# 2016 Report and Financial Statements

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# Letter from the Chairman

## LETTER FROM THE CHAIRMAN

Dear Shareholders,

2016 was a year of great change for the Company and the Group.
We have initiated a number of managerial and strategic actions to face the challenges of an increasingly dynamic and complex environment in the best possible way.
In the second half of the year, after the appointment of the new CEO, Paolo Bertoluzzo, we launched the new organizational structure, a critical step to improve our efficiency and speed up the refocusing process.

As part of the Group's development and growth strategy, also through M&A in the e-money market, the acquisition of Bassilichi - operator specialized in the payments industry and business services - and the business units relating to the Acquiring businesses of Monte dei Paschi di Siena and Deutsche Bank Italy has initiated.
Mercury UK Holdco Limited, controlling shareholder of the Parent Company, completed the acquisition of Setefi Services and Intesa Sanpaolo Card from IntesaSanPaolo with the intent to build a strong relationship with the largest Italian bank and increase the operational capacity and innovation within the Group.

2016 saw the Italian GDP grow close to 1%, lower than the average of the EMU countries, but better than expected. Domestic demand has driven the consolidation process of the recovery, against the suffering of net exports.
The payment system remains dominated by cash: the market for payment cards is experiencing, in any case, a phase of development that leverages on debit and prepaid products.
The segment of revolving cards registered an increase in volumes financed through the revolving card.
During 2016, CartaSi managed a total growth in volumes of approximately 15.4 million cards, over 2.6 billion transactions and more than 500,000 POS and ATM terminals, confirming its undisputed market leadership.
This was possible thanks to a marketing activity by CartaSi aimed at maintaining and strengthening its market leadership, and characterized by the coordinated action of all the business lines and customer segments, with particular attention to innovation and creation of value for Partner Banks.

The ICBPI Group 2017-2021 Business Plan, presented during 2016 and finally launched on 9 February 2017, reflects the technological evolution and projects the Company and the Group towards a perspective of renewal and modernity to grasp without wasting time.
The Group's ambition is to become the national leader of digital payments, reaching the scale necessary to invest in technology, services, know-how, with the aim to grow faster than the market, guide the development of digital payments in Italy together with the Partner Banks and pursue, in particular, a significant increase in profitability.
The development strategy will focus on payments and will consist of an organic growth of the different business units, an inorganic growth with targeted acquisitions in the payments industry and, strong

investment in technological excellence and know-how. Incisive actions will be taken on the operational plan towards greater organization effectiveness and ever increasing digitized services.

The economic results achieved are consistent with the described situation. 2016 closed with an EBITDA of EUR 168.3 million (+32.4% compared to 2015) and a Net Profit amounting to EUR 329.9 million compared to EUR 71.3 million of the previous year (+362.8%); the Net Profit increase reflects an extraordinary income of EUR 258 million arising from the Visa Europe acquisition by Visa Inc.
Despite the international macroeconomic scenario characterized by phases of considerable uncertainty and the unknown factors arising from Brexit and the economic policy of the new US administration, it is believed that the positive trend in consumption in Italy will support the growth in the use of electronic money, also stimulated by low current penetration and policies aimed at limiting the use of cash.
The Company will continue to seize the opportunities provided by the ongoing consolidation process in the banking system, with a constant focus on risk profiles.
In this sense, the activities of supervision and commercial stimulus will continue in 2017, in cooperation with banks, aimed at increasing the diffusion and use of payment instruments, regarding both Issuing and Acquiring, to support the achievement the Business Plan objectives and enhance synergies with Banks.

# Corporate positions at 15 March 2017

# Corporate positions
As at 15 March 2017

## BOARD OF DIRECTORS

| | |
|---|---|
| *Chairman:* | Franco BERNABÈ |
| *Vice-Chairman:* | Antonio PATUELLI |
| *Vice-Chairman:* | Roberto ROMANIN JACUR |
| *CEO:* | Paolo BERTOLUZZO |
| *Directors:* | Luca BASSI<br>Gabriele BENI<br>Francesco CASIRAGHI<br>Pierpio CERFOGLI<br>Simone CUCCHETTI<br>Mario FERA<br>Maurizio MUSSI |

## BOARD OF STATUTORY AUDITORS

| | |
|---|---|
| *Chairman:* | Alessandro GRANGE |
| *Standing auditors:* | Lorenzo BANFI<br>Paolo Francesco Maria LAZZATI |
| *Substitute auditors:* | Alberto BALESTRERI<br>Marco Giuseppe ZANOBIO |

# Shareholders' Meeting Call

# Shareholders' Meeting Call

The Shareholders are convened to the ordinary Shareholders' Meeting in Milan, Corso Sempione no. 55, **on 20 April 2017 at 9.00am first call** and, if required, on 21 April 2017 at 8.00am second call, same place, in order to discuss the following

AGENDA

1. Financial statements as at 31 December 2016; Report on Operations of the Board of Directors; Reports of the Board of Statutory Auditors and the Auditing Company; related resolutions.
2. Appointment of Directors; related resolutions.
3. Determination of the remuneration for the Board of Directors for financial year 2017.

# 2016 Reports and Financial Statements

# Board of Directors' Report on operations for 2016

INTERNATIONAL ECONOMY

The international macroeconomic scenario in 2016 was characterized by moments of considerable uncertainty; we are still facing the uncertainties arising from Brexit and the economic policy of the new US administration, with the impact that it may have on the economy of emerging countries. Geopolitical tensions also affect the Eurozone, in anticipation of elections in France, Germany and the Netherlands, and the possible emergence of anti-European orientation forces.

ITALIAN ECONOMY AND MARKET SCENARIOS

2016 will close with a growth close to 1%, still lower than the average of the EMU countries, but better than that expected in the autumn by the top research institutes. Domestic demand has driven the consolidation process of the recovery, against the suffering of net exports. The growth prospects are conditioned by political uncertainty that originates from the results of the Constitutional Referendum and the consequent difficulty in launching structural reforms to support growth.

The payment system remains dominated by cash: during 2015, 87 transactions per capita were performed with non-cash instruments, compared to the 202 of the Eurozone.

The market of payment cards is still going through a phase of development, which is especially leveraging debit and prepaid products. In 2015 (source: Bank of Italy), debit cards enabled for POS payments grew in terms of diffusion (+7.0%) and use (+16.8% expenditure, +16.3% number of transactions).

Prepaid products have stepped up the strong expansion of recent years (cards +12.8%, volumes 28.7%, transactions +28.2%); positive data, although not so stellar, for credit cards that have increased both in numbers (+0.9%, but +13.5% of active cards) and use (volumes +0.4%, transactions +1.4%).

The latest estimates of CartaSi confirm the expansion of the payment cards market, relating to the market in 2016. Total volumes (VISA + Mastercard) increased by 11.0%, with a significant contribution of prepaid cards and international debit, whose POS volumes grew by 13.2%, compared to the +7.6% of credit.

As for the revolving segment, an increase of +21.4% is registered (source Assofin) in volumes financed through revolving cards in the first eleven months of 2016.

Dear Shareholders,

2016 closed with an EBITDA of € 168.3 million (+32.4% compared to 2015) and a Net Profit of € 329.9 million against € 71.3 million of the previous year (+362.8%); the Net Profit increase reflects an extraordinary income of € 258 million from the Visa Europe acquisition by Visa Inc.

The most important actions that involved the Company in 2016 are as follows.

EVOLUTION OF THE GROUP

As part of the Group's growth strategy and development, also through acquisitions in the e-money market, ICBPI signed an agreement in late 2016 to acquire up to 100% of Bassilichi SpA, the Parent Company of the Bassilichi Group, specialized operator within payments and services for the business.

In the last quarter of the year, ICBPI also submitted offers for the acquisition of the business units relating to the Acquiring businesses of Banca Monte dei Paschi di Siena and Deutsche Bank S.p.A. The signing of both deals was finalized in February 2017. The acquisition of the business units is now subject to receiving the necessary authorizations from the competent Supervisory Authorities.

In addition, it is noted that Mercury UK Holdco Limited, the majority shareholder of the Institute, through the vehicle Latino Srl, completed the acquisition of Setefi Services and Intesa Sanpaolo Card from IntesaSanPaolo on 15 December 2016, now Mercury Payment Services and Mercury Processing Services International respectively.

The strategic rationale of the deal lies in the opportunity to build a strong relationship with the largest Italian bank and the possibility of increasing the operational capacity and innovation within the Group; although the transaction was carried out independently by Mercury UK, it can however create synergies and advantages even for the ICBPI Group.

CORPORATE GOVERNANCE STRUCTURES

On 21 April 2016, the Shareholders' Meeting reappointed the Company's Board of Directors, consisting of eleven members, for the years 2016, 2017 and 2018.

On the same date, the Board of Directors resolved to appoint Franco Bernabè Chairman of the Board of Directors, Antonio Patuelli and Roberto Romanin Jacur Vice-Chairmen and Giuseppe Capponcelli CEO.

Subsequently, on 23 May 2016, the Board of Directors of the Company, acknowledging the resignation presented by Giuseppe Capponcelli with effect from 10 July 2016, resolved to appoint Paolo Bertoluzzo, pursuant to Article 2386 of the Civil Code, CEO of the Company with effect from 11 July 2016, simultaneously conferring the necessary powers.

SHAREHOLDERS' MEETING

In 2016, the Shareholders' Meeting of the Company met twice and on:

- February 2, ordinary session, approved the ratification of the work of the Directors and Statutory Auditors in office from 1 January 2011 to 18 December 2015;
- April 21, ordinary session, resolved to approve the 2015 Financial Statements, the appointment of the members of the Board of Directors for the years 2016, 2017 and 2018, after determining the number and the relative remuneration.

BOARD OF DIRECTORS

The Board of Directors, in exercising the conferred powers of ordinary and extraordinary administration, met eleven times during 2016.

The Board, whose mandate will expire with the approval of the Financial Statements for 2018, is composed of eleven members.

BOARD OF STATUTORY AUDITORS

The Board of Statutory Auditors, as part of its control prerogatives over the administration and management of the Company, met eleven times during 2016.

The Board, whose mandate will expire with the approval of the Financial Statements for 2017, is composed of five members (three statutory and two substitute).

SUPERVISORY BODY PURSUANT TO LEG. DECREE 231/2001

On 21 April 2016, the Board of Directors resolved, in line with the recommendations of the Parent Company and the Bank of Italy, to confirm the Board of Statutory Auditors with the Supervisory Body 231 functions.

The Board of Statutory Auditors met five times as a Supervisory Body in 2016.

ORGANISATIONAL STRUCTURE

In reference to the lines of the Business Plan approved by the Board of Directors of the ICBPI Parent Company on 22 June 2016, a new organizational structure for ICBPI and CartaSi was adopted in November in accordance with the target organizational model of the Group, which will be developed in two phases. The first phase, completed in November 2016, saw the implementation of the first reporting line of the CEO through the establishment of first-level functions in ICBPI and CartaSi. The second phase will take into account the evaluations of the new Managers and the indications that will be given in the Group 2017-2019 Business Plan.

The target organizational model focuses on three strategic business lines, Issuing, Merchant Services and Payments/ATM, accompanied and supported by a number of support functions.

Therefore, the new Business Units - Issuing and Merchant Services - were set up to allow a greater alignment with respect to the needs and service models relating to the two main segments of end customers (cardholders and merchants). The Commercial Division was established, dedicated to the sales management of all Group products and services through the banking channels. The new Business Development Division was established dedicated to the development of new strategic initiatives for the business of the Group.

The Payment Cards Division assumes the name of Operations Division with the task of overseeing all operational activities of electronic money to support the Issuing and Merchant Services Business Units, focusing in particular on the quality of service and improving operational efficiency and effectiveness. The Operations Division is also assigned the responsibility of managing the customer care function.

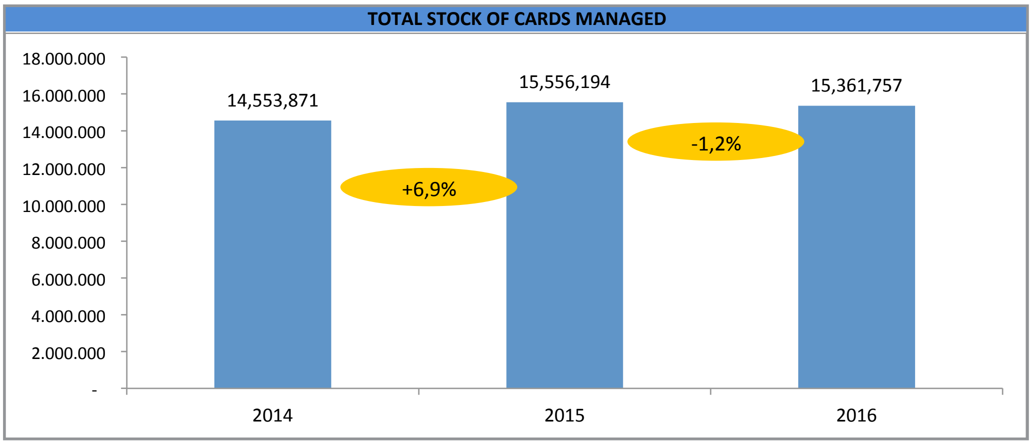
In order to start the integration process of the operational activities of electronic money, with particular reference to the integration of activities dedicated to merchants, the POS and ATM Division has been eliminated whose activities and resources were transferred to the Operations Division. The responsibility for business development of ATMs has been attributed to the Parent Company as part of the Payments & ATM BU.

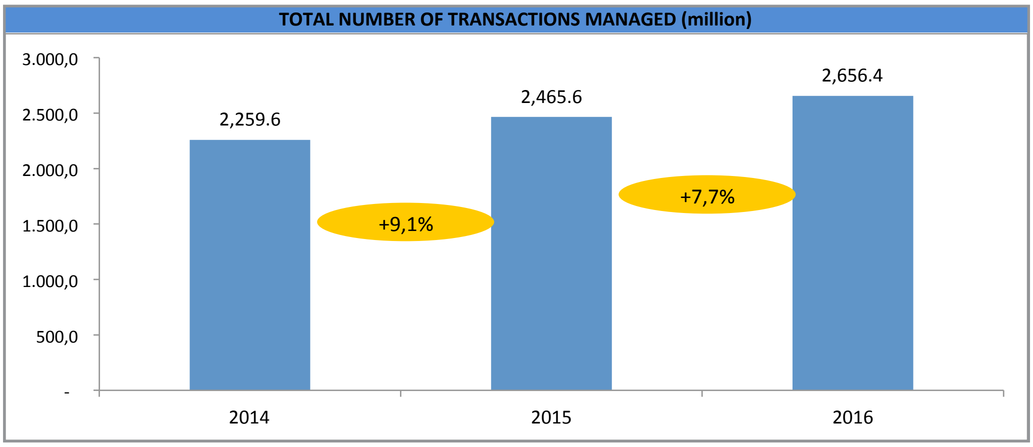
The Governance and Support Division has also been eliminated, whose activities and resources were respectively transferred to the Operations Division and the CFO CartaSi Area Division, which is assigned to the ICBPI CFO to allow to centralize the responsibility of all the areas of competence under the new Chief Financial Officer, including in particular the Planning and Management Control of CartaSi and the Supervision of Relations with International Circuits.

The role of Chief Information Security Officer was also created with the task of ensuring compliance with the relevant regulations of the International Circuits in the area of information security, in coordination with the competent centralized functions at the Parent Company in relation to the ACS (Access Control Server) and HCE (Host Card Emulation) services.

## BUSINESS PERFORMANCE

The business performance in 2016 led to an overall management of about 15.4 million cards and over 2.6 billion transactions.



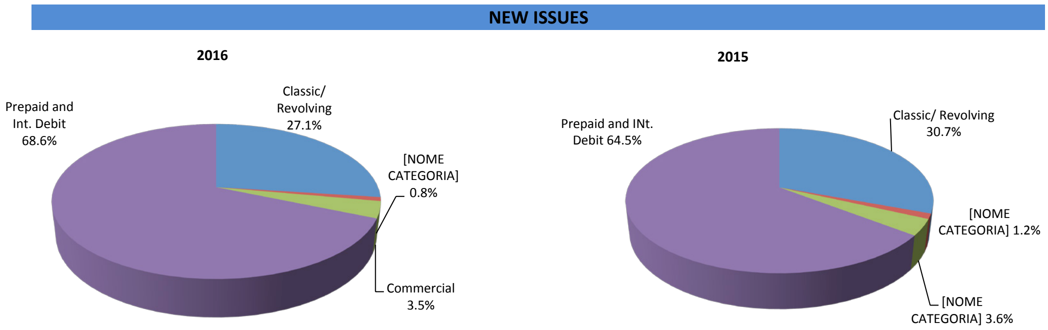




The activities are analysed below in relation to the three main business lines managed by the company:

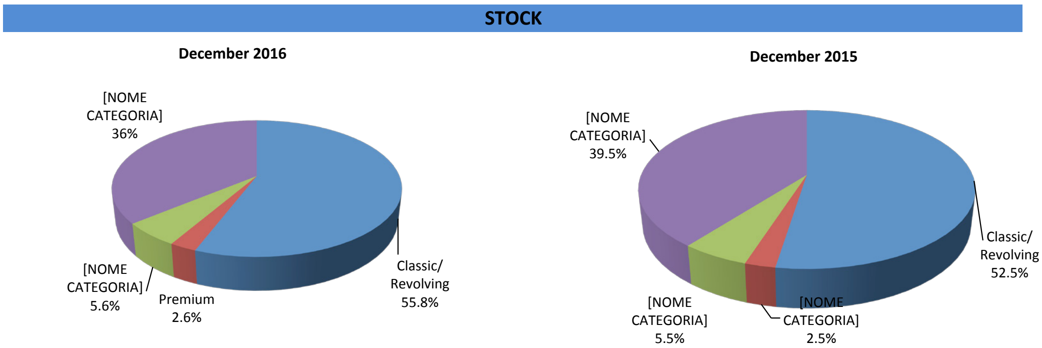
- Activities of Issuing and Acquiring Directly Licensed and on behalf of Banks
- Servicing activities
- POS and ATM terminal management activities.

<u>Activities of Issuing and Acquiring Directly Licensed and on behalf Banks</u>

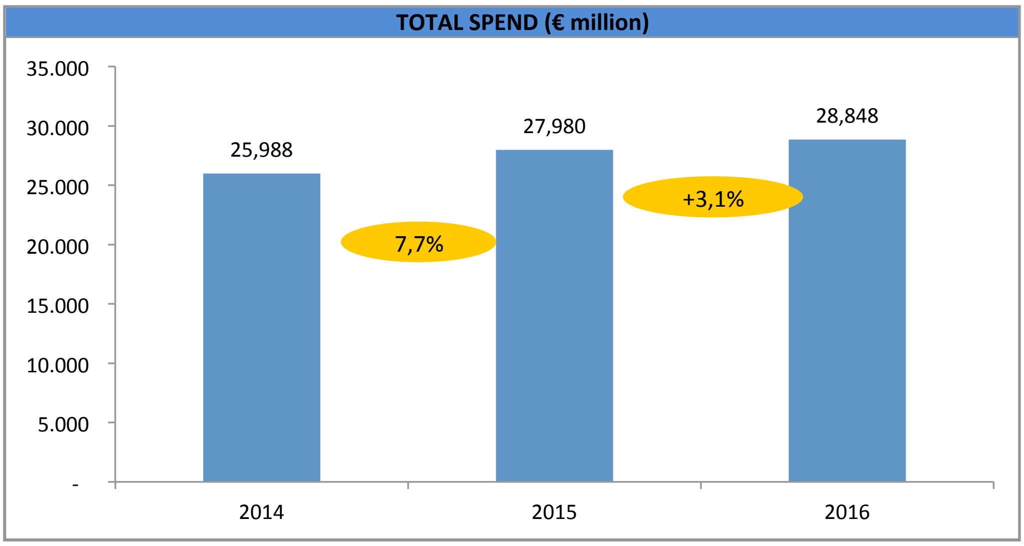
- The range of cards decreased compared to 2015 (-5.3%), totalling almost 8.9 million cards at end of the period, mainly due to the rationalization of the stock of prepaid cards during the year
- The breakdown by product of the new issues of the year (1.9 million cards) reflects the slowdown, compared to previous periods, of the issue of co-branded prepaid cards.



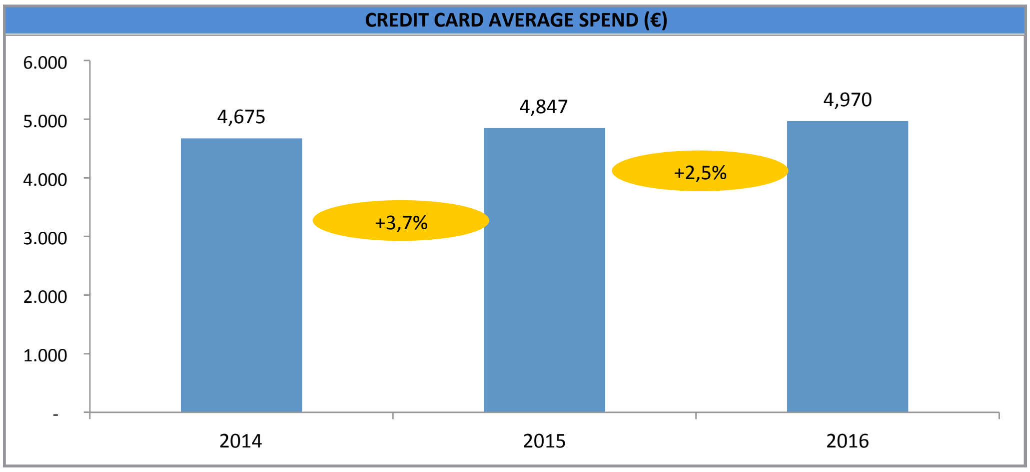

- The breakdown by product of the cards in circulation at the end of year shows a reduction of the weight of the prepaid product.



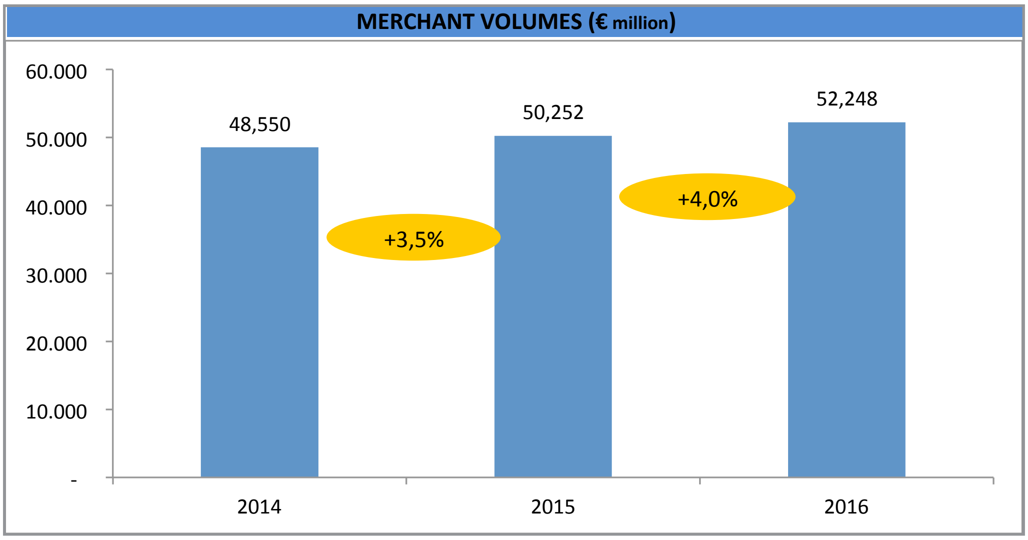

- The overall spending of the cardholders amounted to about € 28.8 billion and registered an increase of 3.1% compared to 2015.



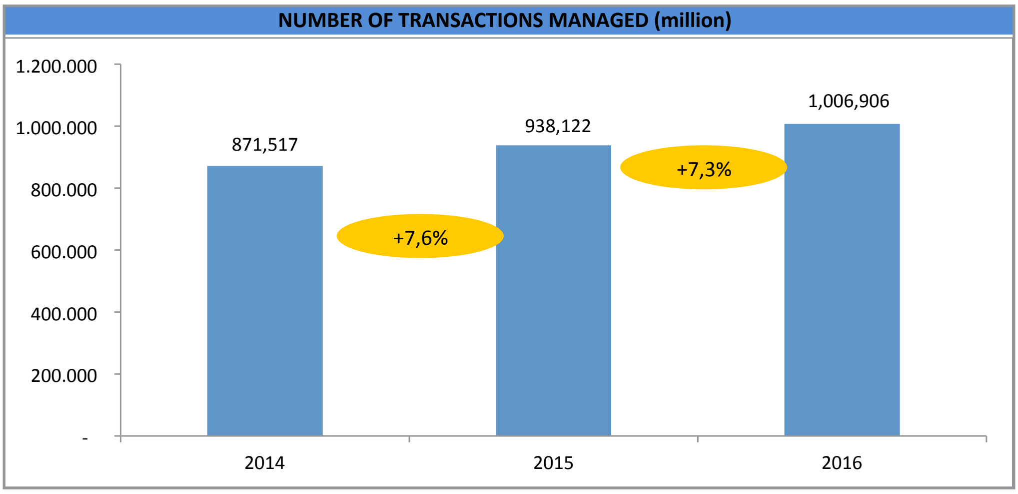
- The average use of Directly Licensed credit cards, which remains among the highest in the market, was up despite the economic downturn, partly as a result of promotions and spending stimulation implemented during 2016.




- Acquiring merchant volumes amounted to about € 52.2 billion, an increase (+4.0%) compared to 2015.

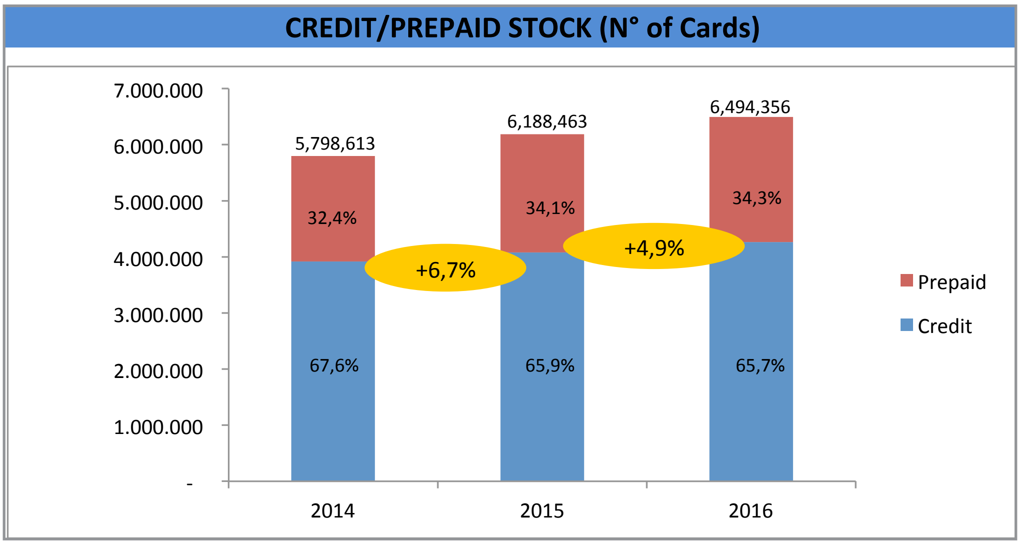


- Total number of the transactions managed for Issuing and Acquiring shows an increase of 7.3%.

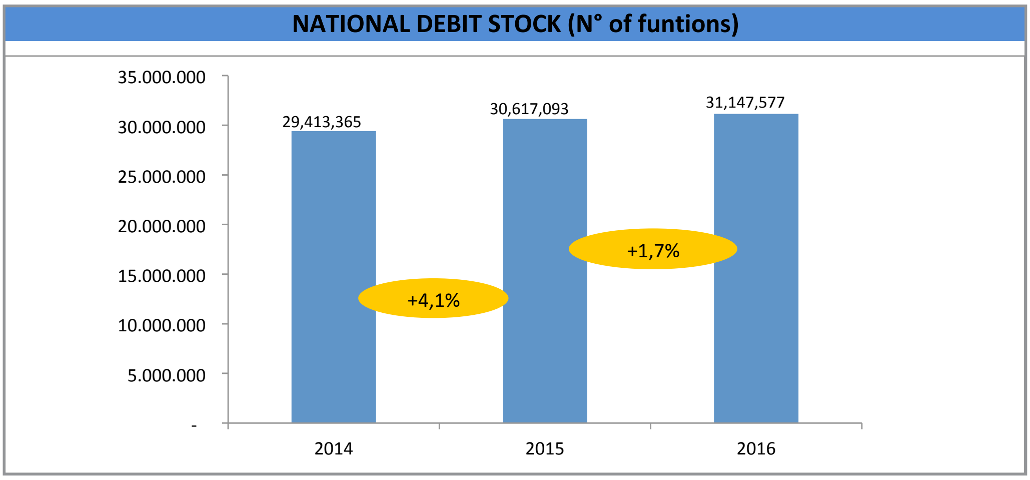



Servicing Activity

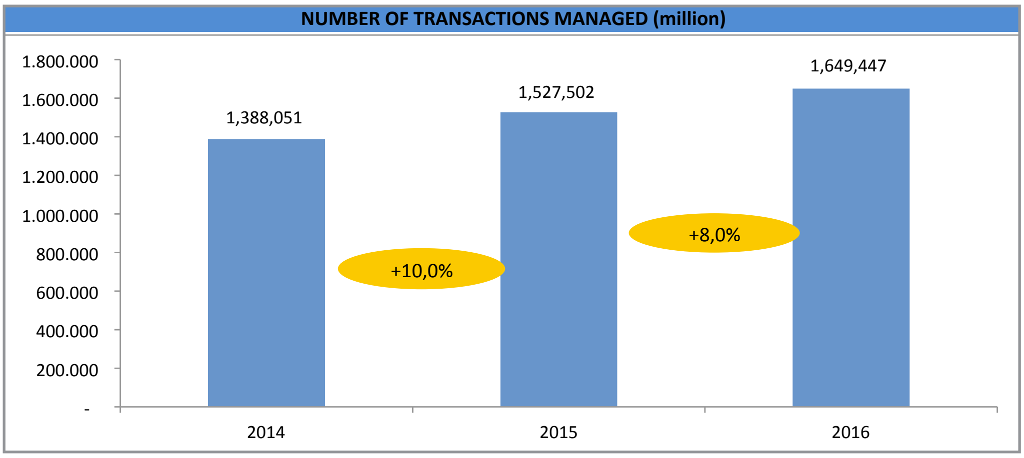
- The stock of cards managed on behalf of third party licensees amounted to about 6.5 million cards, up 4.9%.



- The number of functions related to domestic debit cards (31.1 million) was up compared to 2015 (+1.7%).

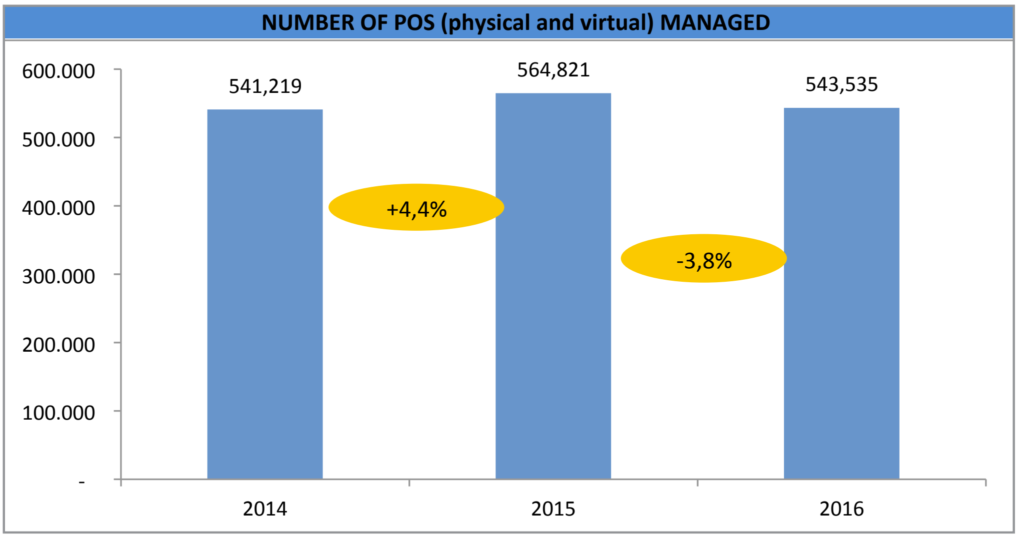



- The total number of the transactions managed (1.649bn) increased compared to last year's figure (+8.0%).

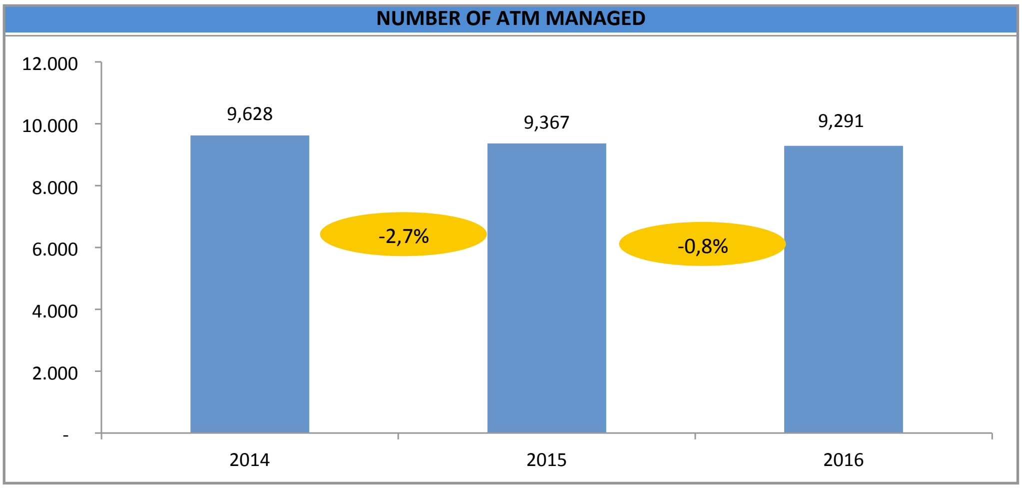



<u>Terminal management activity</u>

- The POS stock managed, consisting of e-commerce (over 13,000 units) and physical (about 530,000 units) terminals, declined overall due to the exit of some important customers
- In particular, the number of virtual POS continued to show a good growth rate (+1.5%) compared to 2015, in consequence of the expansion of the sector and business initiatives.




- The ATM terminals managed totalled 9,300 units and down compared to last year (-0.8%) as a result of the rationalization of branch networks by certain Client Banking Groups.



BALANCE SHEET

The results as at 31 December 2016 are shown starting from the results of the P&L account reported below.

| (€/000) | Actual 2016 | Actual 2015 | Variation % |
|---|---|---|---|
| Net fee and commission income and revenue from services<br>Net interest expense<br>Gains on securities and exchange rate gains<br>Dividends and other income | 470,070<br>-8,009<br>-560<br>108 | 443,669<br>-6,369<br>38<br>16 | 6.0%<br>25.8%<br>-1,581.2%<br>582.5% |
| **Operating revenue** | **461,608** | **437,354** | **5.5%** |
| Personnel expense<br>Production costs<br>ICT costs<br>General expenses | -38,199<br>-89,849<br>-131,785<br>-23,446 | -38,161<br>-100,545<br>-133,313<br>-26,492 | 0.1%<br>-10.6%<br>-1.1%<br>-11.5% |
| **Administrative expenses** | **-283,278** | **-298,511** | **-5.1%** |
| Other income and costs<br>Operating provisions | 855<br>-10,850 | 1,083<br>-12,779 | -21.0%<br>-15.1% |
| **Operating costs (net of amortisation and depreciation)** | **-293,273** | **-310,207** | **-5.5%** |
| **EBITDA** | **168,335** | **127,147** | **32.4%** |
| Amortisation and depreciation | -24,264 | -21,663 | **12.0%** |
| **Operating profit** | **144,071** | **105,484** | **36.6%** |
| Other items | 248,250 | -1,874 | -13,344.6% |
| **Pre-tax profit for the year** | **392,321** | **103,610** | **278.7%** |
| taxes and duties | -64,412 | -32,321 | -93.1% |
| **Profit for the year** | **329,909** | **71,289** | **362.8%** |

The income statement as at 31 December 2016 reported an EBITDA of € 168.3 million (+32.4% compared to 2015) and a profit before tax of € 392.3 million, higher than the previous year (+278.7%). The operating result amounted to € 329.9 million against € 71.3 million of the previous year (+362.8%).

In particular, compared to 2015, the following is reported:

- Commissions and net income from services amounted to € 470.1 million, compared to € 443.6 million in 2015 (+ 6.0%)

- Negative net interest income, stood at € -8.0 million, compared to € -6.4 million (25.8%) in 2015
- Income from securities and foreign exchange € -560,000, compared to € 38,000 in 2015 (-1,581.2%)
- Dividends and other income amounted to € 108,000 against € 16,000 of 2015 (+582.5%).

Total operating revenues amounted to € 461.6 million compared to € 437.3 million in 2015, an increase of 5.5%.

Administrative expenses totalled € 283.3 million against € 298.5 million in 2015, a decrease of 5.1%, and are divided as follows:

- Personnel expenses amounted to € 38.2 million, in line with 2015
- Production costs amounted to € 89.8 million, compared with € 100.5 million in 2015 (-10.6%)
- ICT expenditure amounted to € 131.8 million, compared with € 133.3 million in 2015 (-1.1%)
- General expenses amounted to € 23.4 million, compared with € 26.5 million in 2015 (-11.5%).
- Other income and expenses amounted € 1.0 million, against € 1.1 million in 2015 (-21%),
- Operating provisions amounted to € 10.9 million compared with € 12.8 million in 2015 (-15.1%).

The total of the items listed above resulted in Operating Costs of € 293.3 million, compared with € 310.2 million in 2015, a decrease of 5.5%.

Ordinary depreciation amounted to € 24.3 million against € 21.7 million in 2015 (+12.0%).

The operating result of € 144.1 million is added to other components amounting to € 248.2 million, as follows:

- Income from sale of membership Visa Europe of € 274.6 million
- Income from sale of Visa Inc. shares of € 3.4 million
- Income from the settlement of a dispute of € 1.8 million
- Net income from sale of POS/ATM of € 0.9 million
- Contractual expenses of € 16.7 million
- Transformation program advisor expenses of € 10.3 million

- Restructuring charges of € 2.6 million
- C-Card/Cedacri ruling charges of € 1.7 million
- Customer contract amortization and Goodwill impairment of € 1.2 million.

Gross profit for the period amounted to € 392.3 million, which net of taxes for the period of € 62.4 million resulted in a Net Profit of € 329.9 million.

BALANCE SHEET

The Balance Sheet data highlighted as at 31 December 2016 is compared with the final reported data of the previous year and is reported below.

| ASSETS | 31/12/2016 | 31/12/2015 | Delta% |
|---|---|---|---|
| Available-for-sale financial assets | 47,583 | 3,763 | 1164.7% |
| Receivables | 2,391,812 | 2,368,976 | 1.0% |
| Tangible assets | 84,181 | 81,673 | 3.1% |
| Intangible assets | 25,008 | 9,970 | 150.8% |
| Tax assets | 20,360 | 22,375 | -9.0% |
| Non-current assets held for sale and discontinued operations | - | 186,206 | -100.0% |
| Other assets | 222,942 | 228,123 | -2.3% |
| **TOTAL ASSETS** | **2,791,886** | **2,901,084** | **-3.8%** |

| LIABILITIES | 31/12/2016 | 31/12/2015 | Delta% |
|---|---|---|---|
| Payables | 1.618.509 | 1.905.977 | -15,1% |
| Tax liabilities | 20.408 | 17.481 | 16,7% |
| Other liabilities | 360.106 | 268.785 | 34,0% |
| Employee severance indemnities | 6.496 | 6.770 | -4,0% |
| Provisions for risks and charges: | | | |
| b) other provisions | 13.589 | 15.803 | -14,0% |
| **TOTAL LIABILITIES** | **2,019,108** | **2,214,816** | **-8,8%** |
| Share capital | 56,889 | 56,889 | 0.0% |
| Share premium | 2,274 | 2,274 | 0.0% |
| Reserves | 380,063 | 379,885 | 0.0% |
| Valuation reserves | 3,644 | 175,932 | -97.9% |
| Profit (loss) | 329,909 | 71,289 | 362.8% |
| **TOTAL SHAREHOLDER'S EQUITY** | **772,778** | **686,269** | **12.6%** |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | **2,791,886** | **2,901,084** | **-3.8%** |

The equity value as at 31 December 2016 shows total assets of € 2,791.9 million against € 2,901.1 million in 2015.

In particular:

- Available-for-sale financial assets amounted to € 47.6 million, compared to € 3.8 million in 2015, increased due to the allocated Visa preferred shares following the sale of the membership of Visa Europe
- Receivables amounted to € 2,391.8 million, in line with € 2,369.0 million of 2015
- Tangible assets amounted to € 84.2 million against € 81.7 million in 2015; the increase is mainly due to the expansion of the range of POS
- Intangible assets amounted to € 25 million, € 10 million in 2015; the increase is mainly due to investments in software development and projects
- Tax assets amounted to € 20.4 million against € 22.4 million in 2015
- Non-current assets and groups of assets held for sale are no longer present due to the Visa Europe acquisition by Visa Inc.
- Other assets amounted to € 222.9 million, substantially in line with € 228.1 million in 2015.

As for the liability items :

- Liabilities totalled € 1,618.5 million, compared with € 1,906.0 million of 2015, and the decrease is due to lower funding needs
- Tax liabilities amounted to € 20.4 million against € 17.5 million in 2015; the increase is attributable to higher income taxes in the year
- Other liabilities amounted to € 360.1 million against € 268.8 million in 2015. The increase was primarily due Funds available on suspense accounts
- Severance indemnities amounted to € 6.5 million against € 6.8 million in 2015
- Provisions totalled € 13.6 million against € 15.8 million in 2015.

Equity amounted to € 772.8 million against € 686.3 million of 2015; the difference refers to gains on disposals and changes in the valuation reserve.

RELATIONS WITH BANKS AND COMMERCIAL INITIATIVES

The commercial activity of CartaSi during 2016 was characterized by a coordinated action on all business lines and customer segments, with particular attention to innovation and value creation for Partner Banks.

This activity also involved the revision ,with effect from 1 January 2016, of the pricing structure of the products under direct licensing, with the goal of providing more opportunities to Partner Banks to increase the profitability of the e-money sector, extract value across the offer range in the Issuing segment and introduce logical segmentation of pricing and "value proposition" in the Acquiring segment.

In reference to the activities of supervision and commercial stimulus, in cooperation with Banks, commercial activities have been implemented during the year aimed at increasing the diffusion and use of payment instruments, both for Issuing and Acquiring, to support the achievement of the budget targets and enhance synergies with the new pricing structure.

In particular, the following commercial activities were carried out:

- Incentive plans aimed at the growth of the range of cards, sustaining the issue of products with higher added value (premium and commercial) and the growth of the POS range
- Promotional activities to further stimulate the Networks of the Bank Partners in the growth of transacted and in the acquisition/retention of customers
- "B2C" promotional activities dedicated to a targeted selection of Partner Banks to incentivize issue and use of credit cards, and the membership of new cardholders to loyalty and digital services
- Development of the Corporate Issuing segment, through prospecting activities on important customers and partnerships for the issue of credit cards or co-branded prepaid cards
- Development of the Corporate Acquiring segment, particularly in retail, telecommunications and insurance, also through the evolution of the offer on e-commerce
- Asset repricing related to some corporate customers and streamlining of the cost structure of the co-branded products in order to improve profitability
- Relaunch of the commercial proposition on the most evolved version of prepaid cards, with new functions that characterize the product at the top of the market
- Expansion of the acceptance networks by merchants of the cards for the JCB and Union Pay circuits
- Participation in important calls for tenders issued by leading companies, for the management of electronic money in the area of Acquiring and managing POS terminals.

During the year, the support activities to Banks were renewed. In addition to the work sessions traditionally intended for the participation in the initiatives of CartaSi and the training sessions for the Networks aimed at sharing the value of the offer on e-money; the organization of road shows was targeted to consolidating the relationship, the dialogue among the participants (networking) and the presentation of new mobile payment systems.

Pilot projects on about 25 banks for payments through the Mysi Pay App have been initiated (via HCE).

During the second half of the year, marketing on the new licensed international debit product started, which is a further growth opportunity in the area of electronic payments for Partner Banks, as it allows them to offer their customers a payment card enabled for use on all channels without any credit risk.

The international debit card can also meet the needs of customers also in the e-commerce sector: the growth forecasts see a strong acceleration in the use of the product that will generate double the volumes over the next five years.

CartaSi has also relaunched its commercial proposition concerning the Issuing and Acquiring activities for third party licensees, extending the contents of the licensed model offer and the offer of innovative products (HCE, fraud prevention) to customers in the servicing and management of POS and ATM terminals.

As part of the services for Public Administration, several commercial activities were started in 2016, with the aim of placing CartaSi/ICBPI at the centre of the digitization process in progress and guide the development of digital payments on this specific market segment.

As for the "Node of Digital Payments", an integration offer has been prepared aimed at both CartaSi licensed Banks and their client Public Entities. Marketing support activities to Partner Banks was also intensified, to include e-money services within the treasury contracts that are offered to Public Entities.

During the year, an activity was also launched dedicated to municipal utilities that deal with public services (utilities, multi-utilities and public transport companies).

**MULTICHANNEL AND INNOVATION**

REFERENCE MARKETS

E-MONEY

In the Italian Electronic Money market, the role of cash remains dominant. In 2015, 87 transactions per capita were carried out with non-cash instruments, compared to 202 of the Eurozone.

<u>Acquiring and terminal management activities</u>

- Promotional campaign, aimed at extending the acceptance network, in agreement with UnionPay International (POS 52,500) and JCB (POS 23,000).
- Adaptation of the pricing structure to the MIF regulations, resulting in expansion of the flexibility in the formulation of the price to the merchant.
- Completion of the VPOS offer with the enrichment of languages offered (Arabic, Russian, Chinese and Japanese).
- Enhancement of the MPOS functions: acceptance of UPI and JCB eastern circuits and, for target groups, acceptance of Pellegrini electronic meal vouchers.
- Completion of the offer allowing the acceptance of VISA and MasterCard cards also for fuel payments at the self-service distribution columns.
- Execution of an important custom project for payments in the insurance industry.

The Company continued the path to innovation and digitalization in 2016 that started a few years ago:

- The renewal of the Mysi Mobile App to allow maximum ease of use by customers also through the innovative function of biometric identification (Touch ID).
- The launch of the Mysi Pay mobile wallet functions inclusive of the new HCE (Host Card Emulation) payment service through partnerships with more than 35 distributing banks to allow the virtualization of cards and payment via the smartphone with speed and security at more than 750,000 contactless POS in Italy.
- The strengthening of the Cardholder Portal, main digital touch point, with the aim to simplify the user experience by reducing calls to the call centre, and enhance the security features in accordance with recommendations from the new EBA rules on online transactions.

- The relaunch of the IOSI Club, completely renovated and digitized thanks to the new virtual catalogue and gamification functions, with a parallel cost efficiency.
- The creation of the first system of the national "card-linked offer", able to provide customers with personalized offers based on the "big data" of credit cards and the relative consumption habits, using the cashback feature in partnership with over 30 top retailers.

CartaSi maintained its focus on Issuing products in 2016 and, in particular:

- as part of the segment of prepaid products, CartaSi concluded the activities already started with the main service centres, the suppliers of placing banks, in order of their planning of the development of the necessary technological infrastructure and interface, to enable the banks to market the &Si product (bank e-money). In addition, fine-tuning activities were started, focused on some of the functions of the same product;
- in the segment of the "co-branded" cards, the Company has continued the activities to consolidate the commercial positioning and placement of products already launched in the market in previous years, in collaboration with partner companies operating in the oil, telecommunications and transport sectors;
- in the Premium segment, the development of numerous initiatives has continued for the benefit of target cardholders, in accordance with important companies of the luxury sector. Likewise, Focus on the Premium Travel Agency service continued, dedicated to holders of Gold, Platinum and Black cards, and has experienced a good acceptance by the cardholders;
- as regards credit products in general, repricing was carried out in 2016 on the emergency services, duplicates and replicas, in line with the major market benchmarks;
- the consumer international debit product saw the launch also of the "CartaSi License" business model on the market, in addition to the "Servicing" one. The commercialization of the first banks with the issue of the first cards started. Other banks are currently proceeding with the developments for the product launch with its account holders or evaluating the adoption. In parallel, CartaSi is working on the development of an equivalent product for the corporate market (Commercial Debit).

LEADERSHIP IN COST AND SERVICE

During 2016, the supervision of ordinary activities was guaranteed together with support for the finalization of business projects, quality of service and compliance with banking and circuit regulations.

In line with the strategic guidelines and in line with corporate objectives, the following was also ensured:

- The monitoring of key service indicators to optimize processes and introduce appropriate corrective actions, where possible areas for improvement are identified.

In this context, specific initiatives have been launched aimed at:

▪ Re-examining the periodic reporting of the services, in terms of SLA and penalties, for some Servicing customers with the involvement of the corporate structures necessary to finalize the best formulation that meets the needs of the customer and protects the company.

▪ Making communication processes and business interaction more efficient in the context of the problem and incident management to minimize the impact on the business and prevent recurrences.

- The analysis of existing processes and the comparison with market benchmarks to identify procedures for managing supervised operational areas with a view to streamlining and efficiency on the one hand, innovation and improvement of service quality on the other, triggering specific projects in the scope of "Operations Review".

In this regard, after an initial phase of assessment and identification of functional interventions to achieve the goals, the start of vertical focus on the perimeters was approved:

▪ Onboarding Issuing and Acquiring

▪ Dispute

▪ Assistance

- The continuation of the project activities started in the previous years ensuring the transversal nature of the initiatives regardless of the business model (license, servicing and associate), and ensuring compliance in accordance with the regulations in force:

▪ Ongoing activities for the extension of the ACS services to the Servicing Customer perimeter.

▪ Extension of the "strong authentication" on the CartaSi ACS service to ensure adherence to the safety standards required by legislation.

- Gradual adoption of the HORUS Fraud Detection platform by some Servicing Customers
- Introduction of the "SafeWeb" service to enable the cardholder to disable or limit the e-commerce expenditure on the card
- Introduction of the new Debit Dispute Management on a primary Associate Customer.

- Simultaneously, specialist contributions were ensured needed to support and finalize the strategic initiatives of acquisition and innovative evolution of the business, as well as sector regulatory adjustments.

As regards the POS and ATM scope:

- The replacement or upgrade of the terminals was carried out with the introduction of cless and triple des technology in accordance with the regulatory provisions of the circuits for the POS service;
- Instead, the functions of "pin change, balance inquiry and pin unblock" were created, and the new procedure of "remote key loading" was activated, explicitly requested by Visa, for the ATM service;
- The ATM replacement plans continued in favour of Customer Banks, and new Reports on the "availability and productivity" of its range of assets were also made available;
- Tender calls were completed for the purchase of terminals and services, both in POS and ATM.

COMMUNICATION AND BRAND MANAGEMENT

In conclusion, as regards Customer Care, particular attention to customer satisfaction has been paid through meticulous management of complaints from cardholders and merchants, in compliance with the provisions of the Supervisory Bodies.

CARTASI BUYING OBSERVATORY

During 2016, the CartaSi Buying Observatory confirmed its role as an authoritative source of information on the buying behaviour of Italian consumers, evidenced by a constant presence in the Italian media. There have been numerous publications in local and national press during the year, as well as insights published on the dedicated website, while collaborations under way continued with the Ministry of Economy and Finance and with some newspapers.

The sixth edition of the presentation book of the 2015 results was published, accompanied by the standard analysis of the evolution of the buying behaviour of Italian consumers, and the two editions - spring and autumn – of the Forecasting Report, with forecasts on the buying trend for the next two years.

HUMAN RESOURCES

As for human resources, the number of employees as of 31 December 2016 totalled 532 resources, against 534 of 31 December 2015:

| | 31/12/2015 | | 31/12/2016 | | Delta | |
|---|---|---|---|---|---|---|
| | NO. | FTE | NO. | FTE | NO. | FTE |
| Managers | 15 | 15.0 | 14 | 14.0 | -1 | -1 |
| Junior managers | 192 | 190.1 | 192 | 190.0 | --- | -0.07 |
| White collars | 327 | 303.8 | 326 | 302.9 | -1 | -1 |
| Term contracts | --- | --- | --- | --- | --- | --- |
| **Total** | **534** | **508.9** | **532** | **506.9** | **-2** | **-2** |

INFORMATION RELATING TO PERSONNEL AND THE ENVIRONMENT

On the subject of **Training**, the Group Training Plan "Training to enhance the roles and responsibilities in the ICBPI Group" was designed for 2016.

The goal was to develop and enhance the distinctive and particular know-how of the ICBPI Group; on the one hand, consolidating the wealth of existing knowledge and qualifying to the profession after the exit/change from/of the activities, on the other, developing skills for the professionalism of the near future and preparing for new roles and responsibilities.

Training projects to support the adoption of the new organizational model have played particular importance, with the aim of helping people to align to the new roles, offering courses and programs aimed to develop both the specific know-how of the business area or governance, and soft skills.

In 2016, total training of 15,159 hours (average 3.9 man-days) was provided, of which:

- 2,256 hours of compulsory training
- 4,920 hours of specialized training
- 3,101 hours of management training
- 4,882 hours of training in e-learning in compliance with the provisions under art. 72 par. 3a) of the National Collective Bargaining Agreement in force.

On the subject of **Health and Safety**, environmental surveys were carried out to monitor the quality of the workplace, such as the microclimate (temperature, humidity, ventilation and air quality) and lighting (natural and artificial light) resulting in structural interventions. In addition, the evaluation of data on work-related stress risk continued, with the analysis of mental fatigue, monotony and repetitiveness in work processes. Finally, given the recurrence of telluric phenomena in Italy, training in the field of emergency management and escape drills have focused on behaviours to be adopted in the event of earthquakes and, for staff regarding Emergencies, the criticalities that may be present in the process of evacuation management.

MAIN RISKS

The main risks to which the Company is subject are represented by operational risk and credit risk. The controls in place to mitigate these risks are described in the specific section of the Explanatory Notes.

It is noted that the company as at 31 December 2016 did not hold derivative instruments.

BUSINESS CONTINUITY

In relation to the prospects of the Company's development, no particular critical elements are noted, if not in relation to any adverse market fluctuations currently unforeseeable. In particular, at the moment, business continuity does not show any criticalities, as a positive evolution is expected in the credit and debit market that, even if closely associated to consumption, on the other hand presents a trend favourably influenced by the fact that these types of payment means conquer ever increasing market share, at the expense of cash use.

Lastly, the Company can rely on a large number of Client Banks with which the relationship has consolidated over time and strengthened by belonging to the ICBPI Group.

The Directors confirm the reasonable expectations that the Group will continue its operations in the near future and that, as a result, the financial statements for the year 2016 have been drafted from the perspective of business continuity. As a result, they have not noticed symptoms within the assets and financial structure and in the operational situation trends that could constitute cause for uncertainty of business continuity.

R&D ACTIVITY

Pursuant to Article 2428, paragraph 2 of the Civil Code, it is stated that the Company has not registered any amounts for research and development in the total assets.

RELATIONS WITH SUBSIDIARY, ASSOCIATED AND PARENT COMPANIES

The Company is subject to management and coordination by the Parent Company Istituto Centrale delle Banche Popolari Italiane .

As at 31 December 2016, the Parent Company controlled the capital of the Company with a shareholding of 98.745%; pursuant to art. 2428 of the Civil Code; it should be noted that the Company does not directly or indirectly hold treasury shares or shares of the Parent Company through nominees or trust companies.

TRANSACTIONS WITH RELATED PARTIES

In order to control the risk that the vicinity of certain people (so-called "Related Parties") to the company's decision-making bodies might compromise the objectivity and impartiality of business decisions with possible distortions in the allocation process of resources, expose the company to risks not adequately measured or, potentially damage the company and its stakeholders, the ICBPI Group has adopted a Regulation on Transactions with Related Parties published on the site www.icbpi.it.

During the financial year, transactions with related parties were not entered into at conditions other than the conditions normally applied on the market or that have had a material effect on the financial position or results of the Group during the reporting period. For more information on transactions with related parties, refer to the Explanatory Notes.

SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

On 9 February 2017, the Board of Directors of the Parent Company approved the ICBPI Group 2017/2021 Business Plan.

The ambition of the Group is to become the national leader in digital payments, reaching the scale necessary to invest in technology, services, and know-how with the aim to grow faster than the market, lead the development of digital payments in Italy together with Partner Banks and pursue, in particular, a significant increase in profitability.

This growth strategy will focus on payments and will be organized around four key pillars:

1. Organic growth in the different business units through real product leadership and customer experience together with partner banks, accelerating the transition from cash to digital payments;
2. Inorganic growth with targeted acquisitions in the payments industry to promote faster growth of scale and the development of know-how;
3. Strong investment in technological excellence, know-how, commercial area and in partnership with banks;

4. Focus on efficiency and on concentration of resources to finance investment, significantly reducing costs in areas with lower growth impact, and the disposal of non-core assets.

OUTLOOK

There are widespread expectations that 2017 will be a year of moderate recovery in the global economy and for the Eurozone.

In 2017, the ICBPI Group's priority will be to implement the actions of the new 2017-2021 Business Plan approved on 9 February 2017.

ALLOCATION OF NET PROFIT

The Financial Statements that we are submitting and inviting you to examine and approve, report a Net Profit of € 329,908,687.

Therefore, a € 0.93 dividend per share is proposed for each of the 94,814,664 shares and, consequently, the allocation of the profit for the financial year is as follows:

| | | |
|---|---|---|
| - Reserves | € | 241,731,049 |
| - Dividend to the shareholders | € | 88,177,638 |

# Financial Statements as at 31 December 2016

# STATEMENT OF FINANCIAL POSITION

| | Assets | 31/12/2016 | 31/12/2015 |
|---|---|---|---|
| 10 | Cash and cash equivalents | 20,485 | 22,015 |
| 40 | Available-for-sale financial assets | 47,583,219 | 3,762,517 |
| 60 | Loans and receivables | 2,391,811,519 | 2,368,975,621 |
| 90 | Equity investments | | |
| 100 | Property, equipment and investment property | 84,181,370 | 81,673,157 |
| 110 | Intangible assets | 25,007,834 | 9,969,718 |
| 120 | Tax assets | | |
| | a) current | - | 975,584 |
| | b) deferred | 20,359,976 | 21,399,065 |
| | - including as per Law no. 214/2011 | 12,443,350 | 13,323,345 |
| 130 | Non-current assets held for sale and disposal groups | - | 186,205,855 |
| 140 | Other assets | 222,921,686 | 228,100,902 |
| | **TOTAL ASSETS** | **2,791,886,089** | **2,901,084,434** |

*(€)*

# STATEMENT OF FINANCIAL POSITION

| | Liabilities and equity | 31/12/2016 | 31/12/2015 |
|---|---|---|---|
| 10 | Liabilities | 1,618,509,179 | 1,905,977,079 |
| 70 | Tax liabilities | | |
| | a) current | 16,727,819 | - |
| | b) deferred | 3,679,927 | 17,480,850 |
| 90 | Other liabilities | 360,105,825 | 268,785,036 |
| 100 | Post-employment benefits | 6,495,740 | 6,769,799 |
| 110 | Provisions for risks and charges: | | |
| | b) other provisions | 13,589,326 | 15,803,053 |
| 120 | Share capital | 56,888,798 | 56,888,798 |
| 150 | Share premium | 2,273,684 | 2,273,684 |
| 160 | Reserves | 380,063,253 | 379,885,319 |
| 170 | Valuation reserves | 3,643,851 | 175,931,884 |
| 180 | Profit for the year | 329,908,687 | 71,288,932 |
| | **TOTAL LIABILITIES AND EQUITY** | **2,791,886,089** | **2,901,084,434** |

*(€)*

# INCOME STATEMENT

| | | 2016 | 2015 |
|---|---|---|---|
| 10 | Interest and similar income | 24,303,884 | 25,315,151 |
| 20 | Interest and similar expense | (31,572,640) | (35,569,143) |
| | **Net interest expense** | **(7,268,756)** | **(10,253,992)** |
| 30 | Fee and commission income | 854,265,994 | 926,095,033 |
| 40 | Fee and commission expense | (543,041,248) | (639,529,447) |
| | **Net fee and commission income** | **311,224,746** | **286,565,586** |
| 50 | Dividends and similar income | 107,700 | 15,780 |
| 60 | Net trading income (losses) | (560,275) | 37,827 |
| 90 | Net profit on sale or repurchase of: | | |
| | a) financial assets | 278,050,936 | 109 |
| | b) financial liabilities | | |
| | **Total income** | **581,554,351** | **276,365,310** |
| 100 | Net impairment losses: | | |
| | a) financial assets | (2,245,522) | (2,599,251) |
| 110 | Administrative expenses: | | |
| | a) personnel expense | (41,485,760) | (38,940,606) |
| | b) other administrative expenses | (306,229,280) | (311,425,194) |
| 120 | Depreciation and net impairment losses on property, equipment and investment property | (20,545,666) | (18,754,364) |
| 130 | Amortisation and net impairment losses on intangible assets | (4,952,905) | (3,747,282) |
| 150 | Net accruals to provisions for risks and charges | (1,473,429) | (739,956) |
| 160 | Other operating income | 187,699,354 | 203,451,442 |
| | **Operating profit** | **392,321,143** | **103,610,099** |
| | **Pre-tax profit from continuing operations** | **392,321,143** | **103,610,099** |
| 190 | Income taxes | (62,412,456) | (32,321,167) |
| | **Post-tax profit from continuing operations** | **329,908,687** | **71,288,932** |
| | **Profit for the year** | **329,908,687** | **71,288,932** |

*(€)*

# STATEMENT OF COMPREHENSIVE INCOME

| | | 31/12/2016 | 31/12/2015 |
|---|---|---|---|
| **10** | **Profit for the year** | **329,908,687** | **71,288,932** |
| | **Items, net of tax, that will not be reclassified subsequently to profit or loss** | | |
| 20 | Property, equipment and investment property | | |
| 30 | Intangible assets | | |
| 40 | Defined benefit plans | 144,242 | 237,333 |
| 50 | Non-current assets held for sale | | |
| 60 | Share of valuation reserves of equity-accounted investees | | |
| | **Items, net of tax, that will be reclassified subsequently 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 | 79,385 | 1,062,410 |
| 110 | Non-current assets held for sale | (172,511,660) | 172,511,660 |
| 120 | Share of valuation reserves of equity-accounted investees | | |
| **130** | **Other comprehensive income (expense), net of tax** | **(172,288,033)** | **173,811,403** |
| **140** | **Comprehensive income (captions 10 + 130)** | **157,620,654** | **245,100,335** |

*(€)*

CartaSi

# STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2015

*(€'000)*

| | | | | Allocation of prior year profit | | Changes for the year | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Equity transactions | | | | | | |
| | Balance at 31 December 2014 | Change to opening balances | Balance at 1 December 2015 | Reserves | Dividends and other allocations | Changes in reserves | Issue of new shares | Repurchase of treasury shares | Extraordinary dividend distribution | Change in equity instruments | Other changes | 2015 comprehensive income | Equity at 31.12.2015 |
| Share capital | 56,889 | | 56,889 | | | | | | | | | | **56,889** |
| Share premium | 2,274 | | 2,274 | | | | | | | | | | **2,274** |
| Reserves: | | | | | | | | | | | | | |
| a) income-related | 206,096 | | 206,096 | 14,445 | | | | | | | | | **220,541** |
| b) other IFRIC 13 | (2,778) | | (2,778) | | | | | | | | | | **(2,778)** |
| c) merger goodwill | 158,130 | | 158,130 | | | | | | | | (129) | | **158,001** |
| d) other | 4,121 | | 4,121 | | | | | | | | | | **4,121** |
| Valuation reserves | 2,171 | | 2,171 | | | | | | | | (50) | 173,811 | **175,932** |
| Equity instruments | - | | - | | | | | | | | | | **-** |
| Treasury shares | - | | - | | | | | | | | | | **-** |
| Profit for the year | 57,111 | | 57,111 | (14,445) | (42,666) | | | | | | | 71,289 | **71,289** |
| **Equity** | **484,014** | **-** | **484,014** | **-** | **(42,666)** | **-** | **-** | **-** | **-** | **-** | **(179)** | **245,099** | **686,269** |

Variations in the valuation reserve refer to the Visa Inc. shares (€1,062 thousand), Visa Europe (€172,512 thousand) and defined benefit plans (€237 thousand).

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

*(€'000)*

| | | | | Allocation of prior year profit | | Changes for the year | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Equity transactions | | | | | | |
| | Balance at 31 December 2015 | Change to opening balances | Balance at 1 December 2016 | Reserves | Dividends and other allocations | Changes in reserves | Issue of new shares | Repurchase of treasury shares | Extraordinary dividend distribution | Change in equity instruments | Other changes | 2016 comprehensive income | Equity at 31.12.2016 |
| Share capital | 56,889 | | 56,889 | | | | | | | | | | **56,889** |
| Share premium | 2,274 | | 2,274 | | | | | | | | | | **2,274** |
| Reserves: | | | | | | | | | | | | | |
| a) income-related | 220,541 | | 220,541 | 178 | | | | | | | | | **220,719** |
| b) other IFRIC 13 | (2,778) | | (2,778) | | | | | | | | | | **(2,778)** |
| c) merger goodwill | 158,001 | | 158,001 | | | | | | | | | | **158,001** |
| d) other | 4,121 | | 4,121 | | | | | | | | | | **4,121** |
| Valuation reserves | 175,932 | | 175,932 | | | | | | | | | (172,288) | **3,644** |
| Equity instruments | - | | - | | | | | | | | | | **-** |
| Treasury shares | - | | - | | | | | | | | | | **-** |
| Profit for the year | 71,289 | | 71,289 | (178) | (71,111) | | | | | | | 329,908 | **329,908** |
| **Equity** | **686,269** | **-** | **686,269** | **-** | **(71,111)** | **-** | **-** | **-** | **-** | **-** | **-** | **157,620** | **772,778** |

The 2016 other comprensive income, includes the reclassification to P&L of the fair value due to sales of the assets and the changes in the fair value reserves.

# STATEMENT OF CASH FLOWS (Indirect Method)

*(€'000)*

| A. OPERATING ACTIVITIES | 31.12.2016 | 31.12.2015 |
|---|---|---|
| **1. Operations** | **81,845** | **95,959** |
| - profit for the year (+/-) | 329,909 | 71,289 |
| - net impairment losses (+/-) | 2,246 | 2,599 |
| - net impairment losses on property, equipment and investment property and intangible assets (+/-) | 25,499 | 22,502 |
| - net accruals to provisions for risks and charges and other costs/revenue (+/-) | 1,473 | 740 |
| - unpaid taxes, duties and tax assets (+/-) | 878 | (1,186) |
| - other adjustments (+/-) | (278,159) | 16 |
| **2. Cash flows generated by financial assets** | **3,211** | **121,357** |
| - available-for-sale financial assets | 3,742 | 1 |
| - loans and receivables with banks | 11,182 | 2,233 |
| - loans and receivables with financial institutions | (764) | (12,082) |
| - loans and receivables with customers | (35,500) | 105,857 |
| - other assets | 24,550 | 25,348 |
| **3. Cash flows used by financial liabilities** | **(188,336)** | **(150,678)** |
| - due to banks | (289,986) | (69,742) |
| - due to financial institutions | - | (9) |
| - due to customers | 2,518 | 2,960 |
| - other liabilities | 99,131 | (83,887) |
| **Net cash flows generated by operating activities** | **(103,280)** | **66,639** |
| **B. INVESTING ACTIVITIES** | | |
| **1. Cash flows generated by** | **214,809** | **16** |
| - dividends from equity investments | 212,172 | - |
| - dividends from equity investments | 108 | 16 |
| - sales of property, equipment and investment property | 2,529 | - |
| **2. Cash flows used to acquire** | **(40,418)** | **(23,982)** |
| - equity investments | - | - |
| - property, equipment and investment property | (25,583) | (20,516) |
| - intangible assets | (14,835) | (3,466) |
| - business units | - | - |
| **Net cash flows used in investing activities** | **174,391** | **(23,966)** |
| **C. FINANCING ACTIVITIES** | | |
| - dividend and other distributions | (71,111) | (42,667) |
| **Net cash flows used in financing activities** | **(71,111)** | **(42,667)** |
| **NET CASH FLOWS FOR THE YEAR** | **(2)** | **6** |

# RECONCILIATION

| Financial statements captions | 31.12.2016 | 31.12.2015 |
|---|---|---|
| Opening cash and cash equivalents | 22 | 16 |
| Net cash flows for the year | (2) | 6 |
| **Closing cash and cash equivalents** | **20** | **22** |

# Notes of the Financial Statements

## Part A - ACCOUNTING POLICIES

### A.1 - GENERAL PART

#### Section 1 - Statement of compliance

Pursuant to Regulation (EC) 1606 of 19 July 2002, the company has prepared these financial statements as at and for the year ended 31 December 2016 in compliance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and endorsed by the European Commission. They were introduced into Italian law with Legislative decree no. 38/2005.

The company applied the IFRS enacted at 31 December 2016 and Bank of Italy's instructions about financial statements of financial intermediaries issued on 09 December 2016.

It did not make any departures from the IFRS.

#### Section 2 - Basis of presentation

The consolidated financial statements at 31 December 2016 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. They are accompanied by a directors' report which comments on the group's performance, its results of operations and financial position.

The company's presentation currency is the Euro and the amounts shown in the financial statements and these notes are in Euros.

The company has applied the recognition and measurement criteria established by the IFRS endorsed by the European Commission and the general assumptions in the Framework for the preparation and presentation of financial statements issued by the IASB.

The following paragraphs illustrate the amendments made to several accounting standards issued by the IASB and validated by the European Commission, which were applicable on a mandatory basis from FY 2016:

- Regulation no. 2343 of 15 December 2015 – "Annual Improvements - 2012-2014 Cycle" (IFRS 5, IFRS 7 and IAS 19, IAS 34) and Regulation no. 28/2015 of 17 December 2014 – "Annual Improvements - 2010-2012 Cycle" (IFRS 2, IFRS 3, IFRS 8 and IAS 16, IAS 24). The amendments introduced provide several clarifications that seek to resolve some inconsistencies or illustrate methods.
- Regulation no. 29/2015 of 17 December 2014 – IAS 19 "Employee Benefits". The aim of the amendment is to clarify, also by means of application guidelines, how the contributions provided by employees or by third parties should be recorded in the accounts, based on the distinction as to whether or not they are envisaged in the formal conditions of defined benefit plans, and whether or not they are related to the number of years in service.
- Regulation no. 2173 of 24 November 2015 - IFRS 11 "Joint Arrangements". The changes to stan-

dard IFRS 11 establish the accounting principles for the acquisition of a "Joint Operation" that represents a business activity, pursuant to IFRS 3.

- Regulation no. 2231 of 2 December 2015 – IAS 16 "Property, plant and equipment", IAS 38 "Intangible assets". Clarifications are provided on the depreciation and amortisation methods considered acceptable. More specifically, it is established that a depreciation/amortisation approach based on the revenues generated by a business activity that reflects the use of a tangible or intangible asset is not appropriate, insofar as said revenues generally reflect other factors beyond the use of the economic benefits of the asset.
- Regulation no. 2441 of 18 December 2015 – IAS 27 "Separate financial statements". The option is introduced to apply the equity method, illustrated in IAS 28 "Investments in Associates and Joint Ventures", to the separate financial statements to record investments in associates and joint ventures, in addition to the current cost or fair value options.
- Regulation no. 2406 of 18 December 2015 – IAS 1 "Presentation of Financial Statements". The amendment, entitled "Disclosure initiative" seeks to improve the effectiveness of financial statement disclosures, by encouraging the application of professional judgement to decide what information to disclose, in terms of materiality and means of aggregation.
- Regulation n. 2016/1703 of 22 September 2016 - Amendments to IFRS 10, 12 e IAS 28 "Investment Entities–Applying the Consolidation Exception". The amendments are designed to clarify the requirement for investment entities to measure subsidiaries at fair value instead of consolidating them.

The application of the above-illustrated amendments did not have any significant impact on the Financial Statements.

The following table shows the new standards or amendments with the related endorsement regulations. Their application is mandatory from 1 January 2017 (for entities whose reporting period is the calendar year) or subsequently.

| Endorsement regulation | Name | Standard/Interpretation | Year of application |
|---|---|---|---|
| 2016/2067 | IFRS 9 | Financial Instruments | 2018 |
| 2016/1905 | IFRS 15 | Revenue from contracts with customers | 2018 |

With reference to IFRS 9, ICBPI Group, over the course of the last quarter 2016, has launched projects in order to identify the main areas impacted and to establish the reference method framework for the classification, measurement and impairment of financial assets. More specifically:

- Classification and Measurement: the reference Business Models are going to be established and has been conducted an analyses of the stock of financial assets that do not envisage any significant impact from reclassification with respect to the current Accounting Standard IAS 39;

- Impairment: given the characteristic of the loan portfolio, that mainly includes short term receivables related the e-money services we do not expect any significant impacts.

Lastly, the amendment related to Hedge accounting and the accounting treatment of "own credit risk" will not have any impact because this cases are not present.

With reference to IFRS 15, they are being analyzed potential impacts and based on the results of the checks carried out to date, they should be irrelevant.

The next table shows the standards for which amendments were issued, specifying the scope of or object for such amendments.

| Standard | Name | Publication date |
|---|---|---|
| IFRS 14 | Regulatory Deferral Accounts | 30/01/2014 |
| IFRS 16 | Leases | 13/01/2016 |
| Amendments to IFRS 10 and IAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture | 11/09/2014 |

As none of them have been endorsed by the European Commission, they did not affect the company's 2016 separate financial statements.

The company applies the measurement criteria assuming that it will continue as a going concern and in accordance with the principles of accruals, materiality and significance of the financial data and the principle of substance over form.

The financial statements and the notes present corresponding prior year figures and the statement of comprehensive income. The directors' report and these notes include all the information required by the IFRS, the law and Bank of Italy, as well as additional disclosures which are not mandatory but are deemed useful to give a true and fair view of the company's financial position and results of operations.

**Basis of presentation of the financial statements**

*Statement of financial position, income statement and statement of comprehensive income*

They comprise captions, subcaptions and additional information. Revenue is shown without a plus sign while costs are shown with a minus sign in the income statement.

*Statement of changes in equity*

This statement shows changes in equity during the year split between share capital, equity-related reserves, income-related reserves, valuation reserves and the profit (loss) for the year. The company has not issued equity instruments other than ordinary shares.

*Statement of cash flows*

The statement of cash flows for the year and the previous year has been prepared using the indirect method, whereby cash flows from operations are the profit for the year adjusted by the effects of non-monetary transactions.

Cash flows are split between those from operating, investing and financing activities.

Cash flows generated during the reporting period are indicated without a plus sign while those used during the reporting period are shown with a minus sign.

**Basis of presentation of the notes**

These notes include the information required by Bank of Italy's instructions for the preparation of financial statements by financial intermediaries and the additional information required by the IFRS.

The accounting policies described below have been adopted to disclose all the information in the financial statements.

KPMG S.p.A. audits the financial statements.

**Section 3 - Events after the reporting period**

No events took place after the reporting date that would have had a significant effect on the company's financial position and results of operations or that would have required adjustments to the financial statements captions.

**Section 4 - Other aspects**

There is no other information that needs to be disclosed.

**A.2 - KEY FINANCIAL STATEMENTS CAPTIONS AT 31 DECEMBER 2016**

**Accounting policies**

**Available-for-sale financial assets**

*Classification*

This category includes non-derivative financial assets that are not classified as loans and receivables, financial assets held for trading, held-to-maturity investments or financial assets at fair value through profit or loss.

*Recognition*

They are initially recognised at the settlement date and measured at fair value, which includes the directly related transaction costs.

*Measurement*

AFS financial assets are subsequently measured at fair value with recognition of amortised cost in profit or loss and the fair value gains or losses in a specific equity reserve until the asset is derecognised or an impairment loss is recognised. Gains or losses recognised in equity are reclassified to profit or loss when the asset is sold.

Realised gains or losses are recognised in caption 90 "Net profit (loss) on sale or repurchase" of the income statement.

Fair value is calculated using the market data or internal valuation methods that are, however, based on market data. More information is available in section A.4.

The company tests its assets for impairment at each reporting date. When there is a significant or prolonged decline in fair value, the company recognises it in profit or loss as the difference between the asset's carrying amount (acquisition cost net of impairment losses already recognised in profit or loss) and fair value. Fair value losses are significant when they exceed 20% of the cost and prolonged if they have existed for over nine months.

If the fair value of a debt instrument increases in a subsequent period and this increase is objectively due to an event that took place in a period after that in which the impairment loss was recognised in profit or loss, the impairment loss is reversed and the related amount is recognised in the same income statement caption. The reversal may not generate a carrying amount higher than that which would have been obtained by measuring that asset at amortised cost had the loss not been recognised. Impairment losses on shares, recognised in profit or loss, cannot be reversed through profit or loss but only directly through equity.

*Derecognition*

Financial assets or parts of financial assets are decognised when the contractual rights to cash flows expire or are transferred, transferring substantially all the related risks and rewards.

**Loans and receivables**

*Classification*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

This category includes trade receivables and reverse repurchase agreements.

*Recognition*

Loans and receivables are initially recognised at the agreement signing date, which is usually the disbursement date, based on the financial instrument's fair value, which usually equals the amount disbursed including transaction costs or revenue attributable to the individual loan or receivable and determinable from the transaction start date, even when they are disbursed subsequently. The initially recognised amount does not include costs that, despite having the above characteristics, are to be reimbursed by the counterparty or that are administrative costs.

*Measurement*

After initial recognition, loans and receivables are measured at amortised cost using the effective interest method.

Interest is recognised in caption 10 "Interest and similar income" of the income statement.

Impairment losses are made collectively. Assets are tested for impairment by category and the loss percentages are estimated considering historical figures that allow an estimate of possible losses.

*Derecognition*

Financial assets or parts of financial assets are decognised when the contractual rights to cash flows expire or are transferred, transferring substantially all the related risks and rewards.

**Property, equipment and investment property**

*Classification*

This caption includes land, owner-occupied property, furniture and fittings and all equipment. It also comprises assets under finance lease.

*Recognition*

Assets acquired on the market are recognised as assets when the main risks and rewards of title are transferred. Initial recognition is at cost, which includes all directly related charges.

Land is recognised separately, including when it is purchased together with the building, using the component approach. It is separated from the building based on third party appraisals.

*Measurement*

Property, equipment and investment property with a finite useful life are subsequently measured at cost adjusted by accumulated depreciation and any impairment losses/reversals of impairment losses.

The depreciable value of property, equipment and investment property equals their cost as the residual value after depreciation is not deemed significant. Depreciation is charged systematically on a straight-line basis over the asset's estimated useful life to reflect their technical-economic life and residual use.

The useful life of the main categories of property, equipment and investment property is as follows:

- owner-occupied buildings: maximum 33 years;
- electronic office equipment: 5 years;
- POS and ATM, classified as electronic equipment, are depreciated over three and seven years, respectively, as these periods are held to reflect their useful lives.

Land is not depreciated as it has an indefinite life nor are works of art as their useful lives cannot be estimated and their value usually increases over time.

The company tests the assets for impairment at every reporting date. If there is indication of impairment, it compares the asset's carrying amount to its recoverable amount being the higher of fair value and value in use.

*Derecognition*

Property, equipment and investment property are derecognised when sold or when no future economic benefits are expected from their continued use or sale.

**Intangible assets**

*Classification*

An intangible asset is an identifiable non-monetary asset without physical substance able to generate future economic benefits controllable by the entity.

*Recognition*

Intangible assets are recognised at cost when the principal risks and rewards are transferred, only when it is probable that the related future economic benefits will materialise and cost can be measured reliably. Otherwise, cost is expensed in the period in which it is incurred.

*Measurement*

All intangible assets other than goodwill are considered to have finite useful lives and are amortised in line with their cost.

In particular, technology related intangibles, such as software acquired and software development cost, which are amortised on the basis of their expected technological obsolescence and over a maximum period of five years. In particular, the costs incurred for the development of software projects are considered as intangible assets and are recognised under assets only when all the following conditions are met: i) the cost attributable to the intangible asset during its development can be measured reliably, (ii) there is the intention, the availability of financial resources and the technical ability of making the intangible asset available for use or sale, (iii) the future economic benefits to be generated by the asset can be demonstrated. Software development capitalised costs only comprise the costs directly attributable to the development process.

Their residual value is taken to be nil.

The company tests the assets for impairment at every reporting date. If there is indication of impairment, it compares the asset's carrying amount to its recoverable amount being the higher of fair value and value in use.

*Derecognition*

The company derecognises intangible assets when they are sold or when it does not expect to receive future economic benefits from their continued use or sale.

*Goodwill*

Goodwill arising on business combinations is the difference between the consideration paid, including related costs, and fair value of the assets acquired and the liabilities assumed at the transaction date. If the difference is positive, it is recognised as an asset (goodwill), being a payment by the acquiree for future economic benefits to be generated by assets that cannot be identified individually or recognised separately. If the difference is negative, it is recognised directly in profit or loss (excess cost).

Goodwill is recognised at cost, net of accumulated impairment losses. It is not amortised.

It is tested annually for impairment even if there are no indicators of impairment.

**Current and deferred taxes**

The company estimates current and deferred taxes, considering the domestic tax consolidation scheme.

Current taxes not yet paid in whole or in part at the reporting date are recognised as tax liabilities in the statement of financial position (IRAP) or as a liability with the consolidating party under "Other liabilities" if they are included in the domestic tax consolidation scheme (IRES). If payments on account in the current or previous reporting period exceed the related tax expense, the difference is recognised as a tax asset in caption 120 "Tax assets - a) current" (IRAP) and "Other assets" (IRES). Current and deferred taxes are recognised in caption 190 "Income taxes" of the income statement unless they relate to gains or losses on AFS financial assets and actuarial gains and losses, which are recognised directly in the valuation reserves, net of tax.

Deferred tax assets and liabilities are recognised in the statement of financial position without offsetting as "Tax assets" and "Tax liabilities", respectively.

The income tax expense is calculated on the basis of an estimate of the current and deferred tax expense and income. Specifically, deferred tax assets and liabilities are calculated on the temporary differences between the carrying amounts of assets and liabilities and their tax bases. The group recognises deferred tax assets (in caption 120.b) for deductible temporary differences and carryfoward tax losses that will reverse in subsequent periods when it is probable that it will make a taxable profit in the same period, according to its business plans, against which it can offset the deferred tax asset.

Deferred tax liabilities are calculated on all taxable temporary differences, excluding only reserves taxed upon distribution as, given the amount of the taxed available reserves, the group does not expect to undertake transactions that would require their taxation.

Deferred tax assets and liabilities are calculated using the tax rates expected to be enacted in the period in which the deferred tax asset will be recovered or the deferred tax liability extinguished, based on the ruling tax laws.

They are remeasured regularly to reflect any changes in the tax laws or rates or any subjective situations in which the company may find itself.

**Post-employment benefits**

The Italian post-employment benefits (TFR) are a form of deferred remuneration paid to employees when they leave the group. They accrue over the employment term and are recognised under personnel expense.

As payment is certain but not the date of payment, they are assimilated to defined contribution plans and classified as post-employment benefits.

Following the Italian supplementary pension reform introduced with Legislative decree no. 252 of 5 December 2005, benefits accruing from 1 January 2007 are calculated without using an actuarial approach as the bank's liability is limited to its contribution defined by the Italian Civil Code (defined contribution plan as per IAS 19).

Post-employment benefits vested up to 31 December 2006 continue to be considered defined benefit plans under IAS 19.

Interest accrued on the net liability continues to be recognised.

**Provisions for risks and charges**

Provisions for risks and charges include accruals made for past events for which it is probable that an outflow of resources will be required when a reliable estimate can be made of the amount.

At each reporting date, the company checks the provisions and they are released in whole or in part to the income statement when it is no longer probable that an outflow of resources will be necessary.

When the effect of the time value of money is material, the provision is discounted using the current market rates at the closing date. Accruals are recognised in profit or loss.

**Liabilities**

*Classification*

A liability exists when the company has a contractual obligation to deliver cash or another financial asset to another party at an agreed date.

*Recognition*

They are recognised at their fair value when the company receives the cash or the commitment to deliver cash arises.

Financial liabilities are initially recognised at fair value, which is normally the amount received or the issue price, plus the directly related costs/income. Internal administrative costs are excluded.

*Measurement*

After initial recognition, financial liabilities are measured at amortised cost using the effective interest method.

Interest is recognised in caption 20 “Interest and similar expense” of the income statement.

*Derecognition*

Financial liabilities, or parts thereof, are derecognised when they are extinguished, i.e., when the obligation is complied with, cancelled or has expired.

**Foreign currency transactions**

*Initial recognition*

Upon initial recognition, a foreign currency transaction is translated into the functional currency using the spot exchange rate ruling at the transaction date.

*Subsequent measurement*

Foreign currency assets and liabilities are retranslated into Euros at each subsequent reporting date using the following criteria:

- monetary items are retranslated using the closing rates;
- non-monetary items measured at historical cost are retranslated using the transaction-date exchange rates;
- non-monetary items measured at fair value are retranslated using the closing rates.

Exchange rate differences arising from the settlement of monetary items are recognised in profit or loss in the period in which they arise; exchange rate differences on non-monetary items are recognised in equity or in profit or loss in line with the method used to recognise the gains or losses that include this component.

Foreign currency costs and revenue are translated at the exchange rate ruling on their recognition date or, if they have not been realised, at the closing spot rate.

**Other disclosures**

*Income statement*

Interest income and expense

Interest income and expense and related income and expense relate to cash and cash equivalents, financial assets and liabilities, AFS financial assets, loans and receivables, liabilities and securities issued.

Interest income and expense are recognised in profit or loss on all instruments measured at amortised cost, using the effective interest method.

Fee and commission income and expense

They are recognised on an accruals basis.

Specifically, membership dues are recognised in profit or loss in line with the credit cards' expiry date and fee and commission income from merchants is recognised on the basis of the settlement date of the cardholders' expenditure. Pursuant to IFRS 13, fees and commissions are adjusted to reflect the fair value of loyalty programme prizes.

Fees and commissions included in amortised cost to calculate the effective interest rate are excluded as they are recognised under interest.

Dividends

Dividends are recognised in profit or loss when their distribution is approved.

Other income and costs

They are recognised on an accruals basis.

**Utilisation of estimates and assumptions in the preparation of the financial statements**

The financial statements captions are measured using the policies set out above.

Application of these policies sometimes involves the adoption of estimates and assumptions that may have a significant effect on the carrying amount of assets and liabilities, income and expenses.

The use of reasonable estimates is an essential part of the preparation of financial statements but must not affect their reliability. The financial statements captions affected to a greater extent by the use of estimates and assumptions are:

- measurement of loans and receivables;
- measurement of non-current assets;
- quantification of accruals to provisions for risks and charges and liabilities for loyalty programmes;
- quantification of deferred liabilities;
- measurement of financial instruments.

A change in an accounting estimate may occur due to changes in the circumstances on which the estimate was based or as a result of new information or more experience. The effect of a change in an accounting estimate is recognised prospectively by including it in profit or loss of the period of the change and, if the change affects future periods, also in future periods.

No significant changes to the accounting estimates were made in 2015.

**A.3 - TRANSFERS BETWEEN PORTFOLIOS OF FINANCIAL ASSETS**

None.

**A.4 - FAIR VALUE DISCLOSURE**

The IFRS require that financial products classified in the HFT or AFS portfolios be measured at fair value.

Application of IFRS 13, which regulates the measurement of fair value and related disclosure, became mandatory on 1 January 2013. This new standard does not extend the scope of application of fair value measurement, but contains the rules for fair value measurement in one standard rather than many standards, with differing treatments.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants (i.e., not a forced liquidation or distress sale) on the principal market at the measurement date.

IFRS 13 establishes a hierarchy for measuring fair value of financial instruments depending on the entity's use of discretion, prioritising the use of relevant observable inputs that reflect the assumptions that market participants would use to price assets/liabilities.

The fair value hierarchy has three input levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- 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: unobservable inputs for the asset or liability.

The valuation model adopted for a financial instrument is the same over time, adjusted only in the case of significant changes in market conditions or subjective changes affecting the issuer.

The fair value of financial assets and liabilities carried at cost or amortised cost is disclosed in the notes and is determined as follows:

- for non-current financial assets and liabilities, the discounted cash flow method is mainly used;
- for floating-rate on demand assets with a short term, the carrying amount net of a collective/individual impairment loss is deemed to reasonably reflect fair value as it reflects changes in interest rates and the issuer credit risk;
- for floating-rate and current fixed-rate liabilities, the carrying amount is deemed to adequately reflect fair value, for the reasons set out above;
- for non-current fixed-rate liabilities, the discounted cash flow method, without considering changes in its credit spread, given its immateriality, is used.

**Qualitative disclosure**

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

As noted above, the company measured its only level 3 financial instrument using all the information and data available at the reporting date.

It measured level 2 financial instruments using market prices for similar instruments.

*A.4.2 Measurement processes and sensitivity*

The company has just one level 3 financial instrument: its investment in Visa Europe.

*A.4.3 Fair value hierarchy*

Transfers between the fair value levels are made to reflect changes in the instruments or its market.

Transfers from level 1 to level 2 are made when there is an inadequate number of contributors or a limited number of investors that hold the outstanding float.

Conversely, instruments that are illiquid when issued and have a small number of trades classified in level 2 are transferred to level 1 when an active market exists.

*A.4.4 Other disclosures*

None.

**Quantitative disclosure**

*A.4.5 Fair value hierarchy*

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

| | L1 | L2 | L3 | Total |
|---|---|---|---|---|
| 1. Financial assets held for trading | | | | |
| 2. Financial assets at fair value through profit or loss | | | | |
| 3. Available-for-sale financial assets | | 47,583,219 | | 47,583,219 |
| 4. Hedging derivatives | | | | |
| 5. Property, equipment and investment property | | | | |
| 6. Intangible assets | | | | |
| **Total** | | **47,583,219** | | **47,583,219** |
| 1. Financial liabilities held for trading | | | | |
| 2. Financial liabilities at fair value through profit or loss | | | | |
| 3. Hedging derivatives | | | | |
| **Total** | | | | |

*A.4.5.2 Changes in assets measured at fair value on a recurring basis (level 3)*

None.

*A.4.5.3 Changes in liabilities measured at fair value on a recurring basis (level 3)*

None.

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

| | 2016 | | | | 2015 | | | |
|---|---|---|---|---|---|---|---|---|
| | CA | L1 | L2 | L3 | CA | L1 | L2 | L3 |
| 1. Held-to-maturity investments | | | | | | | | |
| 2. Loans and receivables | | | 2,391,811,519 | | | | 2,368,975,621 | |
| 3. Investment property | | | 6,720,000 | | | | 11,924,575 | |
| 4. Non-current assets held for sale and disposal groups | | | - | | | | 186,205,855 | |
| **Total** | | | **2,398,531,519** | | | | **2,567,106,051** | |
| 1. Due | | | 1,618,509,179 | | | | 1,905,977,079 | |
| 2. Securities issued | | | | | | | | |
| 3. Liabilities associated with assets held for sale | | | | | | | | |
| **Total** | | | **1,618,509,179** | | | | **1,905,977,079** | |

## A.5 INFORMATION ON "DAY ONE PROFIT/LOSS"

None. CartaSi does not engage in transactions that give rise to day one profit or loss.

**PART B - NOTES TO THE STATEMENT OF FINANCIAL POSITION**

*(€)*

# ASSETS

### Section 1 - Cash and cash equivalents - Caption 10

| | 31/12/2016 | 31/12/2015 |
|---|---|---|
| 1. Cash and revenue stamps | - | - |
| 2. Franking machines | 20,485 | 22,015 |
| **Total €** | **20,485** | **22,015** |

The balance comprises postal accounts.

### Section 4 - Available-for-sale financial assets - Caption 40

*4.1 Composition of caption 40 "Available-for-sale financial assets"*

| | 31/12/2016 | | | 31/12/2015 | | |
|---|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Level 1 | Level 2 | Level 3 |
| 1. Debt instruments | | | | | | |
| - structured instruments | | | | | | |
| - other instruments | | | | | | |
| 2. Equity instruments and OEIC units | | 47,583,219 | | | 3,762,517 | |
| 3. Financing | | | | | | |
| **Total €** | **-** | **47,583,219** | **-** | **-** | **3,762,517** | **-** |

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

| | 31/12/2016 | 31/12/2015 |
|---|---|---|
| **Financial assets** | | |
| a) Governments and central banks | | |
| b) Other government agencies | | |
| c) Banks | | |
| d) Financial institutions | 47,544,485 | 3,723,783 |
| e) Other issuers | 38,734 | 38,734 |
| **Total €** | **47,583,219** | **3,762,517** |

“Financial institutions” include the following equity investments over which the Group does not have control, joint control or significant influence:

| | 31/12/2016 | 31/12/2015 |
|---|---|---|
| Visa Inc. | 47,500,534 | 3,679,832 |
| International Card System AD - Casys | 43,951 | 43,951 |
| **Total financial institutions** | **47,544,485** | **3,723,783** |
| CNBC S.p.A. (digital television body) | 38,734 | 38,734 |
| **Total other issuers** | **38,734** | **38,734** |
| **Total €** | **47,583,219** | **3,762,517** |

The increase in the carrying amount of the AFS financial instruments is tied to the rise in the market price of the Visa Inc. shares, which are used as the basis to estimate the fair value of the shares held.

*4.3 Available-for-sale financial assets: changes*

| | Debt instruments | Equity instruments and OEIC units | Financing | Total |
|---|---|---|---|---|
| **A. Opening balance** | | **3,762,517** | | **3,762,517** |
| **B. Increases** | | | | |
| B1. Purchases | | | | |
| *B2. Fair value gains* | | | | |
| B3. Reversals of impairment losses: | | | | |
| - recognised in profit or loss | | | | |
| - recognised in equity | | 3,415,683 | | 3,415,683 |
| B4. Transfers from other portfolios | | | | |
| B5. Other increases | | 44,084,566 | | 44,084,566 |
| **C. Decreases** | | | | |
| C1. Sales | | 3,679,547 | | 3,679,547 |
| C2. Repayments | | | | |
| *C3. Fair value losses* | | | | |
| C4. Impairment losses | | | | |
| C5. Transfers to other portfolios | | | | |
| C6. Other decreases | | | | |
| **D. Closing balance** | | **47,583,219** | | **47,583,219** |

The item B5 refers to the value of Visa preferred shares in consideration for Visa Europe shares.

The item C1 refers to the sale of Visa Inc. shares.

## Section 6 - Loans and receivables with banks - Caption 60

This caption comprises:

| | 31/12/2016 | 31/12/2015 |
|---|---|---|
| Loans and receivables with banks | 7,214,361 | 18,396,793 |
| Loans and receivables with financial institutions | 115,663,180 | 114,899,272 |
| Loans and receivables with customers | 2,268,933,978 | 2,235,679,556 |
| **Total €** | **2,391,811,519** | **2,368,975,621** |

*6.1 Loans and receivables with banks*

| | 31/12/2016 | | | | 31/12/2015 | | | |
|---|---|---|---|---|---|---|---|---|
| | Carrying amount | *Fair Value* | | | Carrying amount | *Fair Value* | | |
| | | L1 | L2 | L3 | | L1 | L2 | L3 |
| 1. Deposits and current accounts | 7,122,753 | | 7,122,753 | | 18,257,241 | | 18,257,241 | |
| 2. Financing | | | | | | | | |
| 2.1 Reverse repurchase agreements | | | | | | | | |
| 2.2 Finance leases | | | | | | | | |
| 2.3 Factoring | | | | | | | | |
| - with recourse | | | | | | | | |
| - without recourse | | | | | | | | |
| 2.4 Other financing | | | | | | | | |
| 3. Debt instruments | | | | | | | | |
| - structured securities | | | | | | | | |
| - other instruments | | | | | | | | |
| 4. Other assets | 91,608 | | 91,608 | | 139,552 | | 139,552 | |
| **Total €** | **7,214,361** | | **7,214,361** | | **18,396,793** | | **18,396,793** | |

Deposits and current accounts mainly consist of current accounts held with ICPBI.

Other assets solely comprise receivables related to financial services.

*6.2 Loans and receivables with financial institutions*

| | 31/12/2016 | | | | | | 31/12/2015 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Carrying amount | | | Fair value | | | Carrying amount | | | Fair value | | |
| | Performing | Impaired | | L1 | L2 | L3 | Performing | Impaired | | L1 | L2 | L3 |
| | | Purchased | Other | | | | | Purchased | Other | | | |
| 1. Financing | | | | | | | | | | | | |
| 1.1 Reverse repurchase agreements | | | | | | | | | | | | |
| 1.2 Finance leases | | | | | | | | | | | | |
| 1.3 Factoring | | | | | | | | | | | | |
| - with recourse | | | | | | | | | | | | |
| - without recourse | | | | | | | | | | | | |
| 1.4 Other financing | | | | | | | | | | | | |
| 2. Debt instruments | | | | | | | | | | | | |
| - structured securities | | | | | | | | | | | | |
| - other instruments | | | | | | | | | | | | |
| 3. Other assets | 115,663,180 | | | | 115,663,180 | | 114,899,272 | | | | 114,899,272 | |
| **Total €** | **115,663,180** | **-** | | | **115,663,180** | | **114,899,272** | **-** | | | **114,899,272** | |

This caption includes receivables due from the international Visa and Mastercard circuits.

The international circuits calculate the net position of each member every day, considering purchases, cash advances, commissions due among the circuit members and commissions due to the circuits for services provided by them. The net position is settled daily by crediting or debiting the current account held with the parent.

## *6.3 Loans and receivables with customers*

| | 31/12/2016 | | | | | | 31/12/2015 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Carrying amount | | | Fair value | | | Carrying amount | | | Fair value | | |
| | Performing | Impaired | | L1 | L2 | L3 | Performing | Impaired | | L1 | L2 | L3 |
| | | Purchased | Other | | | | | Purchased | Other | | | |
| 1. Financing | | | | | | | | | | | | |
| 1.1 Finance leases | | | | | | | | | | | | |
| *of which: without final purchase option* | | | | | | | | | | | | |
| 1.2 Factoring | | | | | | | | | | | | |
| - with recourse | | | | | | | | | | | | |
| - without recourse | | | | | | | | | | | | |
| 1.3 Consumer credit | | | | | | | | | | | | |
| 1.4 Credit cards | 2,234,830,173 | | 151,019 | | 2,234,830,173 | 151,019 | 2,200,142,648 | | 140,862 | | 2,200,142,648 | 140,862 |
| 1.5 Loans on pledges | | | | | | | | | | | | |
| 1.6 Financing granted for payment services received | | | | | | | | | | | | |
| 1.7. Other financing | | | | | | | | | | | | |
| *of which: from enforcements of guarantees and commitments* | | | | | | | | | | | | |
| 2. Debt instruments | | | | | | | | | | | | |
| 2.1 structured securities | | | | | | | | | | | | |
| 2.2 other instruments | | | | | | | | | | | | |
| 3. Other assets | 33,394,603 | | 558,183 | | 33,394,603 | 558,183 | 33,887,331 | | 1,508,715 | | 33,887,331 | 1,508,715 |
| **Total €** | **2,268,224,776** | | **709,202** | | **2,268,224,776** | **709,202** | **2,234,029,979** | | **1,649,577** | | **2,234,029,979** | **1,649,577** |

| Caption 4. “Credit cards” includes: | 31/12/2016 | 31/12/2015 |
|---|---|---|
| Receivables from CartaSi cardholders for ordinary credit | 2,010,450,985 | 1,963,881,229 |
| Personal loans to customers | 7,504,997 | 8,140,906 |
| Receivables from CartaSi cardholders for credit extensions on revolving cards | 217,025,210 | 228,261,375 |
| Disputed receivables from CartaSi cardholders | - | - |
| **Total €** | **2,234,981,192** | **2,200,283,510** |

| Caption 7. “Other assets" comprises: | 31/12/2016 | 31/12/2015 |
|---|---|---|
| Receivables from merchants | 32,854,783 | 34,321,877 |
| Receivables for disputes | 1,098,003 | 1,074,169 |
| Receivables from merchants transferred to legal advisors | - | - |
| **Total €** | **33,952,786** | **35,396,046** |

Loans and receivables with customers are adjusted by the estimate of expected losses to reflect their recoverable amount, as shown in section 2 of part D.

## Section 10 - Property, equipment and investment property - Caption 100

*10.1 Property and equipment: breakdown of assets measured at cost*

| | 31/12/2016 | 31/12/2015 |
|---|---|---|
| | Assets measured at cost | Assets measured at cost |
| **1. Owned** | | |
| a) land | 13,209,157 | 13,209,157 |
| b) buildings | 21,616,592 | 23,362,883 |
| c) furniture | 1,369,699 | 1,337,014 |
| d) electronic systems | 41,932,453 | 37,440,574 |
| e) other | | |
| **2. Under finance lease** | | |
| a) land | | |
| b) buildings | | |
| c) furniture | | |
| d) electronic systems | | |
| e) other | | |
| **Total €** | **78,127,901** | **75,349,628** |

*10.2 Investment property: breakdown of assets measured at cost*

| | 31/12/2016 | | | | 31/12/2015 | | | |
|---|---|---|---|---|---|---|---|---|
| | Carrying amount | *Fair value* | | | Carrying amount | *Fair value* | | |
| | | Level 1 | Level 2 | Level 3 | | Level 1 | Level 2 | Level 3 |
| **1. Owned** | | | | | | | | |
| a) land | 743,698 | | | | 743,698 | | | |
| b) buildings | 5,309,771 | | | | 5,579,831 | | | |
| **2. Under finance lease** | | | | | | | | |
| a) land | | | | | | | | |
| b) buildings | | | | | | | | |
| **Total €** | **6,053,469** | | **6,720,000** | | **6,323,529** | | **11,924,575** | |

Owned buildings include the buildings in Via Livraghi 16, Milan and Strada 1, Assago MilanoFiori, the fair value of which was calculated by a third party.

*10.5 Property and equipment: changes*

| | Land | Buildings | Furniture | Electronic systems | Other | Total |
|---|---|---|---|---|---|---|
| **A. Gross opening balance** | **17,362,601** | **58,209,721** | **4,257,671** | **158,053,850** | **-** | **237,883,843** |
| **A.1 Total net impairment losses** | **4,153,444** | **34,846,838** | **2,920,657** | **120,613,275** | | **162,534,214** |
| **A.2 Net opening balance** | **13,209,157** | **23,362,883** | **1,337,014** | **37,440,575** | **-** | **75,349,629** |
| **B. Increases** | | | | | | |
| B.1 Purchases | | | 68,516 | 25,514,035 | | 25,582,551 |
| B.2 Capitalised improvement costs | | | | | | |
| B.3 Reversals of impairment losses | | | | | | |
| B.4 Fair value gains recognised in: | | | | | | |
| a) equity | | | | | | |
| b) profit or loss | | | | | | |
| B.5 Exchange rate gains | | | | | | |
| B.6 Transfers from investment property | | | | | | |
| B.7 Other increases | | | | | | |
| - business combinations | | | | | | |
| **C. Decreases** | | | | | | |
| C.1 Sales | | | | 2,528,673 | | 2,528,673 |
| C.2 Depreciation | | 1,746,291 | 35,831 | 18,493,484 | | 20,275,606 |
| C.3 Impairment losses recognised in: | | | | | | |
| a) equity | | | | | | |
| b) profit or loss | | | | | | |
| C.4 Fair value gains recognised in: | | | | | | |
| a) equity | | | | | | |
| b) profit or loss | | | | | | |
| C.5 Exchange rate losses | | | | | | |
| C.6 Transfers to: | | | | | | |
| a) investment property | | | | | | |
| b) disposal groups | | | | | | |
| C.7 Other decreases | | | | | | |
| **D. Net closing balance** | **13,209,157** | **21,616,592** | **1,369,699** | **41,932,453** | **-** | **78,127,901** |
| D.1 Total net impairment losses | 4,153,444 | 36,593,129 | 2,956,488 | 139,106,759 | - | 182,809,820 |
| **D.2 Gross closing balance** | **17,362,601** | **58,209,721** | **4,326,187** | **181,039,212** | **-** | **260,937,721** |
| E. Cost | | | | | | |

Purchases mainly refer to investments for ATMs and POS.

*10.6 Investment property: changes*

| | Total | |
|---|---|---|
| | Land | Buildings |
| **A. Opening balance** | **743,698** | **5,579,831** |
| **B. Increases** | | |
| B.1 Purchases | | |
| B.2 Capitalised improvement costs | | |
| B.3 Fair value gains | | |
| B.4 Reversals of impairment losses | | |
| B.5 Exchange rate gains | | |
| B.6 Transfers from property and equipment | | |
| B.7 Other increases | | |
| **C. Decreases** | | |
| C.1 Sales | | |
| C.2 Depreciation | | 270,060 |
| C.4 Fair value losses | | |
| C4. Impairment losses | | |
| C.5 Exchange rate losses | | |
| C.6 Transfers to other portfolios: | | |
| a) property and equipment | | |
| b) non-current assets held for sale | | |
| C.7 Other decreases | | |
| **D. Closing balance** | **743,698** | **5,309,771** |
| E. *Fair value* | | |

## Section 11 - Intangible assets - Caption 110

*11.1 Composition of caption 110 "Intangible assets"*

| | 31/12/2016 | | 31/12/2015 | |
|---|---|---|---|---|
| | Assets measured at cost | Assets measured at fair value | Assets measured at cost | Assets measured at fair value |
| **1. Goodwill** | | | | |
| **2. Other intangible assets:** | | | | |
| 2.1 owned | | | | |
| - internally generated | | | | |
| - other | 25,007,834 | | 9,969,718 | |
| 2.2. under finance lease | | | | |
| **Total 2** | **25,007,834** | | **9,969,718** | |
| **3. Assets under finance lease:** | | | | |
| 3.1 for which purchase option has not been exercised | | | | |
| 3.2 withdrawn after termination of lease | | | | |
| 3.3 other | | | | |
| **Total 3** | | | | |
| **4. Assets under operating lease** | | | | |
| **Total 4 €** | **25,007,834** | | **9,969,718** | |
| **Total (1+2+3+4) €** | **25,007,834** | | **9,969,718** | |
| **Total €** | | **25,007,834** | | **9,969,718** |

| Caption 2. "Other intangible assets: other" includes: | 31/12/2016 | 31/12/2015 |
|---|---|---|
| Software | 6,778,568 | 4,166,952 |
| Trademarks and patents | 36,614 | 34,063 |
| Customer relationship C-Card | 1,953,345 | 2,792,134 |
| Goodwill | - | 395,950 |
| Other assets | 16,239,307 | 2,580,619 |
| **Total €** | **25,007,834** | **9,969,718** |

*11.2 Intangible assets: changes*

| | **Total** |
|---|---:|
| **A. Opening balance** | **9,969,718** |
| **B. Increases** | |
| B.1 Purchases | 19,991,020 |
| B.2 Reversals of impairment losses | |
| *B.3 Fair value gains recognised in:* | |
| - equity | |
| - profit or loss | |
| B.4 Other increases | |
| - business combinations | |
| **C. Decreases** | |
| C.1 Sales | |
| C.2 Amortisation | 4,556,955 |
| C.3 Impairment losses | |
| - equity | |
| - profit or loss | 395,950 |
| *C4 Fair value losses recognised in:* | |
| - equity | |
| - profit or loss | |
| C.5 Other decreases | |
| **D. Closing balance** | **25,007,833** |

The item "purchases" mainly refers to software licenses and software development.

## Section 12 - Tax assets and tax liabilities

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

| | 31/12/2016 | 31/12/2015 |
|---|---|---|
| **Current tax assets** | | |
| IRAP tax asset | - | 975,584 |
| **Total €** | **-** | **975,584** |

| | 31/12/2016 | 31/12/2015 |
|---|---|---|
| **Deferred tax assets:** | | |
| recognised in profit or loss | 20,055,095 | 21,094,184 |
| recognised in equity | 304,881 | 304,881 |
| **Total €** | **20,359,976** | **21,399,065** |

The temporary differences that led to the company's recognition of deferred tax assets mainly relate to impairment losses on loans and receivables and provisions for risks and charges.

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

| | 31/12/2016 | 31/12/2015 |
|---|---|---|
| **Current tax liabilities:** | | |
| IRES | - | - |
| IRAP | 16,727,819 | - |
| **Total €** | **16,727,819** | **-** |

| | 31/12/2016 | 31/12/2015 |
|---|---|---|
| **Deferred tax liabilities:** | | |
| recognised in profit or loss | 3,431,809 | 3,544,472 |
| recognised in equity | 248,118 | 13,936,378 |
| **Total €** | **3,679,927** | **17,480,850** |

Changes in deferred tax liabilities recognised in profit or loss mainly relate to the revaluation of the building during first-time adoption of the IFRS.

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

| | 31/12/2016 | 31/12/2015 |
|---|---|---|
| **1. Opening balance** | **21,094,184** | **19,511,822** |
| **2. Increases** | | |
| 2.1 Deferred tax assets recognised in the year | | |
| a) related to previous years | | |
| b) due to changes in accounting policies | | |
| c) reversals of impairment losses | | |
| d) other | 2,702,881 | 4,095,475 |
| 2.2 New taxes or increases in tax rates | | |
| 2.3 Other increases | | |
| - business combinations | - | 581,605 |
| **3. Decreases** | | |
| 3.1 Deferred tax assets derecognised in the year | | |
| a) reversals | 3,741,970 | 3,094,718 |
| 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) conversion into tax assets as per Law no. 214/2011 | | |
| b) other | | |
| **4. Closing balance** | **20,055,095** | **21,094,184** |

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

| | 31/12/2016 | 31/12/2015 |
|---|---|---|
| **1. Opening balance** | **13,323,345** | **13,049,915** |
| **2. Increases** | **-** | **391,805** |
| **3. Decreases** | | |
| 3.1 Reversals | 879,995 | 118,375 |
| 3.2 Conversion into tax assets | | |
| a) arising from the loss for the year | | |
| b) arising from tax losses | | |
| 3.3 Other decreases | | |
| **4. Closing balance** | **12,443,350** | **13,323,345** |

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

| | 31/12/2016 | 31/12/2015 |
|---|---|---|
| **1. Opening balance** | **3,544,472** | **3,730,014** |
| **2. Increases** | | |
| 2.1 Deferred tax liabilities recognised in the year | | |
| a) related to previous years | | |
| 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 | 112,663 | 185,542 |
| b) due to changes in accounting policies | | |
| c) other | | |
| 3.2 Decrease in tax rates | | |
| 3.3 Other decreases | | |
| **4. Closing balance** | **3,431,809** | **3,544,472** |

*12.5 Changes in deferred tax assets (recognised in equity)*

| | 31/12/2016 | 31/12/2015 |
|---|---|---|
| **1. Opening balance** | 304,881 | 304,881 |
| **2. Increases** | | |
| 2.1 Deferred tax assets recognised in the year | | |
| a) related to previous years | | |
| 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 assets derecognised in the year | | |
| a) reversals | | |
| 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 | | |
| **4. Closing balance** | 304,881 | 304,881 |

*12.6 Changes in deferred tax liabilities (recognised in equity)*

| | 31/12/2016 | 31/12/2015 |
|---|---|---|
| **1. Opening balance** | **13,936,378** | **162,902** |
| **2. Increases** | | |
| 2.1 Deferred tax liabilities recognised in the year | | |
| a) related to previous years | | |
| b) due to changes in accounting policies | | |
| c) other | 237,219 | 13,773,476 |
| 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 | 13,925,479 | |
| 3.2 Decrease in tax rates | | |
| 3.3 Other decreases | | |
| **4. Closing balance** | **248,118** | **13,936,378** |

The decreases refer to available for sale financial assets.

## Section 13 - Non-current assets held for sale and disposal groups

*13.1. Composition of caption 130 "Non-current assets held for sale and disposal groups"*

| | 31/12/2016 | 31/12/2015 |
|---|---|---|
| Visa Europe Limited | - | 186,205,855 |
| **Total €** | **-** | **186,205,855** |

The decrease refers to the purchase of Visa Europe by Visa Inc.

## Section 14 - Other assets - Caption 140

*14.1 - Composition of caption 140 "Other assets"*

| | 31/12/2016 | 31/12/2015 |
|---|---|---|
| 1. Taxes and revenue stamps | 52,876,420 | 55,765,907 |
| 2. Guarantee deposits | 3,354,101 | 3,354,401 |
| 3. Deferred costs | 12,607,389 | 14,896,275 |
| 4. Sundry services | 91,405,456 | 95,916,796 |
| 5. Other assets | 62,678,320 | 58,167,523 |
| **Total €** | **222,921,686** | **228,100,902** |

# LIABILITIES

## Section 1 - Due to banks - Caption 10

*1.1 Liabilities*

| | 31/12/2016 | | | 31/12/2015 | | |
|---|---|---|---|---|---|---|
| | Due to banks | Due to financial institutions | Due to customers | Due to banks | Due to financial institutions | Due to customers |
| 1. Financing | | | | | | |
| 1.1. Repurchase agreements | | | | | | |
| 1.2. Other financing | 1,339,367,879 | | | 1,624,839,845 | | |
| 2. Other liabilities | 248,291,022 | - | 30,850,278 | 252,804,613 | - | 28,332,621 |
| **Total €** | **1,587,658,901** | **-** | **30,850,278** | **1,877,644,458** | **-** | **28,332,621** |
| **Fair value - level 1** | | | | | | |
| **Fair value - level 2** | **1,587,658,901** | **-** | **30,850,278** | **1,877,644,458** | **-** | **28,332,621** |
| **Fair value - level 3** | | | | | | |
| **Total fair value €** | **1,587,658,901** | **-** | **30,850,278** | **1,877,644,458** | **-** | **28,332,621** |

"Financing" mainly relates to the current liability with the parent; other financing mostly consists of the liabilities with credit institutions for fees to be paid.

## Section 9 - Other liabilities - Caption 90

*9.1 Caption 90 "Other liabilities"*

| | 31/12/2016 | 31/12/2015 |
|---|---|---|
| 1. Sundry creditors | | |
| 1.1 Disputes | 3,840,946 | 3,690,793 |
| 1.2 Suppliers | 112,833,272 | 105,954,205 |
| 1.3 Merchants | 9,264,314 | 8,498,624 |
| 1.4 Employees | 6,971,498 | 6,417,573 |
| 1.5 Employees' accrued holidays | 149,269 | 131,230 |
| 1.6 Social security institutions | 1,429,398 | 1,531,193 |
| 1.7 Tax authorities | 1,200,256 | 1,238,468 |
| 1.8 Deferred membership fees | 5,754,303 | 6,523,658 |
| 1.9 Deferred loyalty commissions | 53,935,619 | 53,354,901 |
| 1.10 Other liabilities | 164,726,950 | 81,444,391 |
| **Total €** | **360,105,825** | **268,785,036** |

The caption mainly consists of other liabilities, comprising suspense accounts.
The caption "Suppliers" includes invoices received and accruals for invoices to be received.

The deferred membership fees relate to the renewal of credit cards valid from January 2017 which are debited to CartaSi cardholders in December.
The loyalty commissions comprise deferred revenue, following adoption of IFRIC 13.

## Section 10 - Post-employment benefits - Caption 100

*10.1 Post-employment benefits: changes*

| | 31/12/2016 | 31/12/2015 |
|---|---|---|
| **A. Opening balance** | **6,769,799** | **6,929,046** |
| **B. Increases** | | |
| B1. Accruals | 76,972 | 85,920 |
| B2. Other increases | | |
| - business combinations | | 284,080 |
| **C. Decreases** | | |
| C1. Payments | 124,336 | 181,945 |
| C2. Other decreases | 226,695 | 347,302 |
| - business combinations | | |
| **D. Closing balance** | **6,495,740** | **6,769,799** |

The increases refer to the interest costs that amount to € 77,000.The decreases refer to the actuarial losses that amount to € 198,000

*10.2 - Other information*

*Actuarial assumptions*

As required by IAS 19, the main actuarial assumptions used in the actuarial valuation are set out below:

| **Main demographic and actuarial assumptions used to measure post-employment benefits at 31 December 2016** | |
|---|---|
| Mortality among aged pensioners | Rates relating to Italians broken down by age and gender, published by ISTAT in 2000 and reduced by 25% |
| Mortality among total and permanent disability pensioners | Rates inferred from the invalidity tables currently used by the rein-surance practice, broken down by age and gender. |
| Annual rate of advances | 1,87% |
| Turnover Annual | 2,50% |
| Retirement | Rate based on the satisfaction of the first requirement for the man-datory general insurance |
| Inflation | 1,50% |
| Annual discount rate | 1.31%, inferred from the breakdown of interest rate by maturity bo-otstrapped from the swap rate curve at the reporting date (Source: Il Sole 24 ore) and established with reference to the group's liabilities due after an average period of 16 years |

*Sensitivity analysis*

As required by IAS 19, the company carried out a sensitivity analysis of the liability for post-employment benefits with reference to the most significant actuarial assumptions. It aimed at showing how much the carrying amount of the liability would be affected by reasonably possible variations in each of the assumptions. Specifically, the following table sets out the change in the liability for post-employment benefits assuming that the main assumptions used increase or decrease.

| *€'000* | **Change in post-employment benefits (amount)** | **Change in post-employment benefits (percentage)** |
|---|---|---|
| Change in actuarial assumptions: | | |
| - Discount rate: | | |
| -0.50% | 391 | 6.00% |
| 0.50% | (370) | -5.69% |
| - Employee turnover rate: | | |
| -0.50% | 21 | 0.32% |
| 0.50% | (30) | -0.46% |

## Section 11 - Provisions for risks and charges - Caption 110

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

| | 31/12/2016 | 31/12/2015 |
|---|---|---|
| **Pension and similar provisions** | - | - |
| **Other provisions** | | |
| Agents' termination benefits | 569,916 | 568,033 |
| Provision for risks and charges | 10,767,192 | 12,066,428 |
| Allowance for impairment | 1,972,775 | 2,806,155 |
| Provision for personnel expense | 279,443 | 362,437 |
| **Total €** | **13,589,326** | **15,803,053** |

The provision for agents' termination benefits includes their accrued benefits for the rest of their agency contract. The provision for risks and charges covers risks of losses on irregular transactions that have already taken place and fraudulent transactions, calculated on a statistical basis (€ 1,906 thousand), the accrual for litigation commenced by cardholders and merchants (€ 3,556 thousand) and other liabilities for contractual commitments (€ 5,305 thousand).

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

| | Agents' termination benefits | Provision for risks and charges | Allowance for impairment | Provision for personnel expense | Total |
|---|---|---|---|---|---|
| **Opening balance** | **568,033** | **12,066,428** | **2,806,155** | **362,437** | **15,803,053** |
| Increases | 1,883 | 3,867,773 | 186,622 | 279,443 | 4,335,721 |
| Decreases | - | -5,167,009 | -1,020,002 | -362,437 | -6,549,448 |
| **Closing balance** | **569,916** | **10,767,192** | **1,972,775** | **279,443** | **13,589,326** |

## Section 12 - Equity - Captions 120, 130, 140 and 150

*12.1 Composition of caption 120 "Share capital"*

| | Amount |
|---|---|
| **1. Share capital** | |
| 1.1 Ordinary shares | 56,888,798 |
| 1.2 Other shares | |

The fully paid-up share capital at the reporting date consists of 94,814,664 ordinary shares with a unit nominal amount of € 0.60.

*12.4 Composition of caption 150 "Share premium"*

| | 31/12/2016 | 31/12/2015 |
|---|---|---|
| Share premium reserve | 2,273,684 | 2,273,684 |
| **Total €** | **2,273,684** | **2,273,684** |

The company set up this reserve in 2010 following the contribution of the former Key Client's international licences business.

## 12.5 Other information

*Composition and changes in caption 160 "Reserves"*

| | Legal | Other - extraordinary reserve | Other | Total |
|---|---|---|---|---|
| **Possible use (*)** | **B** | **A, B, C** | **A, B, C** | |
| **A. Opening balance** | **11,377,760** | **206,408,021** | **162,099,538** | **379,885,319** |
| **B. Increases** | | | | |
| B.1 Allocation of profit for the year | - | 177,934 | | 177,934 |
| B.2 Other increases | | | | |
| **C. Decreases** | | | | |
| C.1 Utilisation | | | | |
| - to cover losses | | | | |
| - distributions | | | | |
| - conversion into share capital | | | | |
| C.2 Other decreases | | | - | - |
| **D. Closing balance** | **11,377,760** | **206,585,955** | **162,099,538** | **380,063,253** |

*(*) A: capital increase; B: to cover losses; C: dividend distributions*

*Composition and changes in caption 170 "Valuation reserves"*

| | Available-for-sale financial assets | Property and equipment | Intangible assets | Non-current assets held for sale and disposal groups | Special revaluation laws | Actuarial gains and losses | Total |
|---|---|---|---|---|---|---|---|
| **A. Opening balance** | **3,099,319** | **74,950** | **-** | **172,511,661** | **1,013,875** | **(767,921)** | **175,931,884** |
| **B. Increases** | | | | | | | |
| B.1 Fair value gains | 3,178,464 | | | | | | 3,178,464 |
| B.2 Other increases | | | | | | | |
| **C. Decreases** | | | | | | | |
| C1 Fair value losses | | | | | | | |
| C.2 Other decreases | (3,099,079) | | | (172,511,661) | | 144,243 | (175,466,497) |
| **D. Closing balance** | **3,178,704** | **74,950** | **-** | **-** | **1,013,875** | **(623,678)** | **3,643,851** |

The item C2 refers to the reversal of Valuation reserve

# PART C - NOTES TO THE INCOME STATEMENT

## Section 1 - Interest - Captions 10 and 20

*1.1 Composition of caption 10 "Interest and similar income"*

| | Debt instruments | Financing | Other | 31/12/2016 | 31/12/2015 |
|---|---|---|---|---|---|
| 1. Financial assets held for trading | | | | | |
| 2. Financial assets at fair value through profit or loss | | | | | |
| 3. Available-for-sale financial assets | | | | | |
| 4. Held-to-maturity investments | | | | | |
| 5. Loans and receivables | | | | | |
| 5.1 Loans and receivables with banks | | | 1,355 | 1,355 | 2,543 |
| 5.2 Loans and receivables with financial institutions | | | | | |
| 5.3 Loans and receivables with customers | | | 23,505,869 | 23,505,869 | 25,185,824 |
| 6. Other assets | | | 796,660 | 796,660 | 126,784 |
| 7. Hedging derivatives | | | | | |
| **Total €** | **-** | **-** | **24,303,884** | **24,303,884** | **25,315,151** |

*1.3 Composition of caption 20 "Interest and similar expense"*

| | Financing | Securities | Other | 31/12/2016 | 31/12/2015 |
|---|---|---|---|---|---|
| 1. Due to banks | 31,572,235 | | | 31,572,235 | 35,407,107 |
| 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 | | | 405 | 405 | 162,036 |
| 8. Hedging derivatives | | | | | |
| **Total €** | **31,572,235** | | **405** | **31,572,640** | **35,569,143** |

| | 31/12/2016 | 31/12/2015 |
|---|---|---|
| Interest expense on ordinary current accounts | 14,930,041 | 16,521,574 |
| Interest expense on revolving current accounts | 13,445,529 | 14,921,308 |
| Bank fees and commissions | 3,196,665 | 3,964,225 |
| Sundry interest expense | 405 | 162,036 |
| **Total €** | **31,572,640** | **35,569,143** |

## Section 2 - Fees and commissions - Captions 30 and 40

*2.1 Composition of caption 30 "Fee and commission income"*

| | 31/12/2016 | 31/12/2015 |
|---|---|---|
| 1. finance leases | | |
| 2. factoring | | |
| 3. consumer credit | | |
| - fees and commissions on processed transactions | 588,207,674 | 664,858,151 |
| - fees and commissions from cardholders | 169,530,748 | 174,057,447 |
| - other fee and commission income | | |
| 4. merchant banking | | |
| 5. guarantees issued | | |
| 6. services: | | |
| - fund management on behalf of third parties | | |
| - currency trading | | |
| - product distribution | | |
| - other | | |
| 7. collection and payment services | | |
| 8. servicing in securitisations | | |
| 9. other fee and commission income (servicing) | 96,527,572 | 87,179,435 |
| **Total €** | **854,265,994** | **926,095,033** |

*2.2 Composition of caption 40 "Fee and commission expense"*

| | 31/12/2016 | 31/12/2015 |
|---|---|---|
| 1. guarantees received | | |
| 2. distribution of third party services | | |
| 3. collection and payment services | | |
| 4. other fee and commission expense | | |
| - fee and commission expense to members | 309,832,969 | 397,559,217 |
| - fee and commission expense to banks | 233,211,608 | 241,941,667 |
| - other fee and commission expense | (3,329) | 28,563 |
| **Total €** | **543,041,248** | **639,529,447** |

## Section 3 - Dividends and similar income - Caption 50

*3.1 Composition of caption 50 "Dividends and similar income"*

| | 31/12/2016 | | 31/12/2015 | |
|---|---|---|---|---|
| | Dividends | Income from OEIC units | Dividends | Income from OEIC units |
| 1. Financial assets held for trading | | | | |
| 2. Available-for-sale financial assets | 107,700 | | 15,780 | |
| 3. Financial assets at fair value through profit or loss | | | | |
| 4. Equity investments: | | | | |
| 4.1 for merchant banking | | | | |
| 4.2 other assets | | | | |
| **Total €** | **107,700** | **-** | **15,780** | **-** |

## Section 4 - Net trading income - Caption 60

*4.1 Composition of caption 60 "Net trading income"*

| | Gains | Trading income | Losses | Trading losses | Net income |
|---|---|---|---|---|---|
| **1. Financial assets** | | | | | |
| 1.1 Debt instruments | | | | | |
| 1.2. Equity instruments and OEIC units | | | | | |
| 1.3. Financing | | | | | |
| 1.4. Other assets | | | | | |
| **2. Financial liabilities** | | | | | |
| 2.1 Debt instruments | | | | | |
| 2.2 Liabilities | | | | | |
| 2.3 Other liabilities | | | | | |
| **3. Financial assets and liabilities: net exchange rate gains** | | 4,337,996 | | 4,898,271 | -560,275 |
| **4. Financial derivatives** | | | | | |
| **5. Credit derivatives** | | | | | |
| **Total €** | | **4,337,996** | | **4,898,271** | **-560,275** |

## Section 7 - Net profit on sale or repurchase - Caption 90

*7.1 Composition of caption 90 "Net profit on sale or repurchase"*

| | 31/12/2016 | | | 31/12/2015 | | |
|---|---|---|---|---|---|---|
| | Profit | Loss | Net profit | Profit | Loss | Net profit |
| **1) Financial assets** | | | | | | |
| 1.1 Loans and receivables | | | | | | |
| 1.2 Available-for-sale financial assets | 278,050,936 | | 278,050,936 | 109 | | 109 |
| 1.3 Held-to-maturity investments | | | | | | |
| **Total (1) €** | **278,050,936** | **-** | **278,050,936** | **109** | **-** | **109** |
| **2) Financial liabilities** | | | | | | |
| 2.1 Liabilities | | | | | | |
| 2.2 Securities issued | | | | | | |
| **Total (2) €** | | | | | | |
| **Total (1+2) €** | **278,050,936** | | **278,050,936** | **109** | | **109** |

The item refers mainly to the gain related  to the Visa Proceed and to the gain obtained by the selling of Visa Inc shares.

## Section 8 - Net impairment losses - Caption 100

*8.1 Net impairment losses*

| | Impairment losses | | Reversals of impairment losses | | 31/12/2016 | 31/12/2015 |
|---|---|---|---|---|---|---|
| | individual | collective | individual | collective | | |
| 1. Loans and receivables with banks | | | | | | |
| - leases | | | | | | |
| - factoring | | | | | | |
| - other | | 36,980 | | | 36,980 | 59,170 |
| 2. Loans and receivables with financial institutions | | | | | | |
| Impaired loans acquired: | | | | | | |
| - leases | | | | | | |
| - factoring | | | | | | |
| - other | | | | | | |
| Other: | | | | | | |
| - leases | | | | | | |
| - factoring | | | | | | |
| - other | | 15,008 | | | 15,008 | |
| 3. Loans and receivables with customers | | | | | | |
| Impaired loans acquired: | | | | | | |
| - leases | | | | | | |
| - factoring | | | | | | |
| - consumer credit | | | | | | |
| - other | | | | | | |
| Other: | | | | | | |
| - leases | | | | | | |
| - factoring | | | | | | |
| - consumer credit | | | | | | |
| - loans on pledges | | | | | | |
| - other | 530,112 | 1,663,422 | | | 2,193,534 | 2,540,081 |
| **Totale €** | **530,112** | **1,715,410** | | | **2,245,522** | **2,599,251** |

## Section 9 - Administrative expenses - Caption 110

*9.1 Composition of caption 110.a "Personnel expense"*

| | 31/12/2016 | 31/12/2015 |
|---|---|---|
| **1. Employees** | | |
| a) wages and salaries | 29,620,033 | 26,665,956 |
| b) social security charges | 7,204,044 | 6,287,907 |
| c) post-employment benefits | 90,745 | 62,555 |
| d) pension costs | | |
| e) accrual for post-employment benefits | 76,972 | 99,656 |
| f) accrual for pension and similar provisions: | | |
| - defined contribution plans | | |
| - defined benefit plans | | |
| g) payments to external supplementary pension funds | | |
| - defined contribution plans | 2,563,177 | 2,640,265 |
| - defined benefit plans | | |
| h) other | 1,452,810 | 1,677,094 |
| 2. Other personnel | | |
| 3. Directors and statutory auditors | 918,469 | 1,563,966 |
| 4. Retired personnel | | |
| 5. Cost recoveries for employees seconded to other companies | -483,604 | -56,793 |
| 6. Cost reimbursements for third party employees seconded to the bank | 43,114 | |
| **Total €** | **41,485,760** | **38,940,606** |

*9.2 Average number of employees per category*

| | 31/12/2016 | 31/12/2015 |
|---|---|---|
| Managers | 14 | 15 |
| Junior managers | 187 | 188 |
| White collars | 275 | 274 |
| **Total** | **476** | **477** |

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

| | 31/12/2016 | 31/12/2015 |
|---|---|---|
| 1. Third party services | 172,863,645 | 181,745,082 |
| 2. Lease and building management fees | 240,188 | 409,667 |
| 3. Insurance companies | 1,096,496 | 1,385,596 |
| 4. Rentals | 2,547,176 | 2,405,552 |
| 5. Maintenance | 17,937,224 | 18,048,983 |
| 6. Shipping costs | 22,085,933 | 23,326,866 |
| 7. Telephone and telegraph | 4,790,114 | 4,655,658 |
| 8. Cards and accessories | 8,023,597 | 8,736,623 |
| 9. Printed matter and stationery | 323,919 | 254,328 |
| 10. Other taxes | 54,850,645 | 55,344,027 |
| 11. Legal, notary and consultancy services | 11,741,963 | 4,280,641 |
| 12. Agents' commissions and expense reimbursement | 50,782 | 137,603 |
| 13. Publishing | - | 2,094 |
| 14. Advertising | 125,210 | 555,371 |
| 15. Promotional materials and competition prizes | 6,915,122 | 6,780,395 |
| 16. Other commercial costs | 799,037 | 849,586 |
| 17. Other general expenses | 1,838,229 | 2,507,122 |
| **Total €** | **306,229,280** | **311,425,194** |

| Caption 10. "Other taxes" includes: | 31/12/2016 | 31/12/2015 |
|---|---|---|
| stamp duty | 54,190,070 | 54,640,179 |
| taxes and duties | 356,279 | 384,250 |
| taxes and duties for prize competitions and transactions | 297,953 | 232,366 |
| government tax on mobile phones | 2,392 | 1,739 |
| waste elimination tax | 121,936 | 102,209 |
| non-deductible VAT | -121,555 | -23,220 |
| sanctions and fines | 3,570 | 6,504 |
| **Total €** | **54,850,645** | **55,344,027** |

## Section 10 - Depreciation and net impairment losses on property, equipment and investment property - Caption 120

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

| | Depreciation (a) | Impairment losses (b) | Reversals of impairment losses (c) | Carrying amount (a + b – c) |
|---|---|---|---|---|
| **1. Property and equipment** | | | | |
| 1.1 owned | | | | |
| a) land | | | | |
| b) buildings | 1,746,291 | | | 1,746,291 |
| c) furniture | 35,831 | | | 35,831 |
| d) operating | 18,493,484 | | | 18,493,484 |
| e) other | | | | |
| 1.2 under finance lease | | | | |
| a) land | | | | |
| b) buildings | | | | |
| c) furniture | | | | |
| d) operating | | | | |
| e) other | | | | |
| **2. Investment property** | 270,060 | | | 270,060 |
| **Total €** | **20,545,666** | | | **20,545,666** |

## 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** | | | | |
| 2.1 owned | 4,556,955 | 395,950 | | 4,952,905 |
| 2.2 under finance lease | | | | |
| **3. Assets under finance lease** | | | | |
| **4. Assets under operating lease** | | | | |
| **Total €** | **4,556,955** | **395,950** | | **4,952,905** |

## 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"*

| | 31/12/2016 | 31/12/2015 |
|---|---|---|
| 1. Accrual to the provision for agents' termination benefits | - | - |
| 2. Accrual to the provision for risks | 2,106,440 | 377,519 |
| 3. Accrual to the allowance for impairment | -833,381 | - |
| 4. Accrual to the provision for personnel expense | 200,370 | 362,437 |
| **Total €** | **1,473,429** | **739,956** |

## Section 14 - Other operating income - Caption 160

*14.1 Composition of caption 160 "Other operating income"*

| | 31/12/2016 | 31/12/2015 |
|---|---|---|
| **1. Income** | | |
| 1.1 Income from foreign correspondents | 553,992 | 578,280 |
| 1.2 Revenue for the Club IoSi | 6,071,284 | 5,466,056 |
| 1.3 Compensation for reckless custody | 67,800 | 87,600 |
| 1.4 Revenue from services | 143,020,830 | 145,224,349 |
| 1.5 Revenue from intragroup services | 996,886 | 980,313 |
| 1.6. Other income | 8,091,162 | 9,443,965 |
| 1.7 Expense reimbursement for issue of account statement | 18,425,589 | 19,223,460 |
| 1.8 Expense reimbursement for stamp on account statement | 51,946,042 | 52,256,935 |
| **2. Costs** | | |
| 2.1 Losses on irregular transactions due to fraudulent use of credit cards | -5,030,124 | -8,728,920 |
| 2.2. Other costs | -20,494,820 | -1,689,692 |
| 2.3 Amounts retroceded to banks for POS management | -15,949,287 | -19,390,904 |
| **Total €** | **187,699,354** | **203,451,442** |

The revenue from services mainly relates to the management of POS and ATM terminals. Similarly, the amounts retroceded to banks for POS management consists of the fees paid by the company for servicing activities.

## Section 17 - Income taxes - Caption 190

### *17.1 Composition of caption 190 "Income taxes"*

| | 31/12/2016 | 31/12/2015 |
|---|---|---|
| 1. Current taxes | 62,577,896 | 33,970,314 |
| 2. Change in current taxes from previous years | -1,091,866 | -462,848 |
| 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 | 1,039,089 | -1,000,757 |
| 5. Change in deferred tax liabilities | -112,663 | -185,542 |
| **Total** | **62,412,456** | **32,321,167** |

### *17.2 Reconciliation between the theoretical and effective tax expense*

| IRES | 31/12/2016 | 31/12/2015 |
|---|---|---|
| Theoretical tax rate | 27.50% | 27.50% |
| Undeductible costs | 1.51% | 0.84% |
| Deductible costs and other decreases | -19.32% | -4.05% |
| Effective tax rate | 9.69% | 24.29% |

| IRAP | 31/12/2016 | 31/12/2015 |
|---|---|---|
| Theoretical tax rate | 5.57% | 5.57% |
| Undeductible costs | 1.17% | 2.05% |
| Irrelevant revenue - costs | -0.52% | -0.72% |
| Effective tax rate | 6.22% | 6.90% |

## PART D - OTHER DISCLOSURES

### Section 1 - Operations

### C. CONSUMER CREDIT

The consumer credit business solely relates to instalment credit cards.

*C.1 - Breakdown by product*

| | 31/12/2016 | | | 31/12/2015 | | |
|---|---|---|---|---|---|---|
| | Gross amount | Impairment losses | Carrying amount | Gross amount | Impairment losses | Carrying amount |
| **1. Unimpaired assets** | | | | | | |
| - personal loans | 7,504,997 | | 7,504,997 | 8,140,906 | | 8,140,906 |
| - special purpose loans | 217,825,921 | 800,711 | 217,025,210 | 229,059,692 | 798,317 | 228,261,375 |
| - salary-backed loans | | | | | | |
| **2. Impaired assets** | | | | | | |
| Personal loans | | | | | | |
| - non-performing exposures | | | | | | |
| - probable default | | | | | | |
| - impaired past due exposures | | | | | | |
| Special purpose loans | | | | | | |
| - non-performing exposures | | | | | | |
| - probable default | | | | | | |
| - impaired past due exposures | | | | | | |
| Salary-backed loans | | | | | | |
| - non-performing exposures | | | | | | |
| - probable default | | | | | | |
| - impaired past due exposures | | | | | | |
| **Total €** | **225,330,918** | **800,711** | **224,530,207** | **237,200,598** | **798,317** | **236,402,281** |

*C.2 - Classification by past due date bracket and quality*

| | Unimpaired financing | | Impaired financing | |
|---|---|---|---|---|
| | **31/12/2016** | **31/12/2015** | **31/12/2016** | **31/12/2015** |
| Up to 3 months | 64,781,063 | 68,231,059 | | |
| From 3 months to 1 year | 123,063,446 | 130,409,414 | | |
| From 1 to 5 years | 35,284,015 | 36,419,480 | | |
| After 5 years | 1,401,683 | 1,342,328 | | |
| Open term | | | | |
| **Total €** | **224,530,207** | **236,402,281** | **-** | **-** |

*C.3 - Changes in impairment losses*

| | Opening balance | Increases | | | | Decreases | | | | | Closing balance |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Impairment losses | Losses on sales | Transfers from other category | Other increases | Reversals of impairment losses | Gains on sales | Transfers to other category | Cancellations | Other decreases | |
| **Individual impairment losses on impaired assets** | | | | | | | | | | | |
| Personal loans | | | | | | | | | | | |
| - non-performing exposures | | | | | | | | | | | |
| - probable default | | | | | | | | | | | |
| - impaired past due exposures | | | | | | | | | | | |
| Special purpose loans | | | | | | | | | | | |
| - non-performing exposures | | | | | | | | | | | |
| - probable default | | | | | | | | | | | |
| - impaired past due exposures | | | | | | | | | | | |
| Salary-backed loans | | | | | | | | | | | |
| - non-performing loans | | | | | | | | | | | |
| - probable default | | | | | | | | | | | |
| - impaired past due exposures | | | | | | | | | | | |
| **Collective impairment losses on other assets** | | | | | | | | | | | |
| - personal loans | | | | | | | | | | | |
| - special purpose loans | 798,317 | | | | - | | | | | | 798,317 |
| - salary-backed loans | | | | | | | | | | | |
| **Total €** | **798,317** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **798,317** |

## E. PAYMENT SERVICES AND ISSUE OF E-MONEY

## QUANTITATIVE DISCLOSURE

*E.8 Operating volumes, number of and revenue from payment transactions*

| | 31/12/2016 | | | | 31/12/2015 | | | |
|---|---|---|---|---|---|---|---|---|
| | Amount | Number | Fee and commission income | Cost recoveries | Amount | Number | Fee and commission income | Cost recoveries |
| - Credit cards | 28,848,288,000 | 340,185,921 | 169,530,748 | 70,371,631 | 27,980,372,000 | 316,360,213 | 174,057,447 | 71,480,395 |
| - Debit cards | | | | | | | | |
| - Bank transfers | | | | | | | | |
| - ordered by customers | | | | | | | | |
| - received by customers | | | | | | | | |
| - Money Transfers: | | | | | | | | |
| - incoming | | | | | | | | |
| - outgoing | | | | | | | | |
| - Charges to accounts of customer payments | | | | | | | | |
| - Crediting the accounts with customer payments | | | | | | | | |
| - Collections by payment against notice (MAV) | | | | | | | | |

*E.9 Fraudulent use*

| | 31/12/2016 | | | | 31/12/2015 | | | |
|---|---|---|---|---|---|---|---|---|
| | Amount | Number | Cost by intermediary | Insurance compensation | Amount | Number | Cost by intermediary | Insurance compensation |
| - Credit cards | 29,295,255 | 235,685 | 4,466,020 | - | 30,541,899 | 205,542 | 8,528,277 | - |
| - Debit cards | | | | | | | | |
| - e-money | | | | | | | | |

*E.10 Credit cards revoked for insolvency*

| | 31/12/2016 | | 31/12/2015 | |
|---|---|---|---|---|
| | Amount | Number of cards | Amount | Number of cards |
| - with risk borne by intermediary | 663,170 | 1,902 | 1,518,897 | 3,540 |
| - with risk borne by third parties | | | | |

**QUALITATIVE DISCLOSURE**

The company uses the 3D Secure model (Verified by Visa and Mastercard SecurCode) for all its cardholders.

This model is applied when the merchant uses the same system and requires an additional password for e-commerce transactions.

The policy also provides that the merchants use similar protocols.

The company mainly distributes credit and prepaid cards through the banking channel, via the branches of its bank members. It also directly distributes credit and prepaid cards upon request, either through its site or its commercial partners.

Acceptance of payment instruments is guaranteed by the merchant members via the banks or directly through their special sales network. The main merchant categories are supermarket chains, transport, hotels, telecommunications and fuel.

CartaSi is active in the credit card sector as both an issuer (financial institution that issues credit cards) and an acquirer (financial institution that authorises merchants to accept transactions paid for by payment cards and/or offers cash advance services).

It is the licensee of the Visa and Mastercard circuits both as an issuer and an acquirer.

In order to carry out its activities, the company has a customised organisational structure which guarantees maintenance and development of its distribution and acceptance network and also manages all the related operating and financial activities by carrying out specific processes which are updated regularly to improve their efficiency and effectiveness.

**Section 3 - Risks and related hedging policies**

**3.1 CREDIT RISK**

**QUALITATIVE DISCLOSURE**

**1. General issues**

Credit risk is the risk that an unexpected variation in a counterparty's credit standing may lead to its default, generating unexpected losses on cash exposures or endorsement credits, or that generates a related unexpected variation in the asset's market value.

CartaSi's credit risk relates to how it operates on the market. Its business model for card management activities provides that the credit risk is mostly transferred to the partner banks by signing bank agreements.

Accordingly, it monitors:

1. -issuing through banks: the risk of cardholder default is borne by the banks for the period from the transaction date until the transaction's debit date to the cardholder's account.
2. -direct issuing: the credit risk is borne directly by CartaSi and relates to non-payment on the contractually-agreed dates.
3. -receives the funds from the circuits (Visa/MasterCard) for transactions carried out by the holders of credit cards issued by other banks usually two to three business days after the transaction date. Therefore, it is exposed to credit risk vis-à-vis the payment circuits in this period of time.

The other receivables are generated by operating irregularities in the activities of:

- issuing through banks, when amounts can be debited to blocked cards for which the bank is relieved from the related credit risk five days after the block has been communicated;
- acquiring, such as:
- recharges to merchants after complaints by cardholders or banks for any reason through the charge-back cycle;
- non-payment of commissions by the merchants.

These types of risks generated by operating irregularities are operational risks.

Activities provided as part of the Issuing and Acquiring of payment cards services to banks with Visa and MasterCard licences do not generate credit risks, nor do the Issuing and Acquiring activities for national debit cards (Bancomat and Pagobancomat) or services to manage the ATM or POS network.

Settlement with the banks takes place through the parent by offsetting value dates.

The direct issue of credit cards only takes place after suitable investigations of the customers and CartaSi's fraud and credit management unit continuously monitors credit risk over the period of the credit card's validity. This unit is part of the payment card department (first level controls).

**2. Credit risk management policies**

Credit risk is monitored constantly, checking that the exposures are within the set budget limits at the beginning of each year. CartaSi also carefully rates each new merchant or cardholder in the case of directly issued cards before agreeing new contracts.

The risk management unit monitors credit risk trends and their effect on the risk policy and set range. It prepares monthly and quarterly reports on compliance with the specific limits approved by the board of directors and implements suitable escalation measures when these limits are exceeded. These measures are described in the "CartaSi S.p.A. risk quantification limits" document, prepared annually with the first level units and the risk management unit.

The document sets out the reference values and ranges for each first and second level indicator assigned to monitor CartaSi's risks, calculated on the basis of analysis of historical series, projections about the company's future performance and that of the market and indications present in the Group's risk policy. These values, calculated to contain risk, are approved by the parent's risk committee and CartaSi's board of directors.

The company has specific maximum gross and net insolvency limits and limits to the related cost to check and measure risk. It monitors these limits constantly as well as expected losses compared to actual losses and losses incurred for business reasons.

This credit risk control consists of preliminary checks by the first level units, starting with the analysis of the credit application. It includes:

- internal controls;
- consistency controls;
- positive and negative information from the credit bureau;
- credit scoring algorithms.

Another process relevant for credit risk is the monitoring and recovery of receivables from cardholders and merchants, in order to contain the impact of risk events. The following controls are performed:

daily monitoring of negative events (unpaid direct debits) using a flag to limit the card's spending limit and possible revoke of the banking counterparties;

- daily checks of the use of cash advances in excess of the maximum contractual limits.
- Specific processes exist to recover the different types of receivable:
- out-of-court collection, including phone collection and/or home visits;
- legal proceedings for certain amounts and/or specific reasons.

The credit risk analysis model for directly issued cards uses the historical trends of recorded losses and estimated losses (non-performing positions adjusted by the recovery percentage) normalised by the total exposure for the current month. Its result is VaR. The analysis considers the historical trends starting from May 2010. The operating management methods for prior year receivables are not consistent with the currently used one and, therefore, they cannot be used as a comparison.

The results of the historical trends analysis are then used to calculate the annual expected and unexpected loss. The expected and unexpected losses, calculated using an annual confidence interval of 99%, are subjected to second level controls described in the Quantitative risk limits document.

With respect to its servicing activities, CartaSi does not have credit risks related to receivables due directly from retail customers as it provides issuing servicing and acquiring servicing activities. Therefore, the related credit risk falls on the banks that have the issuing and/or acquiring licences.

In the case of servicing, credit risk refers to the customer banks, that are subject to supervision, and the risk disappears within 30 days (the time period between issue of one account statement and the next) with an average exposure of 15 days. This exposure is borne by ICBPI.

Like in previous years, no significant critical situations were identified with respect to this risk and the defined limits.

Impairment losses are made collectively. Assets are tested for impairment by category and the loss percentages are estimated considering historical figures that allow an estimate of possible losses.

**3. Country risk**

Country risk is the risk of losses caused by events that take place in countries other than Italy. This concept is wider than that for sovereign risk as it covers all exposures regardless of the type of counterparty involved, be they natural persons, businesses, banks or public administrations.

The company includes country risk as part of credit risk and it is not a significant risk given that CartaSi's exposures are solely with international circuits (Mastercard and Visa, both of which have their registered office in the US) as part of the process to settle card transactions. It is thus reasonable to assume that they are very independent of the countries where their head office is in economic terms.

## QUANTITATIVE DISCLOSURE

*1. Breakdown of credit exposures by portfolio and credit quality*

| | Non-performing exposures | Probable default | Impaired past due exposures | Unpaired past due exposures | Other unimpaired exposures | Total |
|---|---|---|---|---|---|---|
| 1. Available-for-sale financial assets | | | | | 47,583,219 | 47,583,219 |
| 2. Held-to-maturity investments | | | | | | |
| 3. Loans and receivables with banks | | | | | 7,214,361 | 7,214,361 |
| 4. Loans and receivables with customers | | 709,202 | | | 2,268,224,776 | 2,268,933,978 |
| 5. Financial assets at fair value through profit or loss | | | | | | |
| 6. Financial assets held for sale | | | | | - | - |
| **Total 31.12.2016 €** | **-** | **709,202** | **-** | **-** | **2,323,022,356** | **2,323,731,558** |
| **Total 31.12.2015 €** | **-** | **1,649,577** | **-** | **-** | **2,442,395,144** | **2,444,044,721** |

## 2. Credit exposures

*2.1 Loans and receivables with customers: gross amounts, carrying amounts and past due brackets*

| | Gross amount | | | | | Individual impairment | Collective impairment | Carrying amount |
|---|---|---|---|---|---|---|---|---|
| | Impaired assets | | | | Unimpaired assets | | | |
| | Up to 3 months | From 3 to 6 months | From 6 months to 1 year | After 1 year | | | | |
| **A. ON-STATEMENT OF FINANCIAL POSITION:** | | | | | | | | |
| a) Non-performing exposures | 2,848,075 | | | | | 2,848,075 | | - |
| - including: negotiated exposures | | | | | | | | |
| b) Probable defaults | 4,498,153 | | | | | | 3,788,951 | 709,202 |
| - including: negotiated exposures | | | | | | | | |
| c) Impaired past due exposures | | | | | | | | |
| - including: negotiated exposures | | | | | | | | |
| d) Unimpaired past due exposures | | | | | | | | |
| - including: negotiated exposures | | | | | | | | |
| e) Other unimpaired exposures | 2,270,141,512 | | | | | | 1,916,736 | 2,268,224,776 |
| - including: negotiated exposures | | | | | | | | |
| **Total A** | **2,277,487,740** | **-** | **-** | **-** | **-** | **2,848,075** | **5,705,687** | **2,268,933,978** |
| **B. OFF-STATEMENT OF FINANCIAL POSITION:** | | | | | | | | |
| a) Impaired | | | | | | | | |
| b) Unimpaired | | | | | | | | |
| **Total B** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Total (A+B) €** | **2,277,487,740** | **-** | **-** | **-** | **-** | **2,848,075** | **5,705,687** | **2,268,933,978** |

Changes in impairment losses by risk category are presented below, showing that the reduction in total impairment losses is due to the smaller percentage of non-performing loans compared to the total portfolio applying the same impairment percentage.

| | Opening impairment losses | Decreases | Increases | Closing impairment losses |
|---|---|---|---|---|
| - Non-performing exposures | 4,235,192 | 1,917,229 | 530,112 | 2,848,075 |
| - Probable defaults | 5,426,941 | 3,262,965 | 1,624,975 | 3,788,951 |
| - Other unimpaired exposures | 1,897,289 | 23,886 | 43,333 | 1,916,736 |
| **Total** | **11,559,422** | **5,204,080** | **2,198,420** | **8,553,762** |

*2.2 Loans and receivables with banks: gross amounts, carrying amounts and past due brackets*

| | Gross amount | | | | | Individual impairment | Collective impairment | Carrying amount |
|---|---|---|---|---|---|---|---|---|
| | Impaired assets | | | | Unimpaired assets | | | |
| | Up to 3 months | From 3 to 6 months | From 6 months to 1 year | After 1 year | | | | |
| **A. ON-STATEMENT OF FINANCIAL POSITION:** | | | | | | | | |
| a) Non-performing exposures | | | | | | | | |
| - including: negotiated exposures | | | | | | | | |
| b) Probable defaults | | | | | | | | |
| - including: negotiated exposures | | | | | | | | |
| c) Impaired past due exposures | | | | | | | | |
| - including: negotiated exposures | | | | | | | | |
| d) Unimpaired past due exposures | | | | | | | | |
| - including: negotiated exposures | | | | | | | | |
| e) Other unimpaired exposures | | | | | 122,877,541 | | | 122,877,541 |
| - including: negotiated exposures | | | | | | | | |
| **Total A** | **-** | **-** | **-** | **-** | **122,877,541** | **-** | **-** | **122,877,541** |
| **B. OFF-STATEMENT OF FINANCIAL POSITION:** | | | | | | | | |
| a) Impaired | | | | | | | | |
| b) Unimpaired | | | | | | | | |
| **Total B** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Total (A+B) €** | **-** | **-** | **-** | **-** | **122,877,541** | **-** | **-** | **122,877,541** |

## 3.2 MARKET RISK

### 3.2.1 INTEREST RATE RISK

### QUALITATIVE DISCLOSURE

#### 1. General issues

Given the nature of CartaSi's business, the exposures are mostly due within one year with minimum exposure to risk, except for those exposures related to revolving cards, which have an average residual maturity of 10 months. The mismatching between the issuing and acquiring businesses solely refers to the settlement date and not the value date, which is the same for both amounts credited and debited.

It follows that the company's exposure to this type of risk is substantially immaterial.

## QUANTITATIVE DISCLOSURE

*1. Breakdown by residual maturity (by repricing date) of financial assets and liabilities*

| | 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** | | | | | | | | |
| 1.1 Debt instruments | | | | | | | | |
| 1.2 Loans and receivables | 2,133,236,918 | 97,727,454 | 45,823,101 | 78,338,348 | 35,284,015 | 1,401,683 | | |
| 1.3 Other assets | | | | | | | | 47,583,219 |
| **2. Liabilities** | | | | | | | | |
| 2.1. Liabilities | 1,587,658,901 | 30,850,278 | | | | | | |
| 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 issues**

Price risk is the risk of variations in the prices of financial instruments caused by fluctuations in the market variables or specific factors of the issuers or counterparties.

The company is not exposed to this risk.

### 3.2.3 CURRENCY RISK

#### QUALITATIVE DISCLOSURE

**1. General issues**

Currency risk arises on the mismatch between foreign currency assets and liabilities (cash and forward) for each currency, originating from positions taken on by the centres specialised in market risk, within the assigned limits and proxies.

CartaSi is not significantly exposed to currency risk, as the payments and collections for transactions to be settled or collected on the Mastercard and Visa circuits are in Euro.

The transfer risk is defined as the risk that a bank, exposed to a party that finances itself in a currency different to that in which it earns most of its income, makes losses due to the debtor's difficulties in converting its currency into the currency of its exposure.

The company could be potentially exposed to this risk if it had credit exposures in foreign currencies and Euro credit exposures of parties based in countries with a legal tender that is not the Euro.

This is not the case for CartaSi as its cardholders and merchants have their tax residence in Italy and presumably their liquidity in Euro.

CartaSi does not have innovative or complex financial products or derivatives.

*1. Breakdown of assets, liabilities and derivatives by currency*

| | Currency | | | | | |
|---|---|---|---|---|---|---|
| | US dollar | Pound sterling | Yen | Canadian dollar | Swiss franc | Other currencies |
| **1. Financial assets** | | | | | | |
| 1.1 Debt instruments | | | | | | |
| 1.2 Equity instruments | | | | | | |
| 1.3 Loans and receivables | 303,041 | 81,732 | 41,683 | 74,300 | 51,883 | 257,316 |
| 1.4 Other financial assets | | | | | | |
| **2. Other assets** | | | | | | |
| **3. Financial liabilities** | | | | | | |
| 3.1. Liabilities | | | | | | |
| 3.2 Debt instruments | | | | | | |
| 3.3 Other financial liabilities | | | | | | |
| **4. Other liabilities** | | | | | | |
| **5. Derivatives** | | | | | | |
| 5.1 Long positions | | | | | | |
| 5.2 Short positions | | | | | | |
| **Total assets** | **303,041** | **81,732** | **41,683** | **74,300** | **51,883** | **257,316** |
| **Total liabilities** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Difference (+/-)** | **303,041** | **81,732** | **41,683** | **74,300** | **51,883** | **257,316** |

## 3.3 OPERATIONAL RISKS

## QUALITATIVE DISCLOSURE

### 1. General aspects, management and measurement of liquidity risk

Operational risk is the risk of losses arising from errors or shortfalls in internal procedures, human resources or systems and external factors, including judicial risk. This risk also comprises legal risk, model risk and the risk related to financial transactions including those related to market risk.

Operational risks include a wide range of risks that can adversely affect the services offered by the company, such as internal or external fraud, employment relationships and occupational safety, business practices, damage to property, business discontinuity, system breakdowns and errors in carrying out and managing procedures.

The company manages this risk using tailored insurance policies and specific monitoring tools for e-money operational risks.

Like all the ICBPI Group companies, CartaSi has adopted an operational risk framework, which includes an operational risk policy and the RCSA and loss data collection methods as specified by Bank of Italy with respect to prudent supervisory requirements.

The main operational risk to which the company is exposed is the fraudulent use of payment cards for transactions not accepted by the cardholder (who may not necessarily be a CartaSi cardholder) due to the compromising of their card and its data (theft, loss, forgery, identity fraud, failure to receive, etc.) involving the company as either the issuer or acquirer.

The company's first and second levels and its risk committee monitor the risk of issuing and acquiring fraud closely using the indicators set out in the "Fraud and credit risk quantitative limits" document.

No critical situations were identified compared to the defined limits and the indicators' performance was more than satisfactory.

### QUANTITATIVE DISCLOSURE

The following table shows losses caused by operational risks related to use of the company's cards (fraud risk):

| | 31/12/2016 | 31/12/2015 |
|---|---|---|
| Losses for fraudulent use of credit cards | 5,030,124 | 8,728,920 |
| Total income | 581,554,351 | 276,365,310 |
| % | **0.86%** | **3.16%** |

### 3.4 LIQUIDITY RISK

### QUALITATIVE DISCLOSURE

#### 1. General aspects, management and measurement of liquidity risk

Liquidity risk is the risk that the company is unable to meet its payment commitments due to its inability to raise funds on the market (funding liquidity risk) and/or to disinvest its assets (market liquidity risk). This risk includes the risk of meeting its commitments at non-market costs, i.e., incurring high costs to obtain funding or (and sometimes simultaneously) incurring losses when disinvesting assets.

This risk is borne by the parent, ICBPI, that manages, as a bank, its liquidity and the liquidity requirements of various group companies. With specific regard to CartaSi's requirements, the parent provides it with suitable credit facilities for the funds necessary to cover the time mismatch between payment to the merchants and collection from the cardholders and settlement with the circuits, also for the issuing and acquiring servicing activities. At present, CartaSi has some credit facilities from customer banks, which are used when it requires significant funds (e.g., to cover transactions performed in December).

The treasury and finance unit manages liquidity to ensure financial balance between deadlines and between assets and liabilities in order to avoid overusing current and potential sources of funds.

## SECTION 4 - EQUITY

### 4.1 Equity

#### *4.1.1 Qualitative disclosure*

CartaSi's equity policy is based on full compliance with the supervisory regulation requirements, which identify equity as the main tool against unexpected losses arising from the various risks. Therefore, equity availability is an indispensable tool supporting the company's development plans.

In accordance with internal procedures, the relevant departments regularly monitor the company's use of capital and its compliance with capital requirements. These figures are reported with different frequencies to senior management and the board of directors, which are the bodies responsible for deciding, in line with their delegated powers, the methods that the company should use to pursue its capital management objectives. Similarly, when new activities with potential impacts on the use of capital are carried out, CartaSi forecasts the related effects on equity and their suitability.

Lastly, the company's dividend distribution policies are also aimed at ensuring a suitable capitalisation level, in line with its development objectives.

### *4.1.2 Quantitative dislosure*

#### *4.1.2.1 Equity: breakdown*

| | 31/12/2016 | 31/12/2015 |
|---|---|---|
| 1. Share capital | 56,888,798 | 56,888,798 |
| 2. Share premium | 2,273,684 | 2,273,684 |
| 3. Reserves | | |
| - income-related | | |
| a) legal | 11,377,760 | 11,377,760 |
| b) statutory | 206,585,955 | 206,408,021 |
| c) treasury shares | | |
| d) other - merger goodwill | 158,000,571 | 158,000,571 |
| - other | 4,098,967 | 4,098,967 |
| 4. (Treasury shares) | | |
| 5. Valuation reserves | | |
| - Available-for-sale financial assets | 3,178,704 | 3,099,319 |
| - Property and equipment | 74,950 | 74,950 |
| - Intangible assets | | |
| - Hedges of investments in foreign operations | | |
| - Cash flow hedges | | |
| - Exchange rate gains (losses) | | |
| - Non-current assets held for sale and disposal groups | - | 172,511,661 |
| - Special revaluation laws | 1,013,875 | 1,013,875 |
| - Net actuarial losses on defined benefit pension plans | (623,678) | (767,921) |
| - Share of valuation reserves of equity-accounted investees | | |
| 6. Equity instruments | | |
| 7. Profit for the year | 329,908,687 | 71,288,932 |
| **Total** | **772,778,273** | **686,268,617** |

*4.1.2.2 Fair value reserves (AFS financial assets): breakdown*

| | 31/12/2016 | | 31/12/2015 | |
|---|---|---|---|---|
| | Fair value gains | Fair value losses | Fair value gains | Fair value losses |
| 1. Debt instruments | | | | |
| 2. Equity instruments | 3,178,704 | | 3,099,319 | |
| 3. OEIC units | | | | |
| 4. Financing | | | | |
| **Total** | **3,178,704** | **-** | **3,099,319** | **-** |

*4.1.2.3 Fair value reserves (AFS financial assets): changes*

| | Debt instruments | Equity instruments | OEIC units | Financing |
|---|---|---|---|---|
| **1. Opening balance** | - | 3,099,319 | - | - |
| **2. Increases** | | | | |
| 2.1 Fair value gains | | 3,178,464 | | |
| 2.2 Reclassification of fair value losses to profit or loss | | | | |
| - due to impairment | | | | |
| - on sale | | | | |
| 2.3 Other increases | | | | |
| **3. Decreases** | | | | |
| 3.1 Fair value losses | | | | |
| 3.2 impairment losses | | | | |
| 3.3 Reclassification of fair value gains to profit or loss: on sale | | (3,099,079) | | |
| 3.2 Other decreases | | | | |
| **4. Closing balance** | **-** | **3,178,704** | **-** | **-** |

## 4.2 Own funds and ratios

*4.2.1 Own funds*

In accordance with the supervisory instructions, the components and amount of the regulatory capital differ from equity. The main reasons for these differences are summarised below:

- unlike equity, the regulatory capital does not include the portion of profit to be distributed as dividends;
- other intangible assets are deducted;
- 50% of the net fair value gains on available-for-sale equity instruments recognised in caption 170 "Valuation reserves" may be included in Tier 2 capital.

*4.2.1.1 Qualitative disclosure*

1. Tier 1 capital

Tier 1 capital comprises:

Positive elements: equity, less the valuation reserve and the portion of profit to be distributed as dividends.

Negative elements: other intangible assets

2. Tier 2 capital

The elements making up the Tier 2 capital are the fair value reserves that may be included under the prudential filter regulation and the additional 50% of elements to be deducted.

3. Tier 3 capital

The company does not hold financial instruments that may be included in Tier 3 capital.

*4.2.1.2 Quantitative disclosure*

| | 31/12/2016 | 31/12/2015 |
|---|---|---|
| **A. Tier 1 capital before application of prudential filters** | **655,325,272** | **428,488,096** |
| B. Tier 1 prudential filters: | | |
| B.1 Positive IFRS prudential filters (+) | | |
| B.2 Positive IFRS prudential filters (+) | | |
| **C. Tier 1 capital including application of prudential filters (A+B)** | **655,325,272** | **428,488,096** |
| D. Elements to be deducted from Tier 1 capital | - | 69,095,699 |
| **E. Total Tier 1 capital (C-D)** | **655,325,272** | **359,392,397** |
| **F. Tier 2 capital before application of prudential filters** | **4,267,529** | **176,699,804** |
| G. Tier 2 prudential filters | (1,589,352) | (87,805,490) |
| G.1 Positive IFRS prudential filters (+) | | |
| G.2 Positive IFRS prudential filters (-) | 1,589,352 | 87,805,490 |
| **H. Tier 2 capital including application of prudential filters (F+G)** | **2,678,177** | **88,894,315** |
| I. Elements to be deducted from Tier 2 capital | - | 69,095,699 |
| **L. Total Tier 2 capital (H-I)** | **2,678,177** | **19,798,616** |
| M. Elements to be deducted from Tier 1 and Tier 2 capital | | |
| **N. Regulatory capital (E+L-M)** | **658,003,449** | **379,191,013** |

The calculation of regulatory capital includes the estimated distribution of dividends of € 88.177.638.

*4.2.2 Capital adequacy*

*4.2.2.1 Qualitative disclosure*

The company must ensure that its funds and related capital ratios are consistent with its risk profile and with Bank of Italy's supervisory requirements for payment institutes.

Its competent offices regularly check capital absorption and compliance with the related capital requirements.

They check developments in the company's financial position. The policies for allocation of the profit for the year are designed to ensure adequate capitalisation in line with its the company's development objectives.

*4.2.2.2 Quantitative disclosure*

| | Unweighted amounts | | Weighted amounts/ requirements | |
|---|---|---|---|---|
| | 31/12/2016 | 31/12/2015 | 31/12/2016 | 31/12/2015 |
| **A. EXPOSURES** | | | | |
| **A.1 Credit and counterparty risk** | | | | |
| 1. Standardised method | 2,451,087,921 | 2,423,263,656 | 440,636,936 | 459,382,427 |
| 2. IRB approach | | | | |
| 2.1 Basic | | | | |
| 2.2 Advanced | | | | |
| 3. Securitisations | | | | |
| **B. CAPITAL REQUIREMENTS** | | | | |
| **B.1 Credit and counterparty risk** | | | 26,438,216 | 27,562,946 |
| **B.2 Credit valuation adjustment risk** | | | | |
| **B.3 Regulation risk** | | | | |
| **B.4 Market risk** | | | | |
| 1 - Standard method | | | | |
| 2 - Internal models | | | | |
| 3 - Concentration risk | | | | |
| **B.5 Operational risk** | | | | |
| 1 - Basic method | | | | |
| 2 - Standardised method | | | | |
| 3 - Advanced method | | | | |
| **B.6 Other prudential requirements** | | | 16,521,144 | 15,823,742 |
| **B.7 Other calculation elements** | | | | |
| **B.8 Total prudential requirements** | | | 42,959,360 | 43,386,688 |
| **C. EXPOSURES AND CAPITAL RATIOS** | | | | |
| C.1 Risk-weighted assets | | | 715,989,334 | 723,111,467 |
| C.2 Common Equity Tier 1 capital / Risk-weighted assets (CET 1 capital ratio) | | | | |
| C.3 Tier 1 capital / Risk-weighted assets (Tier 1 capital ratio) | | | 91.53% | 49.70% |
| C.4 Total own funds / Risk-weighted assets (Total capital ratio) | | | 91.90% | 52.44% |

Following its inclusion in the register of payment institutes (and its concurrent cancellation from the general and special lists of financial intermediaries as per article 107 of the Consolidated Banking Act), the company complies with the reference prudent regulations (Bank of Italy measure of 20 June 2012 "Supervisory instructions for payment institutes" - chapter V).

Payment institutes are required to comply with the following capital requirements:

- for payment services rendered: two alternative calculation methods can be used to calculate the capital requirement that the payment institute shall satisfy for risks related to the payment services rendered. The payment institute usually uses method B (see the following paragraph for more information);

- for credit risk: payment institutes that grant financing calculate a capital requirement equal to 6% of the financing granted; this excludes financing related to the payment transactions for credit cards with monthly payments;
- total (regulatory capital) equal to at least the sum of the capital requirement for payment services rendered and the capital requirement for credit risk.

**CAPITAL REQUIRMENT FOR PAYMENT SERVICES RENDERED**

CartaSi usually uses method B to calculate its capital requirement for risks related to payment services rendered (Bank of Italy measure of 20 June 2012, Chapter V, Section II, paragraph 1.3).

Method B

The capital requirement shall be at least equal to the sum of the payment volumes (PV) as per letters

a) to e) below, where PV is equal to one twelfth of the total amount of the payment transactions performed by the payment institute in the previous year, multiplied by the k graduation factor indicated below:

a) 4% of the PV up to €5 million;

b) 2.5% of the PV between €5 and €10 million;

c) 1% of the PV between €10 and €100 million;

d) 0.5% of the PV between €100 and €250 million;

e) 0.25% of the PV above €250 million.

The k graduation factor is equal to:

a) 0.5 when the institute only renders the payment services as per article 1.1.b).6 of Decree no. 11 of 27 January 2010;

b) 0.8 when the institute renders the payment services as per article 1.1.b).7 of Decree no. 11 of 27 January 2010;

c) 1.0 when the institute renders one or more of the payment services as per points 1 to 5 of article 1.1.b) of Decree no. 11 of 27 January 2010.

Given the payment services rendered by the company, the applicable k graduation factor for CartaSi is equal to:

- 1.0 (as the company provides one or more of the payment services as per points 1 to 5 of the Annex to Directive 2007/64/EC on payment services in the internal market).

## Section 5 - Comprehensive income

| | | Gross amount | Income tax | Net amount |
|---|---|---|---|---|
| **10.** | **Profit for the year** | **392,321,143** | **(62,412,456)** | **329,908,687** |
| | **Items that will not be reclassified subsequently to profit or loss** | | | |
| **20.** | **Property and equipment** | | | |
| **30.** | **Intangible assets** | | | |
| **40.** | **Defined benefit plans** | 198,955 | 54,713 | 144,242 |
| **50.** | **Non-current assets held for sale** | | | |
| **60.** | **Share of valuation reserves of equity-accounted investees** | | | |
| | **Items that will be reclassified subsequently 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) | 3,415,683 | 237,219 | 3,178,464 |
| | b) reclassification to profit or loss | | | |
| | - impairment losses | | | |
| | - gains/losses on sales | (3,330,373) | (231,294) | (3,099,079) |
| | c) other changes | | | |
| **110.** | **Non-current assets held for sale:** | | | |
| | a) fair value gains (losses) | | | |
| | b) reclassification to profit or loss | (186,205,845) | (13,694,185) | (172,511,660) |
| | 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** | (185,921,580) | (13,633,547) | (172,288,033) |
| **140.** | **Comprehensive income (captions 10 + 130)** | **206,399,563** | **(76,046,003)** | **157,620,654** |

## Section 6 - RELATED PARTY TRANSACTIONS

### 6.1 Fees of key management personnel

Fees due to the statutory auditors and to the directors and managers for the year amount to € 70,348 and € 3,526,457, respectively.

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

None.

### 6.3 Related party transactions

The aim of IAS 24 (Related party transactions) is to ensure that an entity's financial statements include the additional disclosures necessary to understand whether its financial position and performance may be altered by related party transactions and balances.

Based on this standard, applied to its organisational and governance structure, the company identified the following related parties:

- the parent, ICBPI:
- the companies controlled directly or indirectly by ICBPI as defined by IAS 27 (i.e., subsidiaries);
- the companies over which ICBPI has direct or indirect significant influence as defined by IAS 28 (i.e., associates);
- the companies over which ICBPI has direct or indirect joint control, as defined by IAS 31 (i.e., jointly controlled entities);
- entities that exercise significant influence over ICBPI and their subsidiaries;
- key management personnel and members of supervisory bodies, as well as their close family members and entities over which they exercise control or significant influence;
- pension funds for the group employees and their related parties.

Transactions with the group companies are summarised below:

*31/12/2016*

| | Total financial statements caption | Parent | Other group companies | Other related parties | Directors, managers and members of supervisory bodies |
|---|---|---|---|---|---|
| 60. Loans and receivables | 2,391,811,519 | 881,582 | - | - | - |
| 100. Property and equipment | 84,181,370 | - | - | - | - |
| 110. Intangible assets | - | - | - | - | - |
| 140. Other assets | 222,921,686 | 1,478,195 | 21,684 | - | - |
| 10. Liabilities | 1,618,509,179 | 1,120,752,364 | - | - | - |
| 90. Other liabilities | 360,105,825 | 33,218,026 | 5,754,249 | - | 11,798 |
| 10. Interest and similar income | 24,303,884 | 874 | - | - | - |
| 20. Interest and similar expense | -31,572,640 | -14,328,540 | - | - | - |
| 30. Fee and commission income | 854,265,994 | - | - | - | - |
| 40. Fee and commission expense | -543,041,248 | -3,448,652 | - | - | - |
| 110. Administrative expenses: | -347,715,040 | -21,950,852 | -33,067,397 | - | 1,025,288 |
| 160. Other net operating income | 187,699,354 | 754,406 | 295,052 | - | - |

Centralised transactions with ICBPI group companies are usually governed by specific agreements that, while aiming at optimising synergies and economies of scale and purpose, make reference to objective parameters that are constant over time, characterised by transparency and substantial fairness. Transfer pricing is defined and formalised based on parameters that account for the actual use of the service by each end user.

Other transactions with group companies and other related parties are part of the company's normal business operations and usually take place at market conditions.

# Parent financial statements

The following table summarises the parent's most recently approved financial statements.

| | ASSETS | | 31/12/2015 | | 31/12/2014 |
|---|---|---|---|---|---|
| 10. | **Cash and cash equivalents** | | **22,366,248** | | **517,909** |
| 20. | **Financial assets held for trading** | | **18,739,435** | | **19,581,755** |
| 40. | **Available-for-sale financial assets** | | **2,605,296,550** | | **2,532,644,886** |
| 50. | **Held-to-maturity investments** | | **31,784,286** | | **46,013,150** |
| 60. | **Loans and receivables with banks** | | **805,417,983** | | **585,641,535** |
| 70. | **Loans and receivables with customers** | | **2,453,453,152** | | **2,845,241,505** |
| 100. | **Equity investments** | | **520,655,048** | | **490,836,188** |
| 110. | **Property and equipment** | | **77,511,583** | | **79,776,224** |
| 120. | **Intangible assets** | | **83,295,478** | | **91,954,438** |
| | *goodwill* | 14,941,150 | | 14,941,150 | |
| 130. | **Tax assets** | | **39,924,140** | | **32,414,610** |
| | *a) current* | 8,657,817 | | 1,556,403 | |
| | *b) deferred* | 31,266,323 | | 30,858,207 | |
| | *including convertible into tax assets (Law no. 214/2011)* | 27,183,763 | | 26,111,469 | |
| 150. | **Other assets** | | **221,872,643** | | **218,785,841** |
| | **Total assets** | | **6,880,316,546** | | **6,943,408,041** |

| | LIABILITIES | 31/12/2015 | | 31/12/2014 | |
|---|---|---|---|---|---|
| 10. | **Due to banks** | | **1,021,500,220** | | **1,988,762,013** |
| 20. | **Due to customers** | | **4,523,072,275** | | **3,080,692,274** |
| 40. | **Financial liabilities held for trading** | | **4,906,529** | | **6,163,383** |
| 80. | **Tax liabilities** | | **29,749,326** | | **33,434,737** |
| | *a) current* | | | | |
| | *b) deferred* | 29,749,326 | | 33,434,737 | |
| 100. | **Other liabilities** | | **455,983,796** | | **1,025,660,934** |
| 110. | **Post-employment benefits** | | **12,148,762** | | **12,823,569** |
| 120. | **Provisions for risks and charges** | | **22,909,107** | | **23,827,445** |
| | *a) pension and similar obligations* | 978,074 | | 966,973 | |
| | *b) other provisions* | 21,931,033 | | 22,860,472 | |
| 130. | **Valuation reserves** | | **69,019,893** | | **76,240,419** |
| 160. | **Reserves** | | **488,012,973** | | **427,131,581** |
| 170. | **Share premium** | | **148,242,172** | | **148,242,172** |
| 180. | **Share capital** | | **42,557,370** | | **42,557,370** |
| 190. | **Treasury shares (-)** | | **(32,196)** | | **(32,196)** |
| 200. | **Profit for the year (+/-)** | | **62,246,319** | | **77,904,340** |
| | **Total liabilities and equity** | | **6,880,316,546** | | **6,943,408,041** |

| | INCOME STATEMENT | 31/12/2015 | | 31/12/2014 | |
|---|---|---|---|---|---|
| 10. | **Interest and similar income** | | **64,817,739** | | **84,548,271** |
| 20. | **Interest and similar expense** | | **(3,400,263)** | | **(6,023,544)** |
| 30. | **Net interest income** | | **61,417,476** | | **78,524,727** |
| 40. | **Fee and commission income** | | **132,817,563** | | **118,668,670** |
| 50. | **Fee and commission expense** | | **(34,688,687)** | | **(32,125,959)** |
| 60. | **Net fee and commission income** | | **98,128,876** | | **86,542,711** |
| 70. | **Dividends and similar income** | | **42,431,013** | | **39,584,985** |
| 80. | **Net trading income** | | **4,688,652** | | **5,441,839** |
| 100. | **Net profit on sale or repurchase of:** | | **-** | | **3,539,588** |
| | *b) available-for-sale financial assets* | - | | 3,539,588 | |
| | *c) held-to-maturity investments* | | | | |
| 120. | **Total income** | | **206,666,017** | | **213,633,850** |
| 130. | **Net impairment losses on:** | | **(4,704,650)** | | **(1,939,892)** |
| | *b) available-for-sale financial assets* | (226,744) | | (1,939,892) | |
| | *d) other financial transactions* | (4,477,906) | | (188,126) | |
| 140. | **Net financial income** | | **201,961,367** | | **211,693,958** |
| 150. | **Administrative expenses:** | | **(182,567,119)** | | **(174,598,063)** |
| | *a) personnel expense* | (73,904,908) | | (74,054,642) | |
| | *b) other administrative expenses* | (108,662,211) | | (100,543,421) | |
| 160. | **Net accruals to provisions for risks and charges** | | **(1,074,098)** | | **(397,524)** |
| 170. | **Depreciation and net impairment losses on property, equipment and investment property** | | **(2,239,990)** | | **(2,290,617)** |
| 180. | **Amortisation and net impairment losses on intangible assets** | | **(14,087,122)** | | **(10,779,244)** |
| 190. | **Other operating income, net** | | **70,403,370** | | **74,989,355** |
| 200. | **Operating costs** | | **(129,564,959)** | | **(113,076,093)** |
| 210. | **Share of profits (losses) of investees** | | **-** | | **1,585,096** |
| 240. | **Net gains (losses) on sales of investments** | | **5,880** | | **-** |
| 250. | **Pre-tax profit from continuing operations** | | **72,402,288** | | **100,202,961** |
| 260. | **Income taxes** | | **(10,155,969)** | | **(22,298,621)** |
| 270. | **Post-tax profit from continuing operations** | | **62,246,319** | | **77,904,340** |
| 290. | **Profit for the year** | | **62,246,319** | | **77,904,340** |

# Report of the Board of Statutory Auditors

**CARTASI S.P.A.**

* * *

**STATUTORY AUDITORS' REPORT**
**TO THE SHAREHOLDERS' MEETING**

(Pursuant to art. 2429, paragraph 2, civil code)

* * *

In 2016, the Board of Statutory Auditors performed its supervisory duties as required by law and regulation in force. The activity of the Board of Auditors took place in coordination with KPMG S.p.A., which is entrusted with the external audit.

* * *

*Particularly significant transactions - Corporate Governance*

At the end of 2016, the ICBPI Parent Company signed an agreement to acquire up to 100% of Bassilichi S.p.A., Parent Company of the Bassilichi Group, operator specializing in payments and business services.

In the last quarter of the year, the Parent Company also submitted offers for the acquisition of the Business Units (BUs) relating to the acquiring activities of Banca Monte dei Paschi di Siena and Deutsche Bank S.p.A. The signing of both deals was finalized in February 2017. The acquisition of the BUs is now subject to obtaining the necessary authorizations from the competent Supervisory Authority.

The majority shareholder of the Institute, Mercury UK Holdco Limited, through the vehicle Latino Srl, completed the acquisition of Setefi Services and Intesa Sanpaolo Card from IntesaSanPaolo on 15 December 2016, now Mercury Payment Services and Mercury Processing Services International, respectively.

On 18 January 2016 and 24 June 2016, the Parent Company acquired the equity interests held by four shareholders of CartaSi (Cedacri SpA, Banca Carige S.p.A., Cassa di Risparmio di Fossano S.p.A. e Banca Mediolanum S.p.A.), raising its stake to 98.74% of the share capital, equivalent to 93,624,453 shares.

On 21 April 2016, the Shareholders' Meeting renewed the Company's Board of Directors, composed of eleven members, for the years 2016, 2017 and 2018.

On the same date, the Board of Directors resolved to appoint Franco Bernabè Chairman of the Board of Directors, Antonio Patuelli and Roberto Romanin Jacur Vice Chairmen.

As of 11 July 2016, Paolo Bertoluzzo became the operational leader of the Company, in addition to the position of CEO and General Manager of the Parent Company. Under his management, in November, a new organizational structure was adopted in line with the target organizational model of the ICBPI Group, which will be developed in two phases. The first phase, completed in November 2016, saw the implementation of the first reporting line of the CEO through the establishment of first level functions. The second phase will take into account the assessments of the new managers and the guidance provided in the Group 2017-2019 Business Plan.

The new organizational structure has seen the establishment of two new Business Units, Issuing and Merchant Services, to allow greater alignment with the needs and service models for the two main segments of end customers (cardholders and merchants). The Commercial Division was established, dedicated to the sales of all products and services of the Group through the banking channel. The new Business Development Division was established dedicated to the development of new strategic initiatives for the Group's business.

The Payment Cards Division took the name of Operations Division with the task of overseeing all the operational activities of electronic money to support the Issuing and Merchant Services Business Units, focusing on quality of service and improving operational efficiency and effectiveness.

The POS and ATM Division was eliminated whose activities and resources were transferred to the Operations Division. The responsibility for the business development of ATMs has been assigned to the Parent Company as part of the Payments & ATM Business Unit.

The Governance and Support Division was also eliminated, whose activities and resources were transferred respectively to the Operations Division and the CartaSi CFO Division, assigned to the ICBPI CFO to allow to centralize all the areas of competence under the responsibility of the Chief Financial Officer, including the CartaSi Planning and Control Management and the Control of Relations with International Circuits.

In conclusion, the role of Chief Information Security Officer was created with the task of ensuring compliance with the reference standards of the International Circuits in the field of information security.

*Intra-group transactions with related parties and associated entities*

The Board of Directors adequately reported and illustrated the transactions undertaken with the related parties indicated, in anticipation of the IAS 24, in the Management Report and in the Explanatory Notes, to which reference is made.

It is noted that, in order to oversee the risk that the proximity of certain parties (so-called "Related Parties") to the company's decision-makers might compromise the objectivity and impartiality of business decisions, with possible distortions in the allocation process of the resources, exposure of the company to risks not adequately measured or, potential damage to the company itself and its stakeholders, the ICBPI Group adopted a Regulation on Transactions with Related Parties in compliance with the provisions contained in the Bank of Italy circular no. 263 of 2006 ("New prudential supervisory provisions for banks").

The Board of Statutory Auditors examined two minor transactions with related parties in 2016, on 22 March 2016 and 19 April 2016, noting the formal and substantive fairness as well as the convenience and value for the Company and the ICBPI Group, and therefore issuing favourable opinions for their conclusion.

Relations with the other Group companies, aimed at optimizing synergies and economies of scale, are governed by specific contractual agreements submitted to the Board of Directors for approval on 22 June 2016.

* * *

*Activities carried out by the Board of Statutory Auditors during the financial year*

- The Board of Statutory Auditors monitored compliance with the law, the regulations and the Articles of Association.

- The Board of Statutory Auditors received information from the Directors on the activities carried out, in regular and timely manner, and on the most important economic, financial and capital transactions undertaken by the Company. It is reasonably possible to ensure that actions resolved and put in place are in accordance with the law and the articles of association, and are not manifestly imprudent, or risky, or in conflict of interest, or in contrast with the resolutions passed by the Shareholders' Meeting, or such to compromise the capital maintenance.

- The Board of Statutory Auditors monitored, to the extent applicable, the scope of the matters that form the subject of operational overlap with the partner banks in accordance with the regulations introduced by art. 36 of Decree Law 6 December 2011 No. 201 (so-called interlocking ban) and delegated to the CEO, reporting, also, to the Board of Directors. Upon completion of such monitoring, changes in the scope were not recognized and, therefore, the scope of the resolutions reserved to the Chief Executive Officer was confirmed.

- The Board of Statutory Auditors monitored, to the extent applicable, the organizational structure, however, constantly subject to improvement measures, compliance with the principles of sound management and the adequacy and compliance of contractual standards agreed for the services provided by other companies of the group. This by means of gathering information from the heads of the organizational functions and meetings with the auditing firm, for the reciprocal exchange of relevant data and information. In this regard, there are no particular observations to make.

- The audit, risk management and compliance functions, centralized in the Parent Company, operate for the whole group; the adequacy of the internal control system was verified with frequent meetings with the heads of these functions, with the examination of the reports submitted periodically to the Board of Statutory Auditors and the Board of Directors (quarterly Tableau de Bord, reports on the progress of the planned activities and plans of the annual activities etc.).

At the meeting on:

- 9 February 2016, the Board of Directors approved the document "Quantitative risk limits and 2016 CartaSi S.p.A. guidelines" relating to the Company's activities, with the aim of documenting the methodologies used and the corporate risk limits;
- 17 March 2016, the second level metrics of the Risk Appetite Framework relating to CartaSi were presented, approved by the Parent Company Board of Directors.
- 21 April 2016, the Board of Directors adopted the updated version of the following internal regulations approved in advance by the Parent Company:
    - Group Risk Policy;
    - Operational Risk Policy (ORM) - Policy for the management of the ICBPI Group Operational Risks;
    - SGSI Group Information Security Policy;
    - ICBPI Group Anti-Money Laundering and Counter-Terrorism Policy;
    - Rules on Group Security Measures for Personal Data Processing;
- 28 September 2016, the Board approved the revision of the non-compliance risk management Policy;
- 26 October 2016, the Board adopted the Group Policy for the management and communication of insider information, insider dealing and periodic financial information previously approved by the Parent Company; on the same date, the Board approved the report on the state of compliance with the "Guidelines on the security of internet payments" issued by the European Banking Authority (EBA) on 18 December 2014;

- The Board of Statutory Auditors monitored the correct upkeep of the anti-money laundering controls by the Company with periodic meetings with the representatives of the Anti-Money Laundering function.

- The Board of Statutory Auditors monitored the implementation, by the Company, of the corrective actions and measures identified and proposed by the Audit Department.

- The Supervisory Body, set up in anticipation of the legislative decree of 8 June 2001, no. 231 and whose functions have been consolidated in the Board of Statutory Auditors, continued its activities without encountering anomalies or reprehensible facts, as evidenced by the periodic Reports provided to the corporate bodies.

- The Board of Statutory Auditors monitored the implementation, by the Company, of the corrective actions and measures identified and proposed by the Audit Department.

- The adequacy of the administrative-accounting system and its reliability in correctly representing the administration was verified. This by means of the acquisition of information from the heads of the respective functions, examination of the company documents and results analysis of the work carried out by the auditing firm, as well as monitoring the work of the internal control officers.

- The Board of Statutory Auditors held regular meetings with representatives of the audit firm, exchanging information regarding the company's auditing activity. There were no fundamental issues that need to be highlighted in this report.

- In addition to the auditing assignments of the annual and semi-annual accounts, the KPMG S.p.A. auditors and other entities belonging to the "network" of audit firms were given different assignments, invoices received for which are indicated in the table below:

| KPMG ENTITY | DESCRIPTION OF SERVICE | FEES INVOICED IN 2016 (Inc. EXPENSES) |
|---|---|---|
| KPMG Advisory S.p.A. | SUPPORT FOR VERIFICATION EBA PAYMENT REQUIREMENTS | 45,650 |
| KPMG Advisory S.p.A. | ASSISTANCE FOR "USURY PROJECT" | 144,664 |
| | | 190,314 |

- The management report for financial year 2016 complies with the regulations in force, consistent with the management body decisions and the results of the financial statements; it contains, as already mentioned, adequate information on the activity of the year and on intragroup transactions and transactions with Related Parties. The explanatory notes to Part G section 3 provides an indication of the principal risks and coverage policies, as recommended by the Bank Italy, Consob, ISVAP joint documents no. 2 of 6 February 2009, no. 4 of 3 March 2010.

- The financial statements were prepared according to the structure and schemes imposed by law. The financial statements for the year ended 31 December 2016 were prepared in accordance with the instructions issued by the Bank of Italy and according to international accounting standards (IAS and IFRS) in force as at 31 December 2016. The company KPMG S.p.A. released its report "without changes" or additional disclosures.

- The auditing firm stated, in the provisions of art. 17 of Legislative Decree. 39/2010, there are no reasons that could compromise its independence.

- During the year, the Board of Statutory Auditors issued the opinions required by law, the Supervisory Regulations and the Articles. Among others, we note the following opinions:

- 21 April 2016, pursuant to art. 2389, paragraph 3, on the determination of the extent of the remuneration of the Chairman of the Board of Directors, the Vice Chairman of the Board and Chief Executive Officer;

- 23 May 2016, on the appointment by co-optation of Mr. Paolo Bertoluzzo as director in replacement of Mr. Giuseppe Capponcelli and, pursuant to art. 2389, paragraph 3, on the determination of the extent of the remuneration for the pro tempore CEO;

- 22 June 2016, on the confirmation to Mrs. Daniela Bragante, already head of the ICBPI Group Anti-Money Laundering, regarding the possession of the adequate requisites of independence, authority and professionalism, the delegation to the reporting of suspicious transactions pursuant to Art. 42 Legislative Decree no. 231/07 and subsequent amendments and additions. On the same date, the Board of Statutory Auditors expressed a favourable opinion for updating intercompany contracts.

- The Board of Statutory Auditors did not receive any complaints pursuant to art. 2408 civil code, or petitions.

- The supervision activity of the Board of Statutory Auditors was reported in the minutes of the 14 meetings held during 2016. The Board of Statutory Auditors also participated in 11 of the Board of Directors meetings: it is acknowledged that the supporting documentation to the agenda was comprehensive and sent sufficiently in advance.

- During the supervisory activity and based on the information obtained from the Auditing Firm, no omissions, or questionable facts, or irregularities, or significant facts were identified such as to require reporting to the control bodies or to mention in this report.

* * *

***Supervisory activities pursuant to art. 19 of Legislative Decree n. 39/2010***

It is recalled that Article. 19 of Legislative Decree no. 39/2010 identified the functions of supervision for the Board of Statutory Auditors, functions that can be grouped into four areas: financial reporting; internal control systems, internal audit and risk management; external audit and auditor independence.

Although the report that precedes already in part provides the indications referred to by art. 19, specifically, it is stated that the supervisory activity related to the financial reporting process, internal control systems and risk management, external audit activity and auditor independence did not reveal any additional information to report.

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***Proposal to the Shareholders' Meeting***

- **Financial Statements as at 31 December 2016**

Considering the results of the activities carried out by the body in charge of the audit, contained in the report issued today, the Board expresses a favourable opinion on the approval of the financial statements as at 31 December 2016 that reported a profit of € 329,908,687 (2015: € 71,288,932); no impediment to the proposal for its allocation formulated by the Board of Directors.

Milan, 5 April 2017

On behalf of the Board of Statutory Auditors

The Chairman

Alessandro Grange

# Report of the Auditing Company

KPMG

KPMG S.p.A.
Revisione e organizzazione contabile
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## Relazione della società di revisione indipendente ai sensi degli artt. 14 e 16 del D.Lgs. 27 gennaio 2010, n. 39

Agli Azionisti della
CartaSi S.p.A.

### Relazione sul bilancio d'esercizio

Abbiamo svolto la revisione contabile dell'allegato bilancio d'esercizio della CartaSi S.p.A., costituito dallo stato patrimoniale al 31 dicembre 2016, dal conto economico, dal prospetto della redditività complessiva, dal prospetto delle variazioni del patrimonio netto, dal rendiconto finanziario per l'esercizio chiuso a tale data e dalla nota integrativa.

#### *Responsabilità degli amministratori per il bilancio d'esercizio*

Gli amministratori della CartaSi S.p.A. sono responsabili per la redazione del bilancio d'esercizio che fornisca una rappresentazione veritiera e corretta in conformità agli International Financial Reporting Standards adottati dall'Unione Europea nonché ai provvedimenti emanati in attuazione dell'art. 43 del D.Lgs. n. 136/2015.

#### *Responsabilità della società di revisione*

E' nostra la responsabilità di esprimere un giudizio sul bilancio d'esercizio sulla base della revisione contabile. Abbiamo svolto la revisione contabile in conformità ai principi di revisione internazionali (ISA Italia) elaborati ai sensi dell'art. 11 del D.Lgs. n. 39/10. Tali principi richiedono il rispetto di principi etici, nonché la pianificazione e lo svolgimento della revisione contabile al fine di acquisire una ragionevole sicurezza che il bilancio d'esercizio non contenga errori significativi.

La revisione contabile comporta lo svolgimento di procedure volte ad acquisire elementi probativi a supporto degli importi e delle informazioni contenuti nel bilancio d'esercizio. Le procedure scelte dipendono dal giudizio professionale del revisore, inclusa la valutazione dei rischi di errori significativi nel bilancio d'esercizio dovuti a frodi o a comportamenti o eventi non intenzionali. Nell'effettuare tali valutazioni del rischio, il revisore considera il controllo interno relativo alla redazione del bilancio d'esercizio dell'impresa che fornisca una rappresentazione veritiera e corretta al fine di definire procedure di revisione appropriate alle circostanze e non per esprimere un giudizio sull'efficacia del controllo interno dell'impresa. La revisione contabile comprende altresì la valutazione dell'appropriatezza dei principi contabili adottati, KPMG

*CartaSi S.p.A.*
*Relazione della società di revisione*
*31 dicembre 2016*

della ragionevolezza delle stime contabili effettuate dagli amministratori, nonché la valutazione della presentazione del bilancio d'esercizio nel suo complesso.

Riteniamo di aver acquisito elementi probativi sufficienti ed appropriati su cui basare il nostro giudizio.

***Giudizio***

A nostro giudizio, il bilancio d'esercizio fornisce una rappresentazione veritiera e corretta della situazione patrimoniale e finanziaria della CartaSi S.p.A. al 31 dicembre 2016, del risultato economico e dei flussi di cassa per l'esercizio chiuso a tale data in conformità agli International Financial Reporting Standards adottati dall'Unione Europea nonché ai provvedimenti emanati in attuazione dell'art. 43 del D.Lgs. n. 136/2015.

***Altri aspetti***

Come richiesto dalla legge, gli amministratori della CartaSi S.p.A. hanno inserito nella nota integrativa i dati essenziali dell'ultimo bilancio della società che esercita su di essa attività di direzione e coordinamento. Il giudizio sul bilancio della CartaSi S.p.A. non si estende a tali dati.

## Relazione su altre disposizioni di legge e regolamentari

***Giudizio sulla coerenza della relazione sulla gestione con il bilancio d'esercizio***

Abbiamo svolto le procedure indicate nel principio di revisione (SA Italia) n. 720B al fine di esprimere, come richiesto dalle norme di legge, un giudizio sulla coerenza della relazione sulla gestione, la cui responsabilità compete agli amministratori della CartaSi S.p.A., con il bilancio d'esercizio della CartaSi S.p.A. al 31 dicembre 2016. A nostro giudizio la relazione sulla gestione è coerente con il bilancio d'esercizio della CartaSi S.p.A. al 31 dicembre 2016.

Milano, 5 aprile 2017

KPMG S.p.A.

Giulio Capiaghi
Socio

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# Shareholders’ Meeting resolutions

# RESOLUTIONS OF THE SHAREHOLDERS' MEETING

**of 20 April 2017**

Below is a summary of the resolutions passed by the Ordinary Shareholders' Meeting, held on 20 April 2017 on first call.

1. FINANCIAL STATEMENTS AS OF 31 DECEMBER 2016; MANAGEMENT REPORT OF THE BOARD OF DIRECTORS; REPORTS OF THE BOARD OF STATUTORY AUDITORS AND THE EXTERNAL AUDITING COMPANY; RELATIVE RESOLUTIONS.

The Shareholders' Meeting approved the financial statement as of 31 December 2016, as presented by the Board of Directors and the relative assignment of the profit of the financial year.

2. APPOINTMENT OF DIRECTORS; RELATIVE RESOLUTIONS.

The Shareholders' Meeting resolved to appoint as Directors Mr. Paolo Bertoluzzo and Mr. Mario Fera until the approval of the financial statement as of 31 December 2018.

3. DETERMINATION OF THE REMUNERATION FOR THE BOARD OF DIRECTORS FOR FINANCIAL YEAR 2017.

The Shareholders' Meeting resolved to confirm for the year 2017 the present remuneration of the Board of Directors.

# Company Boards
## at 20 April 2017

# Company Boards
at 20 April 2017

## BOARD OF DIRECTORS

| | |
|---|---|
| *Chairman:* | Franco BERNABÈ |
| *Vice-Chairman:* | Antonio PATUELLI |
| *Vice-Chairman:* | Roberto ROMANIN JACUR |
| *CEO:* | Paolo BERTOLUZZO |
| *Directors:* | Luca BASSI<br>Gabriele BENI<br>Francesco CASIRAGHI<br>Pierpio CERFOGLI<br>Simone CUCCHETTI<br>Mario FERA<br>Maurizio MUSSI |

## BOARD OF STATUTORY AUDITORS

| | |
|---|---|
| *Chairman:* | Alessandro GRANGE |
| *Statutory auditors:* | Lorenzo BANFI<br>Paolo Francesco Maria LAZZATI |
| *Substitute auditors:* | Alberto BALESTRERI<br>Marco Giuseppe ZANOBIO |

# Shareholders' list
at 20 April 2017

## Shareholders' list

at 20 April 2017

| | |
|---|---|
| Istituto Centrale delle Banche Popolari Italiane S.p.A. | Milano |
| Banca Popolare di Sondrio S.C.p.A. | Sondrio |
| Banca di Credito Popolare S.C.p.A. | Torre del Greco |