2016 ANNUAL REPORT

CRÉDIT AGRICOLE
FRIULADRIA

Banca Popolare FriulAdria

Annual Report and Financial Statements for 2016

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Letter from the Chairwoman

Italy is going through a phase featuring modest growth rate and ongoing volatility. The insubstantiality of favourable trends and the unforeseen impact of technology have by now become “normal” variables. It is the “new normal” model, which is bound to apply to our Country for a long time.

Despite the uncertainty experienced, in 2016 the Italian economy posted an increase in the GDP of about 1%, mainly thanks to the recovery in domestic demand and investments.

In this scenario, our Bank continued in its development, which started in 2007, when it became part of the Crédit Agricole Group. Specifically, in 2016 the “*Ambizione Italia 2020*” strategic plan was launched and started to be implemented. The underlying vision is sustainable growth, to be achieved through a business model that shall be multichannel, innovative and customer-centered.

Within the process for repositioning the image of the Group in Italy, the Bank’s brand has evolved into Crédit Agricole FriulAdria. This rebranding was intended to enhance and benefit from the renowned soundness and reliability of the leading international player which we are part of and which, today, represents our strength and the driver of our development, while fully maintaining our roots in the local community, in accordance with the federal model.

Operations have been reviewed in geographical terms, being optimized in our long-standing areas of operation and with new forms of operation in high-potential new areas. At the same time, investments have been made in people and new digital technologies have been implemented to make our services to Customers even more user-friendly, fast and efficient. This has been done being fully aware that banking and financial products must be supplied through the right mix of physical and virtual channels, with an increasing role of advisory services.

The performance in the year reported herein is evidence that, once again, our Bank was able to correctly interpret the market and to go in the right direction, with the wisdom of a prudent and reasonable person. Without much fanfare, Banca Popolare FriulAdria has continued to progress and to generate value for all its stakeholders. For many years now, we have been a sound and profitable company that stands out in the lending scenario for the effectiveness of its strategies, for transparent management and for its actions for the community. And, most of all, for its focus on households and enterprises in the Friuli Venezia Giulia and Veneto Regions, whose business and life projects we have continued to support.

We want to continue like this and we want to grow in a sustainable way also in the Veneto provinces where our operations are not yet fully consolidated, taking with us our model of being a bank and of doing banking business. A model based on soundness, reliability, innovation and social responsibility, to create value over the long term for all.

The Chairwoman
Chiara Mio

Corporate Officers and Independent Auditors

Board of Directors

CHAIRWOMAN

Chiara Mio[*]

DEPUTY-CHAIRMAN

Ariberto Fassati[*]

DIRECTORS

Andrea Babuin[°]

Jean-Yves Barnavon

Michel Jean Mary Benassis

Gianpietro Benedetti[°]

Hugues Brasseur[1][*]

Michela Cattaruzza[°]

Jean-Louis Delorme

Mariacristina Gribaudi[°]

Jean-Philippe Laval[*]

Giampiero Maioli[*]

Marco Stevanato[°]

(1) Left office on 31 December 2016
(*) Members of the Executive Committee
(°) Independent

Board of Auditors

CHAIRWOMAN

Roberto Branchi

STANDING AUDITORS

Alberto Guiotto

Andrea Martini

Francesca Pasqualin

Antonio Simeoni

ALTERNATE AUDITORS

Ilario Modolo

Micaela Testa

General Management

GENERAL MANAGER

Roberto Ghisellini

VICE GENERAL MANAGER

Gérald Grégoire

INDEPENDENT AUDITORS

EY S.p.A.

On 16 April 2016, the General Meeting of Shareholders of Banca Popolare FriulAdria resolved on the renewal of the Bank's Corporate Bodies. The present Corporate Bodies were confirmed in office until the approval of the Annual Report and Financial Statements for the 2018 financial year

Key figures

Income Statement data *(Thousands of Euro)*	**2016**	**2015**	**2014**
Net operating income	305,729	310,232	311,480
Net operating margin	110,734	122,540	132,996
Net profit (loss)	37,000	34,249	32,380

Balance Sheet data *(Thousands of Euro)*	**2016**	**2015**	**2014**
Loans to Customers	6,817,046	6,603,173	6,380,612
Funding from Customers	7,054,795	6,198,946	6,074,939
Indirect funding from Customers	6,926,288	6,382,883	6,132,554

Operating structure	**2016**	**2015**	**2014**
Number of employees	1,477	1,471	1,566
Average number of employees	1,309	1,362	1,437
Number of branches	182	187	191

Profitability, efficiency and credit quality ratios	**2016**	**2015**	**2014**
Cost(°)/income ratio	58.8%	57.8%	57.3%
Net profit/Average equity (ROE) (a)	5.1%	4.8%	4.6%
Net profit/Average Tangible Equity (ROTE)	6.2%	5.8%	5.6%
Net non-performing loans/Net loans to Customers	7.2%	7.7%	8.5%
Adjustments of non-performing loans/Gross non-performing loans	42.9%	44.3%	42.3%

Capital ratios	**2016**	**2015**	**2014**
Common Equity Tier 1 ratio	12.3%	11.9%	11.2%
Tier 1 ratio	12.3%	11.9%	11.2%
Total capital ratio	12.3%	11.9%	11.2%

(°) Net of the contributions to the Solidarity Fund and of the ordinary/extraordinary contributions to Deposit Guarantee Schemes (DGS) and to the Single Resolution Fund (SRF).

Significant events

FEBRUARY

For the eighth year in a row, the Crédit Agricole Cariparma Banking Group was awarded the Top Employers Italia official certification for the excellent work conditions it offers its employees; for the training and development policies implemented at all corporate levels; for its HR management strategies, thus proving a leader in the HR scope, committed to continuous improvement in the policies and Best Practices in the field of Human Resources.

Confindustria (the Italian Employers' Association) of Udine and Banca Popolare FriulAdria renewed their agreement to foster access to credit by the member enterprises, as well as to provide valid support to financial requirements.

MARCH

"*Ambizione Italia 2020*", the new business plan of the Crédit Agricole Italia Banking Group, provides for important investments to support a new phase of growth, leveraging on four strategic drivers: Customer centrality, new channels and the strengthening of our areas of excellence, people and development, rebranding.

The 2015 Report "*Io sono cultura – l'Italia della qualità e della bellezza sfida la crisi*" [I am culture – Italy of quality and beauty defies the crisis] was presented at Palazzo Montereale Mantica in Pordenone by the Symbola Foundation, the editor, together with Unioncamere and Banca Popolare FriulAdria that was also the main sponsor. This is the only study in Italy which, on yearly basis, quantifies the weight of culture and creativity on domestic economy.

The Crédit Agricole Italia Banking Group allocated Euro 130 million to support farms and agri-food businesses in accessing the European funds provided for by the new Rural Development Programme.

APRIL

An agreement was signed by and between the Crédit Agricole Italia Banking Group and the European Investment Bank (EIB) providing for Euro 80 million worth of loans intended for SMEs and Mid-Caps, with a specific focus on the needs of the agri-food industry. The credit lines opened by the Group will allow many SMEs and Mid-Caps to access loans at even more favourable conditions, thanks to the EIB's support.

MAY

NetMatching was launched, a digital platform of the Crédit Agricole Italia Banking Group which has been designed to provide networking opportunities to Italian businesses; it will foster the development of relationships, cooperation and partnerships with foreign players, as well as with other Italian enterprises of interest.

Banca Popolare FriulAdria and Crédit Agricole Carispezia won the "*Milano Finanza* Global Awards" in the "Value Creators" category.

The 165 thousand downloads of the Nowbanking App confirmed the digital evolution of the customers of the Crédit Agricole Italia Banking Group. The Group started an extensive digital transformation project to become a leading player in the Italian banking scenario by providing services that are more and more able to meet the customers' requirements thanks to the streamlining of transactions and processes.

OCTOBER

The rebranding was launched: the brand was changed to enhance our belonging to the Crédit Agricole Group and to increase the marker's and customers' awareness that we are a sound, innovative and reliable international bank.

The Crédit Agricole Italia Banking Group was given 3 awards within the tenth AIFIn Prize "*Banca e Territorio*" 2016 ("2016 Bank and Community Award"), for initiatives supporting local development, initiatives for the environment protection and community enhancement, as well as initiatives for Corporate Social Responsibility Reporting and communication.

The first Italian public offer of covered bond with 15-year duration was successfully launched. The issue, in a dual-tranche format, was received with considerable interest by investors, thanks to the excellent soundness acknowledged to the Crédit Agricole Italia Banking Group.

NOVEMBER

The Crédit Agricole Italia Banking Group and Edison signed an agreement providing enterprises that intend to invest in eco-efficiency and in reducing environmental impacts with dedicated services and financial solutions supporting these investments. In addition to the "*Cresco Green*" (I grow green) service package, Crédit Agricole Cariparma will structure, promote and supply financial products and services that are specifically dedicated to supporting the technical products supplied by Edison Energy Solutions.

The Crédit Agricole Italia Banking Group won the 52nd Financial Reporting Oscar. A competition promoted and organized by FERPI (the Italian Federation of Public Relations), which, since 1954, has been awarding the companies that are the most virtuous in financial reporting and in relations with stakeholders.

DECEMBER

The Crédit Agricole Italia Banking Group and the European Investment Bank (EIB) signed an agreement providing for Euro 100 million worth of loans intended for SMEs and Mid-Caps.

THE CRÉDIT AGRICOLE GROUP WORLDWIDE

1st Bancassurer in Europe

1st Asset Manager in Europe

138 thousand staff

50 million Customers worldwide

THE CRÉDIT AGRICOLE GROUP
IN ITALY

3.2 billion
Euro worth of revenues

3.5 billion
Customers in Italy

132 billion
Customers' deposits and funds under management

12 thousand
Staff

64 billion
Loans to the Italian economy

CRÉDIT AGRICOLE GROUP ITALIA

CRÉDIT AGRICOLE CARIPARMA | FRIULADRIA | CARISPEZIA · AGOS · FCA BANK · CRÉDIT AGRICOLE LEASING · CRÉDIT AGRICOLE EUROFACTOR · CRÉDIT AGRICOLE CORPORATE & INVESTMENT BANK · Amundi ASSET MANAGEMENT · CRÉDIT AGRICOLE CREDITOR INSURANCE · CRÉDIT AGRICOLE VITA · CRÉDIT AGRICOLE ASSICURAZIONI · caceis INVESTOR SERVICES · INDOSUEZ WEALTH MANAGEMENT · INDOSUEZ FIDUCIARIA · CRÉDIT AGRICOLE GROUP SOLUTIONS

Profile of the Crédit Agricole Italia Banking Group

The **Crédit Agricole Italia Banking Group**, through its commercial banks **Crédit Agricole Cariparma, Banca Popolare FriulAdria and Crédit Agricole Carispezia**, operates in the 10 Italian Regions that account for 71% of the population and generate 79% of the Italian GDP.

With its distinctive positioning based on Customer centrality, the Group is a proximity banking player that covers all market segments.

RETAIL
with 815 branches and 26 Small Business centers

PRIVATE
with 21 Private Banking markets

CORPORATE BANKING
with 20 mid-corporate markets and 1 large-corporate area

FINANCIAL ADVISORS
with 5 markets

Listening to Customers, confidence, social responsibility, innovation, internationality and quality are the values informing the Group's identity and its commercial offer, which is today based on the following pillars:

- **Omnichannel mode**, which allows Customers to choose the interaction mode they prefer at any time, inside and outside the Branch;
- **An innovative and digitally integrated advisory service on investments**, which has been designed to meet the expectations of the most demanding Customers through its own Network of Financial Advisors;
- **A complete service model in the Large Corporate segment**, thanks to the important business synergies with the other companies of the Crédit Agricole Italia Group;
- A complete range **of products and specialist advice for the agri-food sector**, with areas, both at the Branches and on the Web, dedicated to young entrepreneurs;
- **The International Desk service assisting small and medium enterprises in their international development operations** thanks to professionals with proven expertise in domestic and foreign markets; the service is part of a network of Crédit Agricole with centers all over the world;
- **A new brand** that enhances and stresses the belonging to a big **international group**.

Its belonging to a sound international group such as Crédit Agricole strengthens the **soundness of the Crédit Agricole Italia Banking Group** and reasserts its ranking at the top of the Italian banking system.

CAPITAL SOUNDNESS AS AT 31 DECEMBER 2016: CET 1 11.4% (TOTAL CAPITAL RATIO 13.3%)

LONG-TERM RATING **A3** MOODY'S 12 JANUARY 2016

CRÉDIT AGRICOLE CARIPARMA

Parent Company of the Crédit Agricole Italia Banking Group, it is strongly rooted in the communities it operates in and originated from local banks. In addition to its provinces of origin, Parma and Piacenza, it **operates in Italy's most productive cities**: Turin, Milan, Florence, Bologna, Rome and Naples.

612	28.9 Bln€	85.9 Bln€
points of sale	worth of loans	worth of total funding

CRÉDIT AGRICOLE FRIULADRIA

In 2007, FriulAdria became part of the Group, with the objective of expanding its operations to cover the entire Triveneto Region. It has **15,000 mutual shareholders**, who give evidence of its strong bond with the local fabric; today it is a reference point for households and businesses in North-eastern Italy, and is implementing a **significant project to expand operations to the Veneto Region**.

205	6.8 Bln€	14.0 Bln€
points of sale	worth of loans	worth of total funding

CRÉDIT AGRICOLE CARISPEZIA

Carispezia, one of the **oldest savings banks in Italy**, joined the Group in 2011. It is the market leader in the original provinces of operation, La Spezia and Massa Carrara; in 2016 it launched a **project to expand operations to Western Liguria**, branching out to the markets of Genoa, Savona and Imperia.

97	2.6 Bln€	6.5 Bln€
points of sale	worth of loans	worth of total funding

CRÉDIT AGRICOLE LEASING

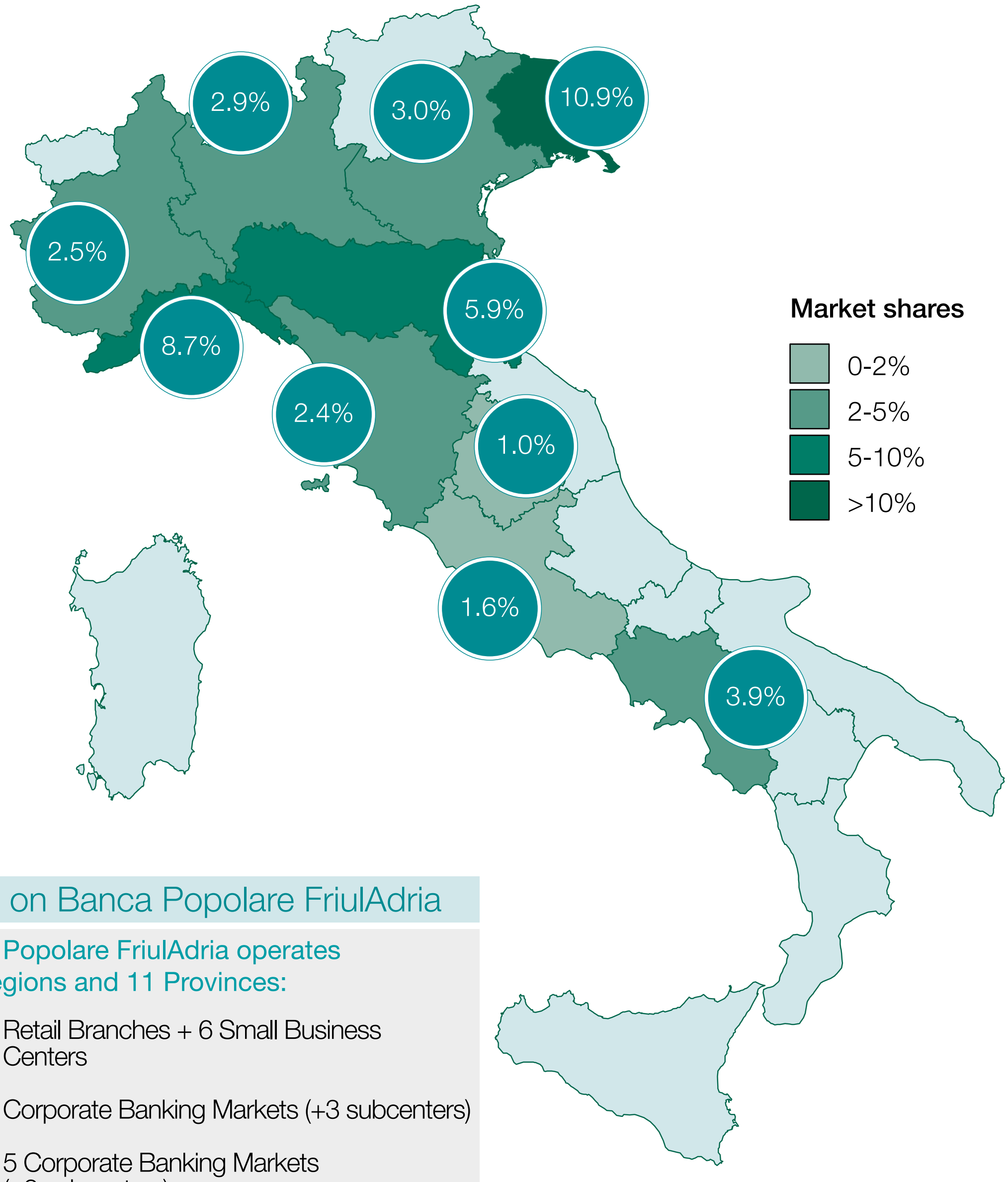
Crédit Agricole Leasing operates in the property, equipment, vehicle and energy leasing segments. **At the end of 2016 its loan portfolio amounted to Euro 2 Bln.**

CRÉDIT AGRICOLE GROUP SOLUTIONS

CAGS is the consortium company of the **Crédit Agricole Italia Banking Group** in charge of all activities relating to Operational Processes, Information Systems, Technical Logistics, Safety and Security, Business Continuity, Purchases and Real Estate Management, as well as Human Resources Administration.

914	**8,200**	**1,700,000**
points of Sale	**Employees**	**Customers**

Lending and total funding as at 31 December 2016.



Focus on Banca Popolare FriulAdria

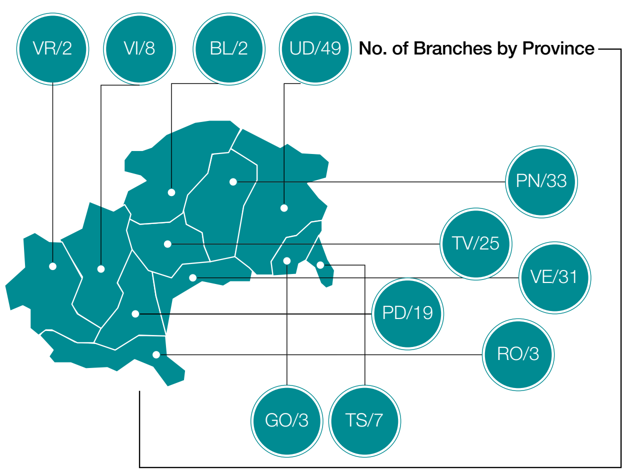
Banca Popolare FriulAdria operates in 2 Regions and 11 Provinces:

182 Retail Branches + 6 Small Business Centers

5 Corporate Banking Markets (+3 subcenters)

5 5 Corporate Banking Markets (+3 subcenters)

1 Financial Advisors Market



Province	Branches	MS
Venice	31	6.6%
Treviso	25	4.8%
Padua	19	3.4%
Vicenza	8	1.4%
Rovigo	3	2.0%
Belluno	2	1.3%
Verona	2	0.3%
TOT Veneto	90	3.0%
Pordenone	33	16.8%
Udine	49	11.1%
Gorizia	3	3.3%
Trieste	7	6.1%
TOT Friuli	92	10.9%

NOTES
- System data – source: Bank of Italy, 30 June 2016
- Crédit Agricole Italia Banking Group data as at 31 December 2016

Annual Report and Financial Statements for 2016

Financial highlights and ratios

Income Statement highlights(°) *(Thousands of Euro)*	**31.12.2016**	**31.12.2015**	**Changes**	
			Absolute	**%**
Net interest income	166,521	176,747	-10,226	-5.8
Net fee and commission income	129,054	134,650	-5,596	-4.2
Dividends	221	248	-27	-10.9
Net income from banking activities	12,675	1,188	11,487	
Other operating income/expense	-2,742	-2,601	141	5.4
Net operating income	305,729	310,232	-4,503	-1.5
Operating expenses	-194,995	-187,692	7,303	3.9
Net Operating margin	110,734	122,540	-11,806	-9.6
Provisions for risks and charges	-3,516	-3,021	495	16.4
Impairments on loans	-51,713	-67,504	-15,791	-23.4
Net profit (loss) for the year	37,000	34,249	2,751	8.0

Balance Sheet highlights(°) *(Thousands of Euro)*	**31.12.2016**	**31.12.2015(*)**	**Changes**	
			Absolute	**%**
Loans to Customers	6,817,046	6,603,173	213,873	3.2
Financial assets available for sale	884,374	1,003,982	-119,608	-11.9
Equity investments	3,500	3,500	-	-
Property, plant and equipment and intangible assets	183,040	185,777	-2,737	-1.5
Total net assets	8,269,174	8,177,543	91,631	1.1
Funding from Customers	7,054,795	6,198,946	855,849	13.8
Net Financial Assets/Liabilities held for trading	521	-268	789	-
Indirect funding from Customers	6,926,288	6,382,883	543,405	8.5
of which: asset management	5,224,824	4,677,431	547,393	11.7
Net due to banks	51,715	741,821	-690,106	
Equity	712,622	726,887	-14,265	-2.0

Operating structure	**31.12.2016**	**31.12.2015**	**Changes**	
			Absolute	**%**
Number of employees	1,477	1,471	6	0.4
Average number of employees(§)	1,309	1,362	-53	-3.9
Number of branches	182	187	-5	-2.7

(°) Income statement and balance sheet data are those restated in the reclassified financial statements shown on pages 26 and 33.

(§) The average number has been calculated as the weighted average of employees and atypical workers, where the weight is the number of months worked in the year; part-time staff is conventionally weighted at 50%.

(*) 2015 Net Financial Assets/Liabilities held for trading were reclassified (liability mismatch) for smoothing with 2016 (asset mismatch).

Structure ratios(°)	31.12.2016	31.12.2015
Loans to customers/Total net assets	82.4%	80.7%
Direct funding from Customers/Total net assets	85.3%	75.8%
Asset management/Total indirect funding from Customers	75.4%	73.3%
Loans to Customers/ Direct funding from Customers	96.6%	106.5%
Total assets/Equity	12.5	11.9

Profitability ratios(°)	31.12.2016	31.12.2015
Net interest income/Net operating income	54.5%	57.0%
Net fee and commission income/Net operating income	42.2%	43.4%
Cost(*)/income ratio	58.8%	57.8%
Net profit/Average equity (ROE)(a)	5.1%	4.8%
Net profit/Average Tangible Equity (ROTE)(a)	6.2%	5.8%
Net profit/Total assets (ROA)	0.4%	0.4%
Net profit/Risk-weighted assets	1.0%	0.9%

Risk ratios(°)	31.12.2016	31.12.2015
Gross bad loans/Gross loans to Customers	7.1%	7.7%
Net bad loans/Net loans to Customers	3.1%	3.2%
Impairments on loans/Net loans to Customers	0.8%	1.0%
Cost of risk(b)/Net Operating margin	49.9%	57.6%
Net bad debts/ Total Capital(c)	45.2%	45.9%
Net non-performing loans/Net loans to Customers	7.2%	7.7%
Impairments of non-performing loans/Gross non-performing loans	42.9%	44.3%

Productivity ratios(°) (in income terms)	31.12.2016	31.12.2015
Operating expenses/No. of Employees (average)	149.0	137.8
Operating income/No. of Employees (average)	233.6	227.8

Productivity ratios(°) (in financial terms)	31.12.2016	31.12.2015
Loans to customers/No. of Employees (average)	5,207.8	4,848.1
Direct funding from Customers/No. of Employees (average)	5,389.5	4,551.4
Gross banking income(f) /No. of Employees (average)	15,888.6	14,085.9

Capital ratios	31.12.2016	31.12.2015
Common Equity Tier 1(d) /Risk-weighted assets (CET 1 ratio)	12.3%	11.9%
Tier 1(e)/Risk-weighted assets (Tier 1 ratio)	12.3%	11.9%
Total Capital(c)/Risk-weighted assets (Total capital ratio)	12.3%	11.9%
Risk-weighted assets (Euro thousands)	3,851,288	3,824,138

(°) The Ratios are based on the balance sheet and income statement data of the reclassified financial statements shown on pages 26 and 33
(*) Net of the contributions to the Solidarity Fund and of ordinary/extraordinary contributions to Deposit Guarantee Schemes (DGS) and to the Single Resolution Fund (SRF)
(a) Ratio of net earnings to equity weighted average (for ROTE net of intangibles).
(b) Total risk cost includes the provision for risks and charges, as well as impairments on of loans.
(c) Total Capital: total regulatory own funds.
(d) Common Equity Tier 1: Common Equity Tier 1
(e) Tier 1: Tier 1 Capital.
(f) Loans to Customers + Direct Funding + Indirect Funding

Management Report

THE MACROECONOMIC SCENARIO AND THE FINANCIAL SYSTEM

THE INTERNATIONAL MACROECONOMIC SCENARIO IN 2016

The world economy started a phase of modest growth at the end of 2015, which continued in 2016 confirming a **limited expansion** and the **fragility of the world economy**.

Low prices of commodities, the performance of emerging economies, the US monetary policy, the gradual rebalancing of the Chinese economy and the uncertain geopolitical situation affected the international scenario, causing, in January and February, high volatility of financial markets, which went back to more stable conditions in the following months. The outcome of the **UK referendum** of 23 June, in which UK citizens have expressed the will to leave the European Union, generated new, strong volatility of the markets, with subsequent negative impacts in political and economic terms, but with no recession effects.

The result of the United States presidential elections in November did not generate immediate negative effects on the markets, but new uncertainties arose subsequent to the policies decidedly breaking with the past, as announced by the new administration, especially as regards a new internal policy mix (more expansive taxation policy, less certain monetary policy, increase in public debt and deficit) and return to protectionism.

MONETARY POLICIES

Subsequent to the uncertainties in the economic situation, the main Central Banks are implementing different **monetary policies**:

- The **Fed** started a phase of increasing interest rates at the end of 2015, which continued, even though at a slower pace than announced, in December 2016 with an increase of 0.25 points and with the announcement of another three increases of the same amount in 2017;
- Conversely, the **European Central Bank** continued to implement expansionary monetary policies, such as: **Expanded Asset Purchase Programme, APP** (a programme for the purchase of securities to support the Euro Area recovery which will continue at least until December 2017); **interest rate on the main refinancing operations (MRO)** was decreased to its all-time low and set at 0% (from 0.05%) and the **rate on the deposit facility, which banks may use to make overnight deposits with the ECB**, which was decreased to -0.40%; **TLTRO II** (the ECB long-term liquidity refinancing to support the real economy, implemented since June 2016 with maturity in 2021).

MAIN ECONOMIES

In this scenario, in 2016 the Gross World Product (GWP) is expected to increase by +2.8% despite its deceleration vs. 2015. Performances continued to be uneven in the various geographical areas and the difference was more marked within emerging economies:

- The **United States** continued in their phase of growth, with the GDP increasing by +1.6% mainly in the last part of the year, mainly driven by household consumption;
- **Japan** recorded economic growth (GDP up by +0.8%), driven by the building sector (which was, in its turn, driven by public support programmes);

- The economy of **China** increased by +6.7% thanks to its industrial output and ot public investments;
- **India** posted a +6.9% increase in added value, thanks to a considerable increase in private consumption;
- **Brazil** economy continued to decrease (GDP down by -3.4%) due to weak domestic demand and low net exports;
- **Russia** continued in recession (the GDP decreased: down by -0.9%); the economy has been featuring difficulties in the manufacturing industry, the decrease in real salaries and inflation at its all-time low;
- The economy of the **United Kingdom,** despite a robust performance (the GDP increased: Up by +2.0%), has been impacted by the strategy to negotiate the exit from the EU and by the increased complexity in the political scenario.

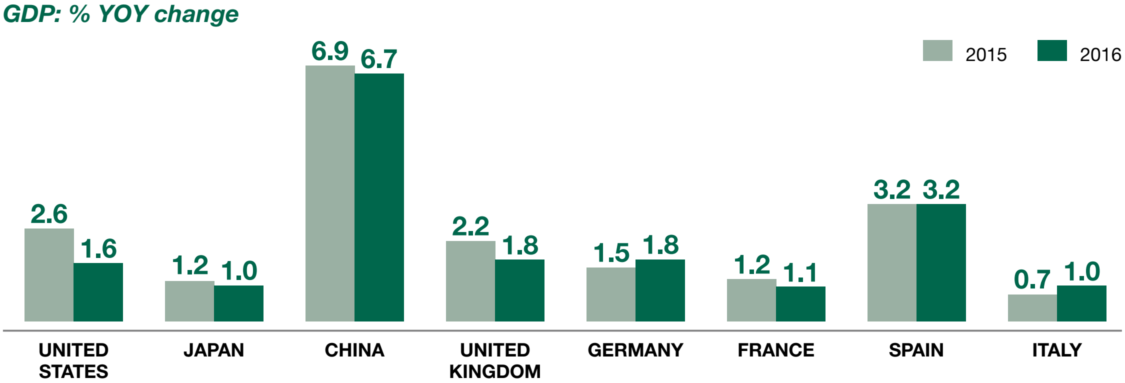
EURO AREA

The **economy** of the Euro Area is continuing to recover: **In 2016 the GDP increased by +1.7%,** mainly driven by domestic demand (which was, in its turn, driven by favourable financial conditions and by the monetary policy measures implemented by the ECB), by the improvement in the labour market and by low modest inflation.

On the other hand, growth was hindered by the weak performance of international trade, by uncertainty factors (Brexit, a new balance to be established with the United States, the elections in EU Countries) that are bound to have higher impact in the coming years.

France posted a +1.2% increase, benefiting from restocking mainly in the sectors of vehicles and energy; **Germany** increased by +1.7% despite the slowdown in exports, which was offset by the increase in domestic demand; in **Spain** the increase in domestic demand offset the decrease in the contribution from the foreign trade sector, with the economy increasing by +3.2%.

GDP: % YOY change



Source: Prometeia, Forecast Report – December 2016.

THE ITALIAN ECONOMY

Despite the many uncertainty factors described above, at the end of 2016 the Italian economy achieved **a +0.9% estimated increase in the GDP**, a performance that is lower than the European one but also the best one in the slow recovery that started in 2013.

Given the modest contribution of exports (up by +1.3% in 2016, vs. +4.0% in 2015) growth was driven by **domestic demand (up by +1.0% vs. December 2015)** which benefited from the increase in consumption, from the recovery in investments and from low inflation. After the standstill in the spring, industrial production returned to increase in the autumn months and, along with it, so did the GDP, giving some signals of economic recovery.

Consumption overall increased by +1.4% vs. December 2015, experiencing an expansionary phase, also thanks to the significant increase in the demand for motor-vehicles; vehicle registrations made by both natural and legal person increased appreciably in the first quarter, then slowed down in the second and third quarters and recovered in the last months of the year. Households continued to be cautious in the forth quarter and this affected the Cycle of Durable Goods.

Consumer confidence[(1)] progressively improved in the year across all components: confidence increased as regards personal and current climate, as did the component regarding expectations. As to the Country's economic situation, after months on the decrease, both judgements on the present situation and expectations for the future returned to improve. Analyzing the views on the performance of consumer prices, opinions and expectations for a decrease in prices were found to prevail. Expectations on employment also improved: a decrease in unemployment is expected.

As regards **businesses,** confidence overall worsened due to decreasing confidence in the building and service industries, whereas confidence in the manufacturing industry and retail commerce recovered.

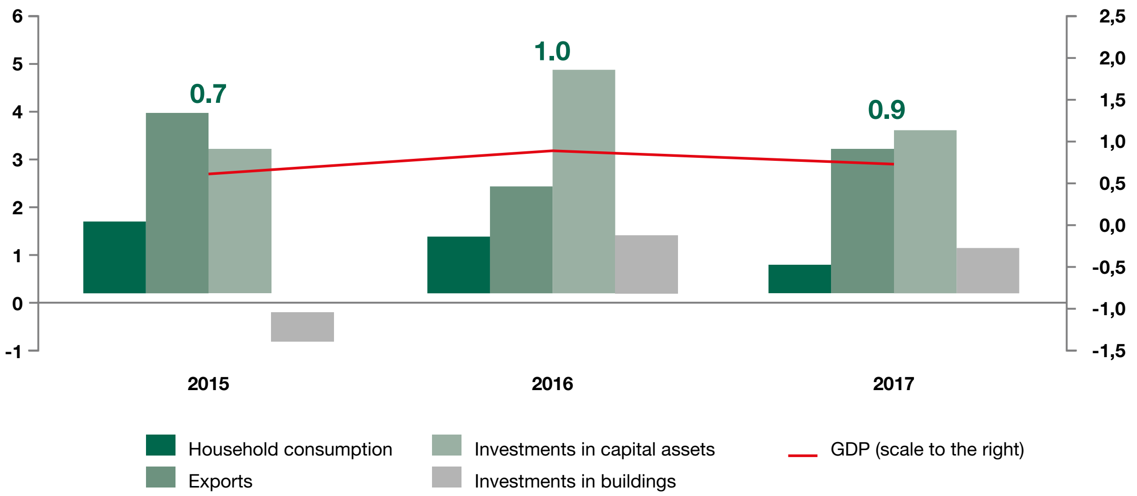
Total investments were estimated increasing by **+1.9% vs. December 2015:** In the second half of 2016, **investments** in machinery and vehicles gathered momentum, whereas the building sector was still experiencing difficulties.

Annual **industrial production** has been estimated to increase by +1.4%; tendentially[(2)] indexes posted a marked increase in the sectors of energy, capital assets and intermediate goods, whereas consumer goods decreased.

The **unemployment rate**[(3)] showed an increasing trend: in December 2016 it came to 12% (youth unemployment to 40%); the number of employed persons also increased (employment rate came to 57.3%) thanks to the increase in permanent employees and to the decrease in NEETs (young people not in employment, education or training).

On average, in 2016 **consumer prices**[(4)] decreased (down by -0.1%): it had not happened since1959 (when the decrease was -0.4%). "Core inflation", calculated net of fresh foods and energy products that have very volatile prices, remained positive (+0.5%) even though growing at a slower rate (+0.7% in 2015).

Italy: GDP and its components



Source: Prometeia, Forecast Report – December 2016.

(1) Source: ISTAT (the Italian National Institute of Statistics), Flash press release on Consumer and Business Confidence (December 2016).
(2) Source: ISTAT (the Italian National Institute of Statistics), Flash press release on Industrial Output (January 2017).
(3) Source: ISTAT (the Italian National Institute of Statistics), press release on Employed and Unemployed Persons (January 2017).
(4) Source: ISTAT (the Italian National Institute of Statistics), Flash press release on Consumer Prices (January 2017).

ECONOMY IN NORTHEAST ITALY

The economy of Northeast Italy has always proved a driver for the Italian national economy, thanks to a number of chains that have always been able to adapt and respond to the requirements of international markets.

After the difficulties experienced in 2014 and 2015, Northeast Italy has been showing signs of recovery and regeneration, relying especially on technological innovation. Indeed, **investments** for 2016 have been estimated(5) increasing by +2.6% vs. the previous year, a higher figure than the domestic average.

A key feature of Northeast Italy is propensity to **export**. In the Veneto Region, the first months of the year proved flat, but in summer trade gained momentum in some important markets; indeed, in the third quarter trade exchanges increased with North America, up by +2.8% and with Central Asia, up by +9.5% and in some strategic sectors (eyewear up by +4.9%; agri-food up by +4.1%; beverage up by +9.2%)(6). For the Friuli Venezia Giulia Region, in September 2016 the estimated increase in exports was +5.5% vs. the previous year, with a significant contribution given by both shipbuilding (up by +57.7%) and mechanical engineering (up by +3.2%)(7).

Overall, the 2016 **GDP** of Northeast Italy has been estimated as increasing by +0.9% vs. the previous year, with the Veneto and Friuli Venezia Giulia Regions both expected to post a +0.8% increase.

THE BANKING SYSTEM

The difficult scenario continues to impact on the banking system, which, in the year, was subject to some important measures aimed at strengthening and stabilizing it:

- In April, the **Government guarantee on bad loan-backed securities (Italian acronym GACS)** came into force and provides intermediaries with the possibility to buy a Government guarantee on senior tranches (that is to say, the least risky ones), of bad loan-backed securities, paying to the State structured commissions. GACS aims at curbing the risk for the subscribers of these securities and at fostering the decrease in bad loans.
- In April, the **Atlante** private equity fund was also created with the objective of supporting capital increases to be made by Italian banks experiencing difficulties, in order to prevent their distress or any subsequent resolution and to purchase securities backed by bad loans disposed of by the banks. The fund initial capital was Euro 4.3 billion, of which Euro 1.5 billion were to recapitalize Banca Popolare di Vicenza and Euro 1 billion for Veneto Banca. In order to develop the market of non-performing loans, in August the **Atlante II** fund was added, which invests in so-called mezzanine and junior financial instruments, issued by special-purpose entities set up to purchase Non Performing Loan portfolios from several Italian banks.
- In June the so-called **"Bank Decree"** (Italian Decree Law No. 59 converted in June into Law No. 119/2016) was approved, which provides for measures that extend guarantees on loans and reduce the time for their collection, trying to fill the gap vs. other European Countries. The so-called "***patto marciano***" has been introduced, which provides for out-of-court assignation of property securing loans, the creditor can obtain the property securing the loan in 7-8 months vs. the 40 months as required, on average, for court proceedings. The "*patto marciano*" may be entered into on new loans and on existing ones upon their renegotiation. The "**non-possessory pledge**" (registered pledge) on movable assets has been strengthened: entrepreneurs, who shall be entered in a **specific electronic register held by the *Agenzia delle Entrate*** (the Italian Inland Revenue Agency), can establish a non-possessory pledge **to secure the loans granted to them, both present and future ones.**

(5) Source: Prometeia, Scenarios for Local Economies.
(6) Source: CS Unioncamere Veneto (14 December 2016).
(7) Source: Friuli Venezia Giulia Regional Government.

- On 17 June 2016, the ***Fondo Interbancario di Tutela dei Depositi*** (Interbank Deposit Protection Fund) increased the voluntary scheme ceiling to Euro 700 million, and the scheme was used for the first time to recapitalize *Cassa di Risparmio di Cesena*.
- At the end of June, with the EU's approval, it was announced that, for 6 months, the Italian Government may issue its **guarantee on the debt of solvent banks for newly-issued senior bonds**, with a ceiling at Euro 150 billion; it is a precautionary measure in case of any sudden liquidity shortage.
- On 23 December 2016, the Italian Council of Ministers approved another "**Savings Protection Decree"** (Italian Decree Law 237/2016), which was required to handle banks experiencing difficulties (especially Monte dei Paschi di Siena) and to ensure the System's soundness, with a maximum total allocation of Euro 20 billion. After the attempt to recapitalize MPS on the market failed, the Italian **Department of Treasury should become its majority shareholder** subscribing the required share capital increase, with the objective of transferring such equity investment within a reasonable timeframe, once the recovery process is completed.

Subsequent to the requirement for Italian *banche popolari* (i.e. cooperative banks) to be transformed into joint-stock companies, **the combination scenario is continuously evolving.** Several restructuring and merger transactions are underway, which, in 2017, will rationalize the Italian banking system; the most important ones are: in 2017 Banco BPM will be set up, in accordance with the 2016 agreements by and between Banco Popolare and Banca Popolare di Milano; UBI agreed to acquire Nuova Banche Marche, Nuova Banca Etruria and Nuova Carichieti.

FINANCIAL AND CREDIT MARKETS[8]

Despite the monetary policies implemented by the ECB and the measures implemented by the Italian Government, in the banking system credit risk continues to be high and profitability remains low due to interest rates at their all-time low: the average 3M **Euribor** in December 2016 came to -0.32%.

Low interest rates and the effects of the unconventional monetary policy measures implemented by the ECB supported the performance of money and credit:

- In December 2016, the **interest rates** applied to loans to customers decreased again: the average rate on total loans came to 2.85%, at a new all-time low record; rates on new loans were also very low (home loans: 2.02%; loans to businesses:1.54%);
- The data of December 2016[9] show that **loans to households and businesses net of bad loans decreased by -0.9%** vs. December 2015. The market recovery for **mortgage loans** continued, which drove growth in the household segment, whereas businesses still showed some slowdown;
- **Bad loans** continue to impact on credit quality, but the sales made in the year reduced their amount: at the end of November 2016, net bad loans came to Euro 85.2 billion, decreasing by over 4% from the peak of Euro 89 billion reached at the end of November 2015. The weight of bad loans on total loans came to 4.80% in November 2016, decreasing from 4.91% at the end of 2015;
- At the end of 2016, direct **funding** (deposits from resident customers and bonds) posted a YOY decrease of -1.3%. The medium-/long-term funding component progressively decreased, with bonds down by -19.9% vs. December 2015, with a concomitant increase in deposits (up by +4.2% vs. December 2015) or in asset management products, which proved more profitable for customers in a phase of interest rates at their all-time low. In 2016, the yields on direct funding also decreased: the average **interest rate** on funding was 0.97%, vs. 1.19% in 2015;
- The **spread** between the average rate on loans to and the average rate on deposits from households and non-financial corporations has remained, in Italy, at very low

(8) Source: ABI Monthly Outlook.
(9) Source: Data on a Sample of the Italian Banking Association (ABI).

levels; in December 2016 it came to 188 basis points decreasing vs. 207 basis points in December 2015;

- As regards the **asset management industry**[10], at the end of the reporting year, the system reported Euro 55 billion worth of net total funding. Equity came to its new all-time high of Euro 1,937 billion, increasing by +5.6% vs. December 2015. Open-end funds proved the main drivers achieving Euro 34 billion worth of net funding. Investors preferred especially bonds;
- In terms of income, 2016 **profits** of the banking industry have been estimated[11] significantly decreasing vs. the previous year, mainly due to non-recurring adjustments of loans, to costs for restructuring and personnel reduction, as well as to the modest contribution of net income.

OPERATING PERFORMANCE

In a quite complex economic and regulatory scenario, affected by several uncertainty factors, in 2016, Banca Popolare FriulAdria proved once again able to achieve significant business performances and to maintain high profitability.

Banca Popolare FriulAdria made a net profit of Euro 37 million. The above figure reports net profit after the recognition of the expenses for the Solidarity Fund and of the extraordinary contribution to the Single Resolution Fund (Euro 6.8 and 4.5 million before taxes, respectively). Net of these effects, the operating profit would come to Euro 45 million.

(10) Source: Assogestioni (the Italian National Association of Asset Management Firms), Asset Management Monthly Map, May 2016.

(11) Source: Prometeia Bank Financial Statement Forecast (January 2017).

THE PERFORMANCE OF BALANCE SHEET AGGREGATES

Reclassification of the Balance Sheet

In order to provide a more direct representation of the Company's balance sheet and financial position, a summary balance sheet was prepared by suitably grouping balance-sheet items. Such grouping concerned:

- Presentation of Financial Assets/Liabilities held for trading on a net basis;
- Presentation of Loans to banks/Due to banks on a net basis;
- Inclusion of the value of hedging Derivatives and of the Value Adjustment of financial assets/liabilities subject to macro-hedging in the Other Assets/Other Liabilities items;
- Grouping of Intangible Assets and Property, Plant and Equipment into a single aggregate;
- Inclusion of the item "Cash and cash equivalents" in the "Other Assets" residual item;
- Grouping in the "Funding from customers" item of the "Due to customers" and "Debt securities issued" items;
- Reclassification from "Due to banks" to "Funding from customers" of the deposit made by the Parent Company regarding the portion of the Covered Bond that was issued by the same Parent, for the mortgage loans transferred by Banca Popolare FriulAdria to the pool securing the bond;
- Grouping of specific-purpose provisions (i.e. employee termination indemnities and provisions for risks and charges) into a single aggregate.

The figures reported in the next pages are expressed in thousands of Euros.

Reclassified Balance Sheet

Assets	31.12.2016	31.12.2015(*)	Changes	
			Absolute	%
Financial assets available for sale	884,374	1,003,982	-119,608	-11.9
Loans to Customers	6,817,046	6,603,173	213,873	3.2
Equity investments	3,500	3,500	-	-
Property, plant and equipment and intangible assets	183,040	185,777	-2,737	-1.5
Tax assets	118,661	125,987	-7,326	-5.8
Other assets	262,553	255,124	7,429	2.9
Total net assets	**8,269,174**	**8,177,543**	**91,631**	**1.1**

Liabilities	31.12.2016	31.12.2015(*)	Changes	
			Absolute	%
Net Financial Assets/Liabilities held for trading	521	-268	789	
Net due to banks	51,715	741,821	-690,106	-93.0
Funding from Customers	7,054,795	6,198,946	855,849	13.8
Tax liabilities	29,081	37,068	-7,987	-21.5
Other liabilities	371,603	431,997	-60,394	-14.0
Specific-purpose provisions	48,837	41,092	7,745	18.8
Share capital	120,689	120,689	-	-
Reserves (net of treasury shares)	554,795	556,300	-1,505	-0.3
Valuation reserves	138	15,649	-15,511	-99.1
Net profit (Loss) for the year	37,000	34,249	2,751	8.0
Total equity and net liabilities	**8,269,174**	**8,177,543**	**91,631.0**	**1.1**

(*) 2015 Net Financial Assets/Liabilities held for trading were reclassified (liability mismatch) for smoothing with 2016 (asset mismatch).

Reconciliation of the official balance sheet and the reclassified balance sheet

Assets	31.12.2016	31.12.2015(*)
Financial assets available for sale	**884,374**	**1,003,982**
40. Financial assets available for sale	884,374	1,003,982
Loans to Customers	**6,817,046**	**6,603,173**
70. Loans to Customers	6,817,046	6,603,173
Equity investments	**3,500**	**3,500**
100. Equity investments	3,500	3,500
Property, plant and equipment and intangible assets	183,040	185,777
110. Property, plant and equipment	60,722	61,247
120. Intangible Assets	122,318	124,530
Tax assets	**118,661**	**125,987**
130. Tax assets	118,661	125,987
Other assets	**262,553**	**255,124**
10. Cash and cash equivalents	42,448	46,387
80. Hedging derivatives	142,736	135,647
90. Fair value change of financial assets in macro-hedge portfolios (+/-)	1,994	2,670
150. Other assets	75,375	70,420
Total assets	**8,269,174**	**8,177,543**

Liabilities	31.12.2016	31.12.2015(*)
Net due to banks	**51,715**	**741,821**
10. Due to Banks	1,405,909	1,236,440
of which: Group Covered Bond: the Bank' s contribution	-691,613	-
60. Loans to banks	-662,581	-494,619
Funding from Customers	**7,054,795**	**6,198,946**
20. Due to Customers	5,629,347	4,967,519
30. Debt securities issued	733,835	1,231,427
Group Covered Bond: the Bank' s contribution	691,613	-
Net financial Liabilities/Assets held for trading	**521**	**-268**
40. Financial liabilities held for trading	8,657	7,461
20. Financial assets held for trading	-8,136	-7,729
Tax liabilities	**29,081**	**37,068**
80. Tax liabilities	29,081	37,068
Other liabilities	**371,603**	**431,997**
60. Hedging derivatives	121,323	132,100
70. Fair value change of financial liabilities in macro-hedge portfolios (+/-)	112,540	105,245
100. Other liabilities	137,740	194,652
Specific-purpose provisions	**48,837**	**41,092**
110. Employee termination indemnities	21,934	21,203
120. Provisions for risks and charges	26,903	19,889
Share capital	**120,689**	**120,689**
180. Share capital	120,689	120,689
Reserves (net of treasury shares)	**554,795**	**556,300**
160. Reserves	88,038	84,543
170. Share premium reserve	471,757	471,757
190. Treasury Shares	-5,000	-
Valuation reserves	**138**	**15,649**
130. Valuation reserves	138	15,649
Net profit (Loss) for the year	**37,000**	**34,249**
200. Net profit (loss) for the year	37,000	34,249
Total liabilities and shareholders' equity	**8,269,174**	**8,177,543**

(*) 2015 Net Financial Assets/Liabilities held for trading were reclassified (liability mismatch) for smoothing with 2016 (asset mismatch)

Loans to Customers

As at 31 December 2016, loans to Customers came to Euro 6.817 million, increasing by over 3% YOY. This increase was driven by the medium-/long-term component (up by +8%), especially home loans (up by +11% year-over-year). As regards short-maturity technical forms, affected by a still fragile macroeconomic scenario, the Bank's operations focused on advances and credit facilities, and especially on technical forms that allow pricing that is favourable to customers (also based on the fact that the relevant assets are eligible for operations with the ECB).

Credit quality

The development in volumes was achieved constantly focusing on credit quality. In 2016, the weight of gross non-performing loans on total loans to customers significantly decreased (down from 13.1% to 11.9%, especially bad loans and unlikely-to-pay).

It is reported that, in the period, some transactions were carried out for the sale of "long-standing" bad loans (for a total amount of approximately Euro 53 million), which, being classified as bad loans, had been almost entirely written down; therefore, their sale impacted the average coverage ratio of bad debts (with this ratio decreasing from 61 % to 58% – but remaining at more than adequate levels). On the other hand, these sales of bad debts also impacted the coverage ratios of non-performing loans, which, even though remaining at more than satisfactory levels, posted a slight decrease vs. 2015 (from 44% to 43%). Again having regard to the average coverage ratio of non-performing loans, the Bank chose (in a prudential management perspective) to significantly increase coverage of past-due/overlimit loans, with the relevant coverage ratio up from 6.6% to 11.6%.

Funding from Customers

Giving evidence of Customers' confidence and trust in the Bank and of the good reception of the saving products supplied by the Group, in the reporting year Banca Popolare FriulAdria posted a significant increase in total funding, up by Euro +1.4 billion vs. 2015 (i.e. up by +11%), driven both by the direct funding component (up by +14%, i.e. up by Euro +856 million YOY) and by the indirect funding component (up by +9%, i.e. Euro 543 million).

The development in direct funding (which, as at 31 December 2016, came to over Euro 7 billion) was driven by current accounts whose balances increased to Euro 5,570 billion (up by Euro +652 billion vs. 2015), substantiating Customers' preference for more liquid forms of deposit. Conversely, directly issued unsecured debenture loans decreased: the present low rates have led Customers to prefer products that may have higher yields, especially asset management products.

Indirect funding

Indeed, indirect funding (which, as at 31 December 2016, came to over Euro 6.9 billion) posted a marked YOY increase (up by Euro +543 million, i.e. +8.5%), driven by asset management products. The latter came to Euro 2,460 million (up by +15%, thanks to the development in Funds and Asset Management accounts, as well as in insurance products, which increased by +9%). On the other hand, asset under administration were stable.

Net interbank position

The net interbank debt position of Banca Popolare FriulAdria reports a total debt position amounting to Euro 52 million, decreasing by Euro 690 million vs. the previous year. This figure resulted from the reclassification from "Due to banks" to "Funding from customers" of the deposit made by the Parent Company regarding the portion of the Covered Bond that was issued by the same Parent, for the mortgage loans transferred by Banca Popolare FriulAdria to the pool securing the bond;

Financial assets available for sale

Financial assets available for sale (Euro 884 million as at 31 December 2016) consisted almost exclusively of the Bank's portfolio of Italian government securities (Euro 834 million) and, to a residual extent, by owned equity securities. The decrease in 2016 (down by Euro -120 million, i.e. -12%) resulted both from the changes in market prices and from the decrease in the portfolio of Italian government securities.

Equity investments

The Bank' equity investments did not change vs. 31 December 2015 and consisted exclusively of the shareholding in Crédit Agricole Group Solutions, the service consortium company of the Crédit Agricole Italia Banking Group.

Property, plant and equipment and intangible assets

As at 31 December 2016, property, plant and equipment and intangible assets came to Euro 183 million, decreasing vs. 2015 by depreciation and amortization for the period.

The "Intangible Assets" item reports the goodwill and intangible assets that were recognized subsequent to the transfers from Intesa Sanpaolo of 29 branches in 2007 and of 15 branches in 2011. As at the reporting date, the intangible assets relating to the above business combinations were tested for impairment and the consistency of the values as recognized was confirmed.

Specific-purpose provisions

Specific-purpose provisions came to Euro 49 million, increasing by Euro 7.7 million (up by +18.8%) vs. 2015. This change mainly referred to the "Other provisions for risks and charges" item (up by Euro +7.0 million, i.e. +35.3%), which reports contingent liabilities for which the Bank allocated provisions, the payments to the Italian Social Security Agency of the amounts due regarding the plan for voluntary redundancy with incentives, which was implemented in 2016.

Equity

Equity, including the earnings for the period, came to Euro 713 million, decreasing by Euro 14 million (-2%) vs. the previous year. This change was mainly due to the decrease in valuation reserves of financial assets available for sale (Government Securities). In the reporting period, the Provision for Purchase of Treasury Shares was allocated, for an amount of treasury shares held as at 31 December 2016 of Euro 5 million.

Own Funds

Capital ratios as at 31 December 2016 came to 12.3%, increasing vs. the previous year (11.9% as at 31 December 2015).

In calculating Own Funds, the developments in the transitional provisions set down by the supervisory regulation for banks (Regulation (EU) No. 575/2013; Circular No. 285 of the Bank of Italy).

The increase in Own Funds was mainly due to the allocation of the net profit, in accordance with the proposal made by the Board of Directors to the Shareholders' General Meeting, and to lower deductions associated with the shortfall (down by Euro -15 million).

As at 31 December 2016, RWAs came to Euro 3,851 million, increasing by Euro 27 million (+0.7%) vs. the previous period, mainly reflecting the changes in loans to Customers.

Loans to Customers

Items	31.12.2016	31.12.2015	Changes	
			Absolute	%
– Bad debts	438,202	536,334	-98,132	-18.3
– Unlikely to Pay	4,667,192	4,326,082	341,110	7.9
– Past-due/overlimit loans	1,222,202	1,229,653	-7,451	-0.6
Non-performing loans	489,450	511,104	-21,654	-4.2
Performing loans	**6,817,046**	**6,603,173**	**213,873**	**3.2**
Total	**6,817,046**	**6,603,173**	**213,873**	**3.2**

Credit quality

Items	31.12.2016			31.12.2015		
	Gross exposure	Total adjustments	Net exposure	Gross exposure	Total adjustments	Net exposure
– Bad debts	512,078	297,431	214,647	538,706	328,835	209,871
– Unlikely to Pay	340,015	69,761	270,254	371,541	77,403	294,138
– Past-due/overlimit loans	5,147	598	4,549	7,594	499	7,095
Non-performing loans	**857,240**	**367,790**	**489,450**	**917,841**	**406,737**	**511,104**
Performing loans	**6,348,942**	**21,346**	**6,327,596**	**6,113,342**	**21,273**	**6,092,069**
Total	**7,206,182**	**389,136**	**6,817,046**	**7,031,183**	**428,010**	**6,603,173**

Items	31.12.2016			31.12.2015		
	Gross/total exposure	Net/total exposure	Coverage ratio	Gross/total exposure	Net/total exposure	Coverage ratio
– Bad debts	7.1%	3.1%	58.1%	7.7%	3.2%	61.0%
– Unlikely to Pay	4.7%	4.0%	20.5%	5.3%	4.5%	20.8%
– Past-due/overlimit loans	0.1%	0.1%	11.6%	0.1%	0.1%	6.6%
Non-performing loans	**11.9%**	**7.2%**	**42.9%**	**13.1%**	**7.7%**	**44.3%**
Performing loans	**88.1%**	**92.8%**	**0.3%**	**86.9%**	**92.3%**	**0.3%**
Total	**100.0%**	**100.0%**	**5.4%**	**100.0%**	**100.0%**	**6.1%**

Funding from Customers

Items	31.12.2016	31.12.2015	Changes	
			Absolute	%
– Deposits	316,167	699,755	-383,588	-54.8
– Current and other accounts	5,254,794	4,219,012	1,035,782	24.6
– Other items	58,386	47,752	10,634	22.3
– Repurchase agreements	-	1,000	-1,000	
Due to Customers	**5,629,347**	**4,967,519**	**661,828**	**13.3**
Debt securities issued	**1,425,448**	**1,231,427**	**194,021**	**15.8**
Total direct funding	**7,054,795**	**6,198,946**	**855,849**	**13.8**
Indirect funding	**6,926,288**	**6,382,883**	**543,405**	**8.5**
Total funding	**13,981,083**	**12,581,829**	**1,399,254**	**11.1**

Indirect funding

Items	31.12.2016	31.12.2015	Changes	
			Absolute	%
– Asset management products/wealth management	2,459,796	2,145,740	314,056	14.6
– Insurance products	2,765,028	2,531,691	233,337	9.2
Total assets under management	**5,224,824**	**4,677,431**	**547,393**	**11.7**
Assets under administration	**1,701,464**	**1,705,452**	**-3,988**	**-0.2**
Indirect funding	**6,926,288**	**6,382,883**	**543,405**	**8.5**

Financial assets available for sale

Items	31.12.2016	31.12.2015	Changes	
			Absolute	%
– Bonds and other debt securities	856,279	975,098	-118,819	-12.2
– Equity securities and units of collective investment undertakings	356	459	-103	-22.4
Securities available for sale	**856,635**	**975,557**	**-118,922**	**-12.2**
– Equity investments	27,739	28,425	-686	-2.4
Equity interests available for sale	**27,739**	**28,425**	**-686**	**-2.4**
Financial assets available for sale	**884,374**	**1,003,982**	**7,877**	**0.8**

Government securities held

	31.12.2016		
	Nominal Value	Book value	Revaluation reserve
FVTPL			
Argentinian Government securities	21	2	X
AFS			
Italian Government securities	705,000	834,627	3,629
Total	**705,021**	**834,629**	**3,629**

Equity

Items	31.12.2016	31.12.2015	Changes	
			Absolute	%
Share capital	120,689	120,689	-	-
Share premium reserve	471,757	471,757	-	-
Income reserves	87,303	83,883	3,420	4.1
Other reserves	735	660	75	11.4
Reserves from valuation of available-for-sale financial assets	5,215	20,116	-14,901	-74.1
Reserves from valuation of actuarial profit (losses) relating to defined-benefit pension plans	-5,077	-4,467	610	13.7
Treasury Shares	-5,000	-	5,000	-
Net profit for the year	37,000	34,249	2,751	8.0
Total (book) equity	**712,622**	**726,887**	**-14,265**	**-2.0**

Own Funds

Regulatory Capital and capital ratios	31.12.2016	31.12.2015
Common Equity Tier 1 (CET1)	**474,884**	**456,846**
Additional Tier 1 (AT1)	-	-
Tier 1 – T1	**474,884**	**456,846**
Tier 2 (T2)	-	-
Total Capital (Own Funds)	**474,884**	**456,846**
Risk-weighted assets	**3,851,288**	**3,824,138**
of which by credit and counterparty risks and by the risk of value adjustment of the loan	3,391,159	3,367,387
CAPITAL RATIOS		
Common Equity Tier 1 ratio	**12.3%**	**11.9%**
Tier 1 ratio	**12.3%**	**11.9%**
Total Capital ratio	**12.3%**	**11.9%**

PROFIT OR LOSS

Income Statement reclassification

In order to present performance more effectively, a summary income statement has been prepared, with appropriate reclassifications so as to report the various items on the basis of consistent operational standards.

The reclassifications concerned the following:

- The recovery of the time value component on loans has been reported under “Net Interest Income” rather than under “Net Impairment Adjustments of Loans”, since it results directly from applying the amortized cost method when there are no changes in expected future cash flows;
- The effect of the amortized cost of hedging of debt instruments has been reported under the “Net Interest Income” item rather than under “Net Gains (Losses) on Hedging Activities”;
- Net Profit (Loss) on trading activities, Net Profit (Loss) on hedging activities and Net Profit (Loss) on financial assets and liabilities designated at fair value have been reported under Net income from Banking Activities;
- Gains and losses on disposal or repurchase of financial assets available for sale and financial liabilities have been reallocated to Profit (Loss) from Financial Activities;
- Expenses, taxes and levies recovered have been reported as a direct decrease in Administrative Expenses, rather than being recognized under Other operating income/expenses;
- Expenses for the management of non-performing loans and the relevant recoveries have been reclassified as Impairments on Loans;
- Commission income for fast loan application processing has been taken to “Fee and Commission Income” rather than being recognized under “Other operating income/expenses”;
- Net adjustments/writebacks on impairment of available-for-sale financial assets have been reclassified under Other Operating Income/Expenses;
- Net losses on impairment of other financial transactions, mainly relating to guarantees and commitments, have been reclassified under “Impairments on loans”.

Reclassified income statement

	31.12.2016	31.12.2015	Changes	
			Absolute	%
Net interest income	166,521	176,747	-10,226	-5.8
Net fee and commission income	129,054	134,650	-5,596	-4.2
Dividends	**221**	**248**	**-27**	**-10.9**
Profit (loss) on financial activities	12,675	1,188	11,487	
Other operating income/expense	-2,742	-2,601	141	5.4
Net operating income	**305,729**	**310,232**	**-4,503**	**-1.5**
Staff expenses	-104,829	-101,339	3,490	3.4
Administrative expenses	-83,436	-79,374	4,062	5.1
Depreciation of Property, plant and equipment and of intangible assets	-6,730	-6,979	-249	-3.6
Operating expenses	**-194,995**	**-187,692**	**7,303**	**3.9**
Net Operating margin	**110,734**	**122,540**	**-11,806**	**-9.6**
Net provisions for risks and charges	-3,516	-3,021	495	16.4
Impairments of loans	-51,713	-67,504	-15,791	-23.4
Profit (losses) on investments held to maturity and other investments	-21	-568	-547	-96.3
Profit (loss) before tax from continuing operations	**55,484**	**51,447**	**4,037**	**7.8**
Taxes on income from continuing operations	-18,484	-17,198	1,286	7.5
Profit (loss) after taxes on discontinuing operations	-	-	-	
Net profit for the year	**37,000**	**34,249**	**2,751**	**8.0**

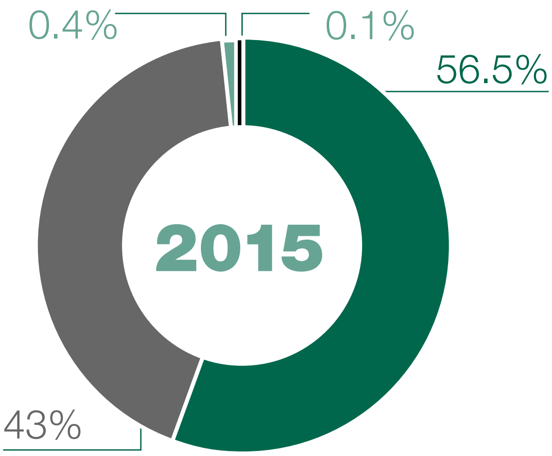
Reconciliation between the Official Income Statement and the Reclassified Income Statement

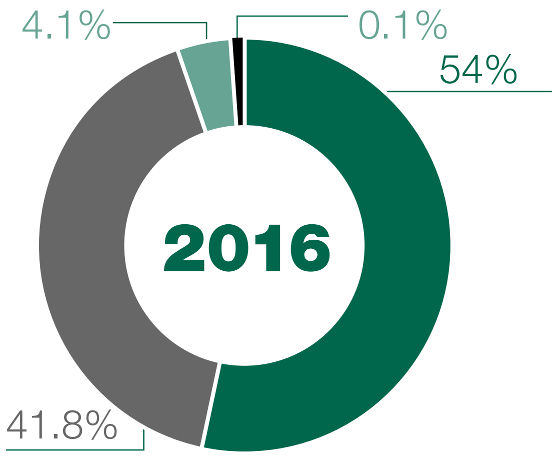
	31.12.2016	31.12.2015
Net interest income	**166,521**	**176,747**
30. Net interest income	155,498	163,175
90. Net profit (losses) on hedging activities: of which amortized cost effect of hedging of debt instruments	-934	-
130. Net losses on impairment of: a) loans of which time value on non-performing loans	11,957	13,572
Net fee and commission income	**129,054**	**134,650**
60. Net fee and commission income	124,554	128,741
190. Other operating expenses/income: of which Commission income from Fast Loan Application Processing	4,500	5,909
Dividends and similar income = item 70	**221**	**248**
Net income from banking activities	**12,675**	**1,188**
80. Net profit (losses) on trading activities	4,610	1,866
90. Net profit (losses) on hedging activities	-866	-1,527
90. Net profit (losses) on hedging activities: of which amortized cost effect of hedging of debt instruments	934	-
100. Profit (losses) on disposal or repurchase of: a) loans of which debt securities classified as loans	-	82
100. Profit (losses) on disposal or repurchase of: b) financial assets available for sale	8,481	1,125
100. Profit (losses) on disposal or repurchase of: d) financial liabilities	-484	-358
Other operating income/expense	**-2,742**	**-2,601**
190. Other operating expenses/income	49,614	53,148
130. Net losses on impairment of: d) other financial transactions of which impairments/recoveries relating to FITD (Italian Interbank Deposit Protection Fund) actions	-39	-
to deduct: expenses recovered	-45,917	-48,897
to deduct: recovered expenses for the management of non-performing loans	-1,285	-760
to deduct: Commission income from Fast Loan Application Processing	-4,500	-5,909
130. Net losses on impairment of: b) financial assets available for sale	-615	-183
Net operating income	305,729	310,232
Staff expenses = item 150 a)	**-104,829**	**-101,339**
Administrative expenses	**-83,436**	**-79,374**
150. Administrative expenses: b) other administrative expenses	-132,796	-131,483
190. Other operating expenses/income: of which expenses recovered	45,917	48,897
150. Administrative expenses: b) other administrative expenses: of which expenses for the management of non-performing loans	3,443	3,212
Depreciation of Property, plant and equipment and amortization of intangible assets	-6,730	-6,979
170. Net adjustments to/recoveries on property, plant and equipment	-4,517	-4,766
180. Net adjustments to/recoveries on intangible assets	-2,213	-2,213
Operating expenses	-194,995	-187,692
Net Operating margin	110,734	122,540
Impairment on goodwill = item 230	-	-
Net provisions for risks and charges = Item 160	**-3,516**	**-3,021**
Impairments on loans	**-51,713**	**-67,504**
100. Profit/losses on disposal of: a) loans	-538	-937
to deduct: profit (losses) on disposal or repurchase of debt securities classified as loans	-	-82
130. Net losses on impairment of: a) loans	-37,350	-50,555
130. Net losses on impairment of: a) loans of which time value on non-performing loans	-11,957	-13,572
150. Administrative expenses: b) other administrative expenses: of which expenses for the management of non-performing loans	-3,443	-3,212
to deduct: recovered expenses for the management of non-performing loans	1,285	760
130. Net losses on impairment of: d) other financial transactions	251	94
to deduct: losses/recoveries relating to FITD (Italian Interbank Deposit Protection Fund) actions	39	-
Profit (losses) on investments held to maturity and other investments	**-21**	**-568**
210. Profit (losses) on equity investments	-	-568
240. Profit (losses) on disposal of investments	-21	-
Profit (loss) before tax from continuing operations	55,484	51,447
Taxes on income from continuing operations = item 260	**-18,484**	**-17,198**
Net profit (loss) for the year	**37,000**	**34,249**

Net operating income

Net operating income came to Euro 306 million, essentially in line with the previous year, mainly due to the decrease in net interest income (which was partially offset by good income from financial activities) and in fee and commission income from the traditional banking business.

Income





Net interest income

In a scenario featuring still modest economic growth and interest rates still negative, net interest income came to Euro 166.5 million, decreasing vs. the previous financial year (-5.8%). This decrease was mainly due to intermediation activities with Customers, especially the changes in spreads. As regards loans, competitive pressure has caused progressive reduction in spreads, both on newly issued ones and on existing ones (renegotiations), with a negative effect on net interest income, which was only partially mitigated by the increase in volumes (especially mortgage loans). The contribution of funding from Customers to net interest income, even though benefiting from the decrease in the cost of forms with longest maturities, was impacted by the negative change in spreads on demand funding (due to substantial limits to the decrease in interest rates on certain demand funding forms with increasingly negative interest rates).

Dividends

Dividends from shareholdings and equity investments recognized as financial assets available for sale came essentially in line with the previous year, to Euro 0.2 million.

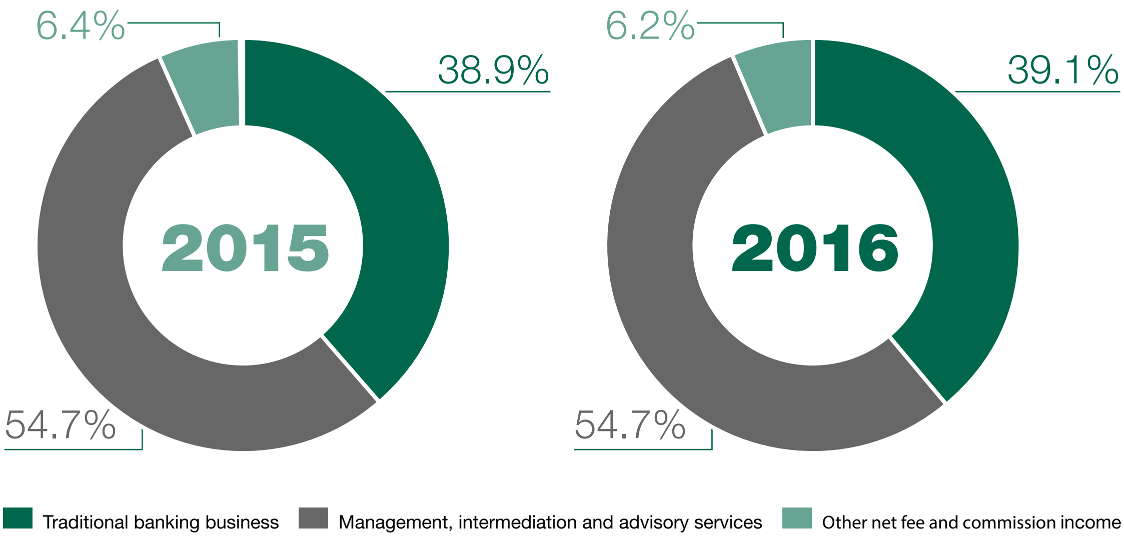
Net fee and commission income

Net fee and commission income, which accounted for 42% of operating income (43% in 2015), came to Euro 129 million, decreasing by 4% due to the changes in fee and commission income from both Wealth Management and traditional banking business: the lower contribution of fee and commission income from the traditional banking business was mainly caused by the decrease in commission income regarding loan application processing and current account management (which reflect more advantageous conditions applied to Customers).

The performance of fee and commission income from securities intermediation and placement (down by Euro -6.6 million, -20,2%) reflects the decrease in volumes of placed products, which was only partially offset by an increase in recurring commission income.

Other fee and commission income from intermediation and/or management performed well (up by Euro +2 million, +64%) thanks to the significant development in consumer credit products (which largely benefited from the synergies with Agos, a company of the Crédit Agricole S.A. Group and the leading player in Italy in the consumer credit business). Income from asset management increased (up by Euro +0.6 million) and from the distribution of insurance products (up by Euro +0.8 million, +2.3%), which benefited from a higher flow of recurring fee and commission income.

Net fee and commission income



Net income from banking activities

The contribution to the income statement of the net income from banking activities (Euro 12.7 million as at 31 December 2016) posted a considerable increase vs. the previous year (up by Euro +11.5 million), especially because of the effect of gains on disposals of financial assets available for sale (up by Euro +7.4 million), which were achieved thanks to the ongoing high volatility on financial markets.

Other operating income (expenses)

The “Other operating expenses” item came to Euro 2.7 million, in line with the previous year. This item, which reports expenses for leasehold improvement (costs borne for upgrading leased property to operational requirements) amounting to Euro 1.7 million, has been negatively impacted by the impairment loss on the equity investment in Banca Mediocredito del Friuli Venezia Giulia (amounting to Euro 0.6 million).

Operating expenses

Operating expenses came to Euro 195 million, increasing by Euro 7.3 million (up by +3.9%) vs. 2015. This increase was essentially due to the expenses resulting from the agreement providing for incentives to voluntary redundancy, which was reached in 2016 by and between the Group and the relevant Trade Unions. This agreement, which entailed a total cost for the Bank of Euro 6.8 million, provides for voluntary redundancy in 2017 of approximately 40 employees. Moreover, the “Administrative expenses” item reports Euro 8.4 million worth of ordinary and extraordinary contributions to the Single Resolution Fund (SRF) and to the Deposit Guarantee Scheme (DGS). In the previous year, these expenses came to Euro 8.3 million.

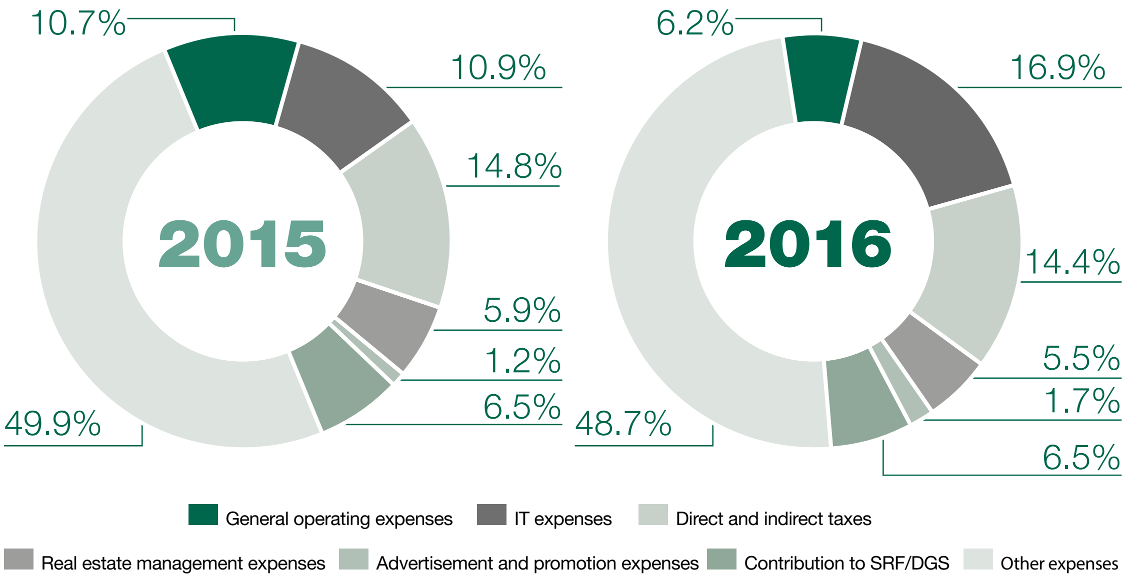
The year-over-year comparison of the single expense items is not significant, being invalidated by the incorporation (in September 2015) of the Group Consortium Company, Crédit Agricole

Group Solutions ("the Group's service provider"), which entailed a material change in the Bank's cost structure. This generated effects on 2015 only as regards the last four months and on the entire reporting year, thus making the comparison not smooth. Sterilizing the effect of the Consortium incorporation and the contributions to the SRF and to the DGS:

- Staff expenses: net of the Solidarity Fund for voluntary redundancy, this item increased by
- +0.8%, due to the new projects within the 2016-2020 Strategic Plan (especially the recruitments for the development of "Off-premises Account Managers") and to pay increases as per the relevant contracts;.
- Other Administrative Expenses: this item proved under control (down by -0.3%) thanks to efficiency improvements;
- Depreciation and amortization: this item came essentially in line with 2015 (down by -3.6%).

Net of non-recurring expenses (incentives for voluntary redundancy) and non-operating ones (SRF and DGS), the cost/income ratio came to 58.8%, slightly increasing vs. the previous year (57.8%), subsequent to significant investments and projects that were started in 2016 within the 2016-2020 Strategic Plan.

Administrative expenses



Net Provisions for risk and charges

Provisions for 2016 came to Euro 3.5 million, essentially in line with 2015 (+0.5 million), mainly referred to disputes with the Bank as defendant (Euro 1.3 million) and revocatory actions (Euro 1.2 million).

Impairments on loans

The continuous decrease in the cost of credit had a positive impact on the Bank's performance in 2016: indeed, impairments on loans came to Euro 51.7 million, down by -23.4% vs. the same figure recognized in the previous year. In percentage terms, the ratio that expresses the cost of credit risk (the ratio of the relevant adjustments taken to the Income Statement to net loans to Customers) decreased to 76 bps vs. 102 bps in the previous year, even with the coverage ratio of non-performing loans which remained high.

The value adjustments of bad loans, net of recoveries, came to Euro 29.8 million, decreasing by Euro -11.7 million (i.e. down by -28.3%) vs. 2015. On the other hand, the value adjustments of "Unlikely to Pay" positions came to Euro 19.3 million, decreasing by Euro 3.2 million (down by -14.2%) vs. the same figure for the previous year.

Profit (loss) before taxes from continuing operations

The profit before taxes from continuing operations came to Euro 55.5 million, increasing by Euro 4 million (up by +7.8%) vs. the previous year.

Taxes on income from continuing operations

Current taxes and deferred tax liabilities came to Euro 18.5 million, increasing by approximately Euro 1.3 million vs. the previous period, subsequent to the significant increase in gross profit of Euro 4 million.

The tax burden benefited also from non-recurring components mainly consisting of the excess provision for taxes allocated in previous financial years amounting to Euro 1 million; a similar excess provision had been reported also in 2015. Indeed, in percentage terms, the tax burden came to around 35%, in line with the same figure for 2015.

Net profit (loss)

The net profit for the year (coming to Euro 37 million) increased vs. the previous year (up by Euro +2.8 million, i.e. +8%). Net of non-recurring expenses (Solidarity Fund and extraordinary contribution to the Single Resolution Fund – SRF– of Euro 6.8 million and 4.5 million before taxes, respectively), the net profit for 2016 would have come to Euro 44.6 million (with the same figure for 2015 at Euro 37.6 million, thus up by +18.7%)

Comprehensive income

Comprehensive income consists of the profit for the financial year and of the changes in the value of assets directly recognized in equity reserves. Comprehensive income for 2016 came to Euro 21.5 million vs. Euro 48.4 million for the previous year. This was mainly due to the decrease in the valuation reserves of AFS securities of Euro -14.9 million vs. the Euro +13 million increase in the same item in 2015.

This decrease was mainly due to the volatility in credit risk of Italian government securities.

It is pointed out that the inclusion in comprehensive income of the item reporting financial assets available for sale entails physiological volatility that must be taken into account when analyzing the table.

Operations and income by business segment

As regards operations and income by business segment, please, refer to the Note to the financial statements Part L – Segment Reporting.

Net interest income

Items	31.12.2016	31.12.2015	Changes	
			Absolute	%
Business with Customers	142,381	162,152	-19,771	-12.2
Business with banks	-3,266	-6,061	-2,795	-46.1
Debt securities issued	-16,040	-24,382	-8,342	-34.2
Spreads on hedging derivatives	24,318	24,581	-263	-1.1
Financial assets held for trading	1	728	-727	-99.9
Financial assets available for sale	19,093	19,729	-636	-3.2
Other net interest income	34	-	34	
Net interest income	**166,521**	**176,747**	**-10,226**	**-5.8**

Net fee and commission income

Items	31.12.2016	31.12.2015	Changes	
			Absolute	%
– guarantees issued	2,480	1,758	722	41.1
– collection and payment services	7,740	7,624	116	1.5
– current accounts	34,719	37,251	-2,532	-6.8
– debit and credit card services	5,518	5,745	-227	-4.0
Commercial banking business	**50,457**	**52,378**	**-1,921**	**-3.7**
– securities intermediation and placement	26,108	32,723	-6,615	-20.2
– intermediation in foreign currencies	718	672	46	6.8
– asset management	1,821	1,172	649	55.4
– distribution of insurance products	36,938	36,093	845	2.3
– other intermediation/management fee and commission income	4,980	3,037	1,943	64.0
Management, intermediation and advisory services	**70,565**	**73,697**	**-3,132**	**-4.2**
Other net fee and commission income	**8,032**	**8,575**	**-543**	**-6.3**
Total net fee and commission income	**129,054**	**134,650**	**-5,596**	**-4.2**

Net income from banking activities

Items	31.12.2016	31.12.2015	Changes	
			Absolute	%
Interest rates	3,197	396	2,799	
Stocks	96	-1	-97	
Foreign exchange	833	1,193	-360	-30,2
Total profit (losses) on financial assets held for trading	**4,126**	**1,590**	**2,536**	
Total profit (losses) on assets held for hedging	**68**	**-1,527**	**-1,595**	
Profit (losses) on disposal of financial assets available for sale	**8,481**	**1,125**	**7,356**	
Profit (loss) on banking activities	**12,675**	**1,188**	**11,487**	

Comprehensive income

Items	31.12.2016	31.12.2015
10. Net profit (Loss) for the year	**37,000**	**34,249**
Other comprehensive income after taxes not reversed in profit or loss	**-**	**-**
20. Property, plant and equipment	-	-
30. Intangible Assets	-	-
40. Actuarial profit (losses) on defined-benefit plans	-610	1,096
50. Non-current assets held for sale	-	-
60. Portion of Valuation Reserves on equity investments measured using the equity method	-	-
Other comprehensive income after taxes reversed in profit or loss	**-**	**-**
70. Hedges of investments in foreign operations	-	-
80. Exchange rate differences	-	-
90. Cash flow hedges	-	-
100. Financial assets available for sale	-14,901	13,023
110. Non-current assets held for sale	-	-
120. Portion of Valuation Reserves on equity investments measured using the equity method	-	-
130. Total other comprehensive income after taxes	**-15,511**	**14,119**
140. Comprehensive income (Item 10+130)	**21,489**	**48,368**

STRATEGIC PLAN AND CORPORATE DEVELOPMENT LINES

STRATEGIC PLAN

In 2016, the Crédit Agricole Italia Banking Group and, as part of it, Banca Popolare FriulAdria reasserted the action lines provided for in the "*Ambizione Italia 2020*" Strategic Plan, which was launched in the reporting period, consistently with the new Medium Term Plan to 2019 of the Parent Company Crédit Agricole S.A.

The Plan confirms the development of a new phase of sustainable growth, based on innovative strategies that, implementing a clear and efficient business model, aim at strengthening the Group's **role as Proximity Banking player, in a market-leading position in Italy, focusing on and tailor-made for Customers, through multichannel models and digital innovation, investing in people and talents as the core of its growth and leveraging on its belonging to the Crédit Agricole S.A. Group and relying on its soundness to start a new phase of organic growth on key market segments, in order to create long-term value.**

The transformation envisaged in the Plan provides for the action lines listed below:
1. Repositioning in a Customer-centric approach
2. Access to new domains and strengthening of the domains the Group excels in
3. People and Development
4. Efficiency
5. Rebranding

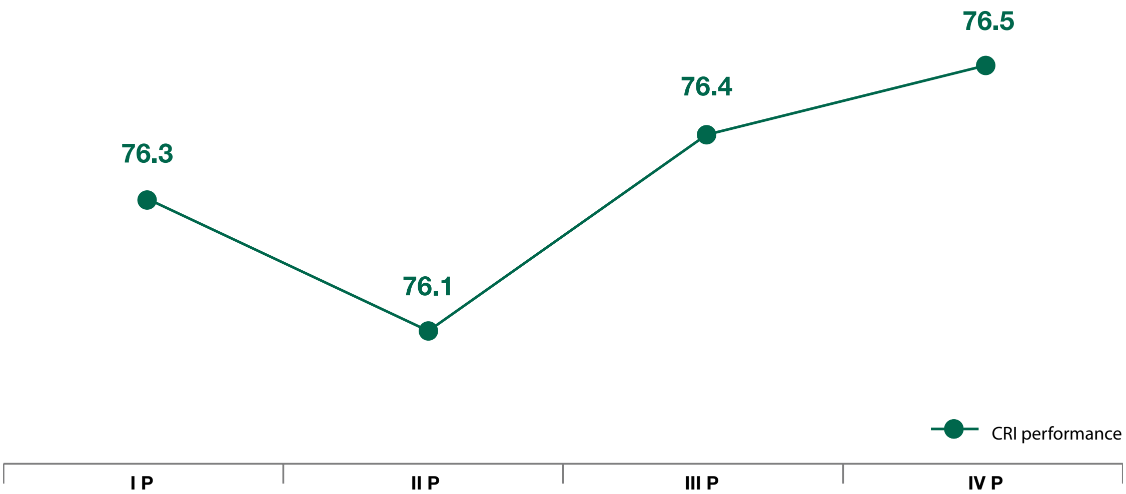
1. REPOSITIONING IN A CUSTOMER-CENTRIC APPROACH

Enhancement of the relationship with Customers

Starting afresh from a new model designed for listening to the Customers, who are at the center and heart of our way of doing business, in order to enhance a top quality relationship and high-end advisory services, as well as a top level in terms of service and management through activities across all the structures of the Group.

The enhancement of the Customer Relationship is based on the strategic directions listed below:
- **Training and Change Management Program;**
- **Communication Plan across all levels to strengthen the Customer Centrality culture;**
- **The *Banca Semplice* [easy bank] new model;**
- **New Relational model;**
- **Increased listening ability in a Customer Experience perspective.**

Retail Banking performance Customer Recommendation Index (CRI) survey



Over 60,000 Retail Customers of the Group were interviewed and expressed their opinion on the Group and on their propensity to recommend it to friends, family and colleagues. Thanks to the evidence found, improvement projects have been designed focusing on Customers. The Group closed 2016 with its average Customer Recommendation Index (CRI) on the increase; moreover, in order to improve the service it provided and its relationships with Customers, the Group intends to implement the Customer Recommendation Index (CRI) also in the other commercial channels.

«Around the Branch» multichannel integration

In order to respond to the fast changes that the marker has been experiencing in the last few years, our Group intends to continue several activities aimed at developing a multichannel approach that is different in accordance with the actual needs of our Customers (relationship establishment, advisory services at the Branch/outside the Branch, transaction and services) and that is integrated around the Branch.

Such integration is based on the following strategic directions:
- Continuous **Innovation of digital platforms**, with products that can be sold “fully online”;
- **Integration of the Digital Branch** with the possibility to make assisted remote sale of Wealth Management products, through several tools and platforms made available to our staff;
- Increasing **Digital Acquisition**, through dedicated web portals and through the advantages from the review of the process for the activation of online accounts, which provides for innovative forms of Customer recognition.

Thus, Customers will have the possibility to decide at any time which is their preferred modality to interact with the Bank.

2. ACCESS TO THE NEW CHANNELS AND STRENGTHENING OF THE DOMAINS THE GROUP EXCELS IN

New Channels driving growth

To drive the Group’s endogenous growth in a sustainable way the **Financial Advisors new Channel** was launched, which focuses on the most demanding Customers and has been staffed with about 100 Advisors recruited both from inside the Group and from outside it. Moreover, important cooperation activities were started within the Crédit Agricole Group in Italy to enhance business in the **Mid-Corporate segment.**

Strengthening of the domains the Group excels in

In addition to starting operations in new market segments, our growth continues to rely on our roots and on our tradition of community banking, constantly aiming at excellence in the following domains:

- **Small Business and Agri-Agro (agri-food)**: the new highly-specialized service model has been redesigned, with “new Small Business Centers” dedicated to the most demanding Small Business Customers, providing for specialization of the entire Network on the Agri-Agro segment
- **Mortgage loans**: in order to retain our leading position in mortgage loans, we have reviewed and streamlined mortgage loan processes, with both the possibility of using external providers for peak management and the activation of a dedicated online channel.
- **Private Banking and Wealth Management**: The strengthening of the network of Private Bankers started, along with the enhancement of the evolved services provided to Customers, as well as of the technology tools available to this Channel.

3. PEOPLE AND DEVELOPMENT

The challenges that our Group has set will be achieved thanks to an ambitious project for the enhancement of the Human Capital and of the Operational Machine.

HR transformation plan

Human Capital remains one of the main pillars for the transformation of our future. In the reporting year, important strategic activities started, which are summarized below:

- **Recruitment plan (approximately 100 resources),** as needed to support the project activities provided for in the “*Ambizione Italia 2020*” Strategic Plan and essential to ensure knowledge and skills necessary for our growth;
- **Generational turnover** triggered with the closing in 2016 of an agreement with the Trade Unions providing for the exit of about 300 resources in 2017;
- **Continuous development of our employees,** through managerial development and strengthened training, career and job rotation plans, exchange programs in Italy and abroad, focus on gender policies.

Operational Machine renewal plan

Another strategic driver of transformation concerns the Operational Machine that will support some challenges underway:

- Start of the Group’s Real Estate Big Projects, with the beginning of the building works for the New *Centro Servizi Cavagnari*, the renovation of the Premises on Via Armorari in Milan and the Villini Project in Rome;
- **The first year of the Group IT Plan was completed** supporting the set projects;
- **The services provided by Crédit Agricole Group Solutions have been extended** to the other companies of the Crédit Agricole Group in Italy.

4. EFFICIENCY

Transformation of the Network model

The new Network model that we are implementing has been designed again in a **Customer centrality perspective** and **continuing with the process to improve the efficiency level**. In general, the transformation underway on the Network provides for the optimization of the weight of investment property, while ensuring a high service level to Customers.

To date, approximately **35% of the Network works based on a counter-less logic**, as per the new "*Agenzia Per Te*" format, allowing the automation of transactions with the machines located at the Branches, giving 24/7 service, providing Customers with more time for higher added value activities, such as advisory services.

Moreover, our operations have been reviewed in geographical terms, **being optimized in high concentration areas**. At the same time, new possibilities have been studied **to extend operations to high-potential areas, through a new, innovative and light model of branch** (the "Hub" model), based on which the physical branch becomes the central hub housing all "jobs".

Lending and risk processes and platforms

The review of lending processes (authorization, management and recovery) was completed, aimed at streamlining and making them more efficient through their full digitalization and integration with the digital channels, at the same time improving Customer tools and, thus, reducing the «time-to-yes».

Enhancement of the efficiency of processes

Important investments in IT and processes were made in order to streamline, digitalize and transform the Group's Operations, relying on the new platform of Crédit Agricole Group Solutions.

As at the reporting date, the centralization of the Network Back Offices had been completed, with the automation of these activities. At the same time, some activities were also started aimed at recovering resources to be engaged in the enhancement of and support to the Group's Network (for example by relocating some organizational units).

5. REBRANDING

The rebranding started in the reporting year was an opportunity to support the process for the repositioning of the **Crédit Agricole Italia Banking Group as a big national banking group**, standing out from competitors having "local" size. This change is intended to provide Customers with more value, more satisfaction and lesser complexity, keeping the strong point of soundness, which results from belonging to one of the leading international groups.

Indeed, the new brand is intended to given more domestic visibility to the image of Crédit Agricole, one of the soundest international groups, without neglecting the confidence bond with the areas of operations, which are the specificity of the Crédit Agricole Group Italia Banking Group.

The rebranding will continue to be enhanced in 2017 with dedicated initiatives.

CORPORATE DEVELOPMENT LINES

Commercial operations are reported below, along with the first impacts of the above-described Medium-Term Plan (MTP).

RETAIL BANKING DISTRIBUTION CHANNELS

In 2016, Banca Popolare FriulAdria further strengthened its Customer-focused Universal bank model and enhanced its proximity to the **business fabric** of the communities it operates in, with Euro 221 million worth of loans to businesses, posting a +28.4% increase vs. 2015.

Mortgage loans and other loans

In a scenario where flexibility and multichannel mode have been increasingly in demand, **Home Loans** posted a significant increase in the **online distribution channel**. In 2016, ***Mutuo Adesso***, the online platform dedicated to mortgage loans, was launched.

The Home Loan range was enriched with *Gran Mutuo 2016*, a floating-rate mortgage loan (3M Euribor) with a maximum interest rate, in order to ensure protection from any future increase in interest rates, with flexible amortization schedule and first instalment free of charge.

Moreover, the **adoption of the ABI-MEF "First Home Guarantee Fund" Protocol** was confirmed, which favours access to credit by Customers, giving also priority to young people, including "atypical" workers.

In terms of **loans**, the **partnership with Agos**, a leading player in consumer credit, continued and, thanks to it, **Banca Popolare FriulAdria** increased its support to households, seizing market opportunities and leveraging on the recovery in consumption.

Transactional products and electronic money

The range of current accounts was enriched with the new *Conto di Conoscerti* product, a solution intended as a starting point to build a relationship with Customers and to foster the supply of other products by the Bank. This account stands out for its user-friendliness and transparency.

Along with the creation of this new product, **Banca Popolare FriulAdria** streamlined the process for the **opening of current accounts at its Branches** and for the supply of ancillary products for Individuals (objective: less paper, fewer signatures and more time for advisory services).

As regards e-money new products, Banca Popolare FriulAdria continued to pursue a development strategy focused especially on innovation, enabling the possibility to make POS contactless payments, simply putting one's smartphone in contact with the POS device, irrespective of the phone service provider used. This service uses the Host Card Emulation (HCE) technology and is based on a "virtual card" generated in addition to and connected to the physical one (that the Customer can continue to use for "traditional" payments).

Bancassurance

The range of Insurance Products was supplemented with a new Term Life Insurance Policy, which includes the benefit of payment of a pre-set capital also in case of Dread Disease. The launch of this new product, which is intended for more completeness and to provide Customers with tailor-made products, was accompanied by a new communication line dedicated to personal and family protection.

Moreover, this product has been included in the basket of the Insurance Check-Up platform, a new tool made available to Account Managers at the Branches to help them in identifying Customers' insurance needs with some simple questions and in proposing specific products in an advisory perspective.

Finally, the option for payment in monthly instalments of all premiums for non-life insurance products, with no additional costs, further strengthened the positioning of the Crédit Agricole Italia Banking Group in the non-life bancassurance market, in a constantly evolving regulatory and market scenario.

Wealth Management

As regards Wealth Management, in 2016, significant changes occurred, in terms both of advisory services and of the range of products supplied:

- In terms of advisory services, a project was started launching a new commercial approach on the Retail Network based on Recommended Portfolios built in partnership with Amundi SGR and CA Vita. The Recommended Portfolios are built with specific solutions that allow the reduction of required after-sale activities and more efficient diversification of the portfolios, which is more necessary than ever, given the scenario featuring modest yields and high volatility. Within the launch of the Recommended Portfolios, several meetings were held in the communities of operation and a new central structure was set up, called "Investment Center" to provide Account Managers with support;
- The investment protection model was strengthened by improving the profiling questionnaire, as well as by implementing new rules in the distribution of complex products;
- The process for the "Provision of Financial Advisory Services" was changed by streamlining, with an important investment in technology, the possibility for the Account Managers to make and plan advisory proposals both at the Branches and remotely, through the NowBanking website.

The range of products available to Account Managers was maintained and constantly updated in order to meet the Customers' requirements.

In 2016, in compliance with the regulations on Product Governance, new wealth management solutions, funds and life insurance products were put on the market. Specifically, Amundi's new range of target maturity funds is intended to meet the Customers' requirements regarding: capital preservation, income and growth.

Small Business and Agri-Food

Banca Popolare FriulAdria confirmed its mission of proximity banking and its closeness to the entrepreneurial fabric of Northeast Italy, carrying out targeted actions to support local economies. Specifically, funds were allocated for Preauthorized loans intended to be used to grant both short– and medium-/long-term credit lines, as well as funds for loans on very easy terms in order to support, with fast and transparent tools, investments in the most deserving businesses.

As always, the range of products and services provided was structured and complete thanks to the important synergies with the various product companies of the Group; specifically, important commercial actions were carried out to propose lease products, and such actions were very appreciated by Customers that could fully understand the tax advantages entailed by the products. The performance of sales (up by +5.5% vs. the previous year) is evidence of the Customers' appreciation.

The commitment of the Crédit Agricole Italia Banking Group to the agri-food sector continued to be part of its strategy for the development of the agri-food business line: close bonds with the areas of production and with the sector players, specialist approach based on advisory services and supply-chain vision.

The Crédit Agricole Italia Banking Group continued to implement its strategy for the review of its service model dedicated to Small Business Customers, combining innovation with the enhancement of the Bank-Customer relationship. The roll-out of the Small Business Centers continued, which is a new branch model where skills, experience and expertise are made available to Customers in order to design highly tailor-made solutions. In 2016, the Group had 6 Small Business Centers in operation.

Women Entrepreneurship

In 2016, the development of the "*DonnAzienda*" project continued. This project was designed, fine-tuned and promoted in cooperation with the "*Valore D*" Association and was started at the end of 2013 in order to support businesses led by women, who are by many considered a winning development model and engine for Italy. Thanks to the proactive involvement of many employees of the Group, of women entrepreneurs and trade associations (through exchange meetings and one-to-one interviews), this system project allowed the specific requirements of women that do business to be detected and, at the same time, the main action scopes to be identified.

The new range of products and services has been designed specifically based on the knowledge acquired through the exchange meetings and includes not only banking products but also non-banking services, namely welfare and advisory ones.

The Customer enterprises led by women are over 8,000 and more than 400 loans were paid out in 2016 through the "*Scelgo Io – Imprenditoria Femminile*" product, our loan that provides our Customers with 3 flexibility options, upon the occurrence of events in their private life which may impact the business, whether these are happy ones, such as the birth or the adoption of a child or in trying times, such as one's illness or that of a living-in family member: total suspension of the instalment payment for 12 months, suspension of principal repayment up to 18 months or change in the amount of the instalment.

Access to credit was made easier thanks to the support provided by the Central Guarantee Fund – Women Entrepreneurship Special Section, which gives first-demand guarantees covering up to 80% of the loan and free of charge. In 2016, loans of this type were paid out for over Euro 28 million.

Community-focused activities

In terms of green awareness and sustainability, Banca Popolare FriulAdria signed a cooperation agreement with Finint Green Hub; based on this agreement, the Bank was the lender financing private projects for real estate upgrading and Finint was the provider of technical and advisory services, for a turnkey service provided to Customers. The purpose of this cooperation is to support the community in increasing the value of its real estate in a saving perspective through renovation and energy upgrading of buildings with an integrated advisory service.

Along with the Treasury Service that Banca Popolare FriulAdria will provide to Ca' Foscari University of Venice, since it was the successful tenderer in the relevant procurement procedure, Banca Popolare FriulAdria designed a package of targeted banking and non-banking services intended for this University's employees and students, including a multiservice card, App for savings management and internships in the companies of the Crédit Agricole S.A. Group.

Subsequent to the incorporation of the Well Fare Foundation of Pordenone, an important cooperation was established by and between the Foundation and the Bank for Social Finance and Microloans to promote opportunities for social innovation and local development, also through targeted support to households experiencing temporary difficulties (Individuals scope) and to new small business initiatives (microenterprises scope) by providing dedicated credit lines and assistance to the volunteers with business and financial mentorship.

Also in 2016, an extensive package of non-banking products was dedicated to the Shareholders of Banca Popolare FriulAdria, including Agos mortgage loans and other loans at competitive rates and easy terms for non-life insurance products. Moreover, the existing agreements with Private Hospitals and Diagnosis/Rehabilitation Centers were extended, providing for price discounts for our Shareholders.

In 2016, Banca Popolare FriulAdria, in cooperation with Fondazione Comunica and ZeppelinAction, major players in digital technology, web marketing and communication, launched *Soluzione E-Commerce Nord Est*, an new proposal to SMEs based in the Friuli Venezia Giulia Region and interested in developing e-commerce sales of their products. The project has been designed to assist the enterprises based in our community of operation – a potential catchment area of approximately 5,000 medium enterprises and 30,000 small enterprises based in Northeast Italy – thanks to a complete package of financing services, technological support, web marketing and training.

PRIVATE BANKING DISTRIBUTION CHANNEL

In 2016, the activity for the **upgrading of assets** continued, despite the strong volatility and uncertainty that the markets experienced during the year, especially in the first quarter. This activity could be performed thanks to constant control on the advisory services ensured by a central team that provides support on Customers' portfolios, through analyses of portfolio turnovers, asset mix benchmarking and distribution analyses of portfolio performances.

Moreover, thanks to the fruitful and constant cooperation with the Group's Product Companies, specifically Amundi SGR, CaVita and CACIB, synergies could be achieved in the supply of products, leveraging on the know-how and the best expertise within the Group.

In 2016, **"*Soluzione Valore Plus*"** was released: an advisory service with explicit remuneration, intended to provide Private Banking Customers with advisory services that are high added value and tailor-made. The "*Soluzione Valore Plus*" service consists in the recommendation by the Group of one or more transactions on financial instruments and products, based on the Portfolio of the specific Customer.

The Customer agrees with the Bank on the parameters that characterize the "*Soluzione Valore Plus*" service and that shall always be taken into account in tailor-made recommendations.

The scope of advisory services has been extended also to **non-financial scopes**, in terms of **real estate and inheritance planning and of trust and fiduciary services**; the training provided to the Network focused on these topics.

In 2016, considerable **operational streamlining** was achieved by using new technologies in the preparation of *ad hoc* asset allocation proposals (web collaboration), in order to have better customer experience at advisory meetings with Customers.

Finally, **loans** were another specific focus and the **proactivity** of the Private Banking Network staff improved in proposing both short– and medium-/long-term solutions, thanks also to **dedicated training** in cooperation with the Credit Department. The cooperation with the Corporate Banking Department continues in order to achieve full-range business relations with Private Banking Customers that are also entrepreneurs.

FINANCIAL ADVISORS

The Financial Advisors Channel is intended to give the Group a new Commercial structure focusing on the development of funding and high-potential Customers with a new service model.
Throughout the system, the number of Customers asking for specialist advisory services is steadily increasing, especially as regards financial investments and the management of family wealth.

In compliance with the applicable regulations in force, the Group has set an important training program (covering conduct and commercial aspects, specialist and technical skills, compliance and regulatory matters) to support the staff engaged in this new role.

In 2016, Banca Popolare FriulAdria made the services of 20 financial advisors available to its Customers.

CORPORATE BANKING DISTRIBUTION CHANNEL

In 2016, as substantiated also by the increase in lending volumes and by the improved quality of assets, the Corporate Banking Channel continued to provide selective support to the Italian economy, further strengthening its range of products through a **coordinated set of activities and actions**, such as:

- Support to **exports** and **internationalization**, providing financial resources as well as **specialist advisory services**, also in business acquisitions;
- The extension of structured finance activities, with specific reference to acquisition and investment finance, in which the Crédit Agricole Italia Banking Group has become a leading player;
- The development, in cooperation with CaCib, of **innovative products**, intended especially to the agri-food sector;
- The acquisition of **new customers** also in areas where the branch network is not directly located, establishing also new cooperation arrangements with local enterprise associations;
- The "**Preauthorized loans**" initiative dedicated to Customers with good creditworthiness and operating in target industries, with shortened authorization-giving procedures, which, therefore, gives Customers the possibility to immediately obtain the liquidity required;
- **The use of instruments and agreements with various financial institutions** in order to develop "capital light" products, i.e. with reduced capital absorption and competitive prices (EIB allocation, European Investment Fund (EIF) allocation, the agreement between the Italian Banking Association and Cassa Depositi e Prestiti on "Capital Equipment Allocation", Guarantees provided by SACE and by the Italian State Guaranty Fund for SMEs);

In 2016, **innovative products** were implemented, such as:

- **"Net-Matching"**, a web-based platform to foster networking between enterprises and to search for and meet new commercial and business partners;
- **"Electronic advances on invoices"**, a service allowing enterprises to improve the efficiency of documentary exchange with their vendors and customers.

DIRECT CHANNELS AND DIGITAL TRANSFORMATION

In 2016, the Group focused on the acquisition of new Customers, on widening its multichannel supply, on developing its range of remote products and services and on the promotion of and incentive to the use of direct channels, as provided for by the "*Ambizione Italia 2020*" Medium Term Plan.

The 2016 strategy was implemented with the following main projects:

- The **acquisition** and **development** of new Customers, which was supported by important partnership agreements with third-party companies and with companies of the Group, thus leveraging the synergies within the Crédit Agricole Group in Italy;
- 100% online procedure for paying out Agos loans to Customers of the Crédit Agricole Italia Banking Group having the Nowbanking multichannel package;
- The continuous development of the **mobile banking** channel, with the implementation of over 70 functions on the Nowbanking App, for both Smartphones and Tablets, available for iOS, Android and Windows users;
- The release of an **App** enabling **teenagers** to digitally manage their pocket money and a purchase wish list and providing parents with a tool to support and control their children's financial education. It is , the only such product in the Italian scenario.

- The launch of ***Mutuo Adesso***, a new website entirely dedicated to real estate mortgage loans, which was created to meet the increasing demand for Omnichannel mode and fast response. **This new portal, with the Crédit Agricole Italia brand, continues the online challenge that has already been undertaken by Crédit Agricole in France with the E-Immobilier portal.**

In 2016, important marketing and communication actions were implemented focusing on the following lines:
- **Continuous presence on the web**, especially on the most used search engines in the Italian scenario;
- Specific promotion actions to communicate the Group's online product range based on "*Conto Adesso*", in order to contribute to the online acquisition of new Customers;
- **Online survey of Customer Satisfaction**, certified by an independent company, within the *Conto Adesso* mini website;
- Incentives to the use of the online channel for transactions, with specific reference to asset management.

AWARDS

Also in 2016, Banca Popolare FriulAdria pursued its value of commitment to its area of operations and proximity to local players and stakeholders, with evidence given by two awards:
- The Italian Association for Financial Innovation awarded the "*Banca e Territorio*" [Bank and Community] Prize to Banca Popolare FriulAdria, in the category "Initiatives supporting local development" for "*Soluzione e-commerce*", the Bank's package of services for online business;
- Milano Finanza Global Awards – Leader Creatori di Valore [Leaders in Vlue Creation] – Friuli Venezia Giulia Region,

Moreover, the Group's experience and commitment were acknowledged with the renowned "2016 Financial Reporting Oscar" in the category of Banks Financial Companies and Insurance Undertakings.

THE WORKFORCE

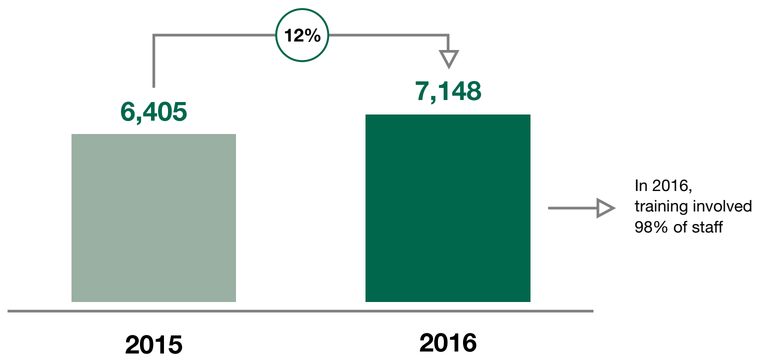
As at 31 December 2016, the Bank's Employees on staff were 1,477 (of whom 99 seconded to Parent Company and to Crédit Agricole Group Solutions), with an average age of 47 years and 1 month, average seniority in service of 21 years and 3 months and women accounting for 43.3% of total Employees. 99.3% of the Bank's staff consists of employees with a permanent employment contract, 36.2% consists of University graduates and 23.6% of the manager positions is held by women. The portion of staff with a part-time job was 15.3%.

In 2016, 21 resources were recruited vs. 15 terminations.

In 2016, the "*Ambizione Italia 2020*" Medium-Term Plan (MTP) for the Group was presented and provides also for several significant actions on staff ("Resources and Development" pillar) aimed at investing in people's training and growth, at attracting and enhancing new talents, from the outside and from the inside, and at investing in dedicated IT.

Implementing the Medium-Term Plan (MTP), in 2016 training was focused on, with 7,148 man-days worth of training provided, involving 98% of Employees. Investments in training aimed at the improvement of the Resources' effectiveness, at their assuming responsibilities, at their technical training on compliance, lending, finance, insurance and occupational safety, in line with the latest development in the applicable legislation and the obligations set down by the Regulators. Moreover, significant investments were made in behavioural training, which, in 2016, was extended to all commercial banking account managers.

Training in man-days



As regards the actions aimed at the growth and enhancement of people, initiatives continued implementing Group projects (Open Talent and *Energia in Movimento* [Moving Energy]) and projects of the Bank (High Flyers), aimed at ensuring especially crosswise and interfunctional development of Banca Popolare FriulAdria's young talents. Moreover, in the reporting year, some internal communication initiatives were started, aimed at fostering open and direct exchange, as well as at promoting awareness and change: at the first meeting, involving 30 managers of Banca Popolare FriulAdria, was followed by 7 meetings directly with the General Manager, which involved over 50 employees vested with responsibilities and/or with high potential for development, as well as by 7 meetings between the General Management and all the staff of central Departments.

In 2016, the "Off-premises Account Managers" pilot project became operational with the setting up in the Group of the Financial Advisors new distribution channel and with the recruitment by Banca Popolare FriulAdria of 8 experienced resources on the market, who joined the 12 resources already assigned to this project in 2015.

The organizational and model changes implemented by the MTP entailed the starting of significant actions for professional retraining and reconversion of staff. In 2016, meetings with the Trade Unions started, at Group level, in order to identify solutions fit to limit the impact on staff of the above actions; subsequently some agreements were signed providing for the benefits of the Solidarity fund for banking sector employees to be assigned to 40 resources of Banca Popolare FriulAdria.

In terms of Consultancy Social Responsibility, along with the actions that were started in previous years and were further reasserted in 2016 ("payroll giving" charity, the PSYA service for listing and psychological support provided to employees and their families, the Bank's social responsibility prize, with the possibility for employees to receive supplementary health care services, complementary pension, education and training for their children), the "*Volontari di valore*" [Worthy Volunteers] started, part of the FReD project for company voluntary work, which has been designed and organized by Banca Popolare FriulAdria in order to foster its employees' proactive participation in the life of the community, as well as to promote the evolution of its corporate culture towards higher awareness of diversity and solidarity, consistently and in compliance with the Group's Corporate Social Responsibility policies. "*Volontari di valore*" generated the first two corporate voluntary work actions in 2016, in Pordenone and in Padua; these actions were organized by the Human Resources Divisions and by the Shareholders and Communication Service in cooperation with Legambiente (Italian environmentalist association), and over 70 employees wholeheartedly joined in.

FINANCE

The directions followed by the Crédit Agricole Italia Banking Group concerning financial balances rest of three main guidelines:

- the management of interest rate risk;
- the management of liquidity risk;
- capital management.

The objectives regarding the management of interest rate risk, consistently with the past, concerned the hedging of the Group cumulative exposure by Bank. The exposure was kept within the limits set by the Risk Strategy, achieving significant protection of profitability, as substantiated, also for 2016, by the contributions to the Income Statement of the existing hedges.

As regards liquidity, refinancing strategies led to diversification of sources, namely the Covered Bond market, TLTROs II and access to the EIB funds.

Specifically, at the beginning of October 2016, the Parent Company made a new issue on the Covered Bond market, in a dual-tranche format. This new issue received a favourable feedback from institutional investors and bonds were successfully placed for an amount of Euro 1.5 billion, thus allowing funding to be further stabilized at modest costs, with diversified longer maturities (8 and 15 years).

Another refinancing source that the Entities of the Group are continuing to use consists of EIB funds.

RISK MANAGEMENT

Objectives and policies on risk taking, management and hedging

1. SUMMARY OF THE SYSTEM, PERIMETER AND ROLES

The Crédit Agricole Italia Banking Group attaches great importance to the measurement, management and control of risks, in order to achieve sustainable growth in a political-economic situation, such as the present one, featuring high complexity and evolving rapidly.

Within the Crédit Agricole Italia Banking Group, the Parent Company Crédit Agricole Cariparma is responsible for overall steering, managing and controlling risks at a Group level, triggering operating action plans that allow reliable control on all risk situations. In turn, the system set by Crédit Agricole Cariparma is based on the Supervisory regulations and on the directions issued by Credit Agricole S.A. concerning its subsidiaries. The Risk Management and Permanent Controls Department performs risk management and control activities for all the Companies of the Crédit Agricole Italia Banking Group.

The founding principles informing all activities for risk management and control are the following:

- clear identification of risk-taking responsibilities;
- measurement and control systems that are compliant with the Supervisory instructions and in line with the solutions more frequently adopted at an international level;
- organizational separation between operating and control functions.

The perimeter of detected, monitored and integrated risks (taking account of diversification advantages) in the economic capital includes:

- credit and counterparty risks; this category also includes concentration risk;
- market risk of the Trading Book;
- price risk of the Banking Book;
- interest rate risk of the Banking Book;
- liquidity risk;
- exchange rate risk of the Banking Book;
- operational risk.

The Crédit Agricole Italia Banking Group updates, normally on a yearly basis, its Risk Strategy, which sets the levels of risk (credit, financial, market and operational risks) which the Group deems adequate to its development strategy. Based on the Strategy, which is submitted to the Risk Committee of Crédit Agricole S.A. for its approval, global limits are set (alert thresholds) and are appropriately integrated with operational limits that are specific to each single Entity in the Group. This system, setting limits and/or alert thresholds, is submitted to the Boards of Directors of the Parent Company Crédit Agricole Cariparma and of the single Entities of the Group for their approval.

The Crédit Agricole Italia Banking Group has set down its Risk Appetite Framework – “RAF” at the BoD meeting held on 11 February 2016. This risk appetite statement is an integral part and plays a pivotal role in the definition of the Governance framework, since, consistently with the maximum risk that may be taken, it includes the business model and the strategic plan, the risk appetite, tolerance thresholds, risk limits, risk governance policies and the reference processes required to define and implement them.

Moreover, in 2016, the Risk Appetite Framework was further strengthened with the renewal of the Policies on the RAF and on the Most Relevant Transactions (*Operazioni di Maggior Rilievo* – MRT or with the Italian acronym OMR), as well as with the preparation of the Risk Appetite Statement (RAS). This document reports the governance process regarding risk management, identifying the roles of the management and control bodies within the Group for proper monitoring of risks and correct definition of the RAF; finally, the main qualitative and quantitative risks are mapped, for which risk indicators and the relevant alert thresholds have been set; in case these are exceeded, a Recovery Plan process shall be triggered.

The main Group Committees in charge of specific risk scopes are:

- The Internal Control Committee that coordinates the control departments (Internal Audit, Compliance, Risk Management and Permanent Controls), as well as the internal control system as a whole, in accordance with the procedures implemented by Crédit Agricole at Group level;
- The Risk Management Committee that examines and approves the guidelines for risk management, gives opinions on the specific Risk Policies submitted for approval to the Board of Directors and resolves on any proposals made by the operational working groups, which all matters that are specific to the different risks are referred to;
- the Compliance Management Committee that analyzes the status of the applicable regulations and makes proposals for corrective actions, where needed.

In accordance with their respective responsibilities, the Departments engaged in control functions sit also on other management Committees, including the New Activities and New Products Committee (Italian acronym NAP), the ALM Committee, the Investment Committee, the Loan Committee and the Loan Monitoring Committee.

Finally, the Departments engaged in control functions participate in and report to the Audit Committee for Internal Control; this is a Board Committee set up by the Board of Directors in order to have support in ensuring the effectiveness of the internal control system, pursuant to the “Supervisory provisions concerning banks’ organization and corporate governance” issued by the Bank of Italy on 4 March 2008, which recommend that Board Committees be set up within entities that are large-sized or feature high complexity.

The Audit Committee for Internal Control also verifies whether the incentive system implemented by Banca Popolare FriulAdria is consistent with the applicable regulatory provisions.

2. RISK MANAGEMENT AND HEDGING

Credit Risk

In the Crédit Agricole Italia Banking Group, the lending process (strategies, decision-making powers, rules for the authorization and management of loans) has been developed in accordance with the guidelines issued by the Parent Company Crédit Agricole S.A and aims at:

- achieving an objective that is sustainable and consistent with its risk appetite and with the creation of value of the Group, ensuring and improving the quality of lending assets;
- Diversifying the portfolio, by limiting the concentration of exposures to single counterparties/groups, economic activity sectors or geographical areas;
- Efficiently selecting the economic groups and single borrowers, by means of thorough analysis of credit worthiness in order to mitigate the risk of default;
- Favouring, in the present economic situation that shows some signals of improvement, lending actions that support households, the real economy and the productive system, steering appropriate lending measures aimed at selectively developing and supporting business with the worthiest Customers.
- Constant control of accounts and relating exposures, both through IT procedures and through systemic monitoring of less than fully performing positions, in order to promptly detect and manage any signs of impairment.

This process is regulated based on different phases, in order to identify the risk management standards, the actions to implement for the proper application of such standards, the units responsible for carrying out the above activities and the procedures supporting them. The subdivision into phases and the assignment of tasks to the different organizational structures are made focussing on the process operativeness, that is to say its fitness to achieve the set objectives (effectiveness) and its ability to achieve then at consistent costs (efficiency).

In the present economic situation that shows some signs of improvement but a still weak growth trend, the Crédit Agricole Italia Banking Group has reasserted its systematic control on the developments in the quality of the Loans-to Customers Portfolio, with the objective of making the monitoring on riskiest exposures even more selective, from early warnings on, to promptly detect any sign of their being non-performing, and to take more and more effective action to control credit risk.

Also in 2016, the constant monitoring of the loan portfolio quality was pursued by adopting precise operating procedures in all phases of the loan position management, in order to ensure preventive management of default risk. The set of loans is subject to thorough and constant monitoring by means of a pre-set control system based on rating, performance monitoring, and early warning indicators that allow prompt management of positions at the very earliest warning and interact with the processes and procedures for loans management and control.

The organizational structure, the procedures and tools supporting the system for the management of problem loans ensure prompt triggering of the actions and measures required to restore the position to a performing status, or prompt triggering of recovery actions where the conditions rule out the continuance of the business relation.

The Group has implemented a wide set of tools for the measurement and management of credit risks, which can ensure control on an individual basis of the quality of its loan portfolio; in 2016, the efficiency of such tools was further increased.

The Group pursues the mitigation of credit risk by entering into ancillary agreements or by adopting tools and techniques that ensure actual mitigation of this risk. Particular attention is given to securing and managing guarantees through the definition of and compliance with general and specific requirements, and to updating the value of the guarantees.

After the loan authorization and disbursement, the position is assessed on a time basis (fixed deadlines or set frequency) or upon reporting/initiative of structures engaged in the review of credit lines, also based on any deterioration of performance risk indicators, in order to verify that:

- The borrower and the relevant guarantors remain solvent;
- The requirements of the guarantees remain complied with (legal certainty, prompt realization and value consistency with the exposure).

IRB/Basel II advanced approach

For determining its capital requirement for credit risk, the Crédit Agricole Italia Banking Group has been using (since December 2013) internal ratings with an Internal Rating Based – Advanced approach (PD and LGD internal models) for the Banks Crédit Agricole Cariparma and Banca Popolare FriulAdria, regarding “Retail Loan Exposures”, the so-called “Retail Portfolio”.

The Crédit Agricole Italia Banking Group started the activities to extend the use of advanced approaches (roll-out plan) also to the same portfolio of the subsidiary Crédit Agricole Carispezia.

As regards the “Exposures to Corporate Customers” portfolio, in line with the strategic directions issued by the Parent Company Crédit Agricole S.A., the Crédit Agricole Italia Banking Group started the methodological, organizational and technological actions required to obtain the validation also for this exposure class.

The present choice of treating all exposures referring to the subsidiary Crédit Agricole Leasing (hereinafter referred to as CALIT) on a Permanent Partial Use (PPU) basis has been made given the immateriality of the portfolio size and given the specificities of Crédit Agricole Leasing Italia’s core business within the Crédit Agricole Italia Banking Group as a whole.

The risk measurement system is fully integrated in the decision-making processes and in the management of corporate operations: the rating system has long played an essential role in loan authorization, risk management, internal allocation of capital and in the Bank governance functions, as well as in contributing to ensure risk prevention and mitigation. In order to ensure that lending processes and credit risk measurement are homogeneous, the internal models are used by all the Entities of the Crédit Agricole Italia Banking Group (that is to say, Crédit Agricole Cariparma, Banca Popolare FriulAdria, Crédit Agricole Carispezia and Crédit Agricole Leasing Italia).

The rating systems are used within the main phases in the lending value chain. With specific reference to loan authorization and monitoring, the management use of the rating system results in:

- Lending policies: the set lending policies govern the procedures through which the Banks and the Companies of the Crédit Agricole Italia Banking Group authorize loans and manage credit risk;
- Loan authorization: the assessment of the creditworthiness upon the first authorization and upon review of/change in credit lines, as well as for determination of decision-making powers in terms of loan authorization;
- Loan monitoring: the use of the performance-measuring PD, combined with other variables, for performance monitoring, in order to detect and correct non-performing positions before they are classified as defaulted;

- Collective write-down: the approach for the collective write-down of Performing Loans implemented by Banca Popolare FriulAdria uses the Basel metrics to determine the amount of the provision (PD and LGD), as well as to identify sensitive loans subject to write-down;
- Reporting: the use of risk measures produced by Banca Popolare FriulAdria's reporting model.

1	**Lending policies**	Integrated Rating systems (PD) to identify policies and development actions for worthy counterparties.
2	**Authorization and Renewal**	Rating Systems linked to the decision-making powers systems.
3	**Management and Monitoring**	Performance Monitoring System based on "performance" PD and on a set of additional indicators.
4	**Other processes**	Loan reporting. Periodic preparation of Reports on Credit Risk performance, using the Basel 2 risk parameters (PD, LGD) Accounting and Financial Reporting. Use of the Basel II Risk parameters for collective writedowns.

Such full integration in the loan management processes allows the creation and development of internal models that support the measurement of creditworthiness and can be used to assess, with statistical objectivity, the probability that the (Retail) counterparties default.

The calculation of the mandatory capital requirements using internal rating-based approaches allows optimal management of the regulatory capital, as it also allows a "weighted" analysis of the loan portfolio, "aware" lending development considering the risks taken and, thus, better planning of loans and of credit risk over the medium-/long-term.

Finally, more effective detection and measurement of risks allows better disclosure and subsequent enhanced transparency in reporting, which is a key element to meet the requirements of Banca Popolare FriulAdria's various Stakeholders.

Interest Rate risk and Price risk of the Banking Book

The measurement, management and control of financial balance (ALM) concern the modelled positions of the Banking Book . The Banking Book consists of typical positions in the Group's business operations, which are lending and funding without trading objectives . Interest rate risk, therefore, is measured with reference to all on-balance-sheet and off-balance-sheet transactions, excluding the supervisory trading book.

The Governance model adopted by the Crédit Agricole Italia Banking Group assigns the responsibility for the measurement and management of interest rate risk to the CFO, who, through the Finance Department of Crédit Agricole Cariparma, performs centralized management of this risk at Group level and for the single Entities of the Group, in accordance with the guidelines set down by Crédit Agricole S.A.

The Risk and Permanent Controls Department of Crédit Agricole Cariparma is responsible for independent control of the interest rate risk management system, by verifying its compliance with the risk measurement model.

In 2016, the hedging of interest rate risk continued with the purchase of derivatives, namely Interest Rate Swaps and Interest Rate Options. Fixed-rate debt instruments loans have been hedged (micro-hedging), mortgage loans with cap to Customers (macro-hedging) and interest rate gaps detected by the internal model, which have been subject to macro hedging.

The investment portfolio, held for Liquidity Coverage Ratio (LCR) purposes, consists of Italian Government Securities for amounts that have been set down by the Risk Committee of the Crédit Agricole S.A. Group and approved by the ALM Committee. These securities, having modest average duration, have been hedged against interest rate risk.

The limits to the price risk of the Banking Book price are defined on the basis of the type of instruments that can be held (Italian, German and French Government Securities) and are expressed with reference to the maximum nominal value that can be held by every Bank of the Group.
The Group has also implemented a stress analysis method to be used on the prices of the assets falling within this scope, setting a system of limits in force at Group level and of alert thresholds that are consistent with the standards set by Crédit Agricole S.A.

The Risk and Permanent Controls Department of Crédit Agricole Cariparma is responsible for independent control of the system for Banking Book price risk management, by verifying its compliance with the stress testing method set down by Crédit Agricole S.A.

Liquidity risk

For Banks, liquidity risk, both short-term and medium-/long-term, is the risk of not being able to promptly meet their payment obligations, due to the fact that they cannot obtain funding on the market (funding liquidity risk) and cannot sell their assets on the market (market liquidity risk).

The Governance model adopted by the Crédit Agricole Italia Banking Group assigns the responsibility for the measurement and management of liquidity risk to the CFO, who, through the Finance Department of Crédit Agricole Cariparma, performs centralized management of this risk at Group level, in accordance with the guidelines set down by Crédit Agricole S.A.

The Risk Management and Permanent Controls Department is tasked with the monitoring of liquidity risk, again in accordance with the guidelines set down by the Crédit Agricole S.A. Group.

The management of short-term liquidity, that is to say, the management of events impacting on the liquidity position of the Crédit Agricole Italia Banking Group in a time horizon from over-night to 12 months, has the main objective of maintaining the Group's ability to meet its recurring and non-recurring payment obligations, minimizing the relevant costs.

In order to monitor short-term liquidity management, the Crédit Agricole Italia Banking Group has implemented a system of limits in accordance with the provisions set down by the Crédit Agricole S.A. Group, which is based on stress scenarios in order to ensure surplus liquidity on various time horizons and in increasingly stressful scenarios. The stress assumptions used cover idiosyncratic crises, systemic crises and global crises. Specifically, a short-term interbank refinancing limit (LCT – *Limite Court Terme*) has been set, which aims at ensuring a liquidity surplus over a one-year time horizon in a market featuring stress conditions.

Medium-/long-term liquidity management entails the identification of alert thresholds by determining dedicated indicators and ratios. They aim at ensuring the Group's financial balance between stable resources (medium-/long-term market resources, funding from Customers, own funds) and long-term uses (non-current assets, loans to Customers and liquidity reserves), as well as at limiting concentration of maturities within medium-/long-term funding. Positive levels of the Stable Resources Position (Italian acronym PRS) and of the Net Stable Funding Ratio (NSFR) substantiate Banca Popolare FriulAdria's ability to support its assets during a crisis and, by monitoring the medium-/long-term due register, a balance can be kept between the maturities of resources and long-term uses.

In 2016, in compliance with the Basel III regulatory framework, the Group reported its LCR (liquidity coverage ratio) to the Supervisory Bodies on a regular basis. As at 31 December 2016, the Group's Liquidity Coverage Ratio (LCR) was 142%, whereas the LCR of Banca Popolare FriulAdria was 112%.

Market risk of the Trading Book;

Market risk is generated by the Bank's position limited to the Trading Book for supervisory purposes. Banca Popolare FriulAdria does not carry out significant proprietary trading activities in financial and capital markets; the positions reported are exclusively those resulting from placing and trading operations performed to meet Customers' requirements.

Moreover, the Group, since it is part of the Crédit Agricole S.A. Group, is subject to the Volcker Rule and to the "*Loi francaise de séparation et de régulation des activitès bancaires*" (LBF), which prohibit any banking entity from engaging in proprietary speculative trading with Customers.

Within its operations, the Bank sells "over the counter" (OTC) derivatives to Customers, through a specialist team supporting its intermediation activities. Intermediated derivatives are hedged back-to-back in order to mitigate market risk. Moreover, Credit Support Annex (CSA) agreements have been signed with the main market counterparties, in order to mitigate exposure to credit risk.

Banca Popolare FriulAdria aims at meeting the requirements of Customers that use derivative instruments to hedge interest rate risk (Retail and Corporate mortgage loans) and exchange rate risk (Corporate).

In accordance with the guidelines issued by the Crédit Agricole S.A. Group and with the prudential regulations, the market risk framework system is reviewed normally on a yearly basis within the Risk Strategy of the Crédit Agricole Italia Banking Group and is approved both by the Boards of Directors of the Parent Company Crédit Agricole Cariparma and of Banca Popolare FriulAdria, and by the Group Risks Committee of Crédit Agricole S.A.

Operational risks

The definition of operational risk adopted by the Group is the one set down in the document "Basel II – International Convergence of Capital Measurement and Capital Standards" prepared by the Basel Committee on Banking Supervision, which reads "Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events". This definition includes *legal* risk, which covers but is not limited to, exposure to fines, penalties, or punitive damages resulting from supervisory actions, as well as private settlements.

To consolidate and enhance control of operational risks, the Group has set macro-objectives:

- constant full compliance with the regulatory requirements for the use of the Traditional Standardised Approach (TSA) for the calculation of the Regulatory Capital as provided for by the Basel standards, except Crédit Agricole Leasing Italian (an intermediary pursuant to Article 107 of the Italian Consolidated Banking Act – TUB), which uses the base approach;
- monitoring of risks and losses, in order to allow a management-oriented approach, especially in terms of risk mitigation and prevention initiatives;
- fine-tuning of the permanent controls systems and extension of the coverage of the same controls within the company perimeter.

The Risk Management and Permanent Controls Department is the reference structure in the management of operational risks at Group level and is responsible for ensuring the existence, completeness and relevance of the permanent controls implemented by the

Group, by means of a structured and traceable control plan, as well, consequently, for assuring the General Management and the Boards of Directors that the various types of risks are actually under control.

In this regard, the Risk Management and Permanent Controls Department proactively participates in the most important corporate projects, especially those with high organizational impact, in order to provide its contribution, from the earliest phases, for consistent and complete preparation of the mechanisms for the management of the risks that are inherent in each project.

The management of operational risks requires sharing and proactivity also by all corporate structures; therefore, within the scope of permanent controls and operational risks, in order be at all times fully aware of the risk issues associated to the different corporate processes, both specific control roles operate within the corporate departments and mechanisms that are functional to the set targets have been implemented:

- Operational Risk Manager (ORM or with the Italian acronym MRO), who is responsible for reporting the presence of actual and potential risks in the various corporate structures and for coordinating the implementation of permanent controls;
- Manager in charge of Control on Outsourced Important Operational Functions/Provision of Outsourced Essential Services (Italian acronyms FOIE/PSEE), on Physical Security and on the Business Continuity Plan (BCP or with the Italian acronym PCO);
- CISO (Chief Information Security Officer), who is responsible for monitoring and controlling all aspects concerning IT security, from the relevant policy to risk analysis and action plans;
- Business Continuity Manager (BCM), who is responsible for the Group's Business Continuity Plan;
- Persons in charge of Controls, within the Distribution Network structures, with the task of performing 2nd degree-1st level permanent controls;
- Fraud Prevention Unit (FPU or with the Italian acronym NAF), having the task of monitoring and making decisions on fraud-related problems;
- Structures and tools, instrumental for proper risk control and for the management of mitigation/improvement actions, including:
  - the Risk Management Committee, which is described above;
  - The system of remote controls for the Distribution Network, together with early warning indicators, aimed at detecting any irregular situations;
  - Improvement Work Groups, meetings with the Branches that showed problems in the outcomes of permanent controls, of inspections carried out by the Internal Audit Department and in other verifications; during such meetings, together with the heads of the Retail Banking Areas, the problems detected are analyzed and an action plan for improvement is prepared;
  - The interfunction Work Group on Outsourced Important Operational Functions/ Provision of Outsourced Essential Services (Italian acronyms FOIE/PSEE), having the task of monitoring and making decisions on any problems regarding the outsourcing of functions that are defined as "essential or important" in accordance with the applicable Supervisory rules.

The activities that are outsourced and contracted out to external providers are always governed by a service agreement that, in addition to regulating the provision of the service, provides for a system of controls on the set qualitative and quantitative levels. In accordance with the various scopes, internal reference roles are identified within Banca Popolare FriulAdria's structures, who report to the competent Departments of the Parent Company on the general reliability of the contract relationship.

Finally, special controls are triggered where the activities outsourced can be defined as "important/essential operational functions" (Italian acronym FOI), pursuant to Bank of Italy–CONSOB (Italian Securities and Exchange Commission) joint regulation and to Bank of Italy

Circular No. 285/2013; in this regard, the main corporate regulatory reference, consisting of a specific Group policy that implements the Supervisory provisions, organically defines the system of controls as required in case of outsourcing of important operational functions.

3. INTERNAL CONTROL SYSTEM

The Crédit Agricole Italia Banking Group has progressively upgraded its internal control system to the applicable Supervisory provisions (Bank of Italy Circular No. 285/2013) and to the model implemented by the Controlling Company Crédit Agricole S.A.; therefore, it implements a system aimed at:

- constant control of risks;
- adequacy of the control activities to its organizational structure;
- ensuring reliability, accuracy and promptness of reporting.

The internal control system provides for the involvement of the Collective Bodies, of the Departments engaged in control functions, of the "*Organismo di vigilanza*" (Body in charge of offence prevention -AML, Terrorism Financing, etc. – provided for by the Italian Law), of the Independent Auditors, of the Top Management of the Group' Companies and of all Staff members.

The analysis and monitoring of risks are carried out based on Group references, which provide for verification of abidance by the regulatory terms, of the reliability of process and their exercise, security and compliance.

The control system provides also for the implementation of a mechanism of:

- permanent control, which comprises:
  - 1st-degree controls, exercised on a continuous basis, at the start-up of a transaction and during the process for its validation, by the employees performing it, by the persons they report to on solid line, or executed by the automated systems for transaction processing; the activities for the production of accounting data and for the preparation of the Annual Report and Financial Statements are subject to specific first-degree controls that are carried out within the accounting units;
  - 2nd-degree/first-level (2.1) controls, which are carried out by persons engaged in operating tasks, but other than those directly involved in making the decisions on the transaction subject to control; specifically, within the central administrative structures, controls are performed to monitor all departments and roles that can access the accounting information system;
  - 2nd-degree/second-level (2.2) controls, which are carried out by staff who is engaged in specialist functions for top level permanent controls and is not authorized to take risks, i.e. staff engaged in Compliance, Risk Management and Permanent Controls functions;
- periodic control, consisting of a 3rd-degree control, which is performed by the Internal Audit Department on a periodic basis through remote verifications, on-site inspections and audits of documents.

The updating of the regulatory system is also constantly focused on and, in addition to the upgrading to the regulations already implemented, also entails a coverage extension through specific policies that are in force for the Group as a whole.

The Departments, Divisions and Services engaged in 2nd-degree/2nd-level (2.2) and 3rd-degree controls report to the Boards of Directors of the single Companies on:

- activities carried out;
- main risks detected;
- Identification and implementation of the mitigation mechanisms and the effects of their implementation.

Activities of the Validation Unit

The activities within the Validation Function are governed by the specific Policy that was approved by the Board of Directors of Crédit Agricole Cariparma in February 2015 and by the guidelines issued in March 2016 by the *Direction Risque Group* of Crédit Agricole S.A. This document sets down the relevant work approaches, scopes of action, controls and tolerance thresholds, as well as the rules governing the reporting process and the follow-up of recommendations. The Validation Policy shall be submitted, in its updated version, to the Board of Directors of Crédit Agricole Cariparma in February 2017, also in order to fully implement the guidelines governing the internal validation of the risk measurement approaches within the Crédit Agricole Group.

The structure enga ged in the Validation Function, in accordance with the supervisory regulations, is responsible for verifying:

- The accuracy and predictivity of the internal estimates of risk parameters;
- Proper use of the internally estimated risk parameters within management processes;
- Compliance with regulatory provisions of the governance model and of the features of the internal rating system;
- Compliance with the regulatory standards governing the architecture and operation of the information systems supporting the risk measurement process;
- The completeness, accuracy, consistency and integrity of the information used within the process to estimate risk parameters.

In the Crédit Agricole Italia Banking Group, the Validation Function is performed by the Validation Service that reports on a solid line to the Executive at the head of the Risk Management and Permanent Controls Department of Crédit Agricole Cariparma and on a dotted line to the "*Validation des Modèles*" Unit of Crédit Agricole S.A. In performing its mission, the Validation Service is independent of the structures and roles engaged in rating assignment and loan authorization, in compliance with the applicable regulatory provisions. All validation activities are certified on a yearly basis by the Internal Audit Department.

OTHER INFORMATION

NATIONAL TAX CONSOLIDATION REGIME

Effective since 2013, Crédit Agricole Cariparma and some Italian Companies of its Group, including Banca Popolare FriulAdria, Crédit Agricole Carispezia, Crédit Agricole Leasing Italia and Crédit Agricole Group Solutions, have adopted the "Italian national tax consolidation regime", which is governed by Articles 117-129 of the Italian Consolidated Act on Income Taxes (TUIR) and was introduced in the Italian tax legislation with Italian Legislative Decree No. 344/2003.

In March 2016, the national tax consolidation scheme was adopted, with effects since the 2015 tax period, by the Crédit Agricole S.A. Group in Italy; such scheme was introduced with Article 6 of Italian Legislative Decree No. 147 of 14 September 2015, according to which also the Italian "sister" companies, whose controlling Company is resident in a EU Member State, may exercise the option for consolidated taxation.

18 Companies of the Group opted to join the tax consolidation scheme and, having been designated by Crédit Agricole S.A., Crédit Agricole Cariparma has undertaken the role of Consolidating Entity.

This regime provides for the consolidated companies to transfer their taxable income (or their tax loss) to the Controlling Company Crédit Agricole Cariparma, which calculates a single taxable income or a single tax loss for the Group, as the algebraic sum of the income and/or losses of the single Companies, and recognizes a single tax account payable to or receivable from the Italian Inland revenue Service.

However, it is to be pointed out that the Italian corporate income tax (IRES) due on the income of Banca Popolare FriulAdria is paid to the Friuli Venezia Giulia Region, thus ensuring that the Region shares the wealth produced and confirming in actual fact, the Group's strong and tangible bond to its community.

RESEARCH AND DEVELOPMENT

No research and development activities were performed in the year.

RISKS AND UNCERTAINTIES

The policies for the monitoring, management and control of risks remain key and priority pillars based of which the Banks will have to measure, both against one another and against domestic and international markets.

Reference is made to other sections of the Note to the Financial Statements for exhaustive reporting on the risks and uncertainties which Banca Popolare FriulAdria is exposed to (and on the techniques implemented for their mitigation), while it cannot but be emphasized once more the constant focus that Banca Popolare FriulAdria and its Management have kept on the monitoring of risks and uncertainties, also to comply with the countless recommendations that the national and international Authorities have been issuing on this topic

Indeed, the governance bodies of Banca Popolare FriulAdria are fully aware that sustainable development and growth absolutely require also an effective analysis of the risks which Banca Popolare FriulAdria is exposed to and of the relating uncertainties, in terms of impacts that these risks could have on Banca Popolare FriulAdria's financial position, cash flows and performance. Effective management and mitigation of the same risks to acceptably low levels are another crucial requirement for sustainable growth, also in order to protect savings (and, with them, Customers' confidence) on the one hand, and loans (healthy and drivers of growth) on the other.

The Management believes that the present overall performance of the domestic and international economies (financial and real) is such as to require, in addition to monetary and real policy measures to be adopted by supranational and national bodies (with the purpose of boosting the present weak recovery), also appropriate policies for constant enhancement of the monitoring of risks and uncertainties by financial players, such as the ones implemented by Banca Popolare FriulAdria.

The Management is indeed fully aware that financial players must constantly implement growth and development policies that, at the same time, focus on the safeguarding and protection of the interests of all Stakeholders, without shirking, because of this very reason, the institutional role that Banca Popolare FriulAdria, as such, plays both in terms of support to the economic and social fabric of its Customer Enterprises, and in terms of enhancement of that key factor for development and success which consists in effective and prudential management of savings.

RELATIONSHIPS AND TRANSACTION WITH GROUP COMPANIES

Within the wider organizational model of the Crédit Agricole Italia Banking Group, the Parent Company Crédit Agricole Cariparma strategic management, direction and control functions, i.e. Governance functions, as well as activities directly or indirectly supporting the business (Service).

Crédit Agricole Group Solutions is a service provider and a consortium company that was incorporated in order for the Group to benefit from scale economies; all the activities regarding operations and information technology of the Banking Group and of some Italian companies directly or indirectly controlled by Crédit Agricole S.A. Were transferred to Crédit Agricole Group Solutions.

The relations and transactions with the Parent Company and with the other companies of the Banking Group, given the reciprocal advantage and concrete interest of both parties, are governed by specific service agreements, in accordance with the international accounting standards and with the tax regulations, ensuring the protection of minority Shareholders and combining effectiveness and efficiency in the synergic governance of intra-group relations.

The provision of the single services is governed by "Service Level Agreements" (SLAs), which set down the general principles and regulate the provision of "services" and the relevant transactions in terms of prices. All such relations and transactions have been assessed also in terms of potential conflicts of interest. The prices applied for such transactions are set through a specific procedure that calculates the relevant values based on the costs of the resources used, on ancillary costs and such values are always comparable to market standards, in accordance with the range, nature, promptness and quality of the overall services provided.

Banca Popolare FriulAdria has also cooperation relations with Crédit Agricole product companies in the fields of insurance, asset management, specialized financial services, lending and investment banking services.

The qualitative and quantitative analysis of the transactions carried out in the period with the Companies of the Group, as parties falling within the definition of related party, in accordance with the definition of related parties set down by the Regulation for the management of transactions with Related Parties of Banca Popolare FriulAdria and Parties associated to the Crédit Agricole Italia Banking Group, is reported in Part H of the Note to the Financial Statements, to which reference is made.

In the year, no atypical or unusual transactions were carried out whose size or features might have jeopardized or affected the protection of corporate assets and the interests of minority shareholders.

THE SOLIDARITY FUND

The "*Ambizione Italia 2020*" Strategic Plan provides for significant innovations and investments to upgrade the service model to Customers' changed requirements. This objective is being pursued through various IT innovations, through the development of alternative distribution channels and through an appropriate generational turnover and professional conversion.

In this perspective, in 2016 a Group-wide agreement was signed to give the possibility to our employees that will become eligible for pension in the next few years to opt, on for voluntary basis, for early termination of their employment in 2017, receiving incentives, by accessing the Solidarity Fund.

In reasserting the voluntary choice to join this scheme, this important agreement is first of all intended for those colleagues that are going through very significant difficulties in personal or family terms.

As regards Banca Popolare FriulAdria, 40 employees joined this scheme.

In this scope, in order also to fulfil a need for generational turnover, the recruitment of young people has been planned for 2017.

OUTLOOK

SIGNIFICANT EVENTS OCCURRED AFTER THE REPORTING DATE

As regards Banca Popolare FriulAdria, it is reported that, from 31 December 2016 to the date of approval of this Report, no events occurred which could generate significant changes in the Bank's structure and in its profit (loss) for 2016.

MACROECONOMIC AND BANKING OUTLOOK FOR 2017

MACROECONOMIC SCENARIO(12)

In the forecast scenarios, the weight of political aspects has increased significantly. The **United States**' announced intention to strengthen their domestic growth by expanding their budget and by implementing protectionist policies with restraints on trade and immigration has caused concern to the Countries that rely on international resources to grow.

The US Dollar appreciation and trade isolationism could over time harm the weakest currencies and exports of Countries that rely on price competitiveness, first of all China, with subsequent macroeconomic imbalances, as well as domestic ones. The agreements between **oil–** producing countries aimed at reducing supply in order to drive an increase in prices have not proved sufficient to generate effects on international prices in a scenario of appreciation of the US Dollar. In addition to the increasing growth pace of the United States GDP, the forecasts for 2017 are that:

- The economy of emerging countries will grow at a faster rate thanks to both the increase in prices of commodities and the end of recession in **Brazil** and **Russia**, as well as thanks to improved contribution of investments. **China** may experience a slowdown partly mitigated by better performing foreign trade, given the depreciation of the Chinese currency.
- **Japan**'s economy will be stable, despite the potential depreciation of the Yen and the uncertainty in the trade policy regarding exports to the United States.
- The economy of the **United Kingdom** will continue to grow in 2017 but a slower pace than in 2016. The scenario will be impacted by the outcome of the Brexit referendum and by the timeframe and modalities to negotiate the exit from the European Union.

As regards **the financial system and monetary policies**, in December the **Federal Reserve** increased interest rates by 0.25 points and announced another three increases of the same amount in 2017; other increases are expected also in 2018. The increase in yields in the Unites States will extend only partially to the other advanced economies; indeed, the non-standard monetary policy measures in force in the Euro Area will limit the impact on European interest rates. In December, the **ECB** announced that **policy rates** will remain unchanged and the asset purchase programme will be extended by nine months after its expiry in March 2017; however, the monthly amount of purchases has been decreased from 80 to 60 billion of Euro.

Finally, short-term reference rates are expected to remain constantly negative and at their all-time low (3M Euribor -0.30%), whereas medium-/long-term rates will remain low but with a slight increase vs. 2016.

(12) Source: Prometeia, Forecast Report, December 2016; Source Crédit Agricole S.A.'s Economic Research Department

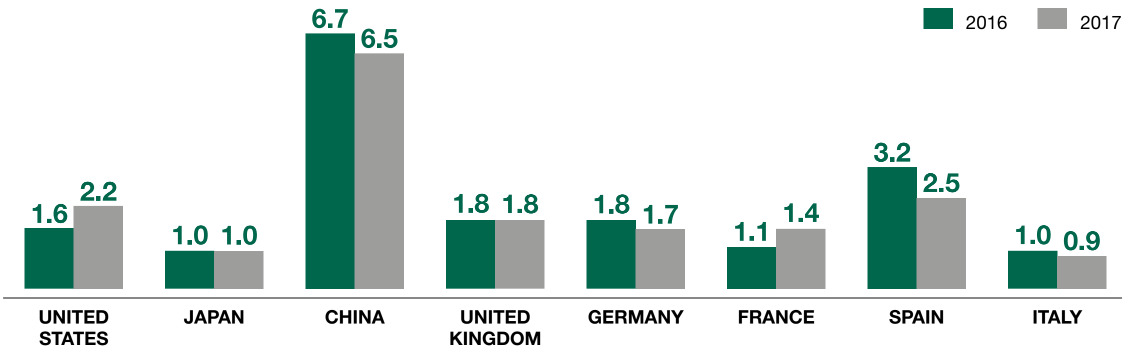
EURO AREA

In addition to external influences, Europe will have to face internal uncertainty elements, such as the several upcoming elections and the negotiations for the exit of the United Kingdom from the EU.

In 2017, the risk of deflation in **Europe** is expected to be staved off, also thanks to the increase in commodity prices. Such increase will limit the purchasing power of households, causing consumption to decrease, but will give businesses the possibility to determine prices and, thus, the possibility for higher margins and investments. Overall, **for 2017, the GDP has been estimated to increase by +1.7%**, a rate lower than the 2016 one of +1.9%, but not too much so**.** Having regard to key Countries:

- In **Germany** household consumption and, consequently, the GDP will be curbed by the increase in inflation subsequent to the end of the disinflationary effects caused by commodities;
- **France** is experiencing uncertainty due to the upcoming presidential elections, productivity will remain modest and the labour market weak, the GDP will be stable;
- In **Spain**, the GDP will slow down subsequent to lesser impulse by domestic demand, whereas the contribution of exports will return positive.

GDP: % YOY change



Source: Prometeia, Forecast Report – December 2016.

THE ITALIAN ECONOMY

During the years of crisis, Italy responded slowly, keeping a lower pace than the rest of the world and than the other European Countries. Italian manufacturing capabilities have been confirmed; despite the decrease in world trade, export proved a key driver for added valued generation, but low investment capabilities are evidence of a gap with respect to the Euro Area.

After a hard recovery, with 2016 as the best year since 2013, according to the latest forecasts, the international situation will change the scenario in which recovery could have continued and strengthened:

- The **depreciation of the Euro** will drive exports, in spite of the expected difficulties in international trade;
- The **Italian referendum** has caused political uncertainty in the Country, which will worsen the scenario even further, with immediate effects decreasing both **household spending** and **expenses for investments**;
- The economic/political uncertainty will generate an increase in interest expenses on government securities; This will decrease the possibility for expansionary fiscal policies and, therefore, support to domestic demand will be lower,
- **Income** generation for households will continue at a regular pace driven by current prices, but the increase in purchasing power may sharply slow down due to inflation;
- The increase in **employment** will slow down, also due to the end of the tax reliefs that contributed to the recovery of the labour market in 2015 and partially in 2016, but the productivity making up as required for continuing in recovery will not allow previous losses to be absorbed;

- The increase in **pays** is at standstill in real terms and **inflation** will remain below the EU levels;
- **After an estimated GDP for 2016 at +0.9%, for 2017 it is expected to increase by a figure between +0.7% and +0.9%[13].**

ECONOMY IN NORTHEAST ITALY

For Northeast Italy, the latest estimates report a stable GDP that, in 2017, is expected to increase by +0.9% as in 2016, specifically, in the Veneto Region it is expected to increase by +0.9% and in the Friuli Venezia Giulia Region by +0.8%. The increase is expected to be more substantial starting from 2018.

In 2017, exports are expected to strengthen in most Italian Regions and investments are expected to post a more considerable increase in Northeast Italy. The labour market is expected to progressively improve; the unemployment rate in Northeast Italy in 2019 has been estimated at +5.5% vs. a national average of +10.3%.

BANKING SCENARIO[14]

The several elements of political uncertainty, a still modest economic recovery and interest rates continuing to be negative will impact, also in 2017, on the Italian banking system that, at the same time, is undergoing significant transformation and strengthening. Indeed, the following are expected:

- New combinations/mergers, also subsequent to some government reforms;
- A considerable decrease the stock of Non-Performing Loans through several sale transactions (some of which had been announced in 2016), the decrease in the number of positions becoming defaulted, as well as a reduction in the time for recovery of non-performing loans thanks to larger use of the means implemented by government reforms (out-of-court settlements and public sale portal);
- The implementation of recovery and capital strengthening plans by some important Banking Groups;
- The continuation of the process to enhance structure efficiency with concomitant investments in the digitalization of processes.

To all the above, developments in the regulatory scenario will have to be added, as well as any further extraordinary contributions to the system and the effects of the monetary policies implemented by the ECB that will continue, also in 2017, to support the system's liquidity needs but will start the tapering of its quantitative easing program from March.

Based on these elements, for 2017 the expected performances of the main balance sheet aggregates are given below:

- Loans: slightly increasing (up by +0.9% YOY), mainly thanks to loans to households, which are expected to increase by 0.4%; the larger increase will be in consumer credit and home loans are also expected to increase, but more gradually;
- Funding from Customers: decreasing due to the reduction in the bond component, only partially offset by the increase in deposits;
- Indirect funding: increasing by +5% YOY according to the estimates, thanks to the growth (+7% YOY) in asset management products (funds, insurance and wealth management), partially offset by a decrease in assets under administration (-1.6% YOY).

The quality of the loan portfolio is expected to improve subsequent to the development in the market of sales of Non-Performing Loans. Bad loans are expected to decrease by 20%, with a stock that is expected to amount, at the end of 2017, to Euro 156 Bln (vs. Euro 200 Bln at the end of 2016).

(13) Source: 0.7% according to Prometeia, 0.9% according to the OECD and the Bank of Italy
(14) Source: Prometeia Bank Financial Statement Forecast, January 2017

Profitability is expected to improve vs. 2016, a year that was impacted by considerable non-recurring expenses regarding provisions for loans and expenses for restructuring plans.

In terms of income, rates continuing in the negative will still impact net interest income that is expected to increase slightly (+3.5% YOY) mainly subsequent to the recomposition of liabilities with a larger component of deposits and ECB financing and a smaller bond component that is more expensive. Fee and commission income – both from intermediation and advisory services and from traditional banking business – is expected to increase; on the other hand, lower dividends and lower revenues from trading are expected, since gains on proprietary securities will no longer be realized. The combination of these effects leads to forecasting essential stability of the net banking income for 2017.

In this scenario, featuring still weak income, the areas where the system is expected to take action in order to increase profitability are:

- Improvement of operational efficiency, with expenses estimated to decrease by 6.6% in 2017, continuing with the actions started in 2016 and aimed at the rationalization of staff and structures, as well as at process digitalization;
- Reduction in the cost of risk, through several transactions for the sale of bad loans, through the recognition in 2016 of considerable non-recurring provisions and also through faster and more efficient loan recovery processes, as well as through a lower number of positions becoming non-performing.

The "*Ambizione Italia 2020*" Plan of the Crédit Agricole Italia Banking Group, whose development lines have been described above, is being implemented within Banca Popolare FriulAdria consistently with the economic forecasts for Northeast Italy and with the expected developments and downsizing in the Italian banking system as described above.

Proposal to the Shareholders' General Meeting

Dear Shareholders,

The Annual Report and Financial Statements for the period from 1 January to 31 December 2016, submitted for your examination, consist of the Balance Sheet, the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Cash Flows, the Note to the Financial Statements, as well as of the Annexes, and are accompanied by the Management Report.

The proposal for the allocation of the net profit amounting to Euro 37,000,365 is as follows:

To the fund for charity and support to social and cultural initiatives	600,000
To the shareholders in the amount of €1,355 to each of the 24,025,498 outstanding ordinary shares	32,554,550
To extraordinary reserve	3,845,815

It is proposed that no distribution be made to the treasury shares that Banca Popolare FriulAdria may hold as at the ex-coupon date, allocating the relevant portion proportionally to the shareholders. In accordance with the applicable legislation provision, the dividend shall be payable effective from 28 April 2017 and with ex-coupon date on 25 April 2017.

Pordenone, Italy, 16 March 2017

The Chairwoman of the Board of Directors
Chiara Mio

Financial Statements

BALANCE SHEET

Assets		31.12.2016	31.12.2015
10.	Cash and cash equivalents	42,447,703	46,386,967
20.	Financial assets held for trading	8,135,751	7,728,848
30.	Financial assets designated at fair value	-	-
40.	Financial assets available for sale	884,373,667	1,003,981,510
50.	Investments held to maturity	-	-
60.	Loans to banks	662,580,794	494,619,082
70.	Loans to Customers	6,817,045,718	6,603,172,829
80.	Hedging derivatives	142,736,124	135,646,813
90.	Fair value change of financial assets in macro-hedge portfolios (+/-)	1,993,520	2,669,708
100.	Equity investments	3,500,000	3,500,000
110.	Property, plant and equipment	60,721,729	61,246,548
120.	Intangible Assets	122,317,837	124,530,483
	of which: goodwill	106,075,104	106,075,104
130.	Tax assets	118,661,565	125,986,096
	a) current	42,020,425	46,712,586
	b) deferred	76,641,140	79,273,510
	b1) pursuant to Italian Law No. 214/2011	64,188,539	70,220,598
140.	Non-current assets held for sale and discontinued operations	-	-
150.	Other assets	75,374,673	70,419,903
Total assets		**8,939,889,081**	**8,679,888,787**

Liabilities and Equity		31.12.2016	31.12.2015
10.	Due to banks	1,405,908,869	1,236,440,280
20.	Due to Customers	5,629,347,079	4,967,519,119
30.	Debt securities issued	733,834,702	1,231,426,598
40.	Financial liabilities held for trading	8,657,121	7,461,198
50.	Financial liabilities designated at fair value	-	-
60.	Hedging derivatives	121,323,375	132,100,436
70.	Fair value change of financial liabilities in macro-hedge portfolios (+/-)	112,539,897	105,245,026
80.	Tax liabilities	29,080,743	37,067,276
	a) current	*20,149,574*	*21,545,614*
	b) deferred	*8,931,169*	*15,521,662*
90.	Liabilities associated with non-current assets held for sale and discontinued operations	-	-
100.	Other liabilities	137,737,499	194,649,646
110.	Employee termination indemnities	21,933,702	21,202,998
120.	Provisions for risks and charges	26,902,869	19,889,138
	a) Post-employment benefits	-	-
	b) other provisions	*26,902,869*	*19,889,138*
130.	Valuation reserves	137,862	15,648,636
140.	Redeemable shares	-	-
150.	Equity instruments	-	-
160.	Reserves	88,038,392	84,542,618
170.	Share premium reserve	471,757,296	471,757,296
180.	Share capital	120,689,285	120,689,285
190.	Treasury shares (+/-)	(4,999,975)	-
200.	Net profit (Loss) for the year	37,000,365	34,249,237
Total liabilities and shareholders' equity		**8,939,889,081**	**8,679,888,787**

INCOME STATEMENT

Items		31.12.2016	31.12.2015
10.	Interest income and similar revenue	184,499,492	207,863,465
20.	Interest expense and similar charges	(29,002,159)	(44,687,811)
30.	**Net interest income**	**155,497,333**	**163,175,654**
40.	Fee and commission income	128,599,320	132,644,703
50.	Fee and commission expense	(4,045,392)	(3,903,650)
60.	Net fee and commission income	124,553,928	128,741,053
70.	Dividends and similar income	220,961	247,975
80.	Net profit (losses) on trading activities	4,609,399	1,865,802
90.	Net profit (losses) on hedging activities	(866,000)	(1,527,097)
100.	Profit (losses) on disposal or repurchase of:	7,459,185	(169,200)
	a) loans	*(538,368)*	*(937,161)*
	b) financial assets available for sale	*8,481,475*	*1,125,584*
	c) Investments held to maturity	-	-
	d) financial liabilities	*(483,922)*	*(357,623)*
110.	*Net profit (loss) on financial assets and liabilities designated at fair value*	-	-
120.	**Net interest and other banking income**	**291,474,806**	**292,334,187**
130.	Net losses/recoveries on impairment of:	(37,713,903)	(50,644,006)
	a) loans	*(37,349,765)*	*(50,554,896)*
	b) financial assets available for sale	*(615,401)*	*(182,683)*
	c) Investments held to maturity	-	-
	d) other financial activities	*251,263*	*93,573*
140.	**Net income from banking activities**	**253,760,903**	**241,690,181**
150.	Administrative expenses:	(237,625,252)	(232,821,235)
	a) Staff expenses	*(104,829,321)*	*(101,338,608)*
	b) other administrative expenses	*(132,795,931)*	*(131,482,627)*
160.	Net provisions for risks and charges	(3,515,579)	(3,020,865)
170.	Impairments/recoveries on property, plant and equipment	(4,517,595)	(4,766,905)
180.	Impairments/recoveries on intangible assets	(2,212,646)	(2,212,646)
190.	Other operating expenses/income	49,615,190	53,146,774
200.	**Operating expenses**	**(198,255,882)**	**(189,674,877)**
210.	Profit (losses) on equity investments	-	(568,400)
220.	Profit (losses) from property, plant and equipment and intangible assets designated at fair value	-	-
230.	Impairment on goodwill	-	-
240.	Profit (losses) on disposal of investments	(21,061)	-
250.	**Profit (loss) before taxes on continuing operations**	**55,483,960**	**51,446,904**
260.	Taxes on income from continuing operations, **net of taxes**	(18,483,595)	(17,197,667)
270.	Profit (loss) after taxes on continuing operations, **net of taxes**	37,000,365	34,249,237
280.	**Profit (loss) after taxes from discontinued operations**	-	-
290.	**Net profit (Loss) for the year**	**37,000,365**	**34,249,237**

STATEMENT OF COMPREHENSIVE INCOME

Items		31.12.2016	31.12.2015
10.	Profit (Loss) for the year	37,000,365	34,249,237
	Other comprehensive income after taxes not reversed in profit or loss		
20.	Property, plant and equipment	-	-
30.	Intangible Assets	-	-
40.	Defined-benefit plans	(609,753)	1,095,364
50.	Non-current assets held for sale/disposal groups	-	-
60.	Portion of Valuation Reserves on equity investments measured using the equity method	-	-
	Other comprehensive income after taxes reversed in profit or loss		
70.	Hedges of investments in foreign operations	-	-
80.	Exchange rate differences	-	-
90.	Cash flow hedges	-	-
100.	Financial assets available for sale	(14,901,021)	13,023,523
110.	Non-current assets held for sale	-	-
120.	Portion of Valuation Reserves on equity investments measured using the equity method	-	-
130.	Total other comprehensive income after taxes	(15,510,774)	14,118,887
140.	Comprehensive income (Item 10+130)	21,489,591	48,368,124

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY AS AT 31 DECEMBER 2016

	Share Capital: ordinary shares	Share premium reserve	Reserves:		Valuation reserves	Treasury shares	Net profit (Loss) for the year	Equity Net
			Retained earnings	Others				
SHAREHOLDERS' EQUITY AS AT 31.12.2015	120,689,285	471,757,296	83,882,157	660,461	15,648,636	-	34,249,237	726,887,072
ALLOCATION OF NET PROFIT FOR THE PREVIOUS PERIOD								
Reserves	-	-	3,420,521	-	-	-	-3,420,521	-
Dividends and other allocations	-	-	-	-	-	-	-30,828,716	-30,828,716
CHANGES FOR THE PERIOD								
Change in reserves	-	-	-	-	-	-	-	-
Transactions on equity	-	-	-	-	-	-	-	-
Issue of new shares	-	-	-	-	-	-	-	-
Purchase of treasury shares	-	-	-	-	-	-4,999,975	-	-4,999,975
Extraordinary dividend distribution	-	-	-	-	-	-	-	-
Change in equity instruments	-	-	-	-	-	-	-	-
Derivatives on treasury shares	-	-	-	-	-	-	-	-
Shares and rights on shares of the Parent Company granted to employees and directors	-	-	-	75,253	-	-	-	75,253
Comprehensive income	-	-	-	-	-15,510,774	-	37,000,365	21,489,591
SHAREHOLDERS' EQUITY AS AT 31.12.2016	**120,689,285**	**471,757,296**	**87,302,678**	**735,714**	**137,862**	**-4,999,975**	**37,000,365**	**712,623,225**

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY AS AT 31 DECEMBER 2015

	Share Capital: ordinary shares	Share premiums reserve	Reserves:		Valuation reserves	Treasury shares	Net profit (Loss) for the year	Equity
			Retained earnings	Others				
SHAREHOLDERS' EQUITY AS AT 31 DEC. 2014	120,689,285	471,757,296	80,784,722	660,461	1,529,749	-	32,380,106	707,801,619
ALLOCATION OF NET PROFIT FOR THE PREVIOUS PERIOD								
Reserves	-	-	3,097,435	-	-	-	-3,097,435	-
Dividends and other allocations	-	-	-	-	-	-	-29,282,671	-29,282,671
CHANGES FOR THE PERIOD								
Change in reserves	-	-	-	-	-	-	-	-
Transactions on equity						-		-
Issue of new shares	-	-	-	-	-	-	-	-
Purchase of treasury shares	-	-	-	-	-	-	-	-
Extraordinary dividend distribution	-	-	-	-	-	-	-	-
Change in equity instruments	-	-	-	-	-	-	-	-
Derivatives on treasury shares	-	-	-	-	-	-	-	-
Shares and rights on shares of the Parent Company granted to employees and directors	-	-	-	-	-	-	-	-
Comprehensive income	-	-	-	-	14,118,887	-	34,249,237	48,368,124
SHAREHOLDERS' EQUITY AS AT 31.12.2015	**120,689,285**	**471,757,296**	**83,882,157**	**660,461**	**15,648,636**	**-**	**34,249,237**	**726,887,072**

STATEMENT OF CASH FLOWS

	31.12.2016	31.12.2015
A. OPERATIONS		
1. Cash flow from (used in) operations	171,901,454	166,508,587
– Profit (Loss) for the year (+/-)	37,000,365	34,249,237
– profit (losses) on financial assets held for trading and on financial assets/ liabilities designated at fair value (-/+)	-1,629,644	-957,091
– profit/losses on hedging activities (-/+)	1,903,872	148,783
– net losses/recoveries on impairment (+/-)	35,892,380	51,212,406
– net adjustments to/recoveries on property, plant and equipment and intangible assets (+/-)	6,730,241	6,979,551
– provisions and other income/expensive (+/-)	3,515,579	3,020,865
– unpaid taxes and tax credits (+)	18,483,595	17,197,667
– other adjustments (+/-)	70,005,066	54,657,169
2. Cash flow from (used in) financial assets	**-335,395,135**	**-393,051,737**
– financial assets held for trading	1,222,741	21,829,731
– financial assets available for sale	114,198,420	5,566,129
– loans to banks: demand	-85,076,119	145,111,442
– loans to banks: other loans	-82,885,593	-298,317,592
-loans to customers	-249,401,131	-273,115,463
– other assets	-33,453,453	5,874,016
3. Cash flow from (used in) financial liabilities	**199,305,119**	**261,571,199**
– due to banks: demand	-67,914,543	-169,833,591
– due to banks: other due and payables	237,383,132	477,800,921
– due to customers	661,827,960	315,034,201
– debt securities issued	-495,470,747	-190,512,828
– financial liabilities held for trading	1,195,923	-3,839,119
– other liabilities	-137,716,606	-167,078,385
Net cash flow from (used in) operating activities	**35,811,438**	**35,028,049**
B. INVESTMENT ACTIVITIES		
1. Cash flow used in	**220,961**	**-5,339,762**
– sales of equity investments	-	4,431,600
– dividends collected on equity investments	220,961	247,975
– sales of business units	-	-10,019,337
2. Liquidity absorbed by/cash flow used in:	**-4,142,972**	**-5,097,097**
– purchases of property, plant and equipment	-4,142,972	-5,097,097
Net cash flow from (used in) investment activities	**-3,922,011**	**-10,436,859**
C. FUNDING ACTIVITIES		
– issues/purchases of treasury shares	-4,999,975	-
– distribution of dividends and other scope	-30,828,716	-29,282,671
Net cash flow from (used in) funding	**-35,828,691**	**-29,282,671**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS DURING THE YEAR	**-3,939,264**	**-4,691,481**

RECONCILIATION

Financial Statement items	31.12.2016	31.12.2015
Cash and cash equivalents at the beginning of the year	46,386,967	51,078,448
Net increase (decrease) in cash and cash equivalents	-3,939,264	-4,691,481
Cash and cash equivalents at the end of the year	42,447,703	46,386,967

KEY: (+) generated (–) absorbed

CONTACT

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Entered in the Business Register of Pordenone, Italy Tax ID and VAT registration no.01369030935
Share Capital: €120,689,285.00 fully paid-up
Registered in the Register of Banks at no. 5391
Member of the Interbank Deposit Protection Fund and of National Guaranty Fund
Subject to the direction and coordination of Cassa di Risparmio di Parma e Piacenza S.p.A.
and member of the Cariparma Crédit Agricole banking Group registered with the Register
of banking Groups at no. 6230,7

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