestation services, which consist of engagements in which the auditor assesses a specific element that has been determined by another party responsible therefor, applying the suitable criteria, in order to conclude as to the reliability of such specific element.
3. Tax advisory services.
4. Other services, which consist of all other engagements.

The audit fees shown in the table, which relate to 2016, are regulated by contract, including any indexing (they exclude out-of-pocket expenses, any supervisory contribution, where applicable, and VAT).

As per explicit instructions, they do not include fees paid to any secondary auditors or members of the respective networks.

Services	Service provider	Client	Fees (Euro)
Legally-required audit:			
- 2016 annual report	Deloitte & Touche S.p.A.	UBI Factor S.p.A.	112,000
- Review of half-year reporting package	Deloitte & Touche S.p.A.	UBI Factor S.p.A.	35,000
- Review of Polish annual report (local GAAP)	Deloitte Polska Sp.k	UBI Factor S.p.A.	14,000
Attestation services:	Deloitte & Touche S.p.A.	UBI Factor S.p.A.	8,400
Total			**169,400**

REPORT OF THE BOARD OF STATUTORY AUDITORS

REPORT OF THE INDEPENDENT AUDITORS