Factorit

GRUPPO Banca Popolare di Sondrio

Factorit

FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2017

GRUPPO Banca Popolare di Sondrio

Directors' Report and Financial Statements as at and for the year ended 31 December 2017

Factorit

GRUPPO Banca Popolare di Sondrio

Factorit S.p.A.

Registered office, general management and head office
Via Cino del Duca, 12 - 20122 Milan
Telephone (02) 58150.1 - Fax (02) 58150.205
Web: www.factorit.it - E-mail: info@factorit.it

Member of **Banca Popolare di Sondrio Group**
Included in the Banking Group Register as no. 5696.0

Tax code, VAT no. and Milan company registration no.: 04797080969
Registered in the General List of Financial Intermediaries as per ex article 106 of TUB with no. 52

Share capital €85,000,002.00

Member of Assifact – Italian Association of Factoring Companies

Member of FCI - Factors Chain International

GOVERNING AND CONTROL BODIES

Board of directors

Chairman	Roberto Ruozi
Vice Chairman	Mario Alberto Pedranzini
Managing Director	Antonio De Martini
Directors	Fabio Bertarelli
	Massimo Bordoni
	Nicolò Melzi di Cusano
	Lino Enrico Stoppani

Board of statutory auditors

Chairman	Luca Zoani
Standing Statutory Auditors	Pio Bersani
	Daniele Morelli
Alternate Statutory Auditors	Luigi Gianola

Independent auditors

EY S.p.A.

Shareholders

Banca Popolare di Sondrio S.c.p.a.	60,5%
Banco BPM S.p.A.	39,5%

Branches

Milano
Via Cino del Duca, 12 – 20122 Milano
Tel. 02 581501 – Fax 02 58150205

Torino
Via XX Settembre, 37 – 10121 Torino
Tel. 011 0587284 – Fax 011 0587285

Padova
Vicolo Ponte Molino, 4 – 35137 Padova
Tel. 049 663370 – Fax 049 652827

Bologna
Via Riva di Reno, 58 – 40122 Bologna
Tel. 051 6443751 – Fax. 051 6443761

Roma
Viale Cesare Pavese, 336 – 00144 Roma
Tel. 06 94359720 – Fax 06 94359735

DIRECTORS' REPORT

Dear Shareholders,

The 2017 financial statements was the thirty-ninth year of operations of your company, recorded a profit of 15,122,818 Euro.

During the year Factorit has led the development of commercial activity with a continuous attention to market's transformations, within the sphere of a rigorous credit policy, characterized by responsible social behaviors, the natural frame of Firm's values.

THE INTERNATIONAL SITUATION

The world economy moves towards a growth path: the globalization index is featured by a significant improvement equal to more than 4%. This global trend primarily led to an important increase in the exports for advanced economies' and particularly for emerging markets. In general, the economic growth seems to be consolidated, widespread and showing positive forecasts for the future.

The mentioned framework outlines a positive picture, despite no real solutions were found for many crisis situations all over the world. In this context, it should be highlighted that in the Far East the danger of the use of non-conventional weapons has increased.

The European Union is experiencing a loss in the spirit of the union, featured by a lack of a common approach on many issues arisen from the international agenda together with the dragging of Brexit's negotiations. Many countries are undertaking individual paths moving away from the Union's values instead of looking for shared solutions.

As mentioned above, the world economic conjuncture recorded a strengthening both of the advanced economies - among which the European countries - and of the emerging markets.

Inflation is still low: about 2% in the United States and China, about 1,5% in the euro area and about 0,5% in Japan. Oil prices recovered and at the end of the year were about $ 70 per barrel. Meanwhile, on the two sides of the Atlantic, two different monetary policies are facing each other: while European short-term rates are still negative, in the United States rates increased. Also long-term interest rates recorded an increase in the spread.

Focusing at a single economy level, the United States' Gross Domestic Product - increased in the last quarter - grew up to 2,5%. The increase is mainly due to the exports trends also favored by the progressive weakening of the dollar against Euro. A positive trend features also the labor force with an unemployment rate equal to 4,1%.

Showing a continue growth and an increase in the GDP equal to about 7%, China is a major player in the international market and is increasingly excelling in sectors characterized by research and innovation.

It is still low – but with unbelievable rates for most of the countries - the Indian GDP growth (6,2%), while Brazil recorded a GDP growth equal to about 1,5%. Russia shows an increase in the Gross Domestic Product equal to 1,8% also due to the increase in oil prices. Also Japan is expanding with a 2% increase.

The United Kingdom recorded a 1,8% increase mainly linked to the uncertainty arising following the exit from the European Union.

In the Euro zone the expanding economic cycle is progressively consolidating, with a GDP growth equal to about 1,4%, mainly caused by exports rise and despite a certain decrease in the domestic demand.

The expansionary policy of the European Central Bank certainly contributed to the economic recovery while the actions taken to face inflation are not providing the expected outcomes also due to the low salaries trends recorded in the Euro zone.

The economic growth in the Euro zone recorded different and not homogeneous trends among the various countries. In this area, Germany is still the key player of the European economy with a GDP growth equal to about 2,2%. Among the other countries, the GDP growth in France is equal to 1,8%, in Italy to 1,5% and in Spain to 3,1%.

The economy of the Helvetic Republic recorded an increase mainly due to the good performance of the manufacturing industry, which benefited both from the positive trends of the international market and of the Franco depreciation. By the end of the year, the estimated GDP increase is about 1%. The good future perspective increases the business trust leading to an increase in investments. Finally, the low unemployment rate showed a further decrease.

ITALY

As far as the Italian economy concerns, different perspectives occur: indeed, the Censis negative perception of a "rancorous country" contrasts with the economic situation described by ISTAT that reports a growing GDP for the fourth consecutive year and a general economic recovery. In 2017, growth was equal to about 1,5%.

On the one side, positive trends are recorded for private consumption (+ 1,5%) and investments (+ 3,4%). On the other side, the external balance of payments decreased from 36 to 32 billion: this however means a surplus, both towards the EU and to the rest of the world.

Some improvements and positive trends were recorded in the labor market with an unemployment rate decreased from 12,2% in the last quarter of 2016 to 10,9% in the third quarter of 2017. The critical youth unemployment rate at the end of 2016 (that increased from 34,5% to 40,7%) was equal to 36,6% in the month of October (showing a positive trend compared to the youth unemployment rate equal to 40% registered the same period 2016).

The job issue – that could in future expire following the automation - remains crucial: an economy where machines replace working people is still a dream or – better - a nightmare if politics will not absolve with serious and innovative solutions the income redistribution issue.

Inflation slightly increased and at the end of the year was equal to 3%, higher compared to 1,5% of the average of the Euro area.

The public accounts show an improvement reflected by the national GDP: the deficit decreased from 2,5% in 2016 to 2,1% in 2017; the debt decreased from 132% (revised) to 131,6%. The data is better compared to the forecasts provided in the April DEF (from 132,6% to 132,4%).

Finally, financial year 2017 shows a spread in line with the one recorded in 2016 and is about 160 basis points.

FACTORING, THE DOMESTIC MARKET

The Italian factoring market has continued to grow significantly during 2017. According to Assifact, (the Association of Italian Factoring Companies) the factoring market amounts to 13% of the national GDP thus playing a key role in supporting and providing financial support to corporate counterparties and in general to the Italian economy.

The receivables sold (turnover) recorded a 9,5% growth in comparison to 2016, while the volume of outstanding credits showed a 2,2% increase. Finally, the advance payments and the paid fees recorded a 1,4% growth.

Table 1. Performance of the Italian factoring sector (source Assifact)

	2014	2015	2016	2017
Turnover	177,542,805	184,796,669	202,402,830	221,597,438
Outstanding	55,809,053	57,493,137	61,009,983	62,343,204
Advances	43,880,257	45,838,518	49,703,046	50,400,409
Advances/Outstanding	*78,6%*	*79,7%*	*81,5%*	*80,8%*

('000)

Based on the information provided by Assifact as at December 31, 2017, 53,4% of the factoring companies in Italy consist of financial intermediaries pursuant to article 106 "albo unico" (generating 53,6% of the turnover), banks playing the 26,6% of the overall operators (38,9% of the total turnover) and other intermediaries representing the remaining 20% (7,5% of turnover).

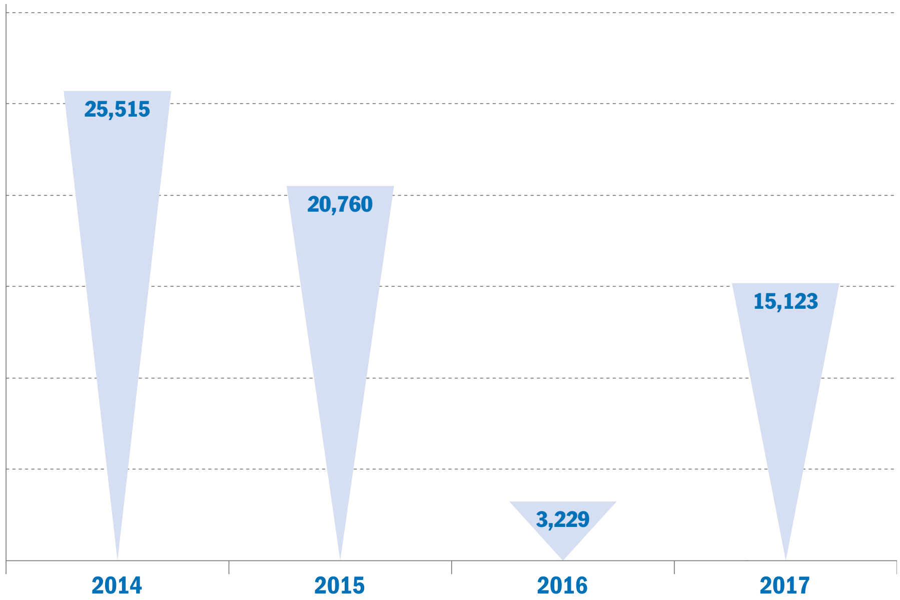
The volume of loans and receivables of the leading 5 operators (all belonging to banking groups) - among which Factorit (4th player of the market) - is equivalent to 70,9% of the market's total turnover.

COMPANY PERFORMANCE

Results

The Company made a profit of € 15,1 million after recognizing gross losses on loans and receivables for € 10,5 million. The write-backs were, respectively, 11,0 million euro on loans and 0,1 million on other financial operations. Total net adjustments therefore amount to € 0,6 million.

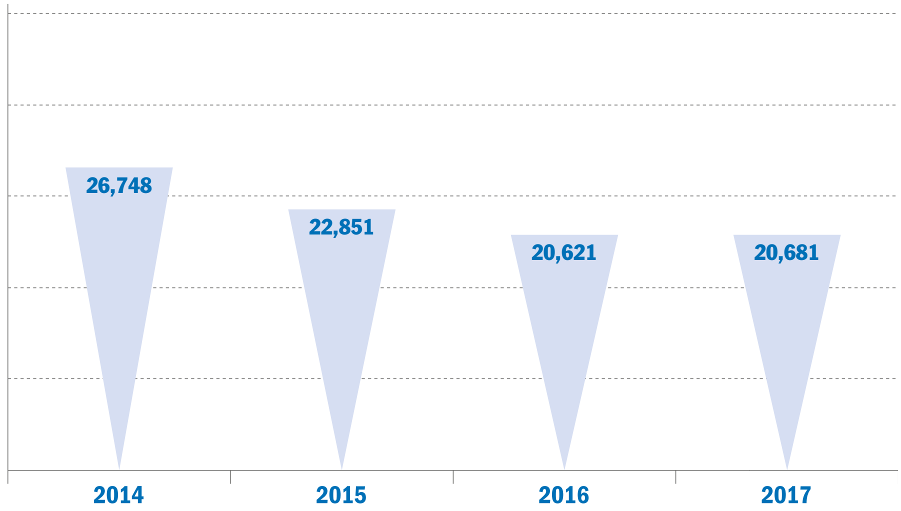
Graph 1. Profit for the year ('000)



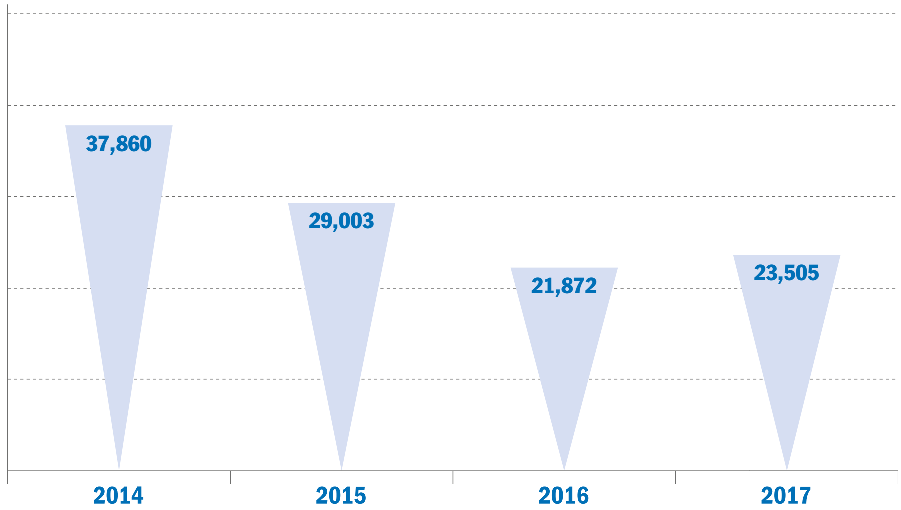
Total income amounted to 44,2 million, including financial income of € 23,5 million and fee and commission income of 20,7 million, thus recording a 14% increase.

Revenue from one-off fees and commissions on the assignment of loans and receivables are recognised over their term. Periodic and deferred fees and commissions are recognised when received on an accruals basis.

Graph 2. Fee and commission income ('000)



Graph 3. Net interest income ('000)



In order to allow a clearer and more immediate vision regarding the trend of the Company, the following table shows the results and some indicators of the year and comparison to the previous year.

Table 2. Reclassified income statement

	2016	2017
Net fee and commission income	20,621	20,681
Net interest income	21,872	23,505
Net trading income	-17	7
Total income	**42,476**	**44,193**
Total net cost of risks	**18,503**	**-324**
Total net operating expenses	**20,172**	**21,452**
Operating	**3,802**	**22,417**

('000)

	2016	2017
Cost/Income	47,5%	48,5%
Roe	1,5%	7,1%
Net interest income/Total Income	51,5%	53,2%
Revenue from services/Total Income	48,5%	46,8%

Key events of the year

During its meetings in the year, the Board of Directors has consistently analyzed and evaluated the reports provided by the Corporate Governance concerning: the Company's business performance, the exposure of large sellers and large debtors, risk positions (classified between non-performing and / or unlikely to pay loans) and the consistency provisions made against them, as well as loans impairment. Quarterly, the Board of Directors has also examined the company's financial situation as well as the documentation relating to the composition of the existing portfolio (ageing, exposures over 25 million euros, etc.), the resolutions adopted on the Trusts and litigations, own funds, liquidity risk and equity investments held in non-financial companies (associations participating in initiatives in the field of business in the cinematographic sector).

During the year, the Board of Directors also adopted, in accordance with the regulations issued by the Parent, appropriate internal rules for the proper and efficient management of the company. In accordance with the forecasts of the 15th updating of the Bank of Italy circular no. 263 of 27 December 2006, the reports prepared by the Board of Directors (Compliance, Internal Audit, Risk Management) have also been brought to the attention of the Board, in addition to the Report of the Anti-Money Laundering Policy prepared pursuant to the Bank of Italy measure of 10 March 2011, art. 7.2, D. Lgs. n. 231/2007.

On February 7 2017, the Statutory Auditor Gianerminio Cantalupi resigned, with effectiveness starting from the date of the Shareholder's Meeting approval of the financial statements for 31.12.2016, for personal reasons.

On **March 7th, 2017** the Board of Directors approved the draft of the financial statements for the year ended December 31, 2016, which showed a profit of 3,2 million euros, and the related profit allocation.

The Board convened the Ordinary Shareholders' Meeting on April 10th, 2017. At the same meeting, the 2017-2021 Business Plan and the 2017 Budget were presented and approved.

Moreover, an amendment to the commercial structure was presented as part of the "Progetto Lombardia", launched at the end of 2016. This structure is divided into three different services, which depend directly on the Managing Director.

On **April 10th 2017**, the Ordinary Shareholders' Meeting met in Milan, via Cino del Duca 12, and discussed, among other things, the following items on the agenda:

- presentation of the 2016 financial statements;
- appointment of an Auditor for the residual of the three-year period 2016-2018;
- adoption of the "Remuneration policies of Banca Popolare di Sondrio Banking Group" and disclosure about the implementation of the same in 2016.

At the same meeting, the Board of Directors verified the requirements of the Auditor Donatella Depperu, appointed to replace the resigned Auditor Gianerminio Cantalupi, for the residual time of the years 2016-2018, pursuant to Ministerial Decree n. 516 of 30/12/1998 6 of the art. 2389 CC. and election of domicile.

On **May 9th 2017**, the Board of Directors reviewed the interim Financial Statements as at 31 March 2017 while on **August 7th 2017** reviewed the half-year Financial Statements as at June 30th 2017.

On August 7th 2017, the Board of Directors, provided information on the consensual termination of the mandate to KPMG SpA for the auditing of financial statements for the nine-year period 2014-2022 and the opportunity to entrust the audit task to a single company in order to achieve greater efficiency in the accounting audit process of the Group.

In the Ordinary Shareholders' Meeting, convened for **20 September 2017,** the appointment of the statutory auditor for the purposes of Legislative Decree 39/2010 was conferred on EY S.p.A for the nine years 2017-2025.

On **October 27th, 2017,** the Board of Directors approved the interim Financial Statements as at September 30, 2017.

With effect from November 15th 2017, the commercial office of Siena was closed with effect starting from due to the expiration of the commercial agreement.

On November 20th 2017, the resignation of Director Ambrogio Pizzamiglio was received, with effect from December 31st 2017 following the termination of the employment relationship with Banco BPM due to retirement.

Finally, it is recalled that during the year the company sent several communications to the Bank of Italy, among which the most significant were:

- "Use of Cerved Rating Agency SpA for the determination of capital requirements for credit risk in the standardized method of Factorit SpA" (as of 17/03/2017) and "Use of Scope Rating AG Spa for the determination of the capital requirements for credit risk in the standardized method for exposures relating to central administrations or central banks "(as of 28/12/2017);
- "Outsourcing of important operating functions" (as of 11/04/2017 and 07/07/2017) - communications regarding the underwriting of new contracts relating to important de-centralized operating functions;
- "Interlocking checks" (as of 28/04/2017) - transmission of the Board of Directors' report of 10/04/2017 which verified that the new member of the Board of Statutory Auditors Donatella Depperu was not in a situation of incompatibility pursuant to art. 36 of the D.L. nr. 201/2011;
- "Verification of compliance requirements relating to company apical exponents and domicile election" (as of 28/04/2017) - transmission of the Board of Directors' report of 10/04/2017 which verified the requirements of the new appointed auditor Donatella Depperu pursuant to Legislative Decree no. 11. 516/1998 and of the art. 2389 c.c. and contextual election of domicile.

Commercial performance

Loans and receivables assigned during the period amounted to 13,245 million, an increase of 27,1% compared to 2016 (10,416 million).

Loans and receivables assigned without recourse, when payment is guaranteed, amounted to 63,4% of total turnover, while those assigned with recourse were the 36,6%. The relationship between the two types recorded a further shift towards products without recourse.

Active customers numbered were 1,343, up 4,1% on the previous year end.

Table 3. Operating figures

	2016	2017	Variation
Turnover	**10,416,054**	**13,244,604**	**27,2%**
Including: without recourse	5,751,799	8,396,997	46,0%
Including: with recourse	4,664,255	4,847,607	3,9%
Net fee and commission income (%)	**0,20**	**0,16**	
Advances (stock) al 31/12	**2,199,463**	**2,406,612**	**9,4%**
Outstanding	**2,770,878**	**3,062,815**	**10,5%**
Including: without recourse	1,543,715	1,777,467	15,1%
Including: with recourse	1,227,163	1,285,348	4,7%
N. of dossiers processed	**1,317,514**	**1,518,061**	**15,2%**

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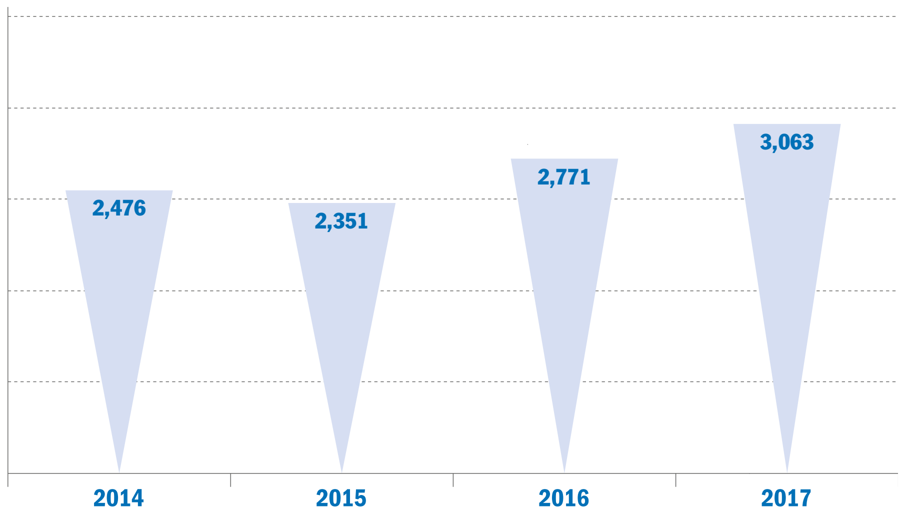
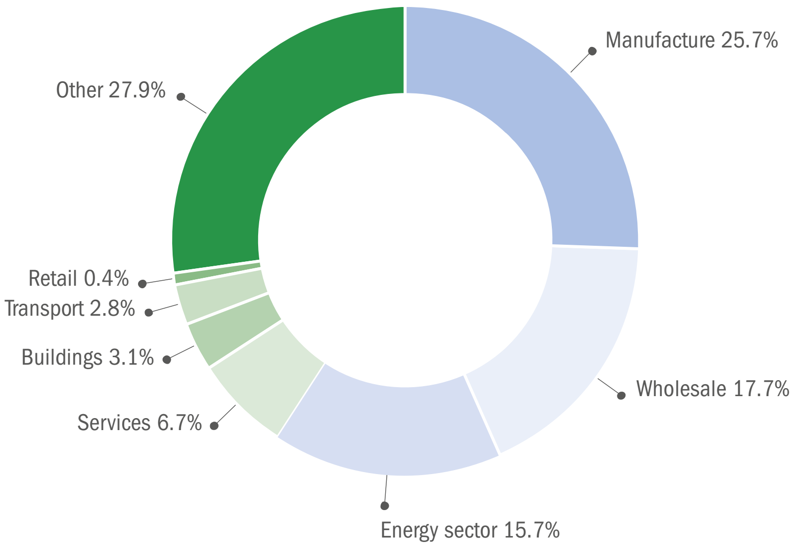
Graph 4. Outstanding Loans and Receivables (m)



The average term of loans and receivables decreased to 84 days (it was 97 days in 2016). The decrease in average credit rotation days is mainly due to the type of customers in the portfolio and, consequently, to the related payment terms.

The turnover distribution on the basis of the originator's merchant sector shows that most of the volumes are generated by customers belonging to the Manufacturing sector (25,7%), followed by wholesale (17,7%), Energy (15,7%), Services (6,7%), Buildings (3,1%), Transport (2,23%) and Retail (0,4%). The "Other" class covers the remaining 27,9%.

Graph 5. Breakdown of turnover by merchant sector of originator



An analysis of turnover by product shows that traditional factoring accounts for 40% of total volumes. Financing products without notification to the debtor make up 43% of the total. The maturity factoring represent 15% of the total and guarantee products without notification to the debtor make up 2% of the total.

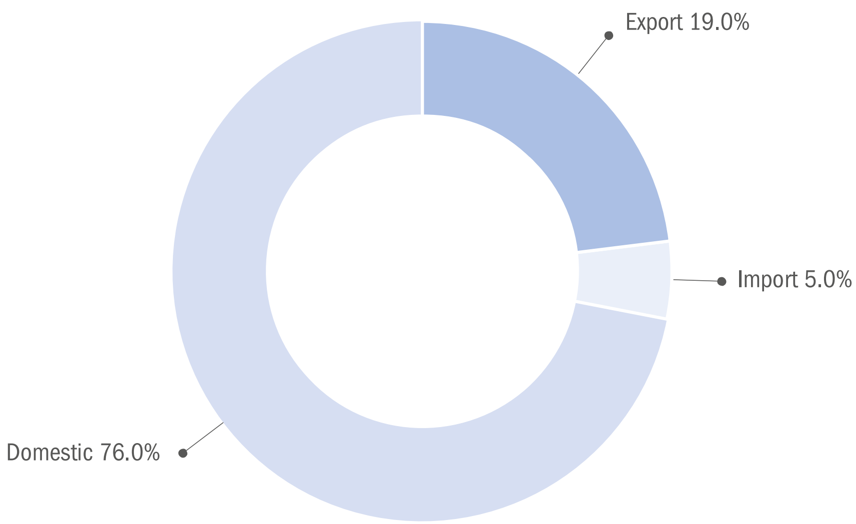
Table 4. Product segmentation (percentage of total)

	2015	2016	2017
Traditional factoring	35,2%	37,7%	39,9%
Financing products without notice	44,4%	43,7%	43,0%
Maturity factoring	17,6%	16,0%	15,0%
Guarantee only without notice	2,8%	2,6%	2,1%
Total	**100,0%**	**100,0%**	**100,0%**

(%)

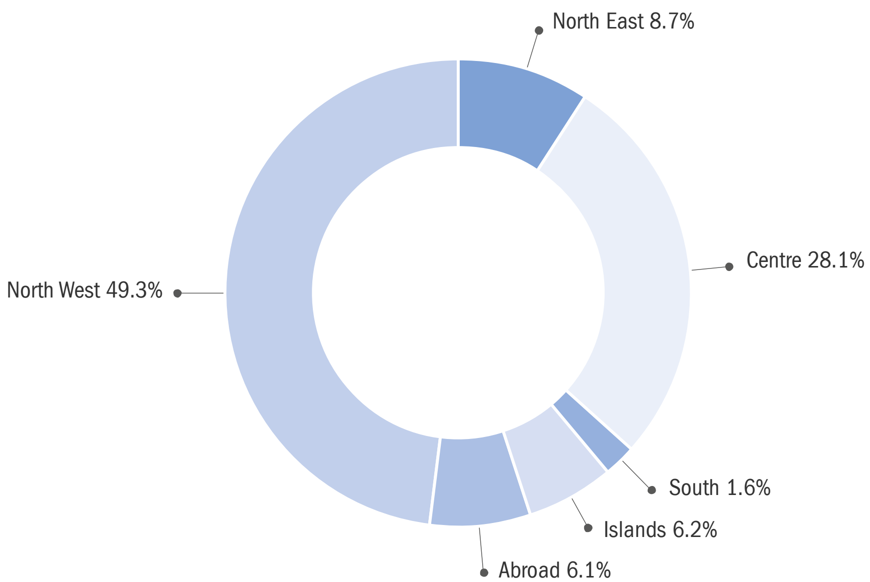
Domestic transactions made up 76% of total loans and receivables factored (turnover of €10,070 million). Export factoring accounted for 19% (€2,509 million) and imports factoring for 5% (€665 million).

Graph 6. Breakdown of turnover by geographical segment



The company mainly works in areas where its shareholder banks have a widespread presence and the direct commercial activity is more effective. The amount of credits sold by customers based in Lombardia,- which in 2017 became the first region in terms of turnover – make up 28,6% of the total. Lazio (26,7%) and Piemonte (19,3%) are among the most significant regions in order of volumes. Turnover contributed by customers based abroad made up 6,1% of the total.

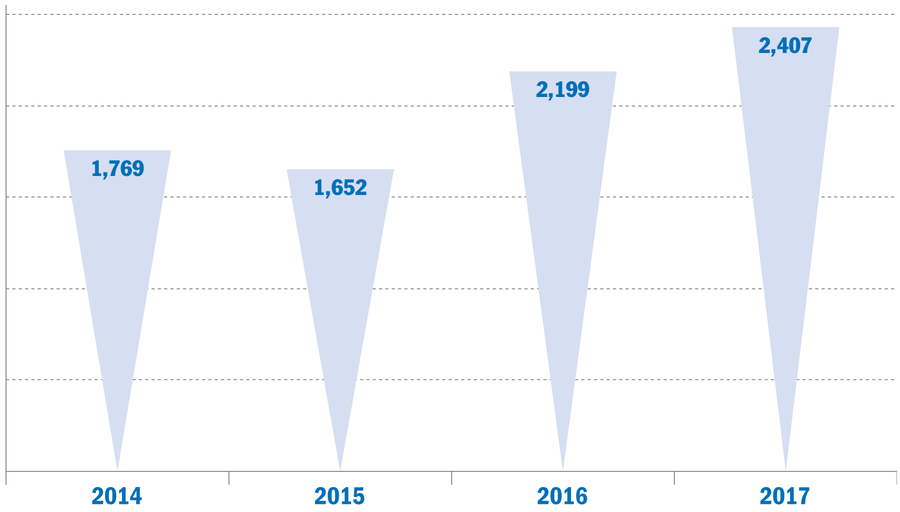
Graph 7. Breakdown of customers by macro geographical segment



(percentages calculated considering the customers' registered office)

As at December 31st 2017, advances amounted to € 2,407 million, equal to 78,6% of the outstanding loans and receivables.

Graph 8. Advances (m)



Distribution Channels

Assignments by customers referred by shareholder banks amounted to € 5,077.1 million, equal to 38,3% of the total loans and receivables assigned, up 23% on the previous year.

Considering the banking channel as a whole, referred customers contributed to € 5,267.3 million, equal to 39,8% of the total amount of loans and receivables assigned.

Factorit has product distribution agreements with 56 banks.

Customers from the "direct" channel assigned loans and receivables amount to € 7,312 million, equal to 55,2% of the total and up 30,5% on the previous year.

The volume of loans and receivables for import factoring transactions, which also derive from the reports of the corresponding FCI (Factors Chain International), amounted to € 665,2 million, with an incidence of 5% on total loans sold and an increase of 28,5%.

Table 5. Breakdown of turnover by distribution channel

	2016	Weight	2017	Weight	Variation
Banca Popolare di Sondrio	*2,287,186*	*22,0%*	*3,132,611*	*23,6%*	*37,0%*
Banca Popolare di Milano	*927,476*	*8,9%*	*1,185,856*	*9,0%*	*27,9%*
Banco BPM	*913,756*	*8,8%*	*758,651*	*5,7%*	*-17,0%*
Total Shareholder banks	*4,128,418*	*39,7%*	*5,077,118*	*38,3%*	*23,0%*
Total BANKS	**4,295,159**	**41,2%**	**5,267,335**	**39,8%**	**22,6%**
Total IMPORT	**517,825**	**5,0%**	**665,218**	**5,0%**	**28,5%**
Total DIRECT	**5,603,070**	**53,8%**	**7,312,051**	**55,2%**	**30,5%**
Total	**10,416,054**	**100,0%**	**13,244,604**	**100,0%**	**27,2%**

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Changes to the regulatory framework

The Compliance Unit (outsourced), within its scope of monitoring the risks of non-compliance with the rules, identifies changes in the regulations due to measures introduced by the legislator and the supervisory bodies which fall within its scope of competence and that would affect the company's operations, as well as to evaluate the adequacy of the procedures adopted by the same.

During the year, with regard to bank transparency and complaints management, the Company updated operational manuals and the Compliance Unit performed, with positive results, specific checks on: pre-contractual advertising and information, contractual documentation, periodic communications, customer complaints management, organizational requirements and staff training. In order to verify the correctness of the fulfilments of the sales network, the analysis was also conducted with the examination of samples of practices.

In terms of Privacy, the Compliance Unit carried out a preliminary check on the activities of adaptation to the GDPR (General Data Protection Regulation) - EU Regulation 679/2016. During 2017, the Company launched the specific "Privacy Project", which includes an assessment (training, interviews, examination of documentation, census of data processing), a Gap Analysis and a Remediation Plan, aimed at ensuring the review of policies and procedures needed to comply with the GDPR, also in accordance with the internal regulation which will be issued by the Parent Company.

In 2017, the Compliance Function also carried out a check on related parties and conflict of interests. No issue has been detected.

As regard usury, the Company implemented the instructions issued by the Bank of Italy in 2016, in force since 2017, formalized in the Operational Manual currently being issued.

An analysis was also performed, together with the Internal Audit Function, about the possible applicability to the Company of EU Regulation no. 648 of 4 July 2012 - European Market Infrastructure Regulation (EMIR) relating to exposures in OTC derivatives.

During the year, the Company continued with the review of the contractual texts with the suppliers, in relation to the outsourcing of important operating functions, in compliance with the provisions of the current Supervisory Instructions and in compliance with the Parent Company guidelines.

In 2017, with the support of the Compliance Function and the Parent Company, the Company proceeded to draft the General Regulation on the risk of non-compliance.

On July 24th, 2014, the IASB published the final version of IFRS 9 "Instruments financial assets" in order to replace, starting from January 1st 2018, the accounting standard IAS 39 which currently regulates the classification and measurement of financial instruments.

The new principle introduces important innovations regarding the areas of "Classification and measurement of financial instruments", "impairment" and "hedge accounting". In particular, the new "impairment" model will be based on an "Expected losses" approach instead of "incurred losses" as required by current IAS 39.

During 2017, under the coordination of the Parent Company, and also with the support of external consultants indicated by the same, the Company started the project activity with the aim of continuing the impact analysis deriving from the introduction of the principle and starting the design phase of the target operating model.

The Company has conducted activities related to the interpretation of the accounting principle and this has allowed to identify the new declination of accounting processes and to start the design phase of the objective model.

In light of the simulation activities conducted with regard to the new accounting classification, driven by the business model and the contractual characteristics of the cash flows of the instruments, no changes in the composition of the portfolio are expected based on the accounting category.

As regard the activities relating to the so-called impairment model, the scope of the financial instruments subject to the application of the standard was defined along with the method for estimating the risk parameters and the conduct for the staging allocation.

Organisational structure and human resources

During the year, some entries were made to strengthen the structure of the Commercial Service, especially as regards the Lombardy area.

Table 6. Average number of employees

	2016	2017
Managers	6	7
Junior Managers	67	75
White Collars	93	93
Total	**166**	**175**
Including: part-time	*17*	*18*

Sixteen people left the company and another twenty-two joined, most of whom with fixed term contracts. The average number for the year (175) is not weighted, in particular with respect to 16 part-time contracts.

At year end, the company had 178 employees: 98 men and 80 women. Staff with fixed term contracts was taken on during the year to deal with peaks in the workload and special projects. Their contracts will finish in the next few months.

All employees were provided with professional training during the year in courses financed by the Banking and Insurance Funds, thus increasing their knowledge of regulatory and technical issues. A special course was held for the Sales Department employees to develop their knowledge of factoring products. Moreover, updating courses on particular IT products were provided to IT colleagues.

According to the new state-regions occupational safety directives, the company continued to provide the related training to all new hires and contractors.

Risks

Interest and liquidity risk

Reference should be made to section 3 of the notes - Risks and hedging policies for information on interest rate risks.

The company's liquidity risk is managed by the parent's relevant units, which ensured it received the financial resourses necessary to carry out its business.

Credit risk

At year end, non-performing exposures, before impairment losses, amounted to € 18,7 million, equal to 0,78% of total principal lent. Net of impairment losses, these exposures amounted to € 0,9 million (4,1 million in 2016), equal to 0,04% of the advances (0,2% in 2016), which amounted to € 2,407 million at year end (2,199 million in 2016).The coverage ratio of non performing loans is equal to 94,9%.

As at December 31st, 2016, unlikely to pay exposures, before impairment losses, amounted to € 14,7 million (33,2 million in 2016) and, net of impairment losses, amounted to € 7,8 million (13,6 million in 2016).

As at December 31st, 2017, the company recorded losses of € 22,2 million (30,4 million in 2016). In detail: €19,7 million due from sellers and 2,3 million due from debtors; 0,2 million from less worthy credits and credits. The amount recognized was fully covered by the relevant allowances.

Risk concentration and regulatory capital

During 2017, the company continued the activities to ensure it complied with the ceilings set by the current relevant regulations using the applications introduced several years ago. At December 31, it had 25 “large exposures”.

It should be noted that, starting from the fourth quarter of 2017, for risk positions beyond the limit of 25% of the eligible capital, the Parent Company will cover the excess of the individual limit by sureties; at December 31st 2017, four primary groups exceeded this 25%.

For the concentration of risk, for further details, please refer to Section 3 of the Explanatory Notes - Information on risks and related hedging policies and for the own Regulatory Capital Funds to Section 4 - Information on Capital.

Going concern

Given the current shareholding structure and the fact that the company does not have capitalisation issues and has historically made a profit, the directors are satisfied that it can continue as a going concern.

Other information

Pursuant to article 2428.3.1 of the Italian Civil Code, it is noted that the company did not carry out any R&D activities during the year.

The Other disclosures section of the notes provides the information on related party transactions required by article 2428.3.2 of the Italian Civil Code.

With respect to the disclosures as per article 2428.3.3/4 of the Italian Civil Code, the company states that it does not hold treasury shares or shares of its parent, either directly or via trustees or nominees. Moreover, it states that it did not either purchase or sell treasury shares or shares of its parent during the year, either directly or via trustees or nominees.

Part D of the notes and the previous sections of this report provide the information about risks required by article 2428.6-bis of the Italian Civil Code.

The company does not have secondary offices.

Outlook

As far as the factoring industry in Italy is concerned, surveys conducted by the association of category (Assifact's surveys) also confirmed the industry's positive expectations for the year just started, both in terms of turnover (+ 5,80%) and in terms of outstanding (+ 3,4%), in terms of average loans (+ 4,13%), as well as the general confidence of operators about the expected performance of the fiscal result for 2018 (74% of operators expect a growth in output over 2017).

Factorit's goals for 2018 have been prepared - in the light of the expectations of the Parent - on the basis of the forecasts on the performance of the Italian economy, with particular attention to GDP and considering the possible evolution of the Italian factoring market.

The company will maintain high attention on all activities aimed at the containment of risks and the constant improvement of the quality of the managed portfolio. Under the business aspect, continuing the positive trend of 2016, will pursue every opportunity for growth in terms of turnover and customer loyalty, both through partnerships with participating and contracted banks, as well as through direct business development operations. Finally, the possibilities for expanding the company's business to corporate clients, public administration and foreign companies will not be left out.

Significant events happened after the close of the financial year

No significant events occurred after the end of the year determine an impact on this financial statements.

Dear shareholders,

We propose you approve the financial statements as at and for the year ended 31 December 2017 and the allocation of the profit for the year as follows:

Net profit for the year	Euro	15,122,818
Profits from previous years	Euro	228,866
Profits to allocate	Euro	15,351,684
Of which:		
5% of the profit to Legal Reserve	Euro	756,141
Dividend of Euro 0,07 to each of the n. 85,000,002 outstanding shares	Euro	5,950,000
Profits to extraordinary reserve	Euro	8,400,000
Retained profits	Euro	245,543

We invite you to approve the financial statements as they stand and the proposed allocation of the profit for the year.

We would like to take the opportunity to thank the shareholders for their services to the company during the year.

We would also like to thank the board of statutory auditors for its assistance provided during the year, to all the company's employees for their constant commitment, to the banks that use our services, the members of Factors Chain International and the bodies of Assifact.

Milano, March 7th 2018

On behalf of the Board of Directors

Chairman
(Roberto Ruozi)
(signed on the original)

FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017

CONTENT OF THE FINANCIAL STATEMENTS

The financial statements of Factorit S.p.A. comprise a statement of financial position, an income statement, a statement of comprehensive income, a statement of changes in equity, a statement of cash flows and these notes, and are accompanied by a directors' report. They have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and endorsed by the European Commission pursuant to Regulation (EC) no. 1606 of 19 July 2002, considering the interpretations issued by the International Interpretations Committee (IFRIC) applicable at the reporting date.
The company has drafted the financial statements on the basis of the instructions for the preparation of "The financial statements of IFRS financial intermediaries different from the banks" issued by Bank of Italy in its measure of 9 December 2016 as part of its powers conferred by Legislative Decree no. 136/2015 which transposes and implements the above IFRS.

The financial statements are clearly stated and give a true and fair view of the company's financial position and financial performance.

The notes present, analyse and, in some cases, supplement the information provided in the financial statements. They include the disclosures required by the instructions for the preparation of financial statements by financial intermediaries. They also comprise all the additional information deemed necessary to give a true and fair view.

STATEMENT OF FINANCIAL POSITION

(Euro)

Assets	**31/12/2017**	**31/12/2016**
10. Cash and cash equivalents	1,557	1,315
40. Available-for-sale financial assets	21,803	350,000
60. Loans and Receivables	2,390,951,101	2,160,157,275
100. Property and Equipment	469,338	514,185
110. Intangible assets	101,919	89,145
120. Tax Assets	33,283,383	36,418,871
a) current	9,114,380	9,175,924
b) deferred	24,169,003	27,242,947
Including: as per Law no, 214/2011	23,113,222	25,238,577
140. Other Assets	5,665,395	5,854,232
TOTAL ASSETS	**2,430,494,496**	**2,203,385,023**

Liabilities and Equity	**31/12/2017**	**31/12/2016**
10. Financial Liabilities	2,175,251,227	1,968,727,056
70. Tax Liabilities	6,232,634	2,202,847
a) current	4,193,219	163,518
b) deferred	2,039,415	2,039,329
90. Other Liabilities	13,984,466	12,368,320
100. Post-employment benefits	2,430,284	2,363,578
110. Provisions for risks and charges:	3,261,433	3,427,950
a) pension and similar provisions	-	-
b) other provisions	3,261,433	3,427,950
120. Share capital	85,000,002	85,000,002
150. Share premium	11,030,364	11,030,364
160. Reserves	118,499,935	115,270,549
170. Valuation reserves	-318,667	-235,029
180. Profit for the year	15,122,818	3,229,386
TOTAL LIABILITIES AND EQUITY	**2,430,494,496**	**2,203,385,023**

INCOME STATEMENT

(Euro)

	31/12/2017	31/12/2016
10. Interest and similar income	27,044,473	25,937,168
20. Interest and similar expense	-3,539,245	-4,064,970
NET INTEREST INCOME	23,505,228	21,872,198
30. Fee and commission income	23,746,543	24,146,154
40. Fee and commission expense	-3,065,641	-3,525,190
NET FEE AND COMMISSION INCOME	20,680,902	20,620,964
60. Net trading income	7,013	-16,960
TOTAL INCOME	44,193,143	42,476,202
100. Net impairment losses on:	601,197	-18,360,734
a) financial assets	520,412	-18,568,657
b) other financial transactions	80,785	207,923
110. Administrative expenses:	-22,563,756	-21,977,037
a) personnel expense	-13,825,845	-13,358,251
b) other administrative expenses	-8,737,911	-8,618,786
120. Depreciation and net impairment losses on property and equipment	-182,602	-158,056
130. Amortisation and net impairment losses on intangible assets	-42,602	-54,712
150. Net accruals to provisions for risks and charges	-925,193	-141,639
160. Other operating income, net	1,336,778	2,018,014
OPERATING PROFIT	22,416,965	3,802,038
180. Net gain on the sale of investments	4,827	52,585
PRE-TAX PROFIT FROM CONTINUING OPERATIONS	22,421,792	3,854,623
190. Income taxes	-7,298,974	-625,237
POST-TAX PROFIT FROM CONTINUING OPERATIONS	15,122,818	3,229,386
PROFIT FOR THE YEAR	**15,122,818**	**3,229,386**

STATEMENT OF COMPREHENSIVE INCOME

(Euro)

	Captions	31/12/2017	31/12/2016
10	**Profit for the year**	**15,122,818**	**3,229,386**
	Other comprehensive income (expense), net of tax, that will not be reclassified to profit or loss	-	-
20	Property and equipment	-	-
30	Intangible assets	-	-
40	Defined benefit plans	(83,638)	(59,891)
50	Non-current assets held for sale	-	-
60	Share of valuation reserves of equity-accounted investees	-	-
	Other comprehensive income (expense), net of tax, that will be reclassified to profit or loss	-	-
70	Hedges of investments in foreign operations	-	-
80	Exchange rate gains (losses)	-	-
90	Cash Flow hedges	-	-
100	Available-for-sale financial assets	-	-
110	Non current assets held for sale	-	-
120	Share of valuation reserves of equity-accounted investees	-	-
130	Total other comprehensive income (expense), net of tax	(83,638)	(59,891)
140	Comprehensive income (Captions 10+110)	**15,039,180**	**3,169,495**

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

(Euro)

	Balance of 31/12/2016	Changes to opening balances	Balance at 01/01/2017	Allocation of prior year profit		Changes of the year							Comprehensive income 31/12/2017	Equity at 31/12/2017
							Equity Transactions							
				Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Repurchase of own shares	Extraordinary dividend distribution	Change in equity instruments	Other changes			
Share capital	85,000,002	-	85,000,002	-	-	-	-	-	-	-	-		-	85,000,002
Share premium	11,030,364	-	11,030,364	-	-	-	-	-	-	-	-		-	11,030,364
Reserves:														
a) income-related	110,316,839	-	110,316,839	3,229,386	-	-	-	-	-	-	-		-	113,546,225
b) other	4,953,710	-	4,953,710	-	-	-	-	-	-	-	-		-	4,953,710
Valuation reserves	(235,029)	-	(235,029)	-	-	-	-	-	-	-	-		(83,638)	(318,667)
Equity instruments	-	-		-	-	-	-	-	-	-	-		-	-
Treasury shares	-	-		-	-	-	-	-	-	-	-		-	-
Profit for the year	3,229,386	-	3,229,386	(3,229,386)	-	-	-	-	-	-	-		15,122,818	15,122,818
Equity	214,295,272	-	214,295,272	-	-	-	-	-	-	-	-		15,039,180	229,334,452

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

(Euro)

	Balance of 31/12/2015	Changes to opening balances	Balance at 01/01/2016	Allocation of prior year profit		Changes of the year							Comprehensive income 31/12/2017	Equity at 31/12/2017
							Equity transactions							
				Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Repurchase of own shares	Extraordinary dividend distribution	Change in equity instruments	Other changes			
Share capital	85,000,002	-	85,000,002	-	-	-	-	-	-	-	-		-	85,000,002
Share premium	11,030,364	-	11,030,364	-	-	-	-	-	-	-	-		-	11,030,364
Reserves:														
a) income-related	97,717,166	-	97,717,166	12,599,673	-	-	-	-	-	-	-		-	110,316,839
b) other	4,953,710	-	4,953,710	-	-	-	-	-	-	-	-		-	4,953,710
Valuation reserves	(175,138)	-	(175,138)	-	-	-	-	-	-	-	-		(59,891)	(235,029)
Equity instruments	-	-		-	-	-	-	-	-	-	-		-	-
Treasury shares	-	-		-	-	-	-	-	-	-	-		-	-
Profit for the year	20,759,673	-	20,759,673	(12,599,673)	(8,160,000)	-	-	-	-	-	-		3,229,386	3,229,386
Equity	219,285,777	-	219,285,777	-	(8,160,000)	-	-	-	-	-	-		3,169,495	214,295,272

STATEMENT OF CASH FLOWS

(Euro)

A. OPERATING ACTIVITIES	Amount	
	31/12/2017	**31/12/2016**
1. OPERATIONS	**18,047,584**	**21,890,381**
- profit for the year (+/-)	15,122,818	3,229,386
- net losses on financial assets held for trading and on financial assets/liabilities at fair value through profit or loss(+/-)	(7,013)	16,960
- net impairment losses (+/-)	(601,197)	18,360,734
- net impairment losses on property and equipment and intangible assets (+/-)	225,204	212,768
- net accruals to provisions for risks and charges and other costs/revenue (+/-)	(925,193)	(141,639)
- unsettled taxes and tax assets (+/-)	4,193,219	163,518
- other adjustments (+/-)	39,746	48,654
2. CASH FLOWS GENERATED BY FINANCIAL ASSETS	**(226,480,045)**	**(576,599,987)**
- available-for-sale financial assets	328,197	710,000
- loans and receivables with banks	1,828,504	-5,700,429
- loans and receivables with financial institutions	57,289,492	-25,832,024
- loans and receivables with customers	(289,189,019)	-550,033,200
- other assets	3,262,781	4,255,666
3. CASH FLOWS USED FOR FINANCIAL LIABILITIES	**208,740,427**	**563,781,785**
- due to banks	197,717,300	578,995,587
- due to financial institutions	(150,988)	-187,549
- due to customers	8,957,859	-637,899
- securities issued	0	0
- other liabilities	2,216,256	-14,388,354
Net cash flows generated by operating activities	**307,966**	**9,072,179**
B. INVESTING ACTIVITIES		
1. CASH GENERATED BY	**285**	**4,014**
- sales of property and equipment	285	4,014
- sales of intangible assets	0	0
- sales of business units	0	0
2. CASH FLOWS USED TO ACQUIRE	**-193,416**	**-308,645**
- property and equipment	-138,040	-283,446
- intangible assets	-55,376	-25,199
- business units	0	0
Net cash flows used in investing activities	**-193,131**	**-304,631**
C. FINANCING ACTIVITIES		
- issue/repurchase of treasury shares	0	0
- issue/purchase of equity instruments	0	0
- dividend and other distributions	0	-8,160,000
Net cash flows used by financing activities	**0**	**-8,160,000**
TOTAL NET CASH FLOWS FOR THE YEAR	**114,835**	**607,548**

RECONCILIATION	Amount	
	31/12/2017	**31/12/2016**
Opening cash and cash equivalents	**7,423,541**	**6,815,993**
Total net cash flows for the year	114,835	607,548
Closing cash and cash equivalents	**7,538,376**	**7,423,541**

NOTES TO THE FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017

PART A *Accounting policies*

A.1 – GENERAL PART

Section 1 *Statement of compliance with IFRS*

Factorit S.p.A., a subsidiary of Banca Popolare di Sondrio S.C.p.A., states that the financial statements were prepared in accordance with all the International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB) and the related interpretations of the International Financial Reporting Interpretations Committee (IFRIC), applicable at 31 December 2017, endorsed by the European Union as per the procedure set out by Regulation (EC) no. 1606/2002, integrated by the "Instructions for the preparation of the financial statements of IFRS financial intermediaries different from the banks" issued by Bank of Italy in its measure of 9 December 2016.

Section 2 *Basis of preparation*

The financial statements are clearly stated and give a true and fair view of the company's financial position and financial performance.
These notes, prepared in Euros, are based on the following general principles set out in IAS 1:

1) <u>Going concern:</u> The financial statements have been prepared assuming that the company will continue as a going concern; therefore, assets, liabilities and off-statement of financial position transactions are measured on a going concern basis.
2) <u>Accruals basis of accounting</u>: Expenses and revenues are recognised on an accruals and matching basis, regardless of when they are actually settled;
3) <u>Consistency of presentation</u>: The presentation and classification criteria of the captions are consistent from one period to another to ensure comparable information, unless their modification is required by a standard or an interpretation or an improvement in the relevance and reliability of the caption's presentation becomes necessary. In the case of a change in accounting policy, the new policy is applied retroactively, as far as possible, and the nature, reason for and amount of the captions affected by the change are indicated as well as the effects on the company's financial position, financial performance and cash flows. Captions are presented and classified in line with the formats established by Bank of Italy for financial intermediaries;
4) <u>Materiality and aggregation</u>: the various classes of similar items are presented separately, if material. Different items, if materials, are presented separately;
5) <u>Offsetting</u>: except when required or allowed by a standard or interpretation or Bank of Italy's instructions for the financial statements of financial intermediaries included in the special list, assets and liabilities and expenses and revenue are not offset;
6) <u>Comparative information</u>: comparative information in respect of the previous year for all amounts reported in the current year's financial statements is disclosed, except when a standard or the interpretations permits or require otherwise. Qualitative

information or comments are included when this is useful to understand the financial statements captions.

Section 3 *Events after the reporting date*

Pursuant to IAS 10, the Board of Directors authorized the publication of the Financial Statements on 7 March 2018.

No significant events have occurred that could significantly alter the company's financial and equity situation so that their omission could affect the economic decisions of the users of the financial statements.

Section 4 *Other issues*

The company does not participate in the domestic tax consolidation scheme as its parent has not exercised the option under articles 117 to 129 of the Consolidated Income Tax Act.

Reference should be made to the sections on risks for the disclosures required by IAS 1.125. Specifically, with respect to the estimated recoverability of deferred tax assets, impairment losses on loans and receivables and legal and tax risks, the assumptions and uncertainty of estimates mean that there is a risk that significant adjustments to the carrying amount of assets and liabilities may need to be made, including within the next year, as also noted in the Bank of Italy/Consob/Isvap document of 6 February 2009.

In the preparation of the financial statements, we have taken into consideration the changes to the current accounting principles.

The company has not made any exceptions from the IFRS when drafting these financial statements.

It is confirmed that Factorit, in co-ordination with the Parent Company, started a project to be timely compliant with the international principle IFRS 9 which entered into force since 1 January 2018. The project also foresees the support of external consultants under the signing of a specific contract.

The indepenedent auditor in charge is EY S.p.A., as decided by the Shareholders' Meeting of 20 September 2017. EY S.p.A. term of engagement expires with the approval of the company's financial statements at 31 December 2025.

A.2 – MAIN BALANCE SHEET ITEMS

ASSETS

Section 4 *Available-for-sale financial assets*

4.1 Classification criteria

This category includes non-derivative financial assets that are not classified as loans and receivables, financial assets held for trading or held-to-maturity investments. It comprises securities not held for trading and equity investments that do not give the company control, joint control or significant influence over the investee and are not held for trading.

4.2 Recognition criteria

Available-for-sale (AFS) financial assets are initially recognised at their transaction date at their fair value, which usually equals the consideration paid or collected, including transaction costs or revenue in the case of non-current loans and receivables and securities.

4.3 Measurement criteria

An impairment test is performed at each reporting date to detect any objective evidences of a reduction in value. Any subsequent reversals of impairment losses cannot exceed the previously recognised impairment loss.

4.4 Derecognition criteria

These financial assets are derecognised when their sale entails the substantial transfer of all the related risks and rewards. i.e., when the contractual rights to the cash flows from the financial asset expire. In this case, the sale is recognised using the criteria applied for the asset's initial recognition.

Section 6 *Loans and receivables*

6.1 Classification criteria

This category includes all non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. It comprises loans and receivables with banks, financial institutions and customers and unquoted debt instruments that the company does not intend to sell in the short term.

6.2 Recognition and derecognition criteria

Loans, receivables and instruments are recognised in this category when disbursed or purchased and they cannot be transferred to another portfolio. Nor can financial instruments of other portfolios be transferred thereto, except for that allowed by the amendment to IAS 39 and IFRS 7 issued by the IASB in 2008.

The category includes advances made against the factoring of loans and receivables with recourse or without recourse without the substantial transfer of the related risks and rewards.
It also comprises loans and receivables assigned to the company and recognised as due from the original debtor when the risks and rewards are substantially transferred by the assignor as per an analytical valuation of the contractual clauses.
If assigned to third parties, the loans, receivables and instruments are only derecognised if and to the limits to which all the risks and rewards are substantially transferred.

6.3 Measurement criteria

Loans and receivables or instruments are initially recognised at fair value when disbursed or purchased, which is usually equal to the amount disbursed or the purchase price, including any transaction costs or revenue that are specifically attributable to each loan and receivable or instrument in the case of assets with a maturity that is more than short term.
After initial recognition, they are measured at amortised cost and are tested for impairment whenever there is an indication that the debtor's or issuer's solvency has deteriorated. The amortised cost method is not used for short-term loans and receivables, as their discounting has no material impact.

The impairment test for loans and receivables consists of two stages:
1) individual tests, to test individual impaired loans and receivables and to calculate the impairment loss;
2) collective tests to identify portfolios of impaired loans and receivables using the incurred losses model and to identify any unrecognised losses on a lump sum basis.

According to Bank of Italy's criteria, applicable at the reporting date, impaired loans and receivables tested individually for impairment are:
a) Non performing exposures;
b) Unlikely to pay exposures;
c) Exposures that are past due by more than 90 days.

Pursuant to the ruling regulations, the company identifies exposures that are impaired past due, the so called "scaduto deteriorato".

Starting from 2013, the company has tested this category individually while using the same basis as that used for collective impairment, applying the same impairment percentage to each exposure for debtors in the same situation. It calculates this percentage using internal management statistics. The "scaduto deteriorato" category is not discounted.

Impairment losses on each impaired exposure equal the difference between their recoverable amount and the related amortised cost. The recoverable amount is the present value of expected future cash flows calculated on the following basis:
a) contractual cash flows net of expected losses, estimated considering the debtor's ability to meet its commitments and the realisable value of any collateral or personal guarantees given;
b) the expected recovery time, estimated considering the procedures in place to recover the exposure;
c) the internal rate of return

The individual impairment loss is calculated in accordance with IAS 39 by discounting the exposure's recoverable amount over the estimated recovery period.
The following calculation parameters are used for non-performing and unlikely to pay exposures:

a) recovery forecasts made by the relevant managers;
b) expected recovery times, based on historical and statistical data;
c) "historical" discount rates, being the contractual rates at the time the individual exposure is classified as "under dispute".

In 2013, the company reviewed the methods used to calculate the expected recovery times for non-performing and unlikely to pay exposures. Specifically, if the managers do not specify an exact recovery date, the recovery time is estimated to be four years for both nonperforming and unlikely to pay exposures, in line with the timeframes adopted by the parent. Section 8.1 of these notes shows the effects of application of these methods.
With respect to the collective testing of performing exposures for impairment, the debtor's credit standing is taken to have deteriorated when there is an increase in the related proxy PD and the LGD (loss given default) of exposures in the same portfolio.

The collective testing of performing exposures included:

a) segmenting the portfolio of performing exposures on the basis of the guidelines set out in the supervisory regulations;
b) estimating the probability of transfer of the performing exposures to unlikely to pay/non-performing exposure categories (default rates) on a statistical basis;
c) calculating the LGD on a historical-statistical basis, using an historical database of non-performing and unlikely to pay exposures.

6.4 Recognition of costs and revenue criteria

Costs and revenue are recognised in the income statement on the following basis:

a) interest income from loans and receivables is recognised in "interest and similar income";
b) impairment losses and reversals of impairment losses are recognised in "impairment losses/reversals of impairment losses on loans and receivables".

Section 10 *Property and equipment*

10.1 Classification

This caption includes assets used in the company's operations (furniture, fittings, systems, hardware and cars).

10.2 Recognition and derecognition criteria

Property and equipment are originally recognised at cost, including any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Ordinary maintenance costs are expensed on an accruals basis.
These assets are derecognised on disposal and no future economic benefits are expected from their use.

10.3 Measurement criteria

The assets are subsequently measured at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is charged over the asset's estimated useful life. The company checks at least once a year to see if there have been substantial changes in the asset's original conditions that would require the initial depreciation pattern to be changed. When there is indication of impairment, the assets are tested for impairment. Any reversals of impairment losses cannot exceed the previously recorded impairment losses.

10.4 Recognition of costs and revenues

Costs and revenues are recognised in the income statement on the following basis:

a) depreciation, impairment losses and reversals of impairment losses are recognized in "Depreciation and net impairment losses on property and equipment";
b) gains and losses on the sale of these assets are recognised in "Gains/losses on the sale of investments".

Section 11 *Intangible assets*

11.1 Classification criteria

This caption includes intangible assets held for production to be used over more than one year, whose cost can be measured reliably when they are:

- identifiable, i.e., arise from legal rights or are separable;
- under the company's control;
- able to generate future economic benefits.

The caption solely comprises software.

11.2 Recognition and derecognition criteria

Intangible assets are recognised at cost, including related charges and costs incurred to increase their value and initial production capacity.
Intangible assets are derecognised on disposal or when no future economic benefits are expected from its use.

11.3 Measurement criteria

They are recognised at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged over the assets' useful life on a straight-line basis. The company regularly checks to see if there have been substantial changes in the asset's original conditions that would require the initial amortisation pattern to be changed.
When there is indication of impairment, the assets are tested for impairment. Any reversals of impairment losses cannot exceed the previously recorded impairment losses.

11.4 Recognition of costs and revenue

Costs and revenue are recognised in the income statement on the following basis:
a) amortisation, impairment losses and reversals of impairment losses are recognized in "Amortisation and net impairment losses on intangible assets";
b) gains and losses on the sale of these assets are recognised in "Gains/losses on the sale of investments".

Section 12 Tax assets and liabilities

12.1 Classification criteria

These captions include current and deferred tax assets and liabilities.
Current tax assets include withholdings and advances paid during the year while current tax liabilities comprise taxes to be paid for the year.
Deferred taxes refer to income taxes recoverable in future periods in respect of deductible temporary differences (deferred tax assets) and income taxes payable in future periods in respect of taxable temporary differences (deferred tax liabilities).

12.2 Recognition, derecognition and measurement criteria

Deferred tax assets are recognised under the balance sheet liability method only when it is probable that the company will have sufficient taxable profit in the same period as the reversal of the deductible temporary differences while deferred tax liabilities are always recognised.

12.3 Recognition of costs and revenue

Tax income and expense are recognised in the income statement as "Income taxes" unless they arise on transactions, the effects of which are recognised directly in equity.

LIABILITIES

Section 1 Financial liabilities

1.1 Classification criteria

Due to banks include all financial liabilities, other than financial liabilities held for trading, financial liabilities at fair value through profit or loss and securities issued which form part of the company's normal financing operations.
Due to financial institutions and customers includes the consideration to be paid to the assignor as part of the assignment of loans and receivables that substantially transfer all the risks and rewards by the factor.

1.2 Recognition and derecognition

These liabilities are recognised at their settlement date at their present value which is usually equal to the amount collected by the company, for amounts due to banks, and to the amount of the liability, in the case of financial institutions and customers, given the short-term nature of the related transactions.
Financial liabilities are derecognised when the related contractual rights expire or are extinguished.

1.3 Measurement criteria

After initial recognition, financial liabilities are measured at the amount collected or their original amount, given their short-term nature.

1.4 Recognition of costs and revenue

Costs and revenue are recognised as follows in the income statementinterest expense is recognized in "interest and similar expense"

Section 10 Post-employment benefits

10.1 Classification criteria

Italian post-employment benefits (TFR) are the benefits due by the company to all its employees when they resign.

10.2 Measurement criteria

Post-employment benefits and the internal supplementary defined-benefit pension plan are calculated by third party actuaries using the projected unit credit method, as required by IAS 19 for defined benefit plans, as these benefits fall into this category.
The calculation solely considers the benefits' carrying amount and not accruals made during the year to external supplementary pension funds.
Pursuant to the revised IAS 19 - Employee benefits, actuarial gains and losses are recognised directly in equity.

10.3 Recognition of costs and revenue

Costs and revenue are recognised in the income statement on the following basis:

a) accruals for post-employment benefits, seniority bonuses and the supplementary pension fund, as well as the payments to the defined contribution plan, are recognised in “Administrative expenses - personnel expense”;
b) actuarial gains and losses are recognised directly in equity.

Section 11 Provisions for risks and charges

11.1 Classification criteria

These provisions are set up to cover certain or probable liabilities, the amount or due date of which is uncertain. Accruals are made to the provisions for risks and charges in line with IAS 37.

11.2 Recognition, measurement and derecognition criteria

Where the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.
Provisions are derecognised when used or the conditions for their continued existence cease to exist.

11.3 Recognition of costs and revenue

Accruals to provisions are recognised in “Net accruals to provisions for risks and charges”.

Foreign currency transactions

Classification
Foreign current transactions include all those assets and liabilities in currencies other than the Euro.

Recognition and derecognition
Foreign currency assets and liabilities are initially translated into Euros using the spot rate ruling at the transaction date.

Measurement
They are subsequently retranslated using the spot rate ruling at the reporting date.

Recognition of costs and revenue
Foreign currency transactions are minimal. Moreover, the company usually hedges foreign currency loans with funding in the same currency to avoid currency risk.
Any exchange rate gains or losses (which are immaterial) are recognised in “Net trading income”.

Revenues and costs

Revenues and costs are recognised and presented on an accruals basis. Revenues are recognised when it is probable that the economic benefits arising from the transactions will

flow to the company and these benefits can be measured reliably. They are measured at the fair value of the consideration due.
Specifically:
- revenue from one-off fees and commissions on the assignment of loans and receivables are recognised over the term of the assigned receivables. Periodic and deferred fees and commissions are recognised when received on an accruals basis;
- default interest is recognized in profit or loss solely when collected;
- interest on considerations received from the assignors, and on payment extensions granted to the assigned debtors, is recognised on an accruals basis.

Costs are recognised when there is a decrease in the future economic benefits that leads to a decrease in the assets or an increase in the liabilities that can be measured reliably.

A.3 – DISCLOSURE ON TRANSFERS BETWEEN PORTFOLIOS OF FINANCIAL ASSETS

The company has not transferred financial assets from one portfolio to another.

A.4 – FAIR VALUE DISCLOSURE

QUALITATIVE INFORMATION

Fair value is the price that would be received to sell an asset in an orderly transaction between market participants. It is not an actual price but an amount of money that the two parties involved in the transaction can agree on and as such is not affected by subjective factors.
Moreover, fair value is not the current market value but includes all those factors that contribute to making the potential transaction happen: additional costs, probable changes to the price at the transaction date, future company performance.
The IFRS classify fair value of financial instruments using a three-level hierarchy based on market input.
Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. A quoted price in an active market provides the most reliable evidence of fair value.
Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (prices) or indirectly (derived from prices).
Level 3: inputs for the asset or liability that are not based on observable market data. An entity shall develop unobservable inputs using the best information available in the circumstances, which might include the entity's own data.

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

The company's assets mainly consist of trade receivables assigned without recourse and advances granted against trade receivables assigned as part of factoring transactions.
There is no observable market data about the value of the receivables assigned as the price is based solely on specific private agreements between the parties.
Accordingly, the company classifies the trade receivables in level 3 given the lack of external inputs. The most appropriate method to measure the fair value of the receivables assigned and the advances granted is to calculate their present value by discounting future

cash flows using the effective interest rate agreed with the assignor. This rate also considers the other transaction costs.
The receivables assigned and the advances granted usually have a short-term nature and the interest rate also tends to be floating. For these reasons, it can be said that the fair value of the receivables is equal to the value of the transaction, being the nominal amount of the receivables assigned in the case of factoring without recourse, or the amount of the advances granted.
Financial liabilities mostly consist of bank loans and borrowings, whose fair value is equal to the amounts or funds received by the company, given the short-term nature of the liability.
These captions are categorised as third level as they are regulated by private agreements agreed from time to time with the counterparties and, therefore, are not reflected in quotations or parameters observable on the market.

QUANTITATIVE DISCLOSURE

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

Assets and liabilities measured at fair value	Level 1	Level 2	Level 3	TOTAL
1.Financial assets held for trading	-	-	-	-
2.Financial assets at fair value through profit or loss	-	-	-	-
3.Available for sale financial assets	-	-	21,803	21,803
4.Hedging derivatives	-	-	-	-
5.Property and equipment	-	-	-	-
6.Intangible assets	-	-	-	-
Total assets	-	-	**21,803**	**21,803**
1.Financial liabilities held for trading	-	-	-	-
2.Financial liabilities at fair value through profit or loss	-	-	-	-
3.Hedging derivatives	-	-	-	-
Total liabilities	-	-	-	-

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

	Financial assets held for trading	Financial assets measured at fair value	Available for sale financial assets	Hedging derivatives	Property plant and equipment	Intangible assets
1. Opening balance			**350,000**			
2. Increases			**46,803**			
2.1 Purchases			21,803			
2.2 Profits charged to:						
2.2.1. Income statement			25,000			
of which: Profit			25,000			
2.2.2. Equity						
2.3. Changes from other levels						
2.4. Other changes in increase						
3. Decreases			**375,000**			
3.1 Sales						
3.2 Refunds			175,000			
3.3 Losses charged to:						
3.3.1, Income statement			20,000			
of which: Loss			20,000			
3.3.2. Equity						
3.4. Changes from other levels						
3.5. Other changes in decrease			180,000			
4. Net closing balance			**21,803**			

A.5 – DISCLOSURE ON “DAY ONE PROFIT/LOSS”

The *day one profit/loss*, regulated by IFRS 7 and IAS 39.AG.76 is the difference between the initial recognition of the transaction price of a financial instrument and its fair value.
This difference exists for financial instruments that do not have an active market and it is recognised in profit or loss over the financial instrument’s useful life.
The company has not engaged transactions that would have entailed the recognition of significant *day one profit/loss*.

PART B Notes to the statement of financial position

ASSETS

Section 1 *Cash and cash equivalents – Caption 10*

	31/12/2017	31/12/2016
a) Cash	1,557	1,315
b) Demand deposits with central banks	-	-
Total	**1,557**	**1,315**

Section 4 *Available-for-sale financial assets – Caption 40*

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

Captations/Amount	31/12/2017			31/12/2016		
	L1	L2	L3	L1	L2	L3
1. Debt Instruments	-	-	-	-	-	-
- Structured	-	-	-	-	-	-
- Other	-	-	-	-	-	-
2. Equity instruments and OEIC units	-	-	21,803	-	-	350,000
- including: measured at cost	-	-	21,803	-	-	350,000
3. Financing	-	-	-	-	-	-
Total	-	-	**21,803**	-	-	**350,000**

Equity securities are represented exclusively by participation in the Compagnia Aerea Italiana S.p.A. since, from July 4, 2017, the company has converted the receivable in compliance with the restructuring agreement of December 22, 2014. In particular, in relation to a fully impaired receivable of € 8,644,250.59 the company received n. 824,833,073 class 1 shares for a countervalue of € 21,803.
These equities have been kept at cost since it is not possible to precisely define a fair value.

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

Captation/Amounts	31/12/2017	31/12/2016
Financial assets	**21,803**	**350,000**
a) Government and central banks	-	-
b) Other Government agencies	-	-
c) Banks	-	-
d) Financial Institutions	-	-
e) Other issuers	21,803	350,000
Total	**21,803**	**350,000**

Section 6 *Loans and receivables – Caption 60*

6.1 Loans and receivables with banks

Composition	31/12/2017				31/12/2016			
	Carrying Amount	Fair Value			Carrying Amount	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Deposits and current accounts	**7,536,819**	**-**	**-**	**7,536,819**	**7,422,226**	**-**	**-**	**7,422,226**
2. Financing	**1,978**	**-**	**-**	**1,978**	**167,793**	**-**	**-**	**167,793**
2.1 Reverse repurchase agreement	-	-	-	-	-	-	-	-
2.2 Financial Leases	-	-	-	-	-	-	-	-
2.3 Factoring	-	-	-	-	-	-	-	-
- with recourse	-	-	-	-	-	-	-	-
- without recourse	-	-	-	-	-	-	-	-
2.4 Other Financing	1,978	-	-	1,978	167,793	-	-	167,793
3. Debt Instruments	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- structured	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
4. Other assets	**7,690,878**	**-**	**-**	**7,690,878**	**9,353,567**	**-**	**-**	**9,353,567**
Total	**15,229,675**	**-**	**-**	**15,229,675**	**16,943,586**	**-**	**-**	**16,943,586**

The fair value of loans and receivables with banks equals their carrying amount, as they are on demand, short-term financial assets.

"Deposits and current accounts" of € 7,536,819 consists of temporary liquidity deposited with banks, mainly originating from large cash inflows at year end.

Caption 4 "Other assets" includes:

- €81 from Foreign Correspondents;
- €663,332 from Banco Popolare (former Banca Italease S.p.A.) for the IRES reimbursement claim due to the non-deduction of IRAP on personnel expense as per Law decree no. 185/2008 for the years 2006 e 2007 (324,891) and per law no. 201/2011 for the years 2007, 2008 e 2009 (338,441) and given that Factorit was part of the domestic tax consolidation scheme of that company's group up until 2009. During the month of December 2017, at our request, Banco BPM informed us that the reimbursements of these requests had not yet been received;
- €7,027,465 for amounts advanced to loans on behalf of banks, as part of factoring operations managed in pools, in which Factorit assumes the role of leader.

6.2 Loans and receivables with financial institutions

Composition	31/12/2017						31/12/2016					
	Carrying amount			Fair Value			Carrying amount			Fair Value		
	Performing	Impaired		L1	L2	L3	Performing	Impaired		L1	L2	L3
		Purchased	Other					Purchased	Other			
1. Financing	**28,887,671**	-	**28,248**	-	-	**28,915,919**	**86,177,043**	-	**29,169**	-	-	**86,206,212**
1.1 Reverse repurchase agreement	-	-	-	-	-	-	-	-	-	-	-	-
1.2 Financial leases	-	-	-	-	-	-	-	-	-	-	-	-
1.3 Factoring	17,804,180	-	434	-	-	**17,804,614**	75,092,685	-	448	-	-	**75,093,133**
- with recourse	17,804,180	-	434	-	-	**17,804,614**	75,092,685	-	448	-	-	**75,093,133**
- without recourse	-	-	-	-	-	-	-	-	-	-	-	-
1.4 Other financing	11,083,491	-	27,814	-	-	**11,111,305**	11,084,358	-	28,721	-	-	**11,113,079**
2. Debt instruments	-	-	-	-	-	-	-	-	-	-	-	-
- structured	-	-	-	-	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-	-	-	-	-
3. Other assets	**6,467**	-	-	-	-	**6,467**	**5,666**	-	-	-	-	**5,666**
Total	**28,894,138**	-	**28,248**	-	-	**28,922,386**	**86,182,709**	-	**29,169**	-	-	**86,211,878**

The fair value of loans and receivables with financial institutions is their carrying amount, as these financial assets are mostly on demand or short term, net of impairment losses.

Caption 1.4 “Other financing” includes advances for assignments of receivables that do not fall within the scope of Law no. 52/91.

6.3 Loans and receivables with customers

Composition	31/12/2017						31/12/2016					
	Carrying amount			Fair Value			Carrying amount			Fair Value		
	Performing	Impaired		L1	L2	L3	Performing	Impaired		L1	L2	L3
		Purchased	Other					Purchased	Other			
1. Financing	**2,335,678,157**	**-**	**11,077,378**	**-**	**-**	**2,346,755,535**	**2,037,830,244**	**-**	**19,161,857**	**-**	**-**	**2,056,992,101**
1.1. Finance leases	-	-		-	-		-	-	-	-	-	
Including: without purchase option	-	-		-	-		-	-	-	-	-	
1.2. Factoring	2,243,175,167	-	10,442,478	-	-	2,253,617,645	1,800,943,841	-	18,708,724	-	-	1,819,652,565
- with recourse	1,751,468,688	-	10,044,897	-	-	1,761,513,585	1,505,720,622	-	10,139,796	-	-	1,515,860,418
- without recourse	491,706,479	-	397,581	-	-	492,104,060	295,223,219	-	8,568,928	-	-	303,792,147
1.3. Consumer credit	-	-		-	-		-	-	-	-	-	
1.4. Credit cards	-	-		-	-		-	-	-	-	-	
1.5. Pawn loans	-	-		-	-	-	-	-	-	-	-	-
1.6. Financing granted in relation to payment services provided	-	-		-	-		-	-	-	-	-	
1.7. Other financing	92,502,990	-	634,900	-	-	93,137,890	236,886,403	-	453,133	-	-	237,339,536
Including: from the enforcement of guarantees and commitments	-	-		-	-		-	-	-	-	-	
2. Debt instruments	-	-		-	-		-	-	-	-	-	
2.1. Structured	-	-		-	-		-	-	-	-	-	
2.2. Other	-	-		-	-		-	-	-	-	-	
3. Other assets	**43,505**	-	-	-	-	**43,505**	**9,710**	-	-	-	-	**9,710**
Totale	**2,335,721,662**	**-**	**11,077,378**	**-**	**-**	**2,346,799,040**	**2,037,839,954**	**-**	**19,161,857**	**-**	**-**	**2,057,001,811**

As a result of a different classification of some transactions with foreign correspondents from the current quarter, regarding the amounts as at 31 December 2016, the amount of Euro 61,379,811 has been reclassified from the item "Other loans" to the item "Loans and Receivables assigned with recourse ".

The *fair value* of loans to customers is assumed to be equal to the book value, since it is essentially on-demand and short-term financial assets, net of adjustments.

Impaired assets are recognised at their estimated recoverable amount.

The performing “Other financing” comprises:

- accrued charges due from the assigned debtors on payment extentions granted to them of €699,270;
- advances for assignments for loans and receivables that do not fall under the scope of Law no. 52/91 of €73,746,065;
- other financing of €18,057,655;

The impaired “Other financing” includes:

- non-performing exposure of €57,504 for advances for assignments of loans and receivables that do not fall under the scope of Law no. 52/91;
- unlikely to pay of €562,826 for advances for assignments of loans and receivables that do not fall under the scope of Law no. 52/91:
- unlikely to pay exposures of €20 for other financing;
- past due exposures of €14,550 for accrued charges due from by the assigned debtors.

6.4 Loans and receivables: guaranteed assets

	31/12/2017						31/12/2016					
	Loans and receivables with banks		Loans and receivables with financial institutions		Loans and receivables with costumers		Loans and receivables with banks		Loans and receivables with financial institutions		Loans and receivables with costumers	
	CA	FV	CA	FV	CA	FV	CA	FV	CA	FV	CA	FV
1.Performing assets guaranteed by:	**-**	**-**	**17,762,123**	**17,762,123**	**1,772,744,321**	**1,733,215,380**	**-**	**-**	**74,632,754**	**74,632,754**	**1,354,106,827**	**1,352,618,385**
- Assets under finance lease	-	-	-	-	-	-	-	-	-	-	-	-
- Factoring receivables	-	-	17,477,123	17,477,123	1,632,495,643	1,632,495,643	-	-	74,413,037	74,413,037	1,337,809,538	1,337,809,538
- Mortgages	-	-	-	-	-	-	-	-	-	-	-	-
- Pledges	-	-	-	-	-	-	-	-	-	-	-	-
- Collateral	-	-	285,000	285,000	140,248,678	100,719,737	-	-	219,717	219,717	16,297,289	14,808,847
- Credit derivatives	-	-	-	-	-	-	-	-	-	-	-	-
2. Impaired assets guaranteed by:	**-**	**-**	**-**	**-**	**7,074,109**	**7,074,109**	**-**	**-**	**-**	**-**	**7,895,252**	**7,895,252**
- Assets under financial lease	-	-	-	-	-	-	-	-	-	-	-	-
- Assigned loans and receivables	-	-	-	-	6,114,163	6,114,163	-	-	-	-	7,464,148	7,464,148
- Mortgages	-	-	-	-	346,878	346,878	-	-	-	-	358,192	358,192
- Pledges	-	-	-	-	-	-	-	-	-	-	-	-
- Collateral	-	-	-	-	613,068	613,068	-	-	-	-	72,912	72,912
- Credit derivatives	-	-	-	-	-	-	-	-	-	-	-	-
Total	**-**	**-**	**17,762,123**	**17,762,123**	**1,779,818,430**	**1,740,289,489**	**-**	**-**	**74,632,754**	**74,632,754**	**1,362,002,079**	**1,360,513,637**

CA = carrying amount of assets
FV = *fair value* of guarantees

The table shows guarantees received for performing and impaired assets.

Pursuant to the regulations about the assignment of loans and receivables that do not fall under the scope of Law no. 52/91, the "assigned loans and receivables" do not include "other assignments". The amounts are classified by type of guarantee and the guaranteed party's business sector. The "FV" column shows the value of the guaranteed asset in the case of guarantees with a value that exceeds the guaranteed asset.

Loans and receivables acquired through without recourse factoring transactions are shown in the relevant guarantee line, if they are guaranteed.

When more than one underlying guarantee has been given, the advances paid to assignors in transactions with recourse and the underlying assets acquired in transactions without recourse are recognised in the following order of priority:

1) mortgages;
2) pledges;
3) factoring receivables;
4) collateral.

Section 10 *Property and equipment – Caption 100*

10.1 Property and equipment: assets measured at cost

Assets/Amounts	31/12/2017	31/12/2016
1. Owned	**469,338**	**514,185**
a) land	-	-
b) buildings	-	-
c) furniture	108,346	143,131
d) electronic system	59,867	56,443
e) other	301,125	314,611
2. Under finance lease	**-**	**-**
a) land	-	-
b) buildings	-	-
c) furniture	-	-
d) electronic system	-	-
e) other	-	-
Total	**469,338**	**514,185**

10.5 Property and equipment: changes

	Land	Buildings	Furniture	Electronic system	Other	Total
A. Gross opening balance	-	-	**640,495**	**3,177,818**	**819,482**	**4,637,795**
A.1 Total net impairment losses	-	-	497,364	3,121,375	504,871	4,123,610
A.2 Net opening balance	-	-	**143,131**	**56,443**	**314,611**	**514,185**
B. Increases	-	-	**143**	**22,441**	**115,456**	**138,040**
B.1 Purchase	-	-	143	22,441	115,456	138,040
B.2 Capitalised improvement costs	-	-	-	-	-	-
B.3 Reversals of impairment losses	-	-	-	-	-	-
B.4 Fair value gains recognized in:	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) profit or loss	-	-	-	-	-	-
B.5 Exchange rate gains	-	-	-	-	-	-
B.6 Transfers from investment propertiy	-	-	-	-	-	-
B.7 Other increases	-	-	-	-	-	-
C. Decreases	-	-	**34,928**	**19,017**	**128,942**	**182,887**
C.1 Sales	-	-	-	285	-	285
C.2 Depreciation	-	-	34,928	18,732	128,942	182,602
C.3 Impairment losses recognized in:	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) profit & loss	-	-	-	-	-	-
C.4 Fair value losses recognized in:	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) profit & loss	-	-	-	-	-	-
C.5 Exchange rate losses	-	-	-	-	-	-
C.6 Transfers to:	-	-	-	-	-	-
a)investment propertiy	-	-	-	-	-	-
b) disposal groups	-	-	-	-	-	-
C.7 Other decreases	-	-	-	-	-	-
D. Net closing balance	-	-	**108,346**	**59,867**	**301,125**	**469,338**
D.1 Total net impairment losses	-	-	292,971	2,165,299	380,315	2,838,585
D.2 Gross closing balance	-	-	**401,317**	**2,225,166**	**681,440**	**3,307,923**
E. Measurement at cost	-	-	**108,346**	**59,867**	**301,125**	**469,338**

Section 11 *Intangible assets – Caption 110*

11.1 Composition of caption 110 "Intangible assets"

Captation/Amounts	31/12/2017		31/12/2016	
	Assets measured at cost	Assets measured at Fair Value	Assets measured at costs	Assets measured at Fair Value
1. Goodwill	**-**	**-**	**-**	**-**
2. Other intangible assets				
2.1 Owned	101,919	-	89,145	-
- Internally developed assets	-	-	-	-
- other	101,919	-	89,145	-
2.2 Under finance lease	-	-	-	-
Total 2	**101,919**	**-**	**89,145**	**-**
3. Assets under finance lease				
3.1 Unopted assets	-	-	-	-
3.2 Withdraw due to termination of lease	-	-	-	-
3.3 Other	-	-	-	-
Total 3	**-**	**-**	**-**	**-**
4. Assets under operating lease	**-**	**-**	**-**	**-**
Total (1+2+3+4)	**101,919**	**-**	**89,145**	**-**

11.2 Intangible assets: changes

	Totale
A. Opening balance	**89,145**
B. Increases	**55,376**
B.1 Purchases	55,376
B.2 Reversals of impairment losses	-
B.3 Fair value gains recognised in:	-
- equity	-
- profit & loss	-
B.4 Other increases	-
C. Decreases	**42,602**
C.1 Sales	-
C.2 Amortisation	42,602
C.3 Impairment losses recognized in:	-
- equity	-
- profit & loss	-
C.4 Fair value losses recognized in:	-
- equity	-
- profit & loss	-
C.5 Other decreases	-
D. Closing balance	**101,919**

Section 12 *Tax assets and liabilities*

Article 16 of Law decree no. 83/2015, enacted on 27 June 2015, subsequently converted by Law no. 132/2015 of 6 August 2015, and amended the provisions of article 106 of the Consolidated Income Tax Act about the deductibility of impairment losses and losses on loans and receivables of banks and financial institutions.

Deferred tax assets and liabilities are recognised using the liability method pursuant to IAS 12 and Bank of Italy's specific instructions.

12.1 Composition of caption 120 "Tax assets: current and deferred"

Captations	Total 31/12/2017	Total 31/12/2016
Current tax assets	9,114,380	9,175,924
Deferred tax assets (through equity)	148,015	116,290
Deferred tax assets (through profit & loss)	24,020,988	27,126,657
Total	**33,283,383**	**36,418,871**

Deferred tax assets refer to taxes on costs recognised in profit or loss and equity, which are deductible in future years in accordance with the current tax regulations and which mainly relate to impairment losses on loans and receivables, accruals to the provisions for risks, changes in actuarial gains and losses on pension plans which arose during the year and application of the provisions set out in Law decree no. 83/2015 referred to the deductibility of impairment losses and losses on loans and receivables.
By 2015, the immediate deductibility of losses and write-downs of loans to customers was expected to align the Italian banking system with tax criteria already in place in several EU countries and effectively eliminating a distortion of the competition.
For the sole financial year 2015, for the protection of the income tax, the deductibility has been reduced to 75% with the other 25% has been added to write downs and losses for the previous years which were not recovered as of 31 December 2014.
The total amount non deducted in this format will now be recovered taxably in a 10 year timeframe – from 2016 to 2025 – according to specific percentages set in the Decree, replicating the previous rule.
More specifically, the percentages are 5% for 2016, 8% for 2017, 10% for 2018, 12% from 2019 and 5% for 2025.
Conversely, from the fiscal year 2016 exercise there is full and immediate deductibility. The amendment described above also has an effect on the IRAP regional tax.
Moreover, as regards the ACE (Aiuto alla Crescita Economica) facilitation, the percentage passes during 2017 from 4.75% to 1.6% and 1.5% from the tax period following the one in progress at 31 December 2017.

12.2 Composition of caption 70 "Tax liabilities: current and deferred"

Captations	Total 31/12/2017	Total 31/12/2016
Current tax liabilities	4,193,219	163,518
Deferred tax liabilities (through equity)	2,039,162	2,039,162
Deferred tax liabilities (through profit & loss)	253	167
Total	**6,232,634**	**2,202,847**

Deferred tax liabilities are mainly represented by the tax arising from the different valuation of receivables according to IAS, when first applied, which is deferred to subsequent years.

The deferred tax rates are: 27,5% for the IRES tax (article 77 of Presidential decree no. 917/86) and 5,57% for the IRAP tax.

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

	31/12/2017	31/12/2016
1. Opening balance	**27,126,657**	**27,588,210**
2. Increases	**-**	**866,794**
2.1 Deferred tax assets recognised in the year	-	866,794
a) related to previous year	-	-
b) due to changes in accounting policies	-	-
c) reversals of impairment losses	-	-
d) other	-	866,794
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**3,105,669**	**1,328,347**
3.1 Deferred tax assets recognized in the year	3,105,669	1,328,347
a) reversals	3,105,669	1,328,347
b) impairment due to non-recoverability	-	-
c) due to changes in accounting policies	-	-
d) other	-	-
3.2 Decrease in tax rates	-	-
3.3 Other decreases	-	-
a) convertion into tax assets including: as per Law no, 214/2011	-	-
b) other	-	-
4. Closing balance	**24,020,988**	**27,126,657**

The deferred tax assets canceled during the year refer to the portion of deferred tax assets that arose in previous years, which were deducted during the current year.

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

	31/12/2017	31/12/2016
1. Opening balance	**25,238,577**	**26,566,924**
2. Increases	**-**	**-**
3. Decreases	**2,125,355**	**1,328,347**
3.1 Reversals	2,125,355	1,328,347
3.2 Convertion into tax assets	-	-
a) arising on the loss of the year	-	-
b) arising on tax losses	-	-
3.3 Other decreases	-	-
4. Closing balance	**23,113,222**	**25,238,577**

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

	31/12/2017	31/12/2016
1. Opening balance	**167**	**-**
2. Increases	**86**	**167**
2.1 Deferred tax liabilities recognised in the year	-	-
a) related to previous years	-	-
b) due to changes in accounting policies	-	-
c) other	86	167
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**-**	**-**
3.1 Deferred tax liabilities derecognised in the year	-	-
a) reversals	-	-
b) due to changes in accounting policies	-	-
c) other	-	-
3.2 Decrease in tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	**253**	**167**

12.5 Changes in deferred tax assets (recognised in equity)

	31/12/2017	31/12/2016
1. Opening balance	**116,290**	**93,572**
2. Increases	**31,725**	**22,718**
2.1 Deferred tax assets recognised in the year	31,725	22,718
a) related to previous year	-	-
b) due to changes in accounting policies	-	-
c) other	31,725	22,718
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**-**	**-**
3.1 Deferred tax assets derecognised in the year	-	-
a) reversals	-	-
b) impairment due to recoverability	-	-
c) due to changes in accounting policies	-	-
d) other	-	-
3.2 Decrease in tax rates	-	-
3.3 Other decrease	-	-
4. Closing balance	**148,015**	**116,290**

The table shown is composed solely by deferred tax on actuarial gain/loss from valuation on Post employment fund.

12.6 Changes in deferred tax liabilities (recognised in equity)

	31/12/2017	31/12/2016
1. Opening balance	**2,039,162**	**2,039,162**
2. Increases	**-**	**-**
2.1 Deferred tax liabilities recognized in the year	-	-
a) related to previous year	-	-
b) due to changes in accounting policies	-	-
c) other	-	-
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3, Decreases	**-**	
3.1 Deferred tax liabilities derecognised in the year	-	-
a) reversals	-	-
b) due to changes in accounting policies	-	-
c) other	-	-
3.2 Decrease in tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	**2,039,162**	**2,039,162**

Section 14 *Other assets – Caption 140*

14.1 Composition of caption 140 "Other assets"

	31/12/2017	31/12/2016
Tax credits (not classifiable as tax assets)	462,306	466,185
Items in transit not yet posted to destination accounts	4,394,519	4,282,681
Guarantee deposits	23,621	26,394
Advances to suppliers	71	2,958
Prepayments and accrued income not recognisable under a specific caption	498,795	507,560
Other items	286,083	568,454
Total	**5,665,395**	**5,854,232**

The captation "Tax credits" includes the amounts of Euro 308,831 relating to the virtual stamp duty.

The same captation also includes Euro 125,786 for the request for reimbursement, presented on 12/3/2013 pursuant to LD no. 201/2011, for the deductibility of IRAP from IRES in relation to personnel expenses for 2011.
In November 2017, the Company filed a request for remittance to the Agenzia delle Entrate for more information on the status of the reimbursement procedure.

The captation "Items in transit not yet posted to destination accounts" refers almost entirely to Bank Receipts and SDD awaiting collection.

LIABILITIES AND EQUITY

Section 1 *Financial liabilities – Caption 10*

1.1 Loans and borrowings

Captions	31/12/2017			31/12/2016		
	Due to banks	Due to fin. Institutions	Due to customers	Due to banks	Due to fin. Institutions	Due to customers
1. Financing	**2,160,601,284**	**-**	**-**	**1,963,269,309**	**-**	**-**
1.1 repurchase agreements	-	-	-	-	-	-
1.2 other financing	2,160,601,284	-	-	1,963,269,309	-	-
2. Other loans and borrowings	**3,247,022**	**3,765**	**11,399,156**	**2,861,697**	**154,753**	**2,441,297**
Total	**2,163,848,306**	**3,765**	**11,399,156**	**1,966,131,006**	**154,753**	**2,441,297**
Fair value Level 1						
Fair value Level 2						
Fair value Level 3	**2,163,848,306**	**3,765**	**11,399,156**	**1,966,131,006**	**154,753**	**2,441,297**
Total fair value	**2,163,848,306**	**3,765**	**11,399,156**	**1,966,131,006**	**154,753**	**2,441,297**

The fair value of amounts due to banks, financial institutions and customers is their nominal amount as they are on demand or short-term financial liabilities.
Due to banks includes:

	Amount
On demand current account exposures	46,771,111
Advances under reserve on cash orders or direct debits	46,739,693
Hot money at maturity	185,000,000
Commissions to be paid	393,142
Foreign currency advances	88,962,276
Supplier invoices received and to be received	601,924
Due to parent	1,793,967,491
Accrued expenses on hot money	407
Accrued expenses on foreign currency advances	62,119
Due to principals	1,350,143
Total	**2,163,848,306**

"Other loans and borrowings" from financial institutions entirely consists of invoices received and to be received for syndicated transactions.

"Other loans and borrowings" from customers comprises factoring liabilities for receivables from assigned debtors recognised in the financial statements.

Section 7 *Tax liabilities – Caption 70*

For any details see section 12 of the Assets section.

Section 9 *Other liabilities – Caption 90*

9.1 Composition of caption 90 "Other liabilities"

	31/12/2017	31/12/2016
Taxes payable	576,449	616,460
Personnel	188,600	202,290
Social security institutions	590,330	592,657
Suppliers	953,175	828,551
Invoices to be received	1,279,643	498,956
Amounts to be credited under processing	6,177,579	6,082,808
Provision for guarantees and commitments	39,530	120,315
Directors and Statutory Auditors	43,566	23,088
Other	4,135,594	3,403,195
Total	**13,984,466**	**12,368,320**

"Amounts to be credited under processing" include:

- direct remittances received but not yet allocated to the relevant captions (Euro 6,167,896 million);
- bills after collections (Euro 9,683 million).

"Other" comprises:

- Euro 2,697,359 for deferred income due to attribution on an accrual basis in relation to the duration of the underlying credit of the commissions invoiced to customers;
- Euro 998,561 for unallocated deferred income, Euro 307,463 for items awaiting settlement and Euro 132,211 for residual items

Section 10 *Post-employment benefits – Caption 100*

10.1 Post-employment benefits: changes

	31/12/2017	31/12/2016
A. Opening balance	**2,363,578**	**2,350,613**
B. Increases	**155,109**	**129,681**
B.1 Accruals	39,746	47,073
B.2 Other increases	115,363	82,608
C. Decreases	**88,403**	**116,716**
C.1 Payments	81,199	105,511
C.2 Other decreases	7,204	11,205
D. Closing balance	**2,430,284**	**2,363,578**

The amount, calculated according to national legislation, amounts to Euro 2,158,607. The actuarial simulations were performed according to the expected benefits method using the projected unit credit method.
The expected unit credit provides that the costs to be incurred during the year for the establishment of the TFR are determined on the basis of the share of the benefits accrued in the same year. According to the accrued benefit method, the employee's obligation is determined on the basis of the work already provided at the valuation date.

The following assumptions were adopted in the actuarial calculation:

	31/12/2017	31/12/2016
Technical discount rate	0,87%	1,54%
Annual inflation rate	1,50%	1,50%

Section 11 *Provisions for risks and charges – Caption 110*

11.1 Composition of caption 110 "Provisions for risks and charges"

	31/12/2017	31/12/2016
1. Internal pension funds	-	-
2. Other provisions for risks and charges	3,261,433	3,427,950
2.1 legal disputes	2,278,000	1,674,126
2.2 personnel expense	983,433	896,849
2.3 other	-	856,975
Total	**3,261,433**	**3,427,950**

The provisions for legal disputes is composed as follows:
- actions brought against the company of Euro 2,278,000.

The provisions for personnel expense refer to:
- personnel training of Euro 67,018;
- other personnel expense of Euro 916,415.

11.2 Changes in caption 110 "Provisions for risks and charges"

	Pension funds	Other provisions	31/12/2017
A. Opening balance	**-**	**3,427,950**	**3,427,950**
B. Increases	**-**	**2,067,665**	**2,067,665**
B.1 Accruals	-	2,067,665	2,067,665
B.2 Changes due to passage of time	-	-	-
B.3 Changes due to variations in discount rate	-	-	-
B.4 Other increases	-	-	-
C. Decreases	**-**	**2,234,182**	**2,234,182**
C.1 Utilisations	-	1,703,359	1,703,359
C.2 Changes due to variations in discount rate	-	-	-
C.3 Other decreases	-	530,823	530,823
D. Closing balance	**-**	**3,261,433**	**3,261,433**

Section 12 *Equity – Captions 120, 130, 140, 150, 160 and 170*

12.1 Composition of caption 120 “Share capital”

	31/12/2017
1. Share capital	85,000,002
1.1 Ordinary shares	85,000,002
1.2 Other shares	-

The share capital consists of 85,000,002 shares with a nominal amount of 1 Euro.

12.2 Composition of caption 130 “Treasury shares”

The company did not hold treasury shares at either 31 December 2017 or 2016.

12.3 Composition of caption 140 “Equity instruments”

The company had not issued equity instruments at either 31 December 2017 or 2016.

12.4 Composition of caption 150 “Share premium”

This reserve amounts to Euro 11,030,364.

12.5 Other information

Availability and distributability of the equity captions.

Nature	Amount	Utilisation	Available portion	Summary of use In the three previous years	
				To cover losses	For other reasons
Share capital	85,000,002	-	-	-	-
Equity-related reserves	-	-	-	-	-
Income-related reserves					
Legal reserve	11,034,847	B	-	-	-
Share premium	11,030,364	A-B	5,965,153	-	-
Share premium	-	A-B-C	5,065,211	-	-
Other reserves	106,917,555	A-B-C	101,581,616	-	-
Other reserves	-	A-B	5,335,939		
Retained earnings	228,866	A-B-C	228,866	-	-
Total	**214,211,634**		**118,176,785**	**-**	**-**
Non distributable portion	**-**	**-**	**11,301,092**	**-**	**-**
Remaining distributable portion	**-**	**-**	**106,875,693**	**-**	**-**

Key: A –capital increases; B –to cover losses; C –dividend distribution.

Other reserves include: FTA reserve equal to Euro 5,350,212; the reserve for unexercised stock options equal to Euro 304,394 and the actuarial reserve for profits/losses non distributable equal to -318,667 Euro.

According to the Article 2427, comma 1, n. 22-septies of the Italian Civil Law the proposal for the allocation of the profit of year ended 31 December 2017 is hereby shown:

Net profit for the year	Euro	15,122,818
Profits from previous years	Euro	228,866
Profits to allocate	Euro	15,351,684
Of which:		
5% of the profit to Legal reserve	Euro	756,141
Dividends of Euro 0,07 to each of the 85,000,002 circulating shares	Euro	5,950,000
Profits to Extraordinary reserve	Euro	8,400,000
Retained profits	Euro	245,543

12.6 Composition of caption 170 "Valuation reserves"

These reserves have a negative balance of €318,667 and entirely relate to the actuarial gains and losses on post-employment benefits.

PART C *Notes to the income statement*

Section 1 *Interest – Captions 10 and 20*

1.1 Composition of caption 10 “Interest and similar income”

Captions	Debt instruments	Financing	Other transactions	31/12/2017	31/12/2016
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	-	-	-	-	-
5. Loans and receivables	-	**27,043,892**	-	**27,043,892**	**25,936,324**
5.1 Loans and receivables with banks	-	7,592	-	7,592	50,498
5.2 Loans and receivables with financial institutions	-	1,976,508	-	1,976,508	1,052,140
5.3 Loans and receivables with customers	-	25,059,792	-	25,059,792	24,833,686
6. Other assets	-	-	**581**	**581**	**844**
7. Hedging derivatives	-	-	-	-	-
Total	-	**27,043,892**	**581**	**27,044,473**	**25,937,168**

1.2 Interest and similar income: other disclosures

Foreign currency interest income on loans and receivables with customers and financial institutions amounts to €1,685,225 (2016: €511,679).

1.3 Composition of caption 20 “Interest and similar expense”

Captions	Financing	Securities	Other transactions	31/12/2017	31/12/2016
1. Due to banks	(3,537,837)	-	-	(3,537,837)	(4,035,081)
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	-	-	(1,408)	(1,408)	(29,889)
8. Hedging derivatives	-	-	-	-	-
Total	**(3,537,837)**	**-**	**(1,408)**	**(3,539,245)**	**(4,064,970)**

Section 2 *Fees and commissions – Captions 30 and 40*

2.1 Composition of caption 30 "Fee and commission income"

	31/12/2017	31/12/2016
1. Finance leases	-	-
2. Factoring	**22,334,284**	**21,618,639**
3. Consumer credit	-	-
4. Merchant banking	-	-
5. Services	-	-
- fund management on behalf of third parties	-	-
- currency trading	-	-
- product distribution	-	-
- other	-	-
6. Collection and payment services	-	-
7. Servicing for securitisations	-	-
8. Other fees and commissions	**1,412,259**	**2,527,515**
Total	**23,746,543**	**24,146,154**

Starting from 2013, the company has used an IT tool for its factoring transactions to allocate one-off fees and commissions over the related term of the loans and receivables assigned.
At the reporting date, €2,697,359 had been deferred. Other fees and commissions include fees for transactions that do not fall under the scope of Law no. 52/91 (other financing, other sales, etc.).

2.2 Composition of caption 40 "Fee and commission expense"

Breakdown/Sector	31/12/2017	31/12/2016
1. Guarantees received	**(308,735)**	**(311,481)**
2. Distribution of third party services	-	-
3. Collection and payment services	-	-
4. Other fees and commissions	**(2,756,906)**	**(3,213,709)**
4.1 factoring	(1,499,736)	(1,721,134)
4.2 other	(1,257,170)	(1,492,575)
Total	**(3,065,641)**	**(3,525,190)**

Like what has been set out for caption 30, fee and commission expense based on one-off fee and commission income are treated similarly. At the reporting date, the deferred amount was €75,536.

Section 4 *Net trading income – Caption 60*

4.1 Composition of caption 60 "Net trading income"

Item 3 of caption "Other financial assets and liabilities: exchange differences" shows a balance of €7,013.

Section 8 Net impairment losses – Caption 100

8.1 "Net impairment losses on financial assets"

Captions	Impairment losses		Reversals of impairment losses		31/12/2017	31/12/2016
	Individual	Collective	Individual	Collective		
1. Loans and receivables with banks	-	-	-	**89**	**89**	**108**
- leases	-	-	-	-	-	-
- factoring	-	-	-	-	-	-
- other	-	-	-	89	89	**108**
2. Loans and receivables with financial institutions	**(921)**	**(867)**	-	**22,940**	**21,152**	**359,169**
Impaired loans and receivables purchased	-	-	-	-	-	-
- leases	-	-	-	-	-	-
- factoring	-	-	-	-	-	-
- other	-	-	-	-	-	-
Other	**(921)**	**(867)**		**22,940**	**21,152**	**359,169**
- leases	-	-	-	-	-	-
- factoring	(15)			22,940	22,925	**289,305**
- other	(906)	(867)			(1,773)	**69,864**
3. Loans and receivables with customers	**(9,408,516)**	**(1,119,649)**	**8,917,048**	**2,110,288**	**499,171**	**(18,927,934)**
Impaired loans and receivables Purchased	-	-	-	-	-	-
- leases	-	-	-	-	-	-
- factoring	-	-	-	-	-	-
- consumer credit	-	-	-	-	-	-
- other	-	-	-	-	-	-
Other	**(9,408,516)**	**(1,119,649)**	**8,917,048**	**2,110,288**	**499,171**	**(18,927,934)**
- leases	-	-	-	-	-	-
- factoring	(8,272,680)	(1,109,860)	8,642,593	1,501,961	762,014	**(18,947,583)**
- consumer credit	-	-	-	-	-	-
- pawn loans	-	-	-	-	-	-
- other	(1,135,836)	(9,789)	274,455	608,327	(262,843)	**19,649**
Total	**(9,409,437)**	**(1,120,516)**	**8,917,048**	**2,133,317**	**520,412**	**(18,568,657)**

The table shows the effects of measuring the company's loans and receivables on the income statement.

8.4 Composition of sub caption 100.b "Net impairment losses on other financial transactions"

Economic items	Impairment losses		Reversals of impairment losses		Total	
	Individual	Collective	Individual	Collective	31/12/2017	31/12/2016
A. Guarantees given	(39,530)	-	120,315	-	80,785	207,923
B. Credit derivatives	-	-	-	-	-	-
C. Commitments to grant funds	-	-	-	-	-	-
D. Other transactions	-	-	-	-	-	-
Total	**(39,530)**	-	**120,315**	-	**80,785**	**207,923**

Section 9 *Administrative expenses – Caption 110*

9.1 Composition of caption 110.a "Personnel expense"

	31/12/2017	31/12/2016
1. Employees	**(13,601,277)**	**(13,026,794)**
a) Wages and salaries	(9,458,701)	(9,173,759)
b) Social security contributions	(2,663,309)	(2,488,616)
c) Post-employment benefits	-	-
d) Pension costs	-	-
e) Accrual for post-employment benefits	(39,746)	(47,073)
f) Accrual for pension and similar provisions:	-	-
- defined contribution plans	-	-
- defined benefit plans	-	-
g) Payments to external supplementary pension:	(806,057)	(753,250)
- defined contribution plans	(806,057)	(753,250)
- defined benefit plans	-	-
h) Other costs	(633,464)	(564,096)
2. Other personnel	**(14,720)**	**(24,083)**
3. Directors and statutory auditors	**(321,648)**	**(318,982)**
4. Retired personnel	**-**	**(19,789)**
5. Cost recoveries for personnel seconded to other companies	**131,814**	**121,149**
6. Cost reimbursements for personnel seconded to the company	**(20,014)**	**(89,752)**
Total	**(13,825,845)**	**(13,358,251)**

9.2 Average number of employees by category

	31/12/2017		31/12/2016	
	Average	Reporting date	Average	Reporting date
Employees	**175**	**178**	**166**	**170**
a) Managers	7	7	6	7
b) Junior Managers	75	77	67	68
Including 3rd and 4th level	40	41	38	38
c) Other employees	93	94	93	95
Other personnel	**2**	**1**	**5**	**2**

The average employee number does not include weighing, in particular, for part-time contracts.

9.3 Composition of caption 110.b "Other administrative expenses"

	31/12/2017	31/12/2016
Building costs:	(1,556,280)	(1,571,529)
- leases and maintenance	(1,510,643)	(1,526,471)
- utilities	(45,637)	(45,058)
Indirect taxes and duties	(1,647,682)	(1,683,723)
Postal, telephone, printing and other office expenses	(423,432)	(484,256)
Maintenance and charges for furniture, equipment and systems	(473,957)	(494,067)
Professional services and consultancy	(682,333)	(441,596)
Legal fees	(1,754,014)	(1,547,740)
Advertising, entertainment and gifts	(104,925)	(129,528)
Insurance premiums	(65,140)	(70,386)
Transport, rentals and business trips	(490,261)	(419,482)
Outsourcing	(742,998)	(884,242)
Data registration by third parties	(273,940)	(380,116)
Membership fees	(57,715)	(54,071)
Outsourcing within Group	(90,000)	(90,000)
Outsourcing outside the Group	(41,883)	(41,520)
Other	(333,351)	(326,530)
Total	**(8,737,911)**	**(8,618,786)**

Section 10 *Depreciation and net impairment losses on property and equipment – Caption 120*

10.1 Composition of caption 120 "Depreciation and net impairment losses on property and equipment"

Captions	Depreciation (a)	Impairment losses (b)	Reversals of Impairment losses (c)	Carrying amount (a+b-c)
1. Property and equipment	**(182,602)**	**-**	**-**	**(182,602)**
1.1 Owned	(182,602)	-	-	(182,602)
a) land	-	-	-	-
b) buildings	-	-	-	-
c) furniture	(34,928)	-	-	(34,928)
d) operating	(18,732)	-	-	(18,732)
e) other	(128,942)	-	-	(128,942)
1.2 Under finance lease	-	-	-	-
a) land	-	-	-	-
b) buildings	-	-	-	-
c) furniture	-	-	-	-
d) operating	-	-	-	-
e) other	-	-	-	-
2. Investment property	**-**	**-**	**-**	**-**
Total	**(182,602)**	**-**	**-**	**(182,602)**

Section 11 *Amortisation and net impairment losses on intangible assets – Caption 130*

11.1 Composition of caption 130 "Amortisation and net impairment losses on intangible assets"

	Amortisation (a)	Impairment losses (b)	Reversals of impairment losses (c)	Carrying amount (a+b-c)
1. Goodwill	-	-	-	-
2. Other intangible assets	**(42,602)**	-	-	**(42,602)**
2.1 owned	(42,602)	-	-	(42,602)
2.2 under finance lease	-	-	-	-
3. Assets under finance lease	-	-	-	-
4. Assets under operating lease	-	-	-	-
Total	**(42,602)**	-	-	**(42,602)**

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

13.1 Composition of caption 150 "Net accruals to provisions for risks and charges"

	Accruals	Releases	31/12/2017	31/12/2016
1. Accruals to the provision for pension and similar provisions	-	-	-	-
2. Accruals to other provisions for risks and charges	**(1,456,015)**	**530,822**	**(925,193)**	**(141,639)**
a) legal disputes	(1,456,015)	273,847	(1,182,168)	225,336
b) personnel expense	-	-	-	-
c) other	-	256,975	256,975	(366,975)
Total	**(1,456,015)**	**530,822**	**(925,193)**	**(141,639)**

Section 14 *Other net operating income – Caption 160*

14.1 Composition of caption 160 "Other operating income"

	31/12/2017	31/12/2016
- recovery of taxes	236,646	244,582
- recovery of costs	453,556	834,825
- income for IT services rendered	233,912	244,800
- other	621,281	1,008,102
Total	**1,545,395**	**2,332,309**

"Other" includes income of €67,321 for factoring activities and other assignments.

14.2 Composition of caption 160 "Other operating expenses"

	31/12/2017	31/12/2016
- contingent liabilities	(182,077)	(313,853)
- other	(26,540)	(442)
Total	**(208,617)**	**(314,295)**

"Other" includes expense of €20,000 as a loss due to a participation in a film association.

Section 16 *Net gain on the sale of investments – Caption 180*

16.1 Composition of caption 180 "Net gain on the sale of investments"

	31/12/2017	31/12/2016
1. Buildings	**-**	**-**
1,1 Gains	-	-
1,2 Losses	-	-
2. Other Assets	**4,827**	**52,585**
2.1 Gains	4,827	52,585
2.2 Losses	-	-
Net gain	**4,827**	**52,585**

Section 17 *Income taxes – Caption 190*

Factorit did not participate in the domestic tax consolidation scheme in 2017 as its Parent did not exercise the option under articles 117 to 129 of the Consolidated Income Tax Act. The tax expense reflects a reasonable expectation of the taxes due for the year, based on the ruling tax regulations.

17.1 Composition of caption 190 "Income taxes"

	31/12/2017	31/12/2016
1. Current taxes (-)	(4,193,219)	(163,518)
2. Change in current taxes from previous years (+/-)	-	-
3. Decrease in current taxes for the year (+)	-	-
3.bis Decrease in current taxes for the year due to tax assets as per Law no, 214/2011	-	-
4. Change in deferred tax assets (+/-)	(3,105,669)	(461,552)
5. Change in deferred tax liabilities (+/-)	(86)	(167)
Tax expense for the year	**(7,298,974)**	**(625,237)**

The current tax expense includes IRES at 27,5% and IRAP at 5,57%.

17.2 Reconciliation between the theoretical and effective tax expense

	IRES		IRAP		Total
	Tax base	Tax	Tax base	Tax	
Theoretical tax expense	22,421,792	6,165,993	22,421,792	1,248,894	
Tax credit	-	-	-	-	
Increase in permanent differences	509,392	140,083	15,126,938	842,570	
Decrease in permanent differences	(142,715)	(39,246)	(14,015,815)	(780,681)	
Increase in temporary differences	2,122,773	583,762	-	-	
Increase in temporary differences (for the year as per Law no, 214/2011)	-	-	-	-	
Decrease in temporary differences	(14,181,982)	(3,900,045)	(1,222,827)	(68,111)	
Effective tax expense	**10,729,260**	**2,950,547**	**22,310,088**	**1,242,672**	**4,193,219**

Section 18 *Post-tax profit (loss) from discontinued operations - Caption 200*

None.

Section 19 *Income statement: other information*

19.1 Breakdown of interest income and fee and commission income

Captions/Counterparty	Interest income			Fee and commission income			31/12/2017	31/12/2016
	Banks	Financial Institutions	Customers	Banks	Financial Institutions	Customers		
1. Finance leases	-	-	-	-	-	-	-	-
- Real estate	-	-	-	-	-	-	-	-
- Moveable property	-	-	-	-	-	-	-	-
- Operating assets	-	-	-	-	-	-	-	-
- Intangible assets	-	-	-	-	-	-	-	-
2. Factoring	-	**1,976,508**	**25,059,792**	**1,152**	**567,325**	**23,178,066**	**50,782,843**	**50,031,980**
- Current accounts	-	1,767,634	17,360,676	-	436,010	21,779,099	41,343,419	39,532,806
- Future loans and receivables	-	-	2,777,711	-	-	119,175	2,896,886	1,902,293
- Loans and Receivables purchased outright	-	-	-	-	-	-	-	-
- loans and receivables purchased for less than their original value	-	-	-	-	-	-	-	-
- other financing	-	208,874	4,921,405	1,152	131,315	1,279,792	6,542,538	8,596,881
3. Consumer credit	-	-	-	-	-	-	-	-
- personal loans	-	-	-	-	-	-	-	-
- special purpose loans	-	-	-	-	-	-	-	-
- salary backed loans	-	-	-	-	-	-	-	-
4. Pawn loans	-	-	-	-	-	-	-	-
5. Guarantees and commitments	-	-	-	-	-	-	-	-
- commercial	-	-	-	-	-	-	-	-
- financial	-	-	-	-	-	-	-	-
Total	-	**1,976,508**	**25,059,792**	**1,152**	**567,325**	**23,178,066**	**50,782,843**	**50,031,980**

Table refers to Loans and receivables from financial institutions and customers.

19.2 Other information

Breakdown of interest and similar expense.

	Amount
Current account overdrafts	(62,080)
Advances under reserve	(24,892)
Hot money	(2,252,250)
Foreign currency advances	(1,198,615)
Prior year expense and other interest	(1,408)
Total	**(3,539,245)**

PART D Other information

Section 1 Business operations

B. FACTORING AND ASSIGNMENT OF LOANS AND RECEIVABLES

B.1 – GROSS AMOUNT AND CARRYING AMOUNT

B.1.1 – Factoring transactions

Captions	31/17/2017			31/12/2016		
	Gross amount	Impairment losses	Carrying amount	Gross Amount	Impairment losses	Carrying amount
1. Performing Assets	**2,270,335,098**	**9,355,751**	**2,260,979,347**	**1,883,800,412**	**7,763,886**	**1,876,036,526**
- exposures to assignors (with recourse)	1,776,477,188	7,204,320	1,769,272,868	1,587,547,371	6,734,064	1,580,813,307
- future loans and receivables	115,882,116	571,968	115,310,148	104,065,686	499,601	103,566,085
- other	1,660,595,072	6,632,352	1,653,962,720	1,483,481,685	6,234,463	1,477,247,222
- exposures to assigned debtors (without recourse)	493,857,910	2,151,431	491,706,479	296,253,041	1,029,822	295,223,219
2. Impaired Assets	**33,125,164**	**22,682,252**	**10,442,912**	**56,931,121**	**38,221,949**	**18,709,172**
2.1 Non-performing exposures	**17,416,155**	**16,519,428**	**896,727**	**30,919,231**	**26,893,698**	**4,025,533**
- exposures to assignors (with recourse)	14,360,722	13,463,997	896,725	25,996,358	21,970,825	4,025,533
- future loans and receivables	703,495	627,800	75,695	918,472	827,923	90,549
- other	13,657,229	12,836,197	821,032	25,077,886	21,142,902	3,934,984
- exposures to assigned debtors (without recourse)	3,055,431	3,055,431	-	4,922,873	4,922,873	-
- purchased for less than their nominal amount	16,249	16,249	-	53,142	53,142	-
- other	3,039,182	3,039,182	-	4,869,731	4,869,731	-
2.2 Unlikely to pay exposures	**13,171,342**	**5,934,434**	**7,236,908**	**24,431,522**	**11,185,622**	**13,245,900**
- exposures to assignors (with recourse)	11,960,601	5,121,274	6,839,327	10,038,235	5,242,459	4,795,776
- future loans and receivables	5,182,316	1,736,688	3,445,628	131,197	124,612	6,585
- other	6,778,285	3,384,586	3,393,699	9,907,038	5,117,847	4,789,191
- exposures to assigned debtors (without recourse)	1,210,741	813,160	397,581	14,393,287	5,943,163	8,450,124
- purchased for less than their nominal amount	2,675	2,675	-	2,675	2,675	-
- other	1,208,066	810,485	397,581	14,390,612	5,940,488	8,450,124
2.3 Impaired past due exposures	**2,537,667**	**228,390**	**2,309,277**	**1,580,368**	**142,629**	**1,437,739**
- exposures to assignors (with recourse))	2,537,667	228,390	2,309,277	1,449,815	130,880	1,318,935
- assignments of future receivables	-	-	-	-	-	-
- other	2,537,667	228,390	2,309,277	1,449,815	130,880	1,318,935
- exposures to assigned debtors (without recourse)	-	-	-	130,553	11,749	118,804
- purchased for less than their nominal amount	-	-	-	-	-	-
- other	-	-	-	130,553	11,749	118,804
Total	**2,303,460,262**	**32,038,003**	**2,271,422,259**	**1,940,731,533**	**45,985,835**	**1,894,745,698**

During the year, following a different classification of some transactions with foreign correspondents, the values as at 31 December 2016 were reclassified; in particular, in "performing Assets to assignors" in the sub-item "other", the gross amount has been increased of euro 61,676,322, impairment losses for euro 296,511 and carrying amount for euro 61,379,811.

The table also provides details of the advances granted against assignments of loans and receivables that do not fall under the scope of Law no. 52/91.

Caption	31/12/2017			31/12/2016		
	Gross amount	Impairment losses	Carrying Amount	Gross amount	Impairment losses	Carrying Amount
1. Performing Assets	85,361,329	531,772	84,829,557	239,552,011	1,148,554	238,403,457
2. Impaired Assets	2,670,681	2,022,535	648,146	1,469,963	1,383,827	86,136
2.1 Non performing assets	1,178,699	1,121,195	57,504	1,178,699	1,121,284	57,415
2.2 Unlikely to pay exposures	1,491,982	901,340	590,642	291,264	262,543	28,721
2.3 Impaired past due exposures	-	-	-	-	-	-
Total	**88,032,010**	**2,554,307**	**85,477,703**	**241,021,974**	**2,532,381**	**238,489,593**

B.2 – BREAKDOWN BY RESIDUAL MATURITY

Past due loans and receivables, compared to the invoice payment date, are recognised in the “on demand” bracket if they are not impaired. If they are impaired, they are classified based on the due date estimated for financial statement purposes.

B.2.1 – Factoring transactions with recourse: advances and “outstanding”

By maturity	31/12/2017		31/12/2016	
	Advances	Outstanding	Advances	Outstanding
- on demand	167,143,609	379,189,007	193,989,200	422,245,200
- up to 3 months	1,220,800,243	1,476,146,560	1,019,444,844	1,332,976,322
- from 3 to 6 months	204,420,779	348,831,888	222,528,609	350,528,132
- from 6 months to 1 year	68,028,979	91,461,233	45,902,193	73,665,112
- after 1 year	118,924,589	56,220,619	109,088,705	21,523,178
- open item	-	-	-	-
Total	**1,779,318,199**	**2,351,849,307**	**1,590,953,551**	**2,200,937,944**

Following the change made to table B.1.1 as shown above, as reported in the figures as at 31 December 2016, the data were modified for the "up to 3 months" time maturity; in particular, the amount of "advances" increased by € 61,379,811.

The table provides a breakdown of the values indicated in the previous table B.1, with reference only to receivables due from assignors, and excludes transactions not included in the scope of Law 52/91.
The breakdown advances with recourse was conventionally carried out in proportion to the expiration dates of the related total outstanding.
At the same time, it should be noted that the total amount of receivables related to the sale of receivables realized outside Law 52/91 at 31 December 2017 amounts to Euro 94,034,953.

B.2.2 – Factoring transactions without recourse: exposures

By maturity	Exposures	
	31/12/2017	31/12/2016
- on demand	13,305,994	20,687,866
- up to 3 months	330,545,815	156,224,062
- from 3 to 6 months	61,603,342	33,204,570
- from 6 months to 1 year	86,252,057	93,281,381
- after 1 year	396,852	394,268
- open item	-	-
Total	**492,104,060**	**303,792,147**

The table shows the carrying amount of exposures purchased for factoring without recourse and loans and receivables purchased at other than their nominal amount, broken down by residual maturity bracket.

B.3 – CHANGES IN IMPAIRMENT LOSSES

B.3.1 – Factoring transactions

The table shows changes in impairment losses (individual and collective) on exposures to assignors and assigned debtors during the year and the opening and closing balances of the impairment losses. The impairment losses, calculated on exposures classified as impaired, are always shown as individual losses as per the regulations.

Financial assets are derecognised when the rights to receive the related cash flows are extinguished.

Caption	Opening impairment losses	Increases				Decreases					Closing impairment losses
		Impairment losses	Losses on assignments	Transfers from another category	Other increases	Reversals of impairment losses	Gains on assignments	Transfers to another category	Derecognitions	Other decreases	
Individual impairment losses on impaired assets	**38,221,949**	**8,272,695**	**-**	**1,438,028**	**-**	**8,642,593**	**-**	**3,444,934**	**13,162,893**	**-**	**22,682,252**
Exposures to assignors	**27,344,164**	**7,015,655**	**-**	**611,416**	**-**	**2,713,648**	**-**	**2,606,573**	**10,837,353**	**-**	**18,813,661**
- Non-performing exposures	21,970,825	3,352,080	-	577,936	-	1,668,049	-	-	10,768,795	-	13,463,997
- Unlikely to pay exposures	5,242,459	3,435,197	-	33,392	-	1,045,523	-	2,475,693	68,558	-	5,121,274
- Impaired past due exposures	130,880	228,378	-	88	-	76	-	130,880	-	-	228,390
Exposures to assigned debtors	**10,877,785**	**1,257,040**	**-**	**826,612**	**-**	**5,928,945**	**-**	**838,361**	**2,325,540**	**-**	**3,868,591**
- Non-performing exposures	4,922,873	613,543	-	826,612	-	1,219,977	-	-	2,087,620	-	3,055,431
- Unlikely to pay exposures	5,943,163	643,497	-	-	-	4,708,968	-	826,612	237,920	-	813,160
- Impaired past due exposures	11,749	-	-	-	-	-	-	11,749	-	-	-
Collective impairment losses on other assets	**7,763,886**	**1,109,860**	**-**	**2,041,768**	**-**	**1,524,901**	**-**	**34,862**	**-**	**-**	**9,355,751**
- Exposures to assignors	6,734,064	-	-	2,030,019	-	1,524,901	-	34,862	-	-	7,204,320
- Exposures to assigned debtors	1,029,822	1,109,860	-	11,749	-	-	-	-	-	-	2,151,431
Total	**45,985,835**	**9,382,555**	**-**	**3,479,796**	**-**	**10,167,494**	**-**	**3,479,796**	**13,162,893**	**-**	**32,038,003**

Following a different classification of some transactions with foreign customers, the opening balance has been changed for the value as at 31 December 2016 with regard to collective impairment losses exposures to assignors for an amount equal to 296,511 Euro.

The following table provides a breakdown of the value adjustments (collective and individual) on the exposures, relating to assignments of receivables that do not fall within the scope of Law 52/91, occurred during the year, as well as the value of the same adjustments at the beginning and at the end of the year (respectively opening and closing impairment losses). The value adjustments, calculated on the exposures classified as impaired, are always indicated as specific impairment losses, as per regulations.

Financial assets are derecognised when the rights to receive the related cash flows are extinguished.

Caption	Increases					Decreases					Closing impairment losses
	Opening impairment losses	Impairment losses	Losses on assignments	Transfers from another category	Other increases	Reversals of impairment losses	Gains on assignments	Transfers to another category	Derecognitions	Other decreases	
Individual impairment losses on impaired assets	**1,383,827**	**634,758**	**-**	**4,039**	**-**	**89**	**-**	**-**	**-**	**-**	**2,022,535**
- Non-performing exposures	1,121,284	-	-	-	-	89	-	-	-	-	1,121,195
- Unlikely to pay exposures	262,543	634,758	-	4,039	-	-	-	-	-	-	901,340
- Impaired past due exposures	-	-	-	-	-	-	-	-	-	-	-
Collective impairment losses on other assets	**1,148,554**	**-**	**-**	**-**	**-**	**608,416**	**-**	**4,039**	**-**	**-**	**536,099**
- Exposures	1,148,554	-	-	-	-	608,416	-	4,039	-	-	536,099
Total	**2,532,381**	**634,758**	**-**	**4,039**	**-**	**608,505**	**-**	**4,039**	**-**	**-**	**2,558,634**

B.4 – OTHER INFORMATION

B.4.1 – Turnover of assigned loans and receivables

	31/12/2017	31/12/2016
Transactions without recourse	**3,720,398,078**	**1,926,132,592**
- including: purchased for less than their nominal amount	-	-
Transactions with recourse	**9,370,864,614**	**8,417,627,219**
Total	**13,091,262,692**	**10,343,759,811**

The table shows the nominal amount of loans and receivables purchased during the year (turnover) in factoring transactions, split between without recourse transactions and with recourse/formal without recourse transactions.

The following table shows details of the turnover of “Other assignments”

	31/12/2017	31/12/2016
- Without recourse	-	-
- With recourse	153,341,761	72,294,197
	153,341,761	**72,294,197**

B.4.2 – Collection services

The company did not perform collection only services in 2017 and 2016.

B.4.3 – Nominal amount of contracts to purchase future loans and receivables

	31/12/2017	31/12/2016
- Contracts to purchase future loans and receivables during the year nell'esercizio	367,123,707	125,747,913
- Loans and receivables at the reporting date	425,599,600	374,545,255

D. – GUARANTEES GIVEN AND COMMITMENTS

D.1 – BREAKDOWN OF GUARANTEES GIVEN AND COMMITMENTS

	31/12/2017	31/12/2016
1) First demand financial guarantees given	-	-
a) Banks	-	-
b) Financial Institutions	-	-
c) Customers	-	-
2) Other financial guarantees given	-	-
a) Banks	-	-
b) Financial Institutions	-	-
c) Customers	-	-
3) Commercial guarantees given	-	-
a) Banks	-	-
b) Financial Institutions	-	-
c) Customers	-	-
4) Irrevocable commitments to grant funds	**251,918,441**	**228,000,160**
a) Banks	-	-
i) certain use	-	-
ii) uncertain use	-	-
b) Financial Institutions	2,603,726	-
i) certain use	-	-
ii) uncertain use	2,603,726	-
c) Customers	249,314,715	228,000,160
i) certain use	31,671	83,844
ii) uncertain use	249,283,044	227,916,316
5) Commitments underlying credit derivatives: protection sales	-	-
6) Assets pledged as collateral for third party obligations	-	-
7) Other irrevocable commitments	-	-
a) to issue guarantees	-	-
b) other	-	-
Total	**251,918,441**	**228,000,160**

The table shows the company’s commitment to grant funds solely for “approved with recourse” (formal without recourse) transactions, i.e., the difference between the approved with recourse outstanding and the advances for approved with recourse transactions (shown under assets with the assignor).
The balance of €251,886,770 refers to irrevocable commitments to grant funds for uncertain use as the company’s commitment to grant funds is optional; in this case, it is not certain whether and to what extent the funds will actually be granted.

D.2 – FINANCING RECOGNISED DUE TO ENFORCEMENT

None.

Section 3 *Risks and hedging policies*

3.1 – CREDIT RISKS

QUALITATIVE DISCLOSURE

1. General Information

Credit risk is traditionally the main risk involved in factoring. Constant modifications in credit disbursement, management and monitoring processes, based on the different counterparties involved, allow the company to contain this type of risk.
Credit quality is checked by monitoring both the counterparty's (assignor and assigned debtor) specific risk and the portfolio risk.
With respect to specific credit risk, the company uses the current procedures to assess the individual party's (assignor and assigned debtor) risk profile and that of its related parties, calculating the total potential risk related to the financed parties.
In the case of portfolio risk, the company has always focused on concentration risk, which covers exposures to large economic and/or legal groups.
This analysis also includes positions shared with the parent, Banca Popolare di Sondrio S.C.p.A., for which it assess the total amount of outstanding exposures.

2. Credit risk management policies

2.1 Organisational aspects

Factorit's lending process complies with the Credit regulations issued by its board of directors, which are consistent with the parent's lending regulations, the reference model for the group companies. These latter regulations establish common criteria and methods for credit management, while still allowing for special features that may be based on the particular types of financing and the nature of the counterparties.

The credit process is divided into the following phases:
- Credit policy;
- preliminary investigation;
- resolution;
- disbursement of credit;
- review of credit facilities and monitoring;
- non performing loans management.

Lending policy

Like that of its Parent, Factorit's lending policy is based on criteria of prudence and risk containment. This is reflected in a strict screening of the counterparties receiving credit facilities and the constant monitoring of the risk positions assumed.

Preliminary investigation

This phase aims to ascertain the applicant's current and prospective capacity to repay its debts and to verify the consistency between the individual applications for credit facilities and the credit policy adopted.

Specifically, the assessment defines the level of economic risk, considering the probability of default of the parties involved (assignor and assigned debtors) and the financial risk arising from their possible failure to repay the credit granted on the agreed repayment dates.
The credit process system consists of logical phases that can be broken down by the parties involved (assignor and assigned debtors) and the different decision-making powers.
Specifically, the preliminary investigation phase is performed by the commercial department, by obtaining all the information needed to establish the economic and financial position of the parties involved. For cross-checking purposes, the assessment stage is carried out by the credit department to define the amount of the credit facility and the transaction's feasibility.

Disbursement of credit

This phase comprises a number of activities to allow the company to take a decision about whether to assume a credit risk by granting a credit facility based on the results of the preliminary assessment after assessing the transaction's inherent risk.
The credit facility is granted considering all the direct and indirect, short, medium or long term exposures with Banca Popolare di Sondrio Group and whether they are secured by guarantees.

Membership of a legal or economic group, as defined by Banca Popolare di Sondrio Group, is an additional risk factor to that arising from the position considered individually, which has to be assessed with due care.

The credit facilities are activated and made available to the borrower only after approval and according to the decision-making powers established by the board of directors in the Credit regulations, which may also require a preliminary opinion from the parent as well.
The credit department checks that the credit facility complies with the board of directors' resolution and, before finalising the agreement, that all the necessary contractual documentation has been collected, the guarantees obtained and that the exposure resulting from assumption of the risk does not exceed the maximum limits that the supervisory regulations sets from time to time for individual customers or groups of related customers.

Review of credit facilities and monitoring

Credit positions are classified in the various risk categories provided for by the company and in accordance with the general provisions of the supervisory regulations.
These categories, which are based on the different irregularities that may arise, allow the classification of positions in order of increasing seriousness of the irregularities. These classifications are assigned automatically when objective or subjective events take place, as decided by management and the bodies in charge of risk monitoring and control on a uniform basis for the entire portfolio.

Checks of the performance of credit facilities consist of their monitoring and review.
The company uses, inter alia, percentage rates based on the type of transaction and the customer's exposure, as well as the opinion or reports from the departments responsible for managing the relationship with the assignor or the debtor.

2.2 Management, measurement and control systems

Generally speaking, the credit disbursement processes are automated for small amounts while they are discretionary and centralised at the head office for risk assessments of assignors and larger amounts.
Moreover, the parent takes on a coordination role and prepares mandatory opinions for credit facility applications that exceed the established limits.

2.3 Credit risk mitigation techniques

The essential features of a factoring transaction (numerous parties and the assignment of trade receivables) make it possible to mitigate the factor's risks through techniques designed to consolidate the transfer of risk with the assigned debtor and split it over a number of parties.
With respect to without recourse transactions, many mitigation clauses can be implemented, including:

- limiting the credit risk assumed for each debtor;
- obtaining direct guarantees or collateral;
- applying ceilings;
- limiting the risk in relation to the volume of assets brokered and the profitability of the relationship (maximum annual ceiling);
- assignor's assignment obligations;
- insuring the receivable.

2.4 Impaired financial assets

The technical and organisational procedures used to manage and monitor irregular assets depend on how irregular the position is.

In the case of default, the company monitors its relationship with the debtor and related default trends, in order to:

- check whether the counterparty's financial/business difficulties can be reversed;
- assess the repayment schedules presented, considering the debtor's capacity to pay the amounts due within the timeframe set in the schedules, also considering the requests to ease the conditions applied to the positions in question;
- examine the outcome of the measures taken to normalise/recover the loans and receivables (repayment schedules, reviews of the technical forms of credit, etc.) and the reasons for their possible failure;
- calculate the related expected losses analytically, considering the reference economic and financial context.

With respect to doubtful debts, risks are controlled through the following procedures:

- appointment of debt collection companies if necessary;
- assignment of new positions to third party legal advisors to file legal actions against the assigned debtors, assignors and any guarantors;
- in the case of positions that are being settled, check that the counterparties have honoured their commitments;
- regular checks of the correctness of the classification and analytical estimate of expected losses on the various positions.

The classification of positions is in line with the requirements of supervisory and internal regulations, which also set out the general guidelines for the analytical estimate of expected losses.

QUANTITATIVE DISCLOSURE

1. Breakdown of credit exposures by portfolio and credit quality (carrying amount)

Category	Non performing exposures	Unlikely to pay exposures	Impaired past due exposures	Unpaired past due exposures	Other unpaired assets	Total
1.Available-fo- sale financial assets	-	-	-	-	-	-
2.Held to maturity investments	-	-	-	-	-	-
3.Loans and receivables with banks	-	-	-	1,978	15,227,697	15,229,675
4.Loans and receivables with financial instistutions	-	28,248	-	1,566,497	27,327,641	28,922,386
5.Loans and receivables with customers	954,228	7,799,323	2,323,827	74,018,256	2,261,703,406	2,346,799,040
6.Financial assets at fair value through profit and loss	-	-	-	-	-	-
7.Financial assets held for sale	-	-	-	-	-	-
Total 31/12/2017	**954,228**	**7,827,571**	**2,323,827**	**75,586,731**	**2,304,258,744**	**2,390,951,101**
Total 31/12/2016	**4,082,957**	**13,628,425**	**1,479,646**	**106,747,292**	**2,034,218,955**	**2,160,157,275**

Category	Assets with poor credit quality	Other assets	Total
1.Financial assets held for trading	-	-	-
2.Hedging derivatives	-	-	-
Total 31/12/2017	**-**	**-**	**-**
Total 31/12/2016	**-**	**-**	**-**

2. Credit exposures

2.1 Loans and receivables with customers: gross amounts and carrying amounts

Category	Gross amount					Individual impairment	Collective impairment	Carrying amount
	Impaired assets				Performing			
	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	After 1 year				
A. ON BALANCE SHEET EXPOSURES								
a) Non performing exposures	2	7,156	39,170	18,603,890	-	17,695,990	-	954,228
- Including: forborne exposures	-	-	-	3,989	-	3,989	-	-
b) Unlikely to pay exposures	9,103,809	1,606,165	1,772,933	1,911,826	-	6,595,410	-	7,799,323
- including: forborne exposures	19,229	-	-	-	-	4,611	-	14,618
c) Impaired past due exposures	1,970,465	579,970	20	3,201	-	229,829	-	2,323,827
- Including: forborne exposures	-	-	-	-	-	-	-	-
d) Not impaired past due exposures	-	-	-	-	74,315,250	-	296,994	74,018,256
- Including: forborne exposures	-	-	-	-	721,984	-	1,733	720,251
e) Other assets	-	-	-	-	2,271,321,915	-	9,618,509	2,261,703,406
- Including: forborne exposures	-	-	-	-	6,017,840	-	25,731	5,992,109
TOTAL A	**11,074,276**	**2,193,291**	**1,812,123**	**20,518,917**	**2,345,637,165**	**24,521,229**	**9,915,503**	**2,346,799,040**
B. OFF BALANCE SHEET EXPOSURES								
a) Impaired	71,201	-	-	-	-	39,530	-	31,671
b) Not impaired	-	-	-	-	249,283,044	-	-	249,283,044
TOTAL B	**71,201**	**-**	**-**	**-**	**249,283,044**	**39,530**	**-**	**249,314,715**
TOTAL A+B	**11,145,477**	**2,193,291**	**1,812,123**	**20,518,917**	**2,594,920,209**	**24,560,759**	**9,915,503**	**2,596,113,755**

The caption “Unimpaired past due exposures” comprises:

Types/Exposures/Amounts	Gross Amount	Individual Impairment	Collective Impairment	Carrying Exposure
- up to 3 months	72,743,668	-	290,274	72,453,394
- from 3 to 6 months	1,134,202	-	4,702	1,129,500
- from 6 months to 1 year	402,692	-	1,871	400,821
- after 1 year	34,688	-	147	34,541
Total	**74,315,250**	**-**	**296,994**	**74,018,256**

2.2 Loans and receivables with banks and financial institutions: gross amounts and carrying amounts

Exposure types	Gross amount					Gross amount	Individual impairment	Collective impairment
	Impaired Assets				Performing			
	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	After 1 year				
A. ON BALANCE SHEET EXPOSURES								
a)Non performing exposures	-	-	-	-	-	-	-	-
- Including: forborne exposures	-	-	-	-	-	-	-	-
b)Unlikely to pay exposures	-	-	4,547	291,265	-	267,564	-	28,248
- including: forborne exposures	-	-	-	-	-	-	-	-
c)Impaired past due exposures	-	-	-	-	-	-	-	-
- Including: forborne exposures	-	-	-	-	-	-	-	-
d)Not impaired past due exposures	-	-	-	-	1,568,476	-	-	1,568,476
- Including: forborne exposures	-	-	-	-	-	-	-	-
e)Other assets	-	-	-	-	42,609,956	-	54,619	42,555,337
- Including: forborne exposures	-	-	-	-	-	-	-	-
TOTAL A	**-**	**-**	**4,547**	**291,265**	**44,178,432**	**267,564**	**54,619**	**44,152,061**
B. OFF BALANCE SHEET EXPOSURES								
a)Impaired	-	-	-	-	-	-	-	-
b)Not impaired	-	-	-	-	2,603,726	-	-	2,603,726
TOTAL B	**-**	**-**	**-**	**-**	**2,603,726**	**-**	**-**	**2,603,726**
TOTAL A+B	**-**	**-**	**4,547**	**291,265**	**46,782,158**	**267,564**	**54,619**	**46,755,787**

The caption "Unimpaired past due exposures" comprises:

Types/Exposures/Amounts	Gross Amount	Individual Impairment	Collective impairment	Carrying Amount
- up to 3 months	1,568,476	-	-	1,568,476
- from 3 to 6 months	-	-	-	-
- from 6 months to 1 year	-	-	-	-
- after 1 year	-	-	-	.
Total	**1,568,476**	**-**	**-**	**1,568,476**

2.3 Classification of exposures using external and internal ratings

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

Factorit, as per the exposures belonging to the Central Administration and Central banks portfolio, starting from this reporting period, uses the external rating of the ECAI Scope Rating AG.

Firm	Class of creditworthiness	Rating	Rating Italy as at 31/12/2017
Scope Rating AG	2	A	A-

Moreover the company, starting from 31.03.2017, as regard the exposures belonging to "Corporates and other subjects" portfolio, uses the external rating of the ECAI Cerved Rating Agency S.p.A. Their valuations are only for resident companies with turnover equal to or higher than 50 million euros or with an exposure equal to or higher than 1,5 million euros.

Firm	Class of creditworthiness	Rating
Cerved Group S.p.A.	1	A1.1, A1.2, A1.3
Cerved Group S.p.A.	2	Da A2.1 a A3.1
Cerved Group S.p.A.	3	B1.1, B1.2
Cerved Group S.p.A.	4	B2.1, B2.2
Cerved Group S.p.A.	5	C1.1
Cerved Group S.p.A.	6	Da C1.2 a C2.1

The table below shows the on and off balance exposures as at 31.12.2017, broken down by rating classes:

ECAI	Exposures	External rating class						Without Rating	Total
		Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
SCOPE RATING	A. On balance exposures	-	15,196,131	-	-	-	-	845,703,176	**860,899,307**
	B. Derivatives	-	-	-	-	-	-	-	-
	B,1 Financial Derivatives	-	-	-	-	-	-	-	-
	B,2 Credit Derivatives	-	-	-	-	-	-	-	-
	C. Guarantees given	-	-	-	-	-	-	-	-
	D. Commitments to grant funds	-	3,189,388	-	-	-	-	127,605,545	**130,794,933**
	E. Other	-	-	-	-	-	-	-	-
	Total	**-**	**18,385,519**	**-**	**-**	**-**	**-**	**973,308,721**	**991,694,240**
CERVED	A. On balance exposures	14,671,560	694,741,072	641,109,190	164,016,593	10,232,479	5,280,900	-	**1,530,051,794**
	B. Derivatives	-	-	-	-	-	-	-	-
	B,1 Financial Derivatives	-	-	-	-	-	-	-	-
	B,2 Credit Derivatives	-	-	-	-	-	-	-	-
	C. Guarantees given	-	-	-	-	-	-	-	-
	D. Commitments to grant funds	7,843,446	50,003,230	46,831,136	16,144,134	18,599	282,963	-	**121,123,508**
	E. Other	-	-	-	-	-	-	-	-
	Total	**22,515,006**	**744,744,302**	**687,940,326**	**180,160,727**	**10,251,078**	**5,563,863**		**1,651,175,302**
Total		**22,515,006**	**763,129,821**	**687,940,326**	**180,160,727**	**10,251,078**	**5,563,863**	**973,308,721**	**2,642,869,542**

3. Credit concentration

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

This table only refers to "customers" counterparty.

	Government and Central banks			Other government agencies			Insurance Companies			Non financial Companies			Other		
	Net exposure	Individual impairment	Collective impairment	Net exposure	Individual impairment	Collective impairment	Net exposure	Individual impairment	Collective impairment	Net exposure	Individual impairment	Collective impairment	Net exposure	Individual impairment	Collective impairment
A. On balance sheet exposures															
A.1 Non performing exposures	-	-	X	-	-	X	-	-	X	954,228	17,695,990	X	-	-	X
Of which subjects to concessions											3,989				
A.2 Unlikely to pay exposures	-	-	X	257,634	139,815	X	-	-	X	7,524,961	6,447,304	X	16,728	8,291	X
Of which subjects to concessions													14,618	4,611	
A.3 Impaired Past due exposures	-	-	X	1,843	182	X	-	-	X	2,321,984	229,647	X	-	-	X
Of which subjects to concessions															
A.4 Other exposures	-	-	-	44,156,099	X	216,771	-	X	-	2,290,235,094	X	9,694,430	1,330,469	X	4,302
Of which subjects to concessions										6,712,360		27,464			
Total A	**-**	**-**	**-**	**44,415,576**	**139,997**	**216,771**	**-**	**-**	**-**	**2,301,036,267**	**24,372,941**	**9,694,430**	**1,347,197**	**8,291**	**4,302**
B. Off balance sheet exposures															
B.1 Non performing exposures	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X
B.2 Unlikely to pay exposures	-	-	X	-	-	X	-	-	X	31,671	39,530	X	-	-	X
B.3 Impaired Past due exposures	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X
B.4 Other exposures	8,199,829	-	X	156,751	-	X	-	-	X	239,750,340	-	X	1,176,124	-	X
Total B	**-**	**-**	**-**	**156,751**	**-**	**-**	**-**	**-**	**-**	**239,782,011**	**39,530**	**-**	**1,176,124**	**-**	**-**
Total 31/12/2017	**8,199,829**	**-**	**-**	**44,572,327**	**139,997**	**216,771**	**-**	**-**	**-**	**2,540,818,278**	**24,412,471**	**9,694,430**	**2,523,321**	**8,291**	**4,302**
Total 31/12/2016	**21,455,342**	**4,661,164**	**-**	**3,392,626**	**12,313**	**11,232**	**-**	**-**	**-**	**2,257,538,289**	**43,201,836**	**8,864,375**	**2,615,714**	**241,622**	**1,001**

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

This table only refers to "customers".

Exposures/Geographical area	ITALY		OTHER EUROPEAN COUNTRIES		UNITED STATES		ASIA		REST OF THE WORLD	
	Net Exposure	Total Impairment	Net Exposure	Total Impairment	Net Exposure	Total Impairment	Net Exposure	Total Impairment	Net Exposure	Total Impairment
A. On Balance sheet exposures										
A.1 Non performing exposures	953,283	15,984,142	945	1,711,848	-	-	-	-	-	-
A.2 Unlikely to pay exposures	7,799,323	6,595,410	-	-	-	-	-	-	-	-
A.3 Impaired past due exposures	2,323,827	229,829	-	-	-	-	-	-	-	-
A.4 Other exposures	1,995,459,160	8,384,044	207,513,661	704,975	42,914,134	157,775	39,000,737	103,128	50,833,970	565,581
Total A	**2,006,535,593**	**31,193,425**	**207,514,606**	**2,416,823**	**42,914,134**	**157,775**	**39,000,737**	**103,128**	**50,833,970**	**565,581**
B. Off balance sheet exposures										
B.1 Non performing exposures	-	-	-	-	-	-	-	-	-	-
B.2 Unlikely to pay exposures	31,671	39,530	-	-	-	-	-	-	-	-
B.3 Impaired past due exposures	-	-	-	-	-	-	-	-	-	-
B.4 Other exposures	226,875,758	-	22,209,331	-	125,425	-	24,026	-	48,504	-
Total B	**226,907,429**	**39,530**	**22,209,331**	**-**	**125,425**	**-**	**24,026**	**-**	**48,504**	**-**
Total 31/12/2017	**2,233,443,022**	**31,232,955**	**229,723,937**	**2,416,823**	**43,039,559**	**157,775**	**39,024,763**	**103,128**	**50,882,474**	**565,581**
Total 31/12/2016	**2,037,241,416**	**55,788,503**	**193,127,051**	**1,178,521**	**227,223**	**-**	**3,064,205**	**-**	**51,342,076**	**26,519**

In details, net exposure towards customers belonging to the category "rest of the world" are divided as follows:

- On balance exposures towards Etiopian customers for euro 49,437,103 and Australian customers for euro 1,396,867;
- Off balance exposures towards customers from Tunisy for euro 9,900 and from Australia for euro 38,604.

3.2.1 Breakdown of loans and receivables with customers by geographical segment (Italy, on-statement of financial position)

31/12/2017	North West Italy		North East Italy		Centre Italy		South Italy		Italy's Islands	
Credit quality	Net exposures	Total Impairment	Net exposures	Total Impairment	Net exposures	Total Impairment	Net exposures	Total Impairment	Net exposures	Total Impairment
Non performing exposures	267,192	5,465,792	231,007	1,610,499	89,454	1,562,249	246,862	6,440,723	118,768	904,879
Unlikely to pay exposures	973,535	1,467,832	4,522,356	2,585,791	2,143,562	1,903,301	157,165	631,403	2,705	7,083
Impaired past due exposures	3,216	318	-	-	2,320,611	229,511	-	-	-	-
Other exposures	1,213,185,887	4,643,429	355,477,461	1,649,257	275,253,180	1,587,470	32,914,576	140,061	118,628,056	363,827
Total	**1,214,429,830**	**11,577,371**	**360,230,824**	**5,845,547**	**279,806,807**	**5,282,531**	**33,318,603**	**7,212,187**	**118,749,529**	**1,275,789**

3.3 Large exposures

	31/12/2017	31/12/2016
a) Carrying Amount	1,295,968,828	1,207,753,756
b) Weighted Amount	989,368,305	945,870,421
c) Number	25	23

Pursuant to the regulatory provisions, the table shows the total amount and number of counterparties with risk positions that exceed 10% of the regulatory capital.
Risks for individual customers are considered jointly when there are legal and/or economic connections between them.
The “Weighted amount” is the sum of the on- and off-statement of financial position exposures with a customer, weighted according to the supervisory rules and considering the counterparty’s nature and any guarantees given.
By subscribing into the new Financial Broker official List on 23/05/2016, the margins related to the revocable trusts granted to customers are also included in the Large exposure exhibit. This is the main factor for increments in the amount and number.

4. Models and other methods to measure and manage credit risk

The company has factoring management software that enables daily monitoring of large exposures using estimated values.

5. Other quantitative disclosure

The total amount of large exposures is well below the global limit of eight times the regulatory capital.
Starting from the fourth quarter of 2017, for the risk exposures which fall above the 25% capital threshold, the Parent Company provides coverage of the exceeding individual limit by granting financial personal commitment.
At 31 December 2017, four primary groups exceeded the above mentioned 25%.

3.2 – MARKET RISK

As the company does not have any assets in its trading portfolio, it is not exposed to market risk.
Therefore, it is only subject to interest rate risk on assets in its banking book and marginally to currency risk.

3.2.1 Interest rate risk

QUALITATIVE DISCLOSURE

A. – GENERAL ASPECTS, MANAGEMENT AND MEASUREMENT OF INTEREST RATE RISK

A.1. – General Information

The company manages its market risks in line with the parent's regulations.
The parent manages and controls interest rate risk using the internal asset & liability management (ALM) model which processes the data that Factorit provides daily and makes the related operating decisions.
Interest rate risk is caused by differences, in timing and methods, in repricing interest rates of assets and liabilities. The existence of diversified fluctuations in interest rates in general causes both a change in the expected interest income or expense and a change in the fair value of assets and liabilities, and thus a change in the carrying amount of the captions at risk.

The characteristics of the company's assets and liabilities significantly diminish the impact of a change in market rates on the fair value of assets and liabilities.
The fast turnover of loans and receivables and the presence of exclusive short-term funding, ensuring frequent, closely spaced repricing, make it possible to keep lending and funding conditions aligned to market situations as they arise.

A.2. – Models and other methods to measure and manage interest rate risk

With respect to interest-bearing assets and liabilities a 200 bp increase in interest rates over twelve months would lead to an increase of €1,8 million in the future interest income. The future interest income is the difference between future interest income on interest-bearing assets and the future interest expense on interest-bearing liabilities calculated solely on transactions existing at the reporting date.
The effects of a 200 bp decrease in interest rates over twelve months would be a decrease of roughly €0,2 million in the future interest income.

A.3. – Other quantitative disclosures about interest rate risk

Assuming a sudden 200 bp increase or decrease in interest rates, the change in the company's assets would be below the warning threshold provided for in the regulator provisions (20% of regulatory capital).

QUANTITATIVE DISCLOSURE

1. Breakdown of financial assets and liabilities by residual maturity (re-pricing date) - Currency: EURO

	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	After 10 years	Open term
1. Assets	**465,937,196**	**1,542,220,090**	**125,403,800**	**108,320,261**	**59,548,653**	**121,597**	**-**	**-**
1.1 Debt instruments	-	-	-	-	-	-	-	-
1.2 Loans and Receivables	465,937,196	1,542,220,090	125,403,800	108,320,261	59,548,653	121,597	-	-
1.3 Other Assets	-	-	-	-	-	-	-	-
2. Liabilities	**152,466,105**	**1,932,760,913**	**999,693**	**-**	**-**	**-**	**-**	**-**
2.1 Financial liabilities	152,466,105	1,932,760,913	999,693	-	-	-	-	-
2.2 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. Breakdown of financial assets and liabilities by residual maturity (re-pricing date) - Currency: US dollar

	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	After 10 years	Open term
1. Assets	**1,316,196**	**76,303,833**	**4,750,336**	**-**	**-**	**-**	**-**	**-**
1.1 Debt instruments	-	-	-	-	-	-	-	-
1.2 Loans and Receivables	1,316,196	76,303,833	4,750,336	-	-	-	-	-
1.3 Other Assets	-	-	-	-	-	-	-	-
2. Liabilities	**58,537**	**65,459,550**	**16,528,660**	**-**	**-**	**-**	**-**	**-**
2.1 Financial liabilities	58,537	65,459,550	16,528,660	-	-	-	-	-
2.2 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	-	-	-	-	-	-	-	-

3. Breakdown of financial assets and liabilities by residual maturity (re-pricing date) - Currency: Swiss franc

	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	After 10 years	Open term
1. Assets	**37**	**1,046,697**	**-**	**-**	**-**	**-**	**-**	**-**
1.1 Debt instruments	-	-	-	-	-	-	-	-
1.2 Loans and Receivables	37	1,046,697	-	-	-	-	-	-
1.3 Other Assets	-	-	-	-	-	-	-	-
2. Liabilities	**6**	**1,048,799**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Financial liabilities	6	1,048,799	-	-	-	-	-	-
2.2 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	-	-	-	-	-	-	-	-

4. Breakdown of financial assets and liabilities by residual maturity (re-pricing date) - Currency: OTHER

	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	After 10 years	Open term
1. Assets	**58,749**	**5,923,656**	**-**	**-**	**-**	**-**	**-**	**-**
1.1 Debt instruments	-	-	-	-	-	-	-	-
1.2 Loans and Receivables	58,749	5,923,656	-	-	-	-	-	-
1.3 Other Assets	-	-	-	-	-	-	-	-
2. Liabilities	**3,697**	**5,850,727**	**74,540**	**-**	**-**	**-**	**-**	**-**
2.1 Financial liabilities	3,697	5,850,727	74,540	-	-	-	-	-
2.2 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	-	-	-	-	-	-	-	-

3.2.2 Price risk

QUALITATIVE DISCLOSURE

1. General information

The company is not exposed to price risks.

3.2.3 Currency risk

QUALITATIVE DISCLOSURE

1. General Information

The company is marginally exposed to currency risk as it systematically hedges foreign currency items. This risk mainly exists for the following, although the volumes are limited:

- charges and interest income that is not offset by interest expense in currencies other than the Euro;
- foreign currency guarantees for transactions in Euros.

The company does not use internal measurement models but monitors its exposure to currency risk and reports on it once a quarter in accordance with the regulatory methods.

QUANTITATIVE DISCLOSURE

1. Breakdown of assets, liabilities and derivatives by currency

Captions	Currency					
	US Dollar	Pound sterling	Yen	Canadian dollar	Swiss franc	Other currencies
1. Financial assets	**82,370,365**	**1,211,611**	**17**	**4,769,078**	**1,046,734**	**1,699**
1,1 Debt instruments	-	-	-	-	-	-
1,2 Equity instruments	-	-	-	-	-	-
1,3 Loans and receivables	82,370,365	1,211,611	17	4,769,078	1,046,734	1,699
1,4 Other financial assets	-	-	-	-	-	-
2. Other assets	-	-	-	-	-	-
3. Financial liabilities	**82,046,747**	**1,177,932**	**-**	**4,751,019**	**1,048,805**	**13**
3,1 Loans and borrowings	82,046,747	1,177,932	-	4,751,019	1,048,805	13
3,2 Debt instruments	-	-	-	-	-	-
3,3 Other financial liabilities	-	-	-	-	-	-
4. Other liabilities	**9,200**	**7,720**	**-**	**-**	**-**	**23**
5. Derivatives	**-**	**-**	**-**	**-**	**-**	**-**
5.1 Long positions	-	-	-	-	-	-
5.2 Short positions	-	-	-	-	-	-
Total assets	**82,370,365**	**1,211,611**	**17**	**4,769,078**	**1,046,734**	**1,699**
Total liabilities	**82,055,947**	**1,185,652**	**-**	**4,751,019**	**1,048,805**	**36**
Difference (+/-)	**314,418**	**25,959**	**17**	**18,059**	**(2,071)**	**1,663**

3.3 OPERATIONAL RISKS

QUALITATIVE DISCLOSURE

1. General aspects, management and measurement of operational risk

Operational risk, in accordance with the Basel Committee's definition, is the risk of losses resulting from inadequacy or malfunction of procedures, human resources and internal systems, or from exogenous events.
Operational risk also includes legal risk while strategic risks and reputation are excluded.
Based on the Group's operational risk management policy and in line with the proportionality principle, the Operational Risk Management Framework (OMR) was further strengthened during 2017 and it comprises:

- a process for the collection of operational loss data (Loss Data Collection - LDC), aimed at ensuring an accurate detection of risk events that generate losses and the recording both of monetary values and of qualitative information that specify when, how, where and why the event arose;
- a process for assessing the prospective exposure to operational risk (Risk Self Assessment - RSA), aimed at investigating the perception of business experts about the potential risks in which the company could incur during business operations and to seize indications regarding the interventions, proposed or implemented, for the prevention and mitigation of risky phenomena;
- A process of measuring operational risk for the calculation of the capital requirement focused on the adoption of the "Basic Indicator Approach" (BIA) method, which provides for the application of a single regulatory coefficient (15%) to the average of the last three years observations of the Relevant Indicator, calculated in accordance with the procedures set the Community regulations.

Factorit periodically submits specific information flows to the Parent Company in order to contribute to the assessment of the degree of exposures to operational risks with reference to the entire Group.
In addition, the company annually contributes to the feeding of GRIFO database (“Governo rischi operativi nel factoring”) taking part to the project promoted by the a project promoted by the intermediary association of factoring (i.e. ASSIFACT). This provides for the collection and storage of operational loss data in order to build a common database for the association partners.

QUANTITATIVE DISCLOSURE

Operating losses were recognized as part of the Group's "Loss Data Collection" activity according to the classification scheme of the operational risk events. This envisages 7 events types (First Level Event Type).
The recorded operating losses relate to events (Event Type 4 and 7) attributable to defaults / negligence relating to the application of laws, codes, behavioral rules and professional obligations towards customers or due to defects in the nature or characteristics of products, services and models including prudential provisions for legal disputes.
The capital requirement for operational risk is quantified with the basic method (Basic Indicator Approach - BIA) which provides for a single regulatory coefficient (15%) to the average of the last 3 observations of the Relevant Indicator, calculated in compliance with the Supervisory provisions. Based on the methodology (BIA), described in the previous paragraph, as at December 31, 2017, it amounts to € 7,2 million.

3.4 LIQUIDITY RISK

QUALITATIVE DISCLOSURE

1. General aspects, management and measurement of liquidity risk

Bank of Italy has defined liquidity risk as the risk for which a company is unable to meet its payment obligations or to fund its assets on a timely basis due to its inability to raise funds on the market (funding liquidity risk) and/or to disinvest its assets (market liquidity risk).
Based on the above, Factorit is characterized by the pursuit of risk containment and, with a prudential view, the objective is to maintain the balance of the structure for assets and liabilities maturities with respect to the pursuit of increasing levels of profitability.
Nevertheless, the data in the following table could be misleading. The time mismatch between levels of assets and liabilities is justified by the fact that the company's funds are almost completely held with the Parent Company and Banco BPM SpA Group, the second largest shareholder.
This circumstance makes it possible to state that liquidity risk is marginal.
However, the company's real liquidity risk is tied to the liquidity risk of its parent, whose adoption of specific guidelines is appreciable. They cover the concentration of funding with retail customers, who are thus very diversified, and in the interbank system, where there is a very high level of confidence in the bank.

QUANTITATIVE DISCLOSURE

The following tables have been prepared pursuant to the supervisory instructions issued by Bank of Italy. In particular, non-discounted cash flows are recorded in the relevant residual maturity brackets excluding all collective impairment losses.

1. Breakdown of financial assets and liabilities by residual contractual maturity - Currency: Euro

Captions	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	After 5 years	Open term
Assets	**197,865,336**	**123,475,120**	**210,089,276**	**445,989,927**	**721,132,951**	**277,119,303**	**162,264,871**	**155,250,958**	**18,289,654**	**160,077**	**-**
A.1 Government bonds	-	-	-	-	-	-	-	-	-	-	-
A.2 Other debt instruments	-	-	-	-	-	-	-	-	-	-	-
A.3 Financing	197,865,336	123,475,120	210,089,276	445,989,927	721,132,951	277,119,303	162,264,871	155,250,958	18,289,654	160,077	-
A.4 Other Assets	-	-	-	-	-	-	-	-	-	-	-
Liabilities	**151,500,631**	**8,154,978**	**1,709,839,950**	**63,484,698**	**151,566,590**	**999,693**	**680,171**	**-**	**-**	**-**	**-**
B.1 Due to	-	-	-	-	-	-	-	-	-	-	-
- Banks	143,084,096	8,154,978	1,709,839,950	63,199,395	150,545,371	-	-	-	-	-	-
- Financial Institutions	3,765	-	-	-	-	-	-	-	-	-	-
- Customers	8,412,770	-	-	285,303	1,021,219	999,693	680,171	-	-	-	-
B.2 Debt instruments	-	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-	-	-
Off balance sheet positions	**17,992,482**	**8,113,233**	**14,377,764**	**43,477,782**	**76,715,478**	**60,275,083**	**19,207,873**	**3,474,031**	**-**	**-**	**-**
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 grant funds	17,992,482	8,113,233	14,377,764	43,477,782	76,715,478	60,275,083	19,207,873	3,474,031	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-	-
- Short positions	17,992,482	8,113,233	14,377,764	43,477,782	76,715,478	60,275,083	19,207,873	3,474,031	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-	-

With regard to liabilities, deposits with Banks are represented by Euro 1,793,967,491 from payables to the Parent Company, while Euro 182,729,743 are due to Banco BPM SpA Group.

2. Breakdown of financial assets and liabilities by residual contractual maturity - Currency: US dollar

Captions	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	After 5 years	Open term
Assets	**1,320,421**	**6,223,566**	**20,134,147**	**8,722,043**	**41,469,403**	**4,766,989**	**-**	-	-	-	-
A.1 Government bonds	-	-	-	-	-	-	-	-	-	-	-
A.2 Other debt instruments	-	-	-	-	-	-	-	-	-	-	-
A.3 Financing	1,320,421	6,223,566	20,134,147	8,722,043	41,469,403	4,766,989	-	-	-	-	-
A.4 Other Assets	-	-	-	-	-	-	-	-	-	-	-
Liabilities	**58,537**	**-**	**70,737**	**22,046,026**	**43,342,787**	**16,528,660**	**-**	-	-	-	-
B.1 Due to	58,537	-	70,737	22,046,026	43,342,787	16,528,660	-	-	-	-	-
- Banks	58,537	-	70,737	22,046,026	43,342,787	16,528,660	-	-	-	-	-
- Financial Institutions	-	-	-	-	-	-	-	-	-	-	-
- Customers	-	-	-	-	-	-	-	-	-	-	-
B.2 Debt instruments	-	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-	-	-
Off balance sheet positions	**1,476,524**	**1,605**	**99,249**	**2,272,592**	**703,023**	**46,743**	**-**	**-**	**-**	**-**	**-**
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 grant funds	1,476,524	1,605	99,249	2,272,592	703,023	46,743	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-	-
- Short positions	1,476,524	1,605	99,249	2,272,592	703,023	46,743	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-	-

3. Breakdown of financial assets and liabilities by residual contractual maturity - Currency: CHF Swiss franc

Captions	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	After 5 years	Open term
Assets	**37**	**-**	**-**	**-**	**1,050,801**	**-**	**-**	-	-	-	-
A.1 Government bonds	-	-	-	-	-	-	-	-	-	-	-
A.2 Other debt instruments	-	-	-	-	-	-	-	-	-	-	-
A.3 Financing	37	-	-	-	1,050,801	-	-	-	-	-	-
A.4 Other Assets	-	-	-	-	-	-	-	-	-	-	-
Liabilities	**6**	**-**	**-**	**-**	**1,048,799**	**-**	**-**	-	-	-	-
B.1 Due to	6	-	-	-	1,048,799	-	-	-	-	-	-
- Banks	6	-	-	-	1,048,799	-	-	-	-	-	-
- Financial Institutions	-	-	-	-	-	-	-	-	-	-	-
- Customers	-	-	-	-	-	-	-	-	-	-	-
B.2 Debt instruments	-	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-	-	-
Off balance sheet positions	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
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 grant funds	-	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-	-

4. Breakdown of financial assets and liabilities by residual contractual maturity - Currency: OTHER

Captions	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	After 5 years	Open term
Assets	**58,777**	**-**	**1,089,064**	**897,522**	**3,961,453**	**-**	-	-	-	-	-
A.1 Government bonds	-	-	-	-	-	-	-	-	-	-	-
A.2 Other debt instruments	-	-	-	-	-	-	-	-	-	-	-
A.3 Financing	58,777	-	1,089,064	897,522	3,961,453	-	-	-	-	-	-
A.4 Other Assets	-	-	-	-	-	-	-	-	-	-	-
Liabilities	**3,694**	**-**	**346,868**	**-**	**5,503,862**	**74,540**	**-**	-	-	-	-
B.1 Due to	3,694	-	346,868	-	5,503,862	74,540	-	-	-	-	-
- Banks	3,694	-	346,868	-	5,503,862	74,540	-	-	-	-	-
- Financial Institutions	-	-	-	-	-	-	-	-	-	-	-
- Customers	-	-	-	-	-	-	-	-	-	-	-
B.2 Debt instruments	-	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-	-	-
Off balance sheet positions	**640,379**	**382,312**	**308,897**	**555,511**	**1,524,809**	**273,070**		-	-	-	-
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 grant funds	640,379	382,312	308,897	555,511	1,524,809	273,070	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-	-
- Short positions	640,379	382,312	308,897	555,511	1,524,809	273,070	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-	-

Section 4 *Equity*

4.1 Equity

4.1.1 Qualitative disclosure

The company's equity is considered adequate to cover existing and future risks.
This is also due to a prudent dividend distribution policy which has allowed the company to allocate €102,6 million to the reserves in the last ten years.

(Euro millions)				
2007-2013	**2014**	**2015**	**2016**	**Total**
73,9	14,0	11,5	3,2	102,6

4.1.2 Quantitative disclosure

4.1.2.1 Equity: breakdown

Captions	**2017**	**2016**
1. Share capital	**85,000,002**	**85,000,002**
2. Share premium	**11,030,364**	**11,030,364**
3. Reserves	**118,499,935**	**115,270,549**
- income – related	-	-
a) legal	11,034,847	10,873,379
b) statutory	-	-
c) treasury shares	-	-
d) other	102,511,378	99,443,460
- other	4,953,710	4,953,710
4. (Treasury shares)	**-**	**-**
5. Valuation reserves:	**-318,667**	**-235,029**
- Available for sale financial assets	-	-
- Property 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 pension plans	-318,667	-235,029
- Portion of revaluation reserves of equity-accounted investees	-	-
6. Equity instruments	**-**	**-**
7. Profit for the year	**15,122,818**	**3,229,386**
Total	**229,334,452**	**214,295,272**

4.2. Own funds and regulatory ratios

4.2.1 Own funds

4.2.1.1 Qualitative disclosure

1. Common Equity Tier 1 (CET1)
2. Additional Tier 1 (AT1)
3. Tier 2 (T2)

The supervisory body uses the regulatory capital to assess the company's stability and that of the system.
Regulatory capital is subject to the most important prudential controls, such as the requirements to meet risks and risk concentration rules.
At the reporting date, the company's regulatory capital solely consisted of Common Equity Tier 1 capital, which can be used without limitation for the calculation.

4.2.1.2 Quantitative disclosure

Voci/Valori	2017	2016
A. Common Equity Tier 1 (CET1) before application of prudential filters	**223,384,452**	**214,295,272**
Of which CET1 instruments subjects to transitory measures	-	-
B. CET1 prudential filters (+/-)	**-**	**-**
C. CET1 including the elements to be deducted (A+/-B)	**223,384,452**	**214,295,272**
D. Elements to be deducted from CET1	**123,550**	**89,145**
E. Transitory disposition – Impacts on CET1 (+/-)	**-**	**-**
F. Total Common Equity Tier 1 (CET1) (C-D +/- E)	**223,260,902**	**214,206,127**
G. Additional Tier 1 Capital (AT1) gross of the elements to be deducted and of the transitory disposition	**-**	**-**
Of which AT1 instruments subjects to transitory measures	-	-
H. Elements to be deducted from AT1	**-**	**-**
I. Transitory regime – AT1 impacts (+/-)	**-**	**-**
L. Totale Additional Tier 1 Capital (AT1) (G – H +/- I)	**-**	**-**
M. Tier 2 capital (T2) gross of the elements to be deducted and of the effects of the transitory regime	**-**	**-**
Of which T2 instruments subjects to transitory disposition	-	-
N. Elements to be deducted from T2	**-**	**-**
O. Transitory regime – Impacts on T2 (+/-)	**-**	**-**
P. Total Tier 2 (T2) (M – N +/- O)	**-**	
Q. Total Own Funds (F + L + P)	**223,260,902**	**214,206,127**

Own funds do not include profits which the company expects to distribute.

4.2.2 Capital adequacy

4.2.2.1 Qualitative disclosure

Suitable regulatory capital allows the company to comply with the individual solvency ratio. This requirement is the ratio between regulatory capital and the sum of the risk-weighted assets.
At the reporting date, the risks weighing the assets are credit, currency and operational risks.
The company has chosen to use the standard method for credit risk, which entails the breakdown of the loans and receivables portfolio into sub-groups, considering the counterparties and products, and applying different prudential treatments. The weighing ratios of the exposures are based, when available, on the rating assigned to each counterparty by specialised credit rating agencies.

From the Prudential Supervisory Report dated 31 March 2017 the company has recognized, in line with its parent company, Cerved Rating Agency SpA. as its external credit assessment agency (ECAI) to determine the weight of credit risk in the standardized method with respect to the "companies and other subjects" portfolio.
The valuations of this agency are required for resident listed companies with a turnover equal to or greater than 50 million euro or with an exposure equal to or higher than 1,5 million euro.
Starting from the fourth quarter of 2017, Factorit has identified in Scope Rating AG the ECAI to be used for the determination of risk weighted assets with respect to exposures to Central Administrations, Territorial Bodies, Non-profit Bodies, Public Sector Bodies and Supervisory Intermediaries, and proceeded in due time to update the changes in ratings related to the States.
Factorit, in accordance with the provisions of the law, has notified the change of the ECAI of reference to the Supervisory Authority.

With reference to credit risk, the individual coefficient is 6%.

With respect to operational risk, Factorit uses the basic method. Accordingly, it calculates its requirement using a regulatory ratio of 15% applied to a business operating volume indicator identified as the three-year average of total income.

4.2.2.2 Quantitative disclosure

Captions	Unweighted amounts		Weighted amounts/requirements	
	2017	2016	2017	2016
A. EXPOSURES				
A.1 Credit and counterparty risk	-	-	-	-
1 Standardised method	3,969,567,892	3,603,941,029	1,842,210,644	1,765,271,308
2 IRB approach	-	-	-	-
2.1 Basic	-	-	-	-
2.2 Advanced	-	-	-	-
3 Securitisations	-	-	-	-
B. CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk	-	-	**110,532,639**	**105,916,278**
B.2 Credit adjustment risk				
B.3 Settlement risk				
B.4 Market risk	-	-	-	-
1 Standard method	-	-	465,308	417,314
2 Internal models	-	-	-	-
3 Concentration risk	-	-	-	-
B.5 Operational risk	-	-	-	-
1 Basic method	-	-	7,254,273	8,354,026
2 Standardised method	-	-	-	-
3 Advanced method	-	-	-	-
B.6 Other prudential requirements	-	-	-	**17,744,074**
B.7 Other calculation elements	-	-	-	-
B.8 Total prudential requirements	-	-	**118,252,220**	**132,431,692**
C. EXPOSURES AND CAPITAL RATIOS				
C.1 Risk weighted-assets	-	-	1,970,870,320	2,207,194,878
C.2 CET 1 / Risk-weighted assets (CET 1 capital ratio)			11,328%	9,705%
C.3 TIER 1 / Risk-weighted assets (Tier 1 capital ratio)				
C.4 Total Own Funds / Risk-weighted assets (Total capital ratio)			11,328%	9,705%

The weighted amount for credit and counterparty risk benefitted from the use of financial guarantees (fidejussioni) issued by the parent with respect to four major industrial groups (approximately with €330 million impact).

The risk-weighted assets, shown in caption C.1, and also used to calculate the ratios in captions C.2 and C.3, are calculated as the sum of the total prudential requirement (B.6) and 16,67 (inverse of the minimum mandatory ratio of 6%).

Section 5 *Statement of comprehensive income*

Captions	Gross Amount	Income tax	Net Amount
10. Profit for the year	22,421,792	(7,298,974)	15,122,818
Other comprehensive income that will not be reclassified to profit or loss	-	-	-
20. Property and equipment	-	-	-
30. Intangible assets	-	-	-
40. Defined benefit plans	(115,363)	31,725	(83,638)
50. Non current assets held for sale	-	-	-
60. Share of valuation reserves of equity-accounted investees	-	-	-
Other comprehensive income that will be reclassified to profit or loss	-	-	-
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. Share 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	(115,363)	31,725	(83,638)
140. Comprehensive income (captions 10+130)	**22,306,429**	**(7,267,249)**	**15,039,180**

Section 6 *Related party transactions*

6.1 Key management personnel's remuneration

Managers: remuneration of Euro 449,869 of which salaries equal to Euro 350,795, bonuses and other incentives equal to Euro 20,000, non monetary benefits of Euro 25,074 and fees for the position of managing director of Euro 54,000.

6.2 Loans given to and guarantees given on behalf of directors and statutory auditors

See caption 110.a of the income statement.

6.3 Related party transactions disclosure

6.3.1. Transactions with Banco BPM Group

Statement of financial position

Company	Loan Assets	Financial Liabilities	Other Assets	Other Liabilities
Banca Popolare di Milano S.p.A.	731,105	182,729,743	7,027,465	485,654
Banco BPM S.p.A.	3,173,600	-	663,332	224,762
Total	**3,904,705**	**182,729,743**	**7,690,797**	**710,416**

Income statement

Company	Interest income	Interest expense	Interest expense on active syndicate	Factoring commissions	Other fee and commission expense	Other expense
Banca Popolare di Milano S.p.A.	6,073	572,005	1,307,097	173,774	28,773	27,600
Banco BPM S.p.A.	370	749	147,285	-	68,964	-
Total	**6,443**	**572,754**	**1,454,382**	**173,774**	**97,737**	**27,600**

6.3.2. Transactions with the parent and associates

Loans and receivables with banks

Banca Popolare di Sondrio S.C.p.A.	Amount
Ordinary current accounts – Euro	337,647
Ordinary current accounts - Foreign currency	32,111
Total	**369,758**

Due to banks

Banca Popolare di Sondrio S.C.p.A.	Amount
Ordinary current accounts	93,053,178
Hot money	1,700,000,000
Hot money accruals	12,500
Commissions to be paid	901,532
Supplier invoices	281
Total	**1,793,967,491**

Costs – banks

Banca Popolare di Sondrio S.C.p.A.	Amount
Interest expense	2,388,107
Fee and commission expense – expense	79,973
Fee and commission expense – factoring	901,532
Fee and commission expense – financial guarantees	308,735
Lease expense	210,542
Service contracts	90,000
Directors' fees	24,000
Seconded personnel	20,014
Total	**4,022,903**

Revenue – banks

Banca Popolare di Sondrio S.C.p.A.	Amount
Interest income - ordinary current accounts	898
Seconded personnel	131,814
Total	**132,712**

Costs – customers

Sinergia Seconda S.r.l.	Amount
Lease expense	1,195,510
Total	**1,195,510**

Pirovano Stelvio S.p.A.	Amount
Hotels and restaurants	773
Total	**773**

Section 7 *Other disclosures*

In accordance with the disclosure requirement of article 2497-bis of the Italian Civil Code, key figures from the most recently approved financial statements of the bank that manages and coordinates the company are provided below.

STATEMENT OF FINANCIAL POSITION

Assets	31/12/2016	31/12/2015
10. Cash and cash equivalents	96,466,584	96,965,094
20. Financial assets held for trading	1,014,376,806	1,851,494,461
30. Financial assets at fair value through profit or loss	163,116,546	158,697,872
40. Available-for-sale financial assets	6,643,534,743	6,319,477,580
50. Held-to-maturity investments	117,022,971	125,776,716
60. Loans and receivables with banks	2,759,906,193	2,001,898,271
70. Loans and receivables with customers	21,331,910,550	20,021,406,321
100. Equity investments	487,346,548	488,595,257
110. Property, equipment and investment property	170,969,964	170,965,705
120. Intangible assets	14,313,189	12,959,574
130. Tax assets	437,950,534	447,243,565
a) current	64,074,927	61,750,270
b) deferred	373,875,607	385,493,295
b1) including: as per Law no, 214/2011	335,353,219	353,003,389
150. Other assets	350,831,386	322,957,663
Total assets	**33,587,746,014**	**32,018,438,079**

Liabilities and equity	31/12/2016	31/12/2015
10. Due to banks	2,249,796,181	2,077,164,130
20. Due to customers	24,913,251,427	23,614,087,733
30. Securities issued	3,089,135,232	3,013,032,938
40. Financial liabilities held for trading	87,615,749	97,310,098
80. Tax liabilities	30,470,573	48,309,394
b) deferred	30,470,573	48,309,394
100. Other liabilities	666,090,044	633,552,831
110. Post-employment benefits	42,271,279	40,864,317
120. Provisions for risks and charges	174,329,787	159,602,686
a) pension and similar provisions	130,873,531	117,912,386
b) other provisions	43,456,256	41,690,300
130. Valuation reserves	37,356,524	85,111,584
160. Reserves	803,540,688	735,497,376
170. Share premium	79,005,128	79,005,128
180. Share capital	1,360,157,331	1,360,157,331
190. Treasury shares (-)	-25,321,549	-25,321,549
200. Profit for the year	80,047,620	100,064,082
Total liabilities and equity	**33,587,746,014**	**32,018,438,079**

INCOME STATEMENT

Captions	2016	2015
10. Interest and similar income	579,229,241	704,049,473
20. Interest and similar expense	-164,028,900	-224,584,075
30. **Net interest income**	**415,200,341**	**479,465,398**
40. Fee and commission income	263,785,646	264,627,405
50. Fee and commission expense	-14,274,152	-14,837,612
60. **Net fee and commission income**	**249,511,494**	**249,789,793**
70. Dividends and similar income	18,191,127	16,272,895
80. Net trading income	12,589,330	45,584,573
100. Net gain from sales or repurchases of:	76,011,011	140,033,949
a) Loans and receivables	-79	-91
b) available-for-sale financial assets	76,330,683	139,926,360
d) financial liabilities	-319,593	107,680
110. Net gain on financial assets and liabilities at fair value through profit or loss	4,307,436	6,293,949
120. **Total Income**	**775,810,739**	**937,440,557**
130. Net impairment losses on:	-260,808,124	-400,487,707
a) Loans and receivables	-232,177,373	-381,403,319
b) available-for-sale financial assets	-25,188,829	-8,202,923
c) held-to-maturity investments	-	-9,965,039
d) other financial transactions	-3,441,922	-916,426
140. **Net financial income**	**515,002,615**	**536,952,850**
150. Administrative expenses	-443,810,412	-434,650,707
a) personnel expense	-182,024,478	-181,209,011
b) other administrative expenses	-261,785,934	-253,441,696
160. Net accruals to provisions for risks and charges	-1,279,781	-2,134,105
170. Depreciation and net impairment losses on property, equipment and investment property	-14,190,987	-13,548,252
180. Amortisation and net impairment losses on intangible assets	-13,433,218	-12,317,392
190. Other operating income, net	64,901,082	69,211,415
200. **Operating costs**	**-407,813,316**	**-393,439,041**
210. Net losses on equity investments	-1,680,491	577,727
240. Net gain on the sale of investments	10,374	7,080
250. **Pre-tax profit from continuing operations**	**105,519,182**	**144,098,616**
260. Income taxes	-25,471,562	-44,034,534
270. **Post-tax profit from continuing operations**	**80,047,620**	**100,064,082**
270. **Profit for the year**	**80,047,620**	**100,064,082**

Pursuant to article 149-duedecies of Consob's Issuer Regulation, the following table shows the fees for services provided by the following parties:

- the independent auditors for audit services.

Type of service	Service provider	2017 fees
Audit	KPMG S.p.A.	10,000
Audit	EY S.p.A.	30,500
Half-year checks	KPMG S.p.A.	12,000

(Euro)

- the independent auditors for other services.

Type of service	Service provider	2017 fees
Other services	KPMG S.p.A.	150,000

(Euro)

The above fees do not include VAT or accessory expenses.

Report from the Board of Auditors to the Shareholders' Meeting

Dear Shareholders,

In carrying out our duties pursuant to the law, we have followed the rules of conduct recommended by the Italian National Council of Accountants and Tax Advisors. Therefore, in accordance with the law and the aforementioned rules, we have monitored compliance with the law, the bylaws, and proper standards of administration in management of the Company, as well as the adequacy of the organizational structure and systems of internal control.

With regard to compliance with the law, the bylaws, and proper standard of administration, we note that during fiscal year 2017, the Directors did not perform any transactions contrary to the provisions of law or the bylaws, nor did they perform any transactions which were manifestly imprudent or detrimental to the Company. We also note that in terms of business management, the Directors and Management adhered to proper standards of administration and economic rationality. In this regard, we add that in operating terms, we did not note any conduct which diverges from or conflicts with decisions made by the Directors.

With regards to the meetings of company bodies, we note that the Board of Auditors participated to the two meetings held during 2017 and, more in detail, to the Shareholders' Meeting of April 23, 2017 to approve the 2016 financial statements and the Shareholders' Meeting of September 20, 2017 to appoint EY S.p.A. as the accounting auditing firm of the Company. Furthermore, we note that the Board of Auditors participated to ten meetings of the Board of Directors held during the year. We can attest that all meetings of the Board of Directors, as well as the said shareholders' meetings, were called and held in compliance with the applicable laws. We also note that the Board of Auditors met thirteen times during fiscal 2017.

In terms of our activity of supervising the adequacy of the organizational structure, we focused on the constant monitoring of the organizational structure's ability to meet the company's operating needs, as well as the needs arising from membership in the Banca Popolare di Sondrio Banking Group. In this regard, we have not detected any problems worthy of note.

The activity of supervising the adequacy of the internal control systems was carried out primarily by maintaining relationships with the responsible structures of the company and the parent company, as well as with Unione Fiduciaria, which is responsible for the Conformity Function. Such activity refers in particular to the risks arising from the company's business and to the effectiveness of the IT systems on the financial reporting. In this regard, we also note that we put great attention to the activities carried out by the Company in order to comply with the new regulation in the field of risk control and to the corresponding amendments done to the overall structure of internal controls in coherence with such regulation and with the guidelines issued by the Parent Company.

We have noted that there were no atypical or unusual transactions with group companies, third parties, or related parties. The Board of Directors' report and the explanatory note to the financial statements provide an exhaustive description of the nature and aggregate amount of transactions with related parties, the parent company, and affiliated companies during the year, as well as the financial and economic effects of such.

During the year, we periodically contacted the Supervisory Board, obtaining regular updates on its supervisory activity regarding the proper functioning and appropriateness of the organization, management and control Model pursuant to Legislative Decree 231/2001. This activity did not reveal situations or conduct that would create non compliance risks or circumstances that might result in the company's possible administrative liability.

Controls that regard the keeping of regular accounts and accurate reporting of operating events in the financial statements were performed by the auditing company EY S.p.A., which has replaced KPMG S.p.A. following the Shareholders' Meeting decision of September 20, 2017.

We discussed with EY S.p.A. the outcomes of its auditing work which did not reveal exceptions with regard to the financial statements, or any irregularities with regard to the organization and appropriateness of the accounting systems in terms of presenting an accurate picture of company affairs.

We monitored the definition and development of the financial statements as regard to its compliance to the relevant accounting standards (keeping particular attention to the going concern assumption) and to its related predisposition process. We can therefore attest that the financial statements that the Directors have submitted for your approval were prepared in accordance with the specific provisions applicable to their formation and that they have been drawn up in compliance to the IAS/IFRS international accounting standards adopted by the European Union.

The accounting format complies with the form requirements applicable to credit and financial entities.

With regard to the Director's report, we note that the accounting auditing firm carried out the procedures indicated by the audit principle n. 720B (SA Italia) thus confirming that the Directors' report is consistent with Factorit S.p.A. financial statements as at December 31, 2017 and it complies with the applicable provisions of law. In this regard, the accounting auditing firm confirmed that with reference to the statement of which art.14, c. 2 lett. e) of Legislative decree 39/2010, no matters should be reported.

To complete our report, we declare that the Board has received no negative reports from third parties or any complaints pursuant to Art. 2408 of the Italian Civil Code.

In light of the above, and noting that the audit report released by EY S.p.A. contains no irregularities regarding the financial statements, nor any requests for information regarding what the Directors have analytically explained in the Directors' report and the explanatory note, with regard to the matters within our competence, we express our opinion in favor of approving the financial statements for the fiscal year 2017 and for the Directors' proposal for allocating net profit.

Milan, March 27, 2018

THE BOARD OF AUDITORS
Signed by: dott. Luca Zoani - President
Signed by: dott. Pio Bersani
Signed by: prof.ssa Donatella Depperu

Building a better
working world

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Independent auditor’s report in accordance with article 14 and 19-bis of Legislative Decree n. 39, dated January 27, 2010 and article 10 of EU Regulation n. 537/2014

(Translation from the original Italian text)

To the Shareholders of
Factorit S.p.A.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Factorit S.p.A. (the “Company”), which comprise the balance sheet at December 31, 2017, the income statement, the statement of comprehensive income, the statement of changes in equity, the cash flows statement for the year then ended and notes to the financial statements.

In our opinion, the financial statements give a true and fair view of the financial position of the Company at December 31, 2017, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing Article 43 of Legislative Decree n. 136, dated August 18, 2015.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report.

We are independent of the Company in accordance with the regulations and standards on ethics and independence applicable to audits of financial statements under Italian Laws. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matters

The Company's financial statements at December 31, 2016 were audited by other auditors who issued a unqualified opinion on March 24, 2017.

The Company, as required by law, has included in the notes to the Financial Statements the essential financial information of the most recent financial statements of the company that exercises management and coordination activities on it. Our opinion on the financial statements of Factorit S.p.A. does not cover such financial information.

Responsibilities of Directors and Those Charged with Governance for the Financial Statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing Article 43 of Legislative Decree n. 136, dated August 18, 2015 within the terms provided by the law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The board of statutory auditors ("*Collegio Sindacale*") is responsible, within the terms provided by the law, for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we have exercised professional judgment and maintained professional skepticism throughout the audit. In addition:

- we have identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error; have designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- we have obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- we have evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- we have concluded on the appropriateness of directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;

- we have evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We have communicated with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Compliance with Other Legal and Regulatory Requirements

Opinion pursuant to Article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated January 27, 2010

The directors of Factorit S.p.A. are responsible for the preparation of the Report on Operations at December 31, 2017, including its consistency with the related financial statements and its compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations with the financial statements of Factorit S.p.A. at December 31, 2017 and on its compliance with the applicable laws and regulations, and in order to assess whether it contains material misstatements.

In our opinion, the Report on Operations is consistent with the financial statements of Factorit S.p.A. at December 31, 2017 and comply with the applicable laws and regulations.

With reference to the statement required by Article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39, dated January 27, 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have no matters to report.

Milan, March 27, 2018

EY S.p.A.
Signed by: Davide Lisi, partner

This report has been translated into the English language solely for the convenience of international readers.

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