Cassa di Compensazione e Garanzia S.p.A.

Financial Statements as of 31 December 2016

Report and Financial Statements As of 31 December 2016

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1. Financial Highlights

Financial Highlights		
(amounts in thousands euro)		
Economic Indicators	Financial Year 01/01/16 - 31/12/16	Financial Year 01/01/15 - 31/12/15
Revenues	102,295	94,342
Ebitda	80,141	73,104
Ebitda margin	*78.3%*	*77.5%*
Ebit	81,848	72,207
Ebit margin	*80.0%*	*76.5%*
Net Profit	55,252	48,796
(in % of Revenues)	*54.0%*	*51.7%*
ROE	31.9%	30.9%
Dividends	52,470	46,354
Equity indicators	Financial year 01/01/16 - 31/12/16	Financial year 01/01/15 - 31/12/15
Shareholders' Equity	178,106	168,774
Net Fin. Position (- debt / + cash)	211,604	187,296
Efficiency Indicators	Financial year 01/01/16 - 31/12/16	Financial year 01/01/15 - 31/12/15
Average number of employees	54	51
Revenues/employees	1,912	1,850
Ebit/employees	1,530	1,416

2. Report on Operations

The financial statements of Cassa Compensazione e Garanzia S.p.A. closed as of 31 December 2016 show a positive net result of EUR 55,252,103 (EUR 48,795,592 as of 31 December 2015).

The past year was characterized by an additional contribution that your Company provided to the extension of the financial services supplied by the market infrastructures as well as to the improvement of the management of the flows of information and instructions with the members. Moreover as regards the aspects of *risk management* and in particular the "validation model", the activities were continued suitable to its realization.

With regard to the regulatory aspects, the international and European *policymakers* continued to focus their attention on the "recovery" and "resolution" aspects of the CCP: in August 2016 the Financial Stability Board and the *CPMI-IOSCO* started two consultations, in the matter of resolution of the central counterparties and in the matter of resilience and recovery measures of the CCP, respectively, in which CC&G participated providing its answer. It is also pointed out that in the month of November 2016 the European Commission published a proposal of regulation in the matter of recovery and resolution of the central counterparties.

In the month of December 2016 the BoD of CC&G, while waiting for the issue by the European legislator of the above-mentioned regulation in the matter of recovery and resolution of the central counterparties, approved a Recovery Plan prepared following the guidelines dictated by the CPMI-IOSCO Report in the matter of recovery of the infrastructures of the financial markets, published in the month of October 2014.

The objective of the Recovery Plan is to govern the necessary measures for enabling CC&G to provide its essential services also in those events when the standard measures for ensuring the continuity of its services are no longer ensured and to enable the central counterparty to prepare for such circumstances for the purpose of identifying the most suitable instruments for copying with a particularly stressful situation.

Following the analyses carried out in connection with the definition of the Recovery Plan, aspects have appeared that, being relevant for the members, required an adjustment of the provisions of CC&G Regulation. Particular regard was paid to the possibility that the losses in case of insolvency of a member exceed the available resources relating to the default waterfall already provided by CC&G Regulation. Therefore, in the month of December 2016 CC&G approved some amendments to its Regulation, which had become appropriate for the purpose of providing a framework of greater transparency and applicative certainty with reference to the following aspects:

1. request of payment of additional resources (assessment);
2. request of allocation of a new default fund;
3. effectiveness of the withdrawal in case of request for a new default fund;
4. amendment of the management procedure of a default and of the service closure procedure.

It is pointed out that the coming into force of the above-mentioned regulatory amendments is envisaged for the month of February 2017.

Again in the framework of the regulatory interventions implemented in 2016, it is pointed out that with regard to the participation in the services the participation was provided of non-Community banks and investment companies authorised to operate in States in which CC&G is recognized for cross-border operations, specifying the relevant conditions of participation. Moreover, some changes were implemented in the participation requirements, for the purpose of rendering the operational membership procedures more flexible and more suitable to meet

the changed operating framework (e.g. identification of more settlement agents for the margins; identification of the different organisational units).
As far as services are concerned, during the year some functional adjustments have been made for the purpose of a more efficient management of communications with members.

2.1 Events of the financial year closed as at 31 December 2016

Central Counterparty Services

The overall number of members participating in the clearing and guarantee system was, as at 31 December 2016, 160 (159 as at 31 December 2015) represented for the largest part by banks (94) and Securities Investment Companies (SIMs) (51).

Of these, the clearing members were 86 of which 72 were Banks, 13 SIMs and 1 a Governmental Institution. The opening degree to the European market of clearing members is evidenced by the share of foreign Banks (14 EU), equal to 19.44% of the overall number of Banks, and European Community SIMs (9) equal to 69.23%.

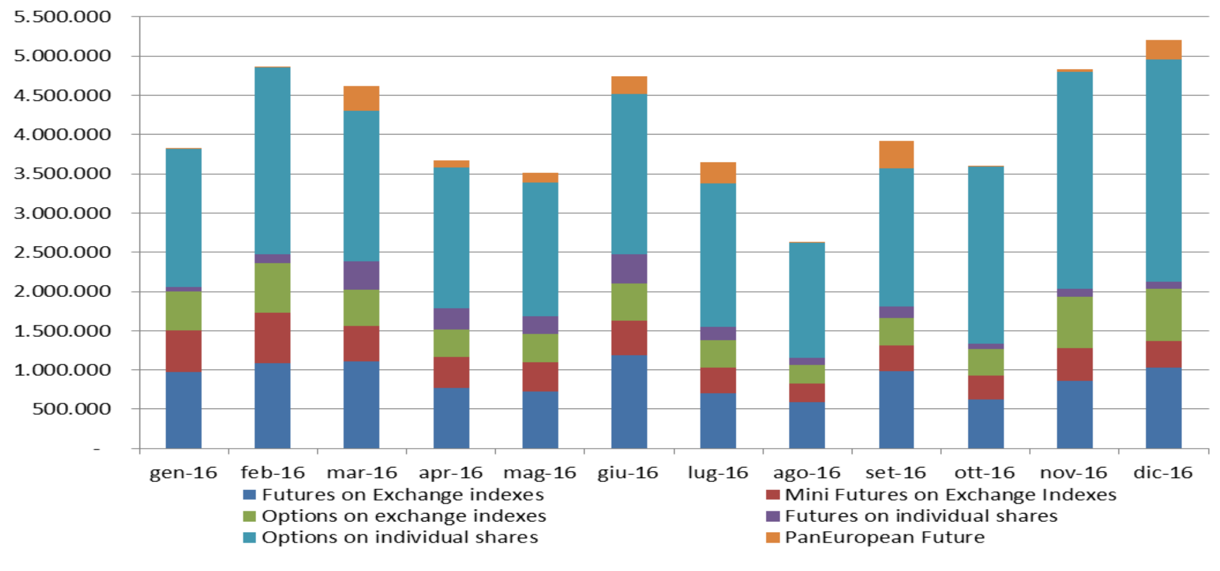
Derivative Markets (IDEM Equity, IDEX and AGREX)

Cleared contracts coming from the IDEM Equity Market at 31 December 2016 were 49,020,292 compared to 44,383,926 of 31 December 2015 (+10.4%); the daily average was equal to 193,756 contracts compared to 174,055 contracts at 31 December 2015.

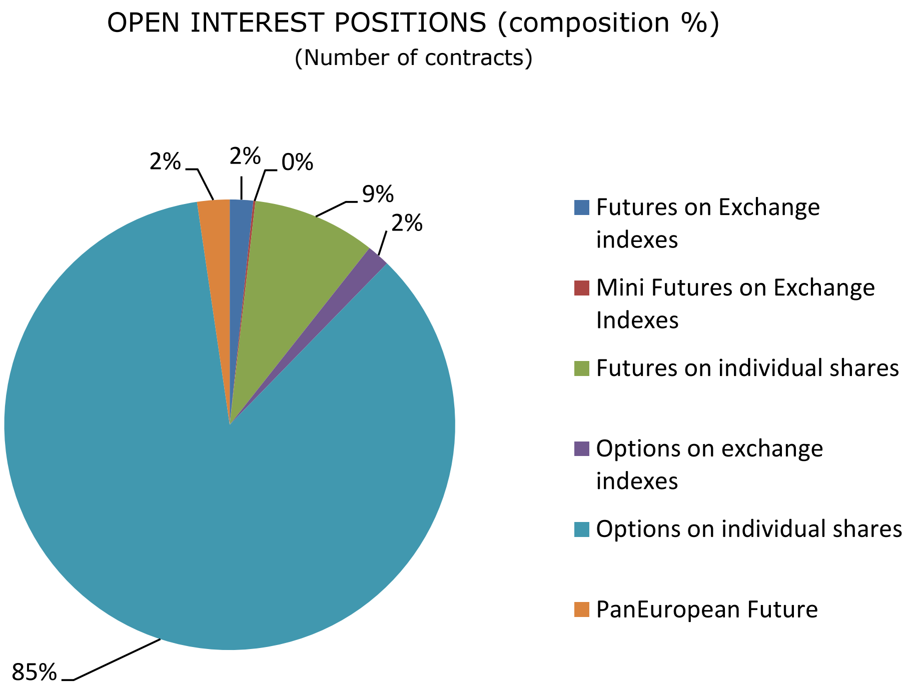
Increases are evidenced compared to the same period last year in the Stock Exchange index options that increased from 4.3 million in 2015 to 5.4 million contracts in 2016 (+ 23.7%); in the futures on Stock Exchange indices that increased from 9.6 million in 2015 to 10.6 million contracts in 2016 (+10.8%); in the Pan-European futures which increased from 1.4 million contracts in 2015 to 1.6 million contracts in 2016 (+14.4%) and in the options on individual shares, which increased from 21.7 million in 2015 to 24.5 million contracts in 2016 (+12.7%).

A decrease is conversely recorded in mini-futures on Stock Exchange indexes whose volumes decreased from 4.9 million contracts in 2015 to 4.8 million contracts in 2016 (-2.7%) and in the futures on individual shares, which decreased from 2.3 million in 2015 to 2.1 million contracts in 2016 (-11.6%).

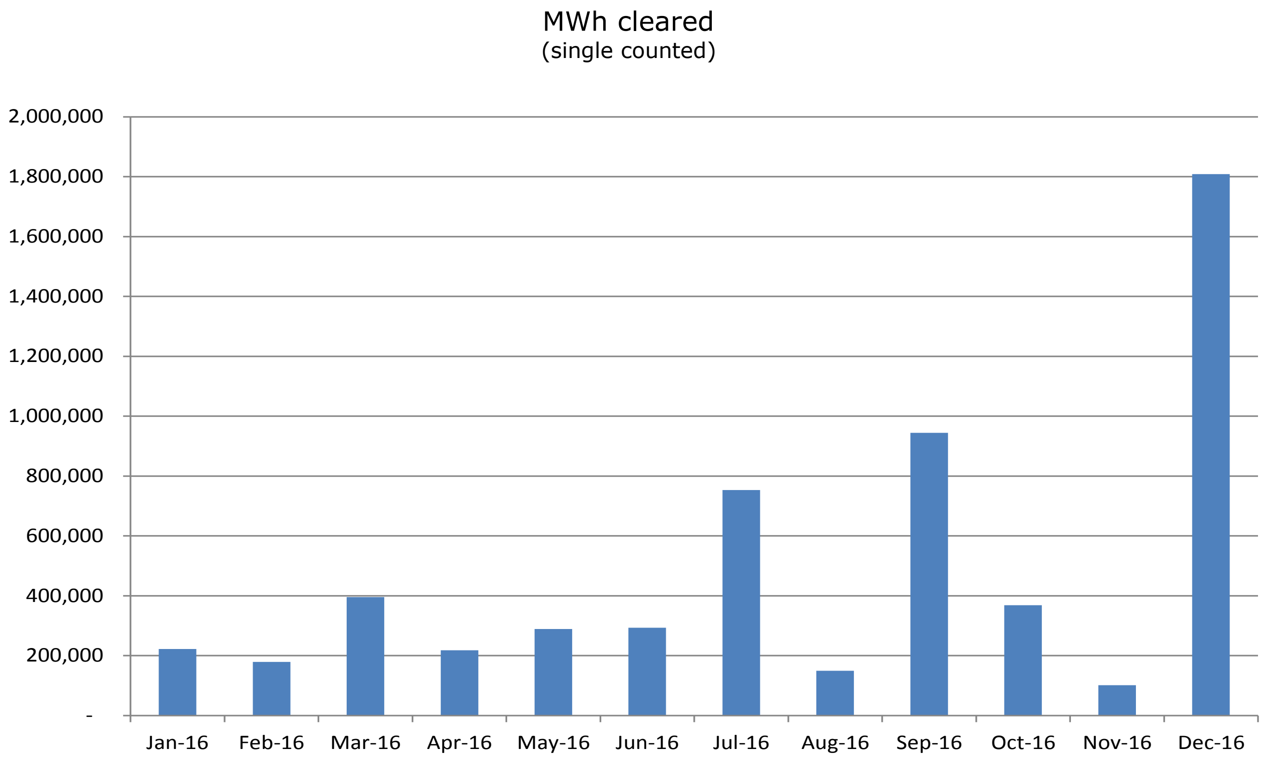
NUMBER OF CONTRACTS
(single counted)



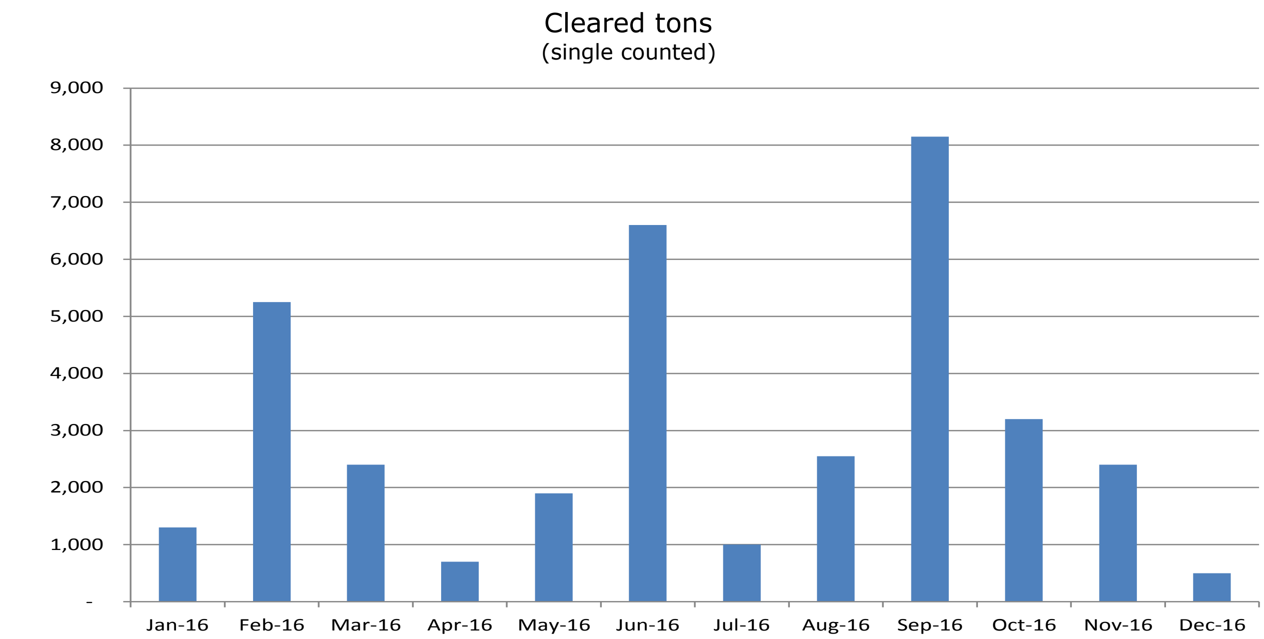
The open positions as of 31 December 2016 (so called open interest) were equal to 6,109,648, 14% higher than at 31 December 2015 (5,337,240).



The volumes of the derivative market IDEX at 31 December 2016 were equal to 5,724,606 MWh cleared, i.e. 18.8% higher compared to the same period last year equal to 4,817,911 MWh cleared.



The volumes of AGREX Derivative Market as at 31 December 2016 were equal to 35,950 cleared tons data that is 25.7% lower compared to the same period last year equal to 48,400 cleared tons.

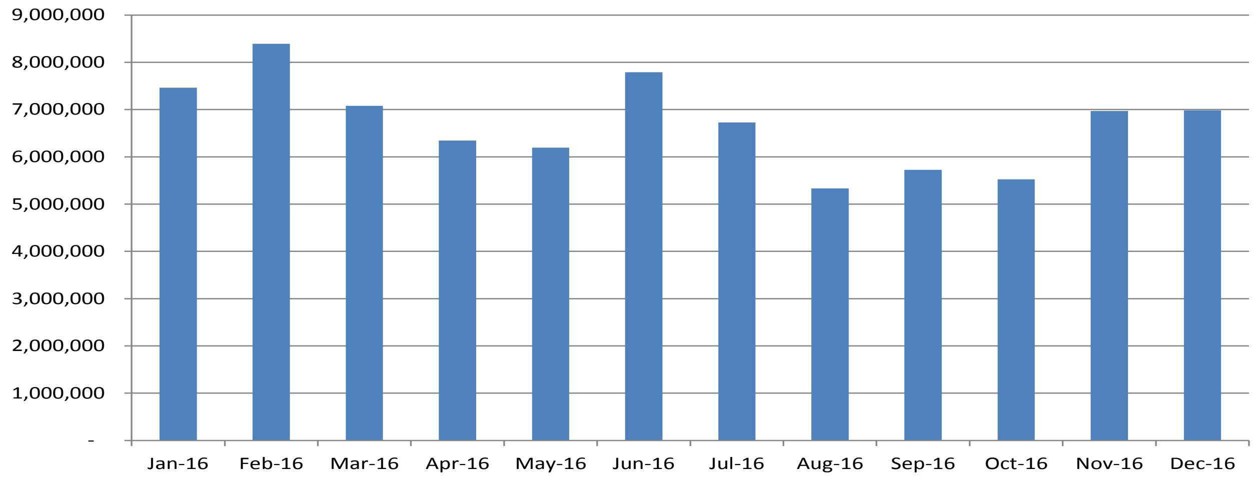


On 31 December 2016 the clearing members of the derivative equity market were 37 (36 as at 31 December 2015), of which 25 General and 12 Individual; those of the derivative energy market were 7, all of them General Clearing Members, whilst those of the Derivative agricultural commodities were 3, all of them General Clearing members.

Equity Market

On the equity markets of Borsa Italiana the contracts subject of guarantee were 80,536,016 with an increase of 6.1% compared to the same period of the previous year (75,919,855 contracts); the daily average was equal to 318,324 compared to the previous 297,725.

NUMBER OF CONTRACTS (1)
(single counted)



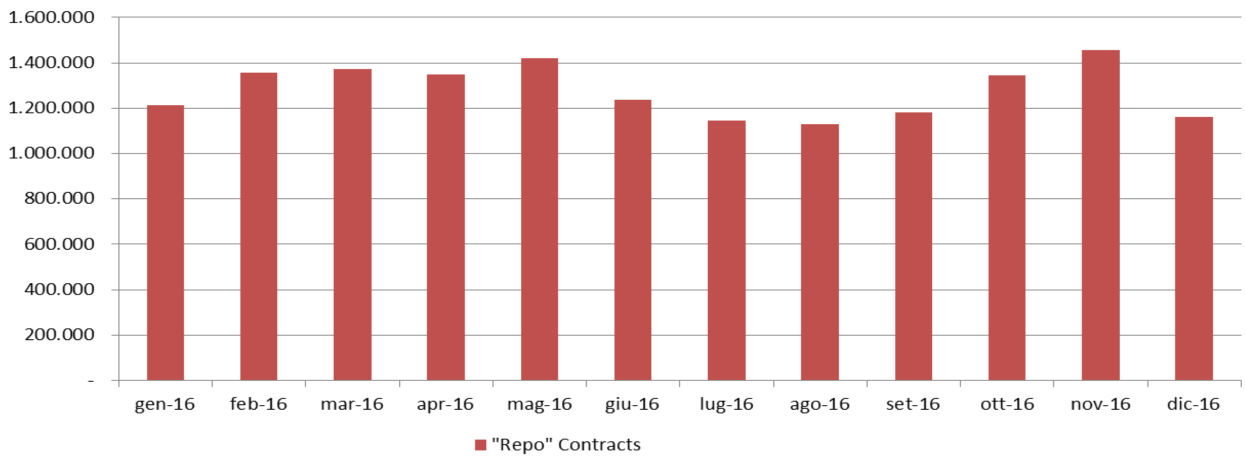
(1) The markets currently guaranteed by CC&G in the equity market are: MTA, MIV and ETFplus.

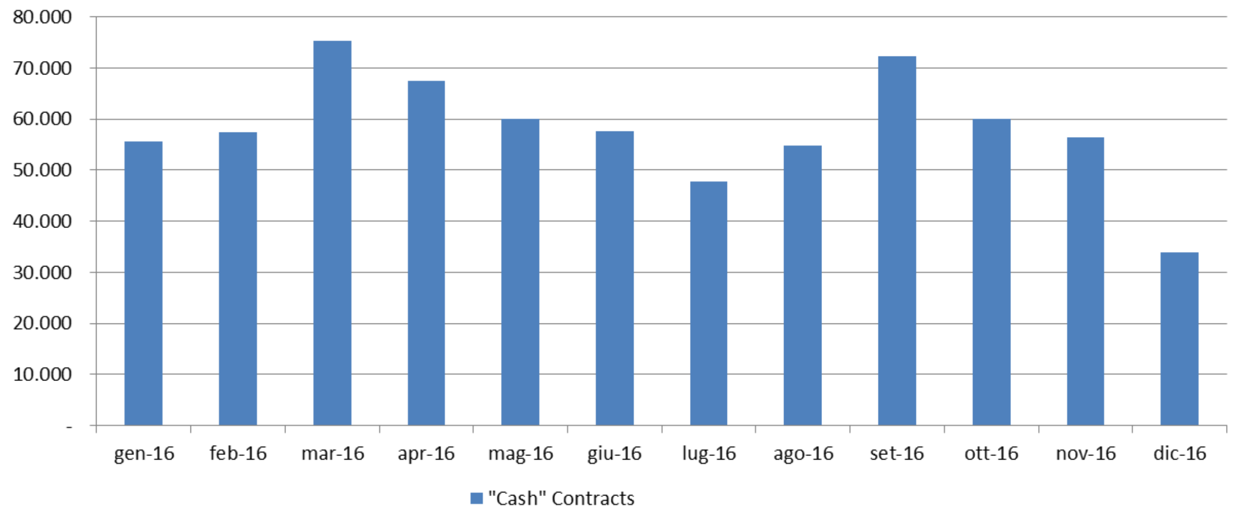
On 31 December 2016 the clearing members of the Equity Market were 31 (30 as of 31 December 2015), of which 16 General and 15 Individual.

Bond Market

The value of the guaranteed contracts, traded on the wholesale bond market was higher compared to the same period of the preceding year both for the Repo (nominal 15,361 billion compared to 14,902 billion, with an increase of +3.1%), and for Cash transactions (nominal 698.83 billion euro compared to 675.65 billion, +13.4%).

NOMINAL VALUE OF CONTRACTS wholesale markets (2)
(million euro)

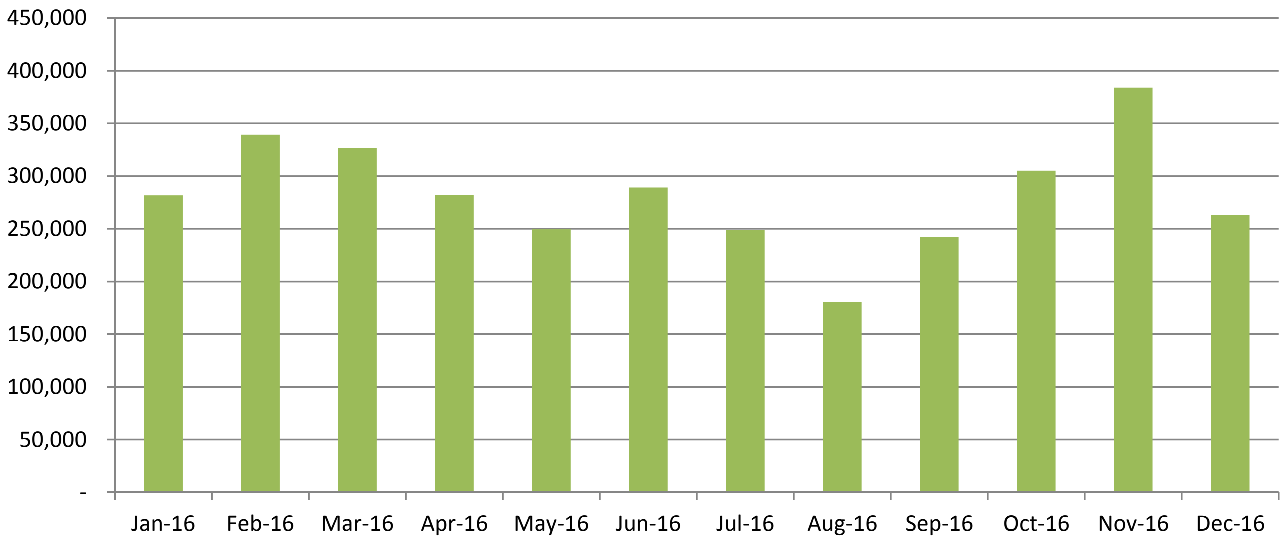


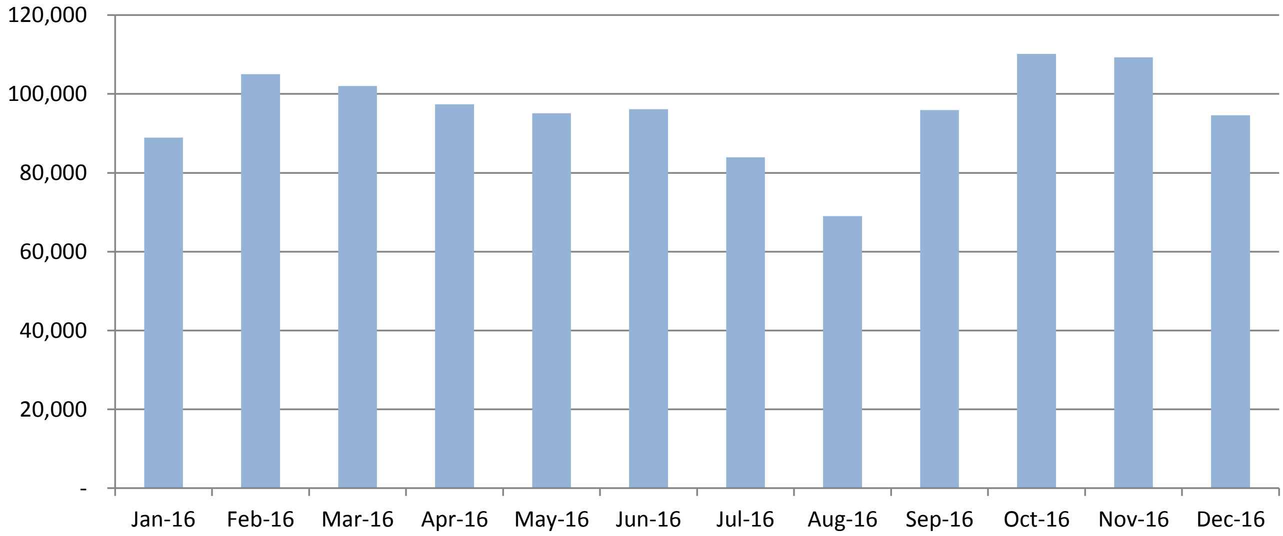


(2) The wholesale markets currently guaranteed by CC&G are: MTS Italia/EuroMTS, ICAP Brokertec and Repo e-MID

As far the retail bond market is concerned, the international market (ICSD) was higher compared to the same period of the previous year (nominal 1,147 billion euro compared to 1,087 billion euro in 2015 with an increase of +5.5%) whilst the domestic market was lower compared to the same period in the previous year (nominal 3,392 billion euro compared to 4,372 billion with a decrease of -22.4%).

NUMBER OF CONTRACTS retail domestic and international markets (3)
(single counted)





(3) The retail markets currently guaranteed by CC&G are: MOT, Euro TLX and HI-MTF

The clearing members participating in the Bond Market as of 31 December 2016 were 68 (63 as of 31 December 2015), 14 of which General and 54 Individual.

The Clearing Members participating in the ICSD Bond Market as of 31 December 2016 were 29 (28 as of 31 December 2015), of which 14 General and 15 Individual.

The bond markets currently guaranteed by CC&G are the EuroMOT and ExtraMOT segments of the MOT, EuroTLX and Hi-MTF (relating only to the securities settling through the Settlement services managed by foreign entities).

X-COM Market

The clearing members of the X-COM Market as at 31 December 2016 were 7, of which 1 General and 6 Individual.

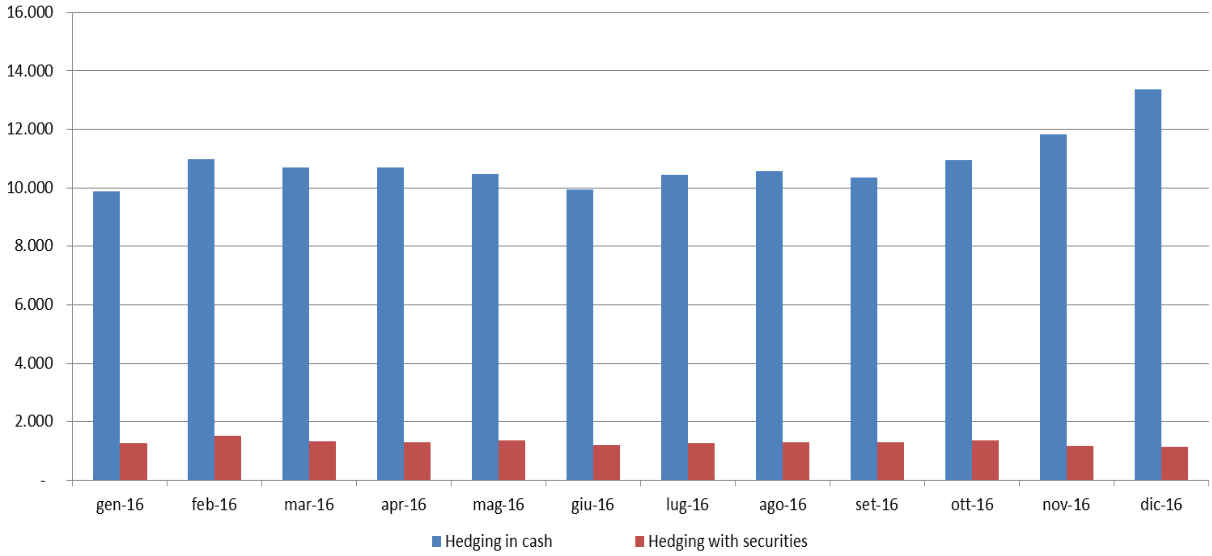
The triparty Repo markets currently guaranteed by CC&G are MTS Repo and E-Mid Repo.

Risk Management

During the period under review 149 new instruments were listed on the Equity market, of which 6 shares on MTA, 31 shares on GEM (former MTA INTERNATIONAL), 1 warrant, 1 convertible bond, 110 ETF. On the Equity Derivative Market, 3 new options were listed; on the same market the European type stock options were listed for the first time (of which 6 options with final cash settlement and 14 options with physical delivery settlement) which are added to those of American type.

The daily average amounts of initial margins increased from 11.1 billion euro of January 2016 to 14.5 billion of December 2016 (maximum yearly amount). Compared to the daily average of the last financial year (12.3 billion euro), a small 1.1% decrease was recorded arriving to 12.1 billion euro. The guarantees deposited to cover the initial margins were, on average for the subject period, 89% in cash and 11% in Government Bonds (percentages remained unchanged with respect to the previous financial year).

INITIAL MARGINS AVERAGE
(million euro)



The monitoring of the counterparty risk, implemented through a control of the exposure of the members on a continuing basis, has determined during the financial year 3,370 requests for additional intraday margin for an overall amount of 70.9 billion euro.

The amounts of the Default Funds as of 31 December 2016 are equal to € 1,100 million (€ 1,900 million at the close of the preceding financial year, -42%) for Equity Markets (Cash and Derivatives), to € 4,600 million for the Bond Market (€3,000 in the preceding financial year, +53%), to € 10.4 million for the market of Energy Derivatives (€ 15 million in the preceding financial year, -31%) and to € 0.11 million for the derivative market on Agricultural Commodities (€ 1.1 million in the preceding financial year, -90%). Said amounts have been adjusted several times in the course of the financial year on the basis of the stress test results.

The amount of the Default Fund for the New-MIC at 31 December 2016 appears to be equal to € 190 million (€ 210 million at the closing of the preceding financial year, -20%).

New Services and Functionalities introduced in the financial year

X-Com Market

CC&G supported the introduction, on the X-COM platform managed by Monte Titoli, of the new functionality for the reuse of collateral. The new service, activated on 26 September 2016, enabled the members to use the securities received as collateral in market transactions and in monetary policy transactions in the "Pooling System" of the Bank of Italy. Furthermore, starting from the same date, a new basket was made available, the so called BTP [Italian Multiannual Government Bonds] Italia, made up exclusively of BTP Italian securities and guaranteed by CC&G.

Equity Market

At the end of July CC&G guarantee service covered also the new market referred to as Borsa Italiana Equity MTF.

Derivative Market

At the end of October options on shares of the European type were introduced in the IDEM market. Effective from the same date such contracts have been guaranteed in the framework of Derivative Equity Markets.

BCS /ICWS Service

Starting in May 2016 the "premium" version of BCS was enriched of a new functionality, which enables the General Members to support and automatically reactivate their Non-Clearing Member.

With regard to the Derivative Market, effective from the month of September new and more efficient communication modalities have been implemented between the Members and CC&G. In particular, in case of malfunctioning of the BCS it has become possible to exercise the instructions-giving functions also through the use of the ICWS. Moreover, for all the markets, the forwarding to CC&G of all the instructions-giving functions has been automated with the use of the ICWS.

Collateral

Effective from the end of May 2016 the possibility of guarantee deposit has been extended also to government bonds indexed on the basis of Italian inflation (BTP Italia).

2.2. *Economic Results and Assets and Liabilities Situation*

Below is a synthesis of economic data compared to that of the previous Financial Year:

(Amounts in thousands euro)

	31 December 2016	**31 December 2015**
Interest margin	**48,466**	**39,618**
Net commissions	50,011	50,399
Dividends and similar income	0	3,351
Net result of financial assets/liabilities	102	(2,862)
Intermediation margin	**98,578**	**90,506**
Administrative expenses	(19.901)	(19,004)
Net provisions to the risk and charges funds	-	-
Other operating income and charges	1,463	1,602
Profit (loss) on investments disposal	-	-
Gross operating margin (EBITDA)	**80,141**	**73,104**
Adjustments/net value recovery for deterioration	-	-
Amortizations and depreciations	(2,112)	(1,872)
Operating Income	**78,030**	**71,232**
Result of financial management	3,818	975
Net operating margin (EBIT)	**81,848**	**72,207**
Income taxes	26,595	(23,411)
Operating profit	**55,252**	**48,796**

Cassa di Compensazione e Garanzia S.p.A. closed the financial year as at 31 December 2016 with a net result of 55,2 million euro (48,8 million euro as at 31 December 2015). The intermediation margin was equal to 98.6 million euro, divided between interest margin for 48,5 million euro, net commissions for 50 million euro, and a net result of financial liabilities for 0,1 million euro. As of 31 December 2015 the intermediation margin was equal to 90,5 million euro.

The particular conditions of the European financial markets, characterized by the maneuvers of the European Central Bank– *Quantitative Easing* - in order to counter deflationary phenomena and favour financial stability, have influenced the investment strategies of margins and payments to the Default Funds, which have operated in a context largely marked by negative interest rates. Therefore, the increase in the interest margin is mainly due to the interest rate applied to the members on the cash deposited as initial margins and default funds. The Company has in fact adopted, starting from December 2015, a *pricing list* whereby the cash deposited by the members is remunerated applying the Eonia rate less 25 *basis point*.

Administrative expenses amount in whole to 19,9 million euro. Amortizations and depreciations amount to 2,1 million euro whilst the other sundry operating revenues amount to approximately 1,5 million euro. As a consequence of what pointed out in the preceding paragraph, the net operating margin (Ebit) was equal to 81,8 million euro. The taxes for the financial year, inclusive of the provision for taxes paid in advance, were equal to 26,6 million euro.

The Balance Sheet shows a total amount of assets that decreased from 204,1 billion euro as of 31 December 2015 to 206,4 billion euro as of 31 December 2016. The following items of the assets side are evidenced in particular, which find correspondence in the liabilities side: financial assets/liabilities held for the trading for CCP assets in the amount of 6,9 billion euro (10,8 billion euro as of 31 December 2015) and receivables/payables in the amount of 191,2/199,3 billion euro (184,2/193,1 billion euro in the preceding financial year).

The Item 40 of the Balance Sheet shows the securities available for sale evaluated at the fair value, and relate to investments in secured assets of margins and default fund and for the balance Company's equity for 8,3 billion euro.

In the receivables 7,5 billion euro are recorded for investments in repos, deposits with the central bank and bank deposits, 175,7 billion euro for clearing activity on secured repo transactions on the bond market and 7,9 billion euro for margins, premiums and claims secured by securities. In the payables 23,6 billion euro are recorded for margins, deposits on account of advance payments, default funds vis-à-vis clearing members, debts vis-à-vis participants in the MIC and debts vis-à-vis participants in the securities settlement systems T2S and ICSD and 175.7 billion euro for clearing activity on secured repo transactions on the bond market.

The Company's assets, equal to 178,1 million euro are made up as to 33,0 million euro by the share capital, as to 6,6 million euro by the legal reserve, as to 83,2 million euro by other reserves (including, inter alia, the skin in the game provided by EMIR, the extraordinary reserve, reserves from the evaluation of financial assets available for sale, the FTA and the other distributable reserves) and for 55,2 million euro by the operating profit.

The cash flow records a net absorbed liquidity equal to 9,5 million euro (as of 31 December 2015 the generated liquidity was equal to 38,9 million euro).

2.3. Information relating to personnel and environment

As of 31 December 2016 the organizational structure is made up of a total of 56 (51 as of 31 December 2015) employees, 7 of which are Senior Managers, 17 Middle Ranking Managers and 32 employees as well as by 10 seconded units coming from other companies of the Group. The average age is 41 years and 39% of the labour force is represented by women. The average seniority of service is 10.6 years.

In relation to the activity carried out by our Company, which does not entail any particular levels of risk for its employees, no accidents on the job are reported, nor the appearance of any pathology linked to professional illnesses. Moreover, no mobbing actions are reported in our Company.

2.4. Research and Development

Given the type of activity carried out by the Company, no research and development activity is performed.

2.5. Evaluation of Risks

The guidelines for the management of risks adopted by CC&G are dictated by the Board of Directors and monitored by the Chief Risk Officer.

The framework outlining the objectives of the Group in terms of risk management enables the management to have an acceptable risk level in pursuing its strategy and to identify the relevant responsibilities.

As far as the handling of specified risks is concerned, reference is made to the Explanatory Notes.

For the purpose of validating the adequacy of the parameters and the robustesness of the models for margin calculation, the Risk Management Office is conducting on a daily basis back tests and, on a monthly basis, the sensitivity tests.

Stress tests are also performed on a daily basis in order to verify the adequacy of the Default Funds amounts.

The stress test framework is revised both by the External Risk Committee and by the Board of Directors at least on a yearly basis.

The adequacy of the stress scenarios used for the determination of the Defaults Funds for each market section is evaluated, inter alia, by executing reverse stress tests with the purpose of identifying, through an approach of the interactive type, hypothetical stress scenarios, which would render the available financial resources insufficient to cover a possible default.

For the financial markets the year 2016 was characterized by high volatility - in particular on the occasion of the referendum which declared in June the will of the United Kingdom to withdraw from the Economic and Monetary Union and the constitutional referendum in Italy - intesified by the difficulties of the banking sector in an economic scenario characterized by negative rates and an increase in non performing loans.

The peaks in volatility have been handled with the aim to safeguard the adequacy of the pre-financed resources available in the guarantee system and limiting as much as possible the use of corrective actions with potential pro-cyclical effects.

The existing measures and the timeliness of the requests for intraday margins have permitted to overcome the high volatility period without evidencing any criticality.

In the course of 2016, the Risk Policy Office extended the functionality of the modular software (*MoVE*), inserting modules in the web-based user interface, which permit to carry out automatically the internal validation of the models used for the calculation of the Default Fund on two principal markets (Bond Market/Equity/Derivative Market).

The Risk Policy Office has also developed, in collaboration with the *Istituto dei Sistemi Complessi* (ISC) – *Consiglio Nazionale delle Ricerche* and Rome University "Sapienza" - an innovative stress test method for the CCPs in the framework of ESMA requests and expectations. The model, which exploits the theory of the networks in order to simulate the stress interactions and propagation among CC&G's members, has been described in an article whose publication in a scientific magazine is forthcoming.

Internal control system

The segregation of the control functions from the operational functions is ensured.
The lines of responsibility for the Risk, Compliance and Internal Audit functions are clear and distinct from those for the other CC&G's activities.
Internal controls are arranged on the following levels:

First level:
The first level controls are conducted by the dedicated corporate departments, which ensure their correct performance. The front, middle and back office departments ensure correct structure segregation and a correct performance of the first level controls. The functional separation and independence between the operational structure and the structure controlling it is also ensured.

Second level:
In compliance with EMIR rules, CC&G has established internally permanent second level control functions, which operate with character of independence from the operating structures.

In particular the second level functions provided in the framework of CC&G internal control systems are entrusted to the Chief Risk Officer and the Chief Compliance Officer.

Third Level:

Third level controls are performed by the Italy Internal Audit Department. Such structure conducts periodical independent audits on the Company's operating and administrative processes, according to the provisions of the annual Audit Plan. Considering the importance of a correct risk management and the relevance it has from a regulatory and governance standpoint, the Audit Department performs periodical controls on the Risk Management Department with the purpose of ensuring a perfect application of the guidelines prepared.

External Risk Committee

In compliance with EMIR provisions, the external Risk Committee, made up of representatives of the Members, of independent members of the Board of Directors and of the clients meets periodically. The members of the Committee have been appointed by CC&G's Board of Directors on the basis of objective non discriminatory criteria and are subject to periodical rotation.

The External Risk Committee is a consultative body of the Board. Such Committee expresses non binding opinions on all the measures that may affect the Company's risk management in its capacity as central counterparty and writes a report on the activities performed on a yearly basis (see paragraph 2.6).

Competition

CC&G is constantly confronting itself with the major European competitors from an organizational standpoint as well as on the services offered. With a view of a possible consolidation of post-trading in Europe, CC&G is well positioned for coping with competition, claiming a long experience in the sector and a solid risk management model.

Technology

The Company must have the necessary skills for ensuring a rapid and effective answer to the market solicitations and those coming from its members. In order to do this it has constantly paid high attention to maintaining technological skills within the company. The use of secure, stable, and performing technology, enabling high levels of availability and processing capacity of information, is the conclusive element that makes it possible to meet the increasing demand for operativeness from the market. This is aimed at avoiding interruptions or delays in the event of introduction of new services or products. The joining of the two above-mentioned key factors enables CC&G to effectively compete in a scenario characterized by rapid technological changes, improvements of the standards, introduction and evolution of new products and services.

As required by EMIR rules, the Chief Technology Officer (hereinafter CTO) is the figure in charge of the necessary technology activities for answering correct business and market stimuli. In the framework of security, the CTO area must take particular care of the following aspects:

- control of accesses to the system
- adequate protection against intrusions and wrongful use of data
- adoptions of solutions suitable to preserve the authenticity and integrity of the data
- use of highly reliable connection networks and procedures ensuring a punctual and precise data management, recording and tracking of each transaction performed.

2.6. Governance and legal information

(a) General information

Registered name and registered office
Cassa di Compensazione e Garanzia S.p.A. has its registered office in Rome, Via Tomacelli, 146 and a branch in Milan, Piazza degli Affari 6.

Date of incorporation and date of termination of the company
The Company was incorporated on 31st March 1992 and will end on 31st December 2100.

Companies' Register
The company is entered in the Companies' Register of the Chamber of Commerce of Rome under No. 04289511000.

Legal Form
The company is a joint stock company duly incorporated and existing under the laws of Italy, endowed with a management and control system based on the presence of a Board of Directors and a Board of Statutory Auditors. The Company is subject to the management and coordination activity of London Stock Exchange Group Holdings Italia S.p.A..

The following information is not exhaustive and is based on the By-Laws. The full text of the by-laws is available at the company's registered office.

(b) The corporate bodies

Board of Directors

The Board of Directors was appointed by the ordinary shareholders' meeting of 4 July 2014 and will remain in office for the Financial Years ending from 31 December 2014 to 31 December 2016. The Board is made up of the following directors:

Renato Tarantola	Chairman
Raffaele Jerusalmi	Vice-Chairman
Paolo Cittadini	Managing Director/General Manager
Mauro Lorenzo Dognini	Director
Andrea Maldi	Executive Director with delegation to Finance
Fabrizio Plateroti	Director
Mario Quarti	Independent Director
Alfredo Maria Magri	Independent Director
Vincenzo Pontolillo	Independent Director

General Management

Paolo Cittadini	General Manager
Antonio Gioffredi	Deputy General Manager

Board of Statutory Auditors
The Board of Statutory Auditors was appointed by the ordinary shareholders' meeting of 15 April 2015 for three (consecutive) Financial Years, which will expire with the Shareholders' meeting convened for the approval of the financial statements as of 31 December 2017 and is made up as follows:

Roberto Ruozi	Chairman
Fabio Artoni	Statutory Auditor
Mauro Coazzoli	Statutory Auditor
Nicola Frangi	Substitute Auditor
Lorenzo Pozza	Substitute Auditor

Risk Committee

The Risk Committee, established in compliance with EU Regulation no. 648/2012 (EMIR Rules) is made up of 6 members, of which:
(a) two independent Directors of CC&G
(b) two Representatives of the clearing members
(c) two representatives of the clients.

Composition of the Risk Committee[1]:

Mario Quarti	Chairman (Independent Director)
Vincenzo Pontolillo	Vice Chairman (Independent Director)
Mauro Maccarinelli	Representative of the clearing member Banca Intesa
Dale Thomas Braithwait	Representative of the clearing member JP Morgan
Amaud Cabec	Representative of the client BNP Arbitrage

Remuneration Committee

The remunerations Committee, established in compliance with Article 7 of EU Delegated Rule no. 153/2013 and Article 20 of the company's By-Laws, is made up of 3 members, of which:
(a) the Vice Chairman of the Board of Directors
(b) two non-executive independent directors

Composition of the Remunerations Committee:

Raffaele Jerusalmi
Mario Quarti
Vincenzo Pontolillo

Disciplinary Board

The Disciplinary Board, established in compliance with Article 26 of the Code of Conduct, is made up of:

Prof. Gaetano Presti	Chairman
Prof. Marco Lamandini	
Prof. Giuseppe Lusignani	

Board of Umpires

The Board of Umpires, established in accordance with the provisions of the General Conditions Part I is made up of:

Alberto Mazzoni	Chairman
Emanuele Rimini	
Carlo A. Favero	

The mandate had three year duration and expired in December 2016.

(c) Corporate Governance

The *corporate governance* structure of Cassa di Compensazione e Garanzia S.p.A. is based on the "traditional" system of management and control, characterized by the presence of the

[1] A new Representative of the client will be appointed during the Board of Directors' meeting of 24 March 2017, which will approve the present financial statements relating to the financial year 2016.

Board of Directors (management and strategic supervision body) and of the Board of Auditors (control body), both appointed by the Shareholders' meeting.
The legal audit of the accounts is demanded pursuant to the law from an auditing firm (EY S.p.A.).

The **Board of Directors** is responsible for the strategic lead and supervision of the company's overall activity, as well as for the management process of risks, in order for these to be consistent with the strategic addresses.

The Board is vested with all the powers for the ordinary and extraordinary management of the Company in the framework of the provisions of law, regulation and by-laws, and has the power and authority to perform all those acts that it deems necessary and appropriate for pursuing the corporate scope.

In particular, the Board of Directors, upon proposal of the Managing Director:

- defines the strategic guidelines and objectives to be pursued, reviews and approves the strategic, industrial and financial plans and the budget of the Company, as well as agreements and alliances of a strategic nature, monitoring periodically their implementation;
- defines, determines and documents the Company's risk objectives system (so called Risk Appetite Framework);
- it defines the Company's management policies of risks, providing to a periodical review of these;
- defines the leading guidelines of the Company's internal controls system; evaluates on an annual basis, the adequacy, effectiveness and actual functioning of the internal controls system;
- reviews and approves the Company's transactions having a significant strategic, economic, equity and financial relevance for the Company;
- grants and revokes powers to its members, defining the limits and procedures for exercising such powers;
- it also establishes the frequency, in any event never exceeding a quarter, according to which the delegated bodies must report to the Board about the activity carried out while exercising the delegated powers;
- establishes within its number one or more Committees, with proposing and consultative functions, including the Remuneration Committee, appointing the members and establishing duties and remuneration;
- establishes a Risk Committee and determines its operating rules;
- evaluates the general performance of the Company's management, on the basis of the information received from the directors with delegations, paying particular attention to the situations of conflict of interest and comparing the results obtained with those planned;
- formulates the proposals to be submitted to the Shareholders' meeting;
- approves the Rules;
- exercises the other powers and performs the duties required from it by the law and By-Laws.

Without prejudice to what is reserved to its exclusive competence, the Board of Directors has granted powers for the ordinary management and of representation to some of its members, in compliance with the provisions of the By-Laws. The directors vested with particular duties by the Board of Directors are the Chairman, the Vice Chairman, the Managing Director, and the Director with delegation to finance. The Board has also appointed a General Manager and a Deputy General Manager.

The Chairman has the legal representation of the Company vis-à-vis third parties and before the Court, jointly with the Vice Chairman.

The Vice Chairman has the duty to implement the strategic address resolved upon by the Board, oversee the international relations and decide with regard to the negotiation, perfecting or amendments in the matter of national and international alliances and agreements.

The Managing Director is granted all the management powers of the guarantee systems to central counterparty managed by the Company and the guarantee systems other than those assisted by the central counterparty managed by the Company, as well as the powers for the financial management conducive to the performance of the central counterparty activity provided by the Company's By-Laws.

The General Manager oversees the operations of the Company, has the Company's signature for acts of ordinary management, provides to the execution of the resolutions of the shareholders' meeting and of the board of directors and oversees the performance of the office. The Deputy General Manager replaces the General Manager in case of his absence or impediment.

The Director with delegation to finance is granted all the powers in the matter of administration and finance, with the exclusion of the management powers if financial resources deriving from the performance of the central counterparty activity provided by the By-Laws and granted to the Managing Director.

Persons in possession of the integrity and professionalism requirements established by the Italian Ministry of Economy and Finance for representatives of the management companies of regulated markets and centralized management of financial instruments, or in possession of the specific requirements provided by law for central counterparties may be vested with the office of director.

At least one third of the directors in office, but not less than two of them, are independent according to what defined by EU Regulation No. 648/2012. The Board of Directors resolves upon the existence of the above-mentioned requirements in the next useful meeting subsequent to the appointment or learning that the requirements no longer exist. The Independent Directors play a central role in the governance of the Company; they are directly engaged in the matters in which potential conflicts of interest may arise such as the risk management and the remuneration of the directors as well as of the key personnel of control functions, through the participation in the Remuneration Committee and Risk Committee.

The **Remuneration Committee** has proposing and consultative functions in the matter of remunerations of personnel, having particular regard to the more significant company representatives and personnel responsible for risk management, compliance control and internal audit functions; it works out and develops the remuneration policy, checks its implementation by the top management and periodically reviews its concrete functioning.

The **Risk Committee** is a consultative committee of the board. The Committee expresses its mandatory non binding opinion to the Board of directors, on the measures that can affect the management of the risks deriving from the Company's central counterparty activity.

In particular, the Committee expresses its opinion on:

a) the characteristics of the risk models adopted, including the models relating to the interoperability agreements with other central counterparties, as well as any substantial amendments to the above-mentioned models, the relevant methods and of the framework for the liquidity risk management;

b) the internal reference framework for defining the types of extreme but plausible market conditions and the revisions, implemented for the purpose of determining the minimum amount of the default funds, proceeding with the evaluations provided by Articles 29, paragraph 3, and 31 of the EU Delegated Rule No. 153/2013;

c) the policy for the management of the default procedures;

d) the liquidity plan adopted by the Company, in compliance with the provision of Article 32 of EU Delegated Rule No. 153/2013;
e) the admission criteria of members;
f) the criteria adopted for admitting new classes of secured instruments;
g) the outsourcing of functions;
h) the policy in the matter of use of derivative contracts, for the purpose of article 47 of EU Regulation No. 648 of 2012.

The Committee may also submit proposals to the Board of Diurectors on matters relating to the management of CC&G risk.

The consultative and proposing activity of the Committee does not extend to the decisions relating to the current operations of the Company.
The Committee draws a report on a yearly basis, containing information on the activity performed and their evaluations on the management of the risk by the Company. Such report is attached to the yearly report on the organizational structure and the management of risk addressed to the supervisory Authorities.

The **Board of Auditors** is the body responsible for the oversight on the compliance with the provisions of law and By-Laws, on the compliance with the principles of correct management and, in particular on the adequacy of the internal control system and of the organizational, administrative and accounting structures and their concrete functioning. The Board of Auditors is also requested to express a motivated proposal to the shareholders' meeting at the time of appointment of a firm for accounting audit.

The Board of directors also performs the functions of Internal Control and Legal Audit Committee, as provided by article 7 of EU Delegated Rule No. 153 of 2013.

The members of the Board of Auditors are appointed for a term of three financial years and may be re-elected.

Each of the members of the Board of Auditors must possess the requirements of integrity, professionalism and independence provided by the law and by the By-Laws.

The **Shareholders' meeting** is the body that represents all the shareholders and is responsible for resolving in the ordinary meeting with regard to the approval of the annual financial statements, the appointment and revocation of the members of the Board of Directors, the appointment of the members of the Board of Auditors and their Chairmen, the determination of the remunerations of the directors and auditors, the conferral of the accounting audit appointment, the responsibility of directors and auditors. The extraordinary shareholders' meeting is responsible to decide with regard to the amendments to the Company's By-Laws and transactions having an extraordinary character such as capital increases, mergers and spin offs, except the duties and authorities that are attributed to the competence of the Board of Directors by Article 19 of the By-Laws, as already pointed out herein above.

The **legal audit of the accounts** is exercised pursuant to the law by a company listed in the Special Book kept by Consob. The Shareholders' Meeting of 15 April 2015 conferred the relevant appointment, for the term of nine financial years on the basis of the applicable provisions of law, on EY S.p.A. for the Financial Years closing from 31 December 2015 to 31 December 2023.

(d) The Company's purpose

The Company is authorized to perform the clearing services in the capacity as central counterparty pursuant to (EU) Regulation No. 648/2012.
In compliance with Article 4 of the By-Laws, the Company has the following corporate purpose:

a) the management and provision of the clearing services in the capacity as central counterparty, as defined by the European and domestic legislation (in particular by the provisions of EU Regulation no. 648/2012 and by Legislative Decree no. 58 of 24 February 1998);
b) the performance of activities conducive to and related to clearing;
c) the management of any other guarantee systems not comprised in paragraph b) above;
d) the management and monitoring, also on behalf of third parties, of guarantees of any kind, including bank guarantees, security interests, monetary and security guarantees, also through adjustment techniques of the guarantees to the secured obligations, as well as the execution, also on behalf of third parties, of cashing and payment instructions;

The Company may also carry out any promotional and marketing activity of its services and products, as well as any activity related or conducive to what provided in paragraphs from a) to d) above.

The Company may provide, manage and market in particular, technological services and of advisory support mainly relating to the clearing and guarantee and risk management activities.

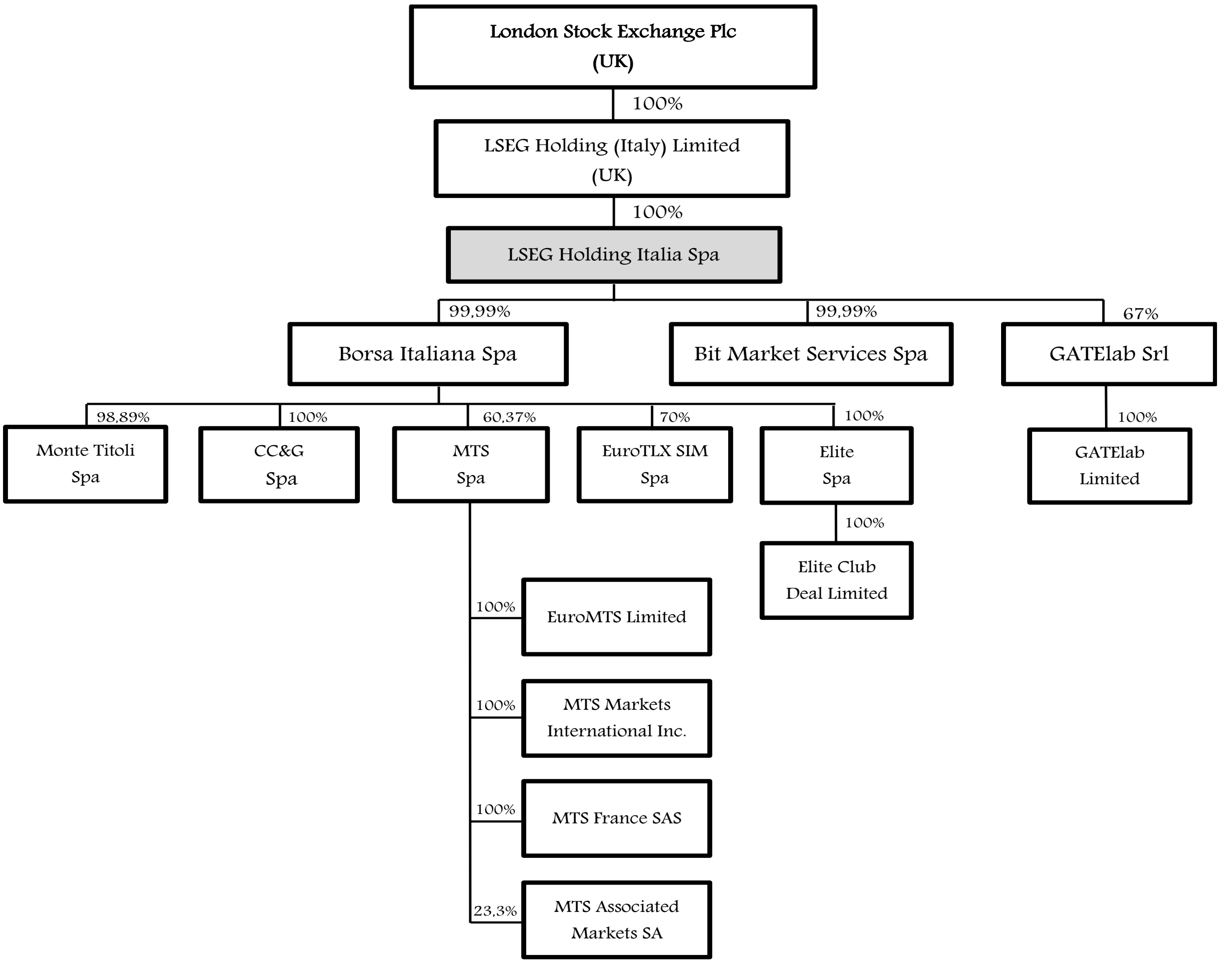
(e) The share capital

The share capital amounts to € 33,000,000.00 fully paid up. It is divided into 5,500 ordinary shares having the nominal value of € 6,000.00 each.

(f) The structure of the Group

Pursuant to Article 2497 and following of the Italian Civil Code, as at the date of 31 December 2016, Cassa di Compensazione e Garanzia S.p.A. is subject to the management and coordination activity of London Stock Exchange Group Holdings Italia S.p.A., in turn controlled by London Stock Exchange Group Plc.

Cassa di Compensazione e Garanzia S.p.A. holds no equity interests.



As of 31 December 2016 Cassa di Compensazione e Garanzia S.p.A. is 100% controlled by Borsa Italiana S.p.A.

2.7. Relationships with related parties

For a review of the relationships with related parties, reference is made to the appropriate paragraph in the Explanatory Notes to the Financial Statements.

2.8. Significant events after the close of the financial year

No significant events are pointed out occurred after the close of the financial year such as:

- announcement or starting of reorganisation plans
- capital increases
- undertaking of relevant contractual obligations
- significant litigations arisen after the close of the financial year.

2.9. Approval of the proposed Financial Statements of the financial year, proposed allocation of profit, and change of restricted reserve from Skin in the Game

Shareholders,

We invite you to approve the proposed financial statements as of 31 December 2016 (Balance Sheet, Income Statement, Statement of Comprehensive Income, Statement of Changes in the Shareholders' Equity, Financial Statement and Explanatory Notes), in its entirety and its individual entries and propose to allocate the net operating profit equal to € 55,252,103 as follows:

- to the Shareholders, as a dividend equal to € 9,540 for the 5,500 ordinary shares of the nominal value of € 6,000 each representing the Share Capital, for an overall amount of € 52,470,000;

- to Reserves, the residual amount of profit equal to € 2,782,103, as permanent provision in the course of time of a share of the profit to be allocated to reserve.

We invite you, moreover, to propose to the Shareholders' Meeting the following resolutions:
- to change, on the basis of the calculation of the Regulatory Capital requirements - provided by (EU) Regulation No.648/2012 (EMIR) – shown in Section D – *Other Information*, the Restricted Reserve pursuant to Article 45, paragraph 4 of EU Regulation 648/2012 (Skin in the Game) – which, following the approval of the Shareholders' Meeting of 16 April 2016 appeared to be equal to 17,263,220 euro - increasing it to the new value calculated pursuant to EU Regulation EU 648/2012 of 19,322,727 euro;

The dividend will be paid effective 4 May 2017.

Rome, 24 March 2017

for the Board of Directors
The Chairman
Renato Tarantola

BALANCE SHEET[2]

(Amounts in euro)

ASSETS

	Assets	31/12/2016	31/12/2015
10.	Cash and cash equivalents	198	48
20.	Financial assets held for trading for CCP activities	6,904,192,697	10,779,840,695
30.	Financial assets valued at fair value for CCP activities	3,226,118	1,017,384
40.	Available for sale financial assets	8,298,106,498	9,071,261,074
60.	Receivables	191,173,046,969	184,220,732,372
100.	Tangible assets	374,949	502,183
110.	Intangible assets	3,318,637	4,224,377
120.	Tax assets	-	-
	a) current	-	-
	b) anticipated	-	-
140.	Other assets	1,431,833	1,475,108
	TOTAL ASSETS	**206,383,697,899**	**204,079,053,241**

LIABILITIES AND SHAREHOLDERS' EQUITY

	Liabilities and Shareholders' Equity	31/12/2016	31/12/2015
10.	Payables	199,285,968,123	193,111,877,634
30.	Financial liabilities held for trading for CCP activities	6,904,192,697	10,779,840,695
40.	Financial liabilities valued at fair value for CCP activities	2,512,249	455,894
70.	Tax liabilities	2,339,503	2,869,607
	a) current	*557,876*	*1,223,605*
	b) deferred	*1,781,627*	*1,646,002*
90.	Other liabilities	9,614,981	14,211,582
100.	Employees severance indemnity	964,551	1,024,316
110.	Provisions for risks and charges:		
	a) pension funds and similar obligations	-	-
	b) other funds	-	-
120.	Capital	33,000,000	33,000,000
155.	Payments on account of dividenda (-)	-	-
160.	Reserves	85,247,180	82,762,600
170.	Valuation reserves	4,606,512	4,215,321
180.	Operating (loss) profit	55,252,103	48,795,592
	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**206,383,697,899**	**204,079,053,241**

[2] For the purpose of providing a more correct representation of the Balance Sheet item "Financial assets evaluated at fair value for CCP activities", in the comparative statement as at December 31, 2015 the component related to claims on the securities settlement system has been reclassified for euro 1,329,735 under heading 60 "Receivables", respectively in the sub-items Receivables to the participants in the securities settlement system T2S and ICSD. For further details reference is made to section 3 of the Explanatory Notes.

INCOME STATEMENT

(Amounts in euro)

	Items	31/12/2016	31/12/2015
10.	Interest income and similar income	627,486,612	249,099,720
20.	Interest expenses and similar charges	(579,020,853)	(209,482,142)
	INTEREST MARGIN	**48,465,759**	**39,617,578**
30.	Commission income	51,349,535	51,712,093
40.	Commission expenses	(1,338,491)	(1,312,789)
	NET COMMISSION	**50,011,044**	**50,399,304**
50.	Dividends and other income	494	3,350,809
60.	Net result of trading activity	-	-
80.	Net result of financial assets/liabilities valued at fair value	102,097	(2,861,663)
90.	Profit (loss) on sale or repurchase	3,818,071	974,769
	a) financial assets	*3,818,071*	*974,769*
	INTERMEDIATION MARGIN	**102,397,465**	**91,480,797**
100.	Net adjustments/write-backs due to impairment:	-	-
	a) financial assets	-	-
110.	Administrative expenses	(19,900,742)	(19,003,976)
	a) employee costs	*(7,854,284)*	*(7,518,669)*
	b) other administrative costs	*(12,046,458)*	*(11,485,307)*
120.	Net adjustments/write-backs due on tangible assets	(293,229)	(422,293)
130.	Net adjustment/write backs due on intangible assets	(1,818,708)	(1,449,560)
150.	Net provisions to the funds for risks and charges		-
160.	Other operating income and charges	1,462,801	1,601,869
	OPERATING PROFIT	**81,847,587**	**72,206,837**
	PROFIT (LOSS) OF CURRENT OPERATIONS BEFORE TAX	**81,847,587**	**72,206,837**
190.	Profit (loss) from disposal of investments	(26,595,484)	(23,411,244)
	PROFIT (LOSS) OF CURRENT OPERATIONS BEFORE TAX	**55,252,103**	**48,795,592**
	PROFIT (LOSS) FOR THE PERIOD	**55,252,103**	**48,795,592**

STATEMENT OF COMPREHENSIVE INCOME

(Amounts in euro)

	Items	31/12/2016	31/12/2015
10.	**Profit (Loss) for the year**	**55,252,103**	**48,795,592**
	Other comprehensive income, net of taxes without reversal to income statement		
40.	Defined benefit plans	114,112	32,772
	Other comprehensive income, net of taxes with reversal to income statement		
100.	Financial assets available for sale	277,079	4,423,719
130.	**Total other income components after taxes**	391,191	4,456,491
140.	**Total profitability (Item 10+130)**	**55,643,294**	**53,252,083**

London Stock Exchange Group

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

(Amounts in euro)

	Balances as of 31.12.2015	Modification of opening balances	Balances as of 01.01.2016	Allocation of the result of the preceding financial year: Reserves	Allocation of the result of the preceding financial year: Dividends and other allocations	Changes occurred in the financial year: Changes of Reserves	Changes occurred in the financial year: Transactions on the Shareholders' Equity: Issue of new shares	Transactions on the Shareholders' Equity: Purchase of own shares	Transactions on the Shareholders' Equity: Extraordinary distribution of dividends	Transactions on the Shareholders' Equity: Changes in capital instruments	Transactions on the Shareholders' Equity: Other changes	Overall profitability in 2016 financial year	Shareholders' Equity at 31.12.2016
Capital	33,000,000		33,000,000										33,000,000
Share premium	-		-										-
Reserves:	-		-										-
- legal	6,600,000		6,600,000										6,600,000
- other reserves	74,052,479		74,052,479	2,441,593									76,494,072
-profits/losses brought forward	-		-										-
- fund for the purchase of shares of parent company	2,039,581		2,039,581			42,987							2,082,568
- FTA reserve	70,540		70,540										70,540
Revaluation reserve	4,215,321		4,215,321									391,191	4,606,512
Capital instruments	-		-										-
Own shares	-		-										-
Operating profit (loss)	48,795,592		48,795,592	(2,441,593)	(46,353,999)							55,252,103	55,252,103
Shareholders' Equity	168,773,513		168,773,513	-	(46,353,999)	42,987	-	-	-	-	-	55,643,294	178,105,795

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

(Amounts in euro)

	Balances as of 31.12.2014	Modification of opening balances	Balances as of 01.01.2015	Allocation of the result of the preceding financial year		Changes occurred in the financial year						Overall profitability in 2015 financial year	Shareholders' Equity at 31.12.2015
							Transactions on the Shareholders' Equity						
				Reserves	Dividends and other allocations	Changes of Reserves	Issue of new shares	Purchase of own shares	Extraordinary distribution of dividends	Changes in capital instruments	Other changes		
Capital	33,000,000		33,000,000										33,000,000
Share premium	-		-										-
Reserves:	-		-										-
- legal	6,600,000		6,600,000										6,600,000
- other reserves	72,363,640		72,363,640	1,688,839									74,052,479
- profits/losses brought forward	-		-										-
- fund for the purchase of shares of parent company	1,633,675		1,633,675			405,906							2,039,581
- FTA reserve	70,540		70,540										70,540
Revaluation reserve	(241,170)		(241,170)									4,456,491	4,215,321
Capital instruments	-		-										-
Own shares	-		-										-
Operating profit (loss)	33,781,339		33,781,339	(1,688,839)	(32,092,500)							48,795,592	48,795,592
Shareholders' Equity	147,208,024		147,208,024	-	(32,092,500)	405,906	-	-	-	-	-	53,252,083	168,773,513

CASH FLOW STATEMENT

(Amounts in euro)

DIRECT METHOD

A. OPERATING ACTIVITIES	Amount	
	31/12/2016	**31/12/2015**
1. Management	**105,345,813**	**61,880,790**
- interest income received (+)	(9,336,584)	(4,663,885)
- interest paid (-)	101,300,026	56,938,551
- dividends and similar income (+)	(1,494)	4,327,566
- net commission income (+/-)	50,710,475	53,687,417
- personnel expenses (-)	(7,788,054)	(9,153,660)
- other costs (-)	(7,750,202)	(17,445,824)
- other revenues (+)	1,453,441	1,601,869
- taxes (-)	(23,241,795)	(23,411,244)
2. Liquidity generated / absorbed by financial assets	**(3,693,140,656)**	**(6,059,502,542)**
- Financial assets held for trading assets of CCP	-	-
- Financial assets at fair value for assets of CCP	(152,379)	9,200,936
- Financial assets available for sale	730,854,980	(625,706,947)
- Receivables from banks	(3,672,042,360)	(1,616,938,987)
- Receivables from costumers	(751,846,159)	(3,844,865,484)
- other assets	45,262	18,807,939
3. Liquidity generated / absorbed by financial liabilities	**3,618,492,658**	**(6,069,671,652)**
- loans to banks	843,801,774	1,936,651,402
- debts to customers	2,783,751,033	4,141,657,180
- Financial liabilities held for trading assets of CCP	-	-
- Financial liabilities measured at fair value for assets of CCP	-	-
- Other liabilities	(9,060,149)	(8,636,929)
Net liquidity generated/absorbed by operating activity	**30,697,815**	**72,049,900**
B. INVESTMENT ACTIVITY		
1. Cash generated from	**11,800**	**-**
- sales of tangible assets	11,800	-
- sales of intangible assets		-
2. Liquidity absorbed by	**(1,081,402)**	**(1,501,662)**
- purchases of tangible assets	(168,434)	(108,188)
- purchases of intangible assets	(912,968)	(1,393,474)
Net liquidity generated/absorbed by investment activity	**(1,069,602)**	**(1,501,662)**
C. FUNDING ACTIVITY		
- distribution of dividends and other	(39,151,667)	(31,653,822)
Net liquidity generated/absorbed by the funding activity	**(39,151,667)**	**(31,653,822)**
CASH FLOW GENERATED / ABSORBED IN THE PERIOD	**(9,523,454)**	**38,894,416**

RECONCILIATION

	Amount	
	31/12/2016	**31/12/2015**
Cash and cash equivalents at beginning of year	78,965,006	40,070,589
Total net liquidity generated / absorbed during the year	(9,523,454)	38,894,417
Cash and cash equivalents at closing of financial year	69,441,552	78,965,006

Notes to the Financial Statements
As of 31 December 2016

Part A – Accounting Policies

A.1 - General part

Cassa di Compensazione e Garanzia S.p.A. manages clearing and settlement systems for transactions on derivatives and other financial instruments pursuant to EU Regulation 648/2012 (European Market Infrastructure Regulation), which dictates, at European level, common rules to all Central Counterparties defining new levels of transparency and security for the markets.

Section 1 – Statement of Compliance with International Accounting Standards

On 1st January 2005, Cassa di Compensazione e Garanzia S.p.A. adopted the international accounting standards.
The present financial statements of the Company are, therefore, prepared according to the accounting standards issued by the International Accounting Standards Board (IASB) and the relevant interpretations of the International Financial Reporting Interpretations Committee (IFRIC and SIC) and validated by the European Commission, as provided by EC Regulation no. 1606 of 19 July 2002 as implemented in Italy by Legislative Decree no. 38 of 28 February 2005, until the date of these financial statements. In preparing these financial statements the same accounting standards have been used, where applicable, as those adopted for preparing the financial statements of the financial year ended on 31 December 2015. The annual financial statements have been prepared based on a going concern assumption with a view to business continuity.

Section 2 – General principles

The financial statements as of 31 December 2016, prepared in euro units, consist of the Balance Sheet, the Income Statement, the Statement of Comprehensive Income, and the Statement of Changes in the Shareholders' Equity, the Cash Flow Statement[3] and the relevant explanatory notes; it is also accompanied by the Report on Operations prepared by the Directors.

The accounting schedules are derived from the schedules featured in the "Instructions for Preparing Financial Statements and Reports of Financial Intermediaries" pursuant to art. 107 of the TUB [Italian Banking Consolidation Act], issued by the Bank of Italy on 9 December 2016, duly adjusted to take into account the unique activities exercised by the Company. To ensure greater compliance with the Bank of Italy's instructions, some tables in the Descriptive Note were modified according to these schedules, and some values were reclassified to take into account the different exposure[4]. Comparison with the previous year was maintained as called for by the regulations, with some items

[3] The statement of the cash flows occurred in the reference financial year of the financial statements and in the preceding financial year was prepared following the direct method, by means of which the main categories of collections and gross settlements have been indicated. The direct method provides useful information in the estimate of future cash flows.

[4] In the Balance Sheet, the Income Statement, the Statement of Overall Profitability and the Explanatory Notes no items were shown that present no amounts for the financial year to which they relate nor for the preceding financial year.

being reclassified as necessary with respect to the financial statements at 31st December 2015.

The financial statements were prepared clearly and are a true and accurate representation of the equity situation, the financial situation and the economic result. The explanatory notes to the financial statement provide exhaustive explanation aiming to outline a clear, truthful and accurate presentation of the tables of the financial statements.

The IAS/IFRS were applied with reference also to a "conceptual model for financial reporting" (so called "framework") particularly with regard to the basic principle involving substance over form, and the concept of relevance and significance of the information.
Financial-statement items were evaluated based on the continuity of the company's business and taking into account the economic function of the assets and liabilities considered.
In compliance with the provisions of IAS 1, the following general principles were observed in preparing the interim financial statements:

- Corporate continuity: the financial statements were prepared based on a going-concern assumption; therefore, assets, liabilities and off-balance-sheet transactions were valued according to operating criteria;
- Economic pertinence: costs and revenues were taken based on economic accrual and according to the criterion of correlation;
- Relevance and aggregation of items: each relevant class of items has been presented separately in the financial statements. Items of dissimilar nature or allocation have been aggregated only if irrelevant;
- Set-off: assets and liabilities, income and charges do not need to be set off unless expressly required or allowed by a standard or an interpretation;
- Comparative information: comparative information is provided for a previous period for all data presented in the balance sheet unless otherwise called for by a standard or an interpretation;
- Uniformity of presentation: the presentation and classification of the items have been kept constant over time in order to ensure that the information is comparable, unless otherwise specifically required by new accounting standards or by their interpretation.

The assessment criteria adopted are therefore consistent and comply with the principles of relevance, significance and meaningfulness of the accounting information and of prevalence of economic substance over legal form. These criteria have not been changed with respect to the previous year.

Main Risks and Uncertainties

In document no. 2 of 6 February 2009 and again in document no. 4 of 3 March 2010, Bank of Italy, Consob and Isvap requested to provide in financial Reports a series of information for a better understanding of the business performance and prospects.

Having regard to those recommendations and with reference to the precondition of business continuity, it is pointed out that the Financial Statements as at 31 December 2016 were prepared based on the perspective of business continuity, there being no reasons for not considering that the Company will continue operating in a foreseeable future. In fact, no symptoms were identified in the equity and financial structures and in the operational performance that may lead to uncertainties on this issue. The information on the risks and uncertainties to which the Company is exposed are described in the context of this report.

The information on the financial risks and operational risks, the methods for managing the same, are described in the dedicated section of the Report on the Operations and in the Explanatory Notes to the Financial Statements.

New Accounting Standards

The financial statements for the financial year of the Company have been prepared according to the accounting standards issued by the International Accounting Standards Board (IASB) and the relevant interpretations of the International Financial Reporting Interpretations Committee (IFRIC and SIC) and validated by the European Commission, as established by the European Communities regulation no. 1606 of 19 July 2002 implemented in Italy by Legislative Decree no. 38 of 28 February 2005 until 21 December 2016.
In the preparation of these financial statements, where applicable, the same accounting principles have been adopted as those adopted in the preparation of the financial statements for the financial year closed as at 31 December 2015. The financial statements were prepared with a view to the continuation of the Company's business activity.

New documents issued by the IASB and mandatorily validated by EU effective from the financial statements starting on 1 January 2016.

It is pointed out that the following accounting principles, amendments and interpretations, having effect from 1 January 2016, are not relevant and have generated no relevant effects for the company:

Title of documents	Date of Issue	Effective Date	Validation date	EU Regulation and date of publication
Plan with defined benefits: contributions by employees (amendments to IAS 19)	November 2013	1st February 2015 (for IASB: 1st July 2014)	17 December 2014	(EU) 2015/29 9 January 2015
improvements to the International Financial Reporting Standards (cycle 2010-2012)	December 2013	1st February 2015 (for IASB: 1° July 2014)	17 December 2014	(EU) 2015/28 9 January 2015
Agriculture: fruit plants (amendments to AS 16 and to IAS 41)	June 2014	1st January 2016	23 November 2015	(EU) 2015/2113 24 November 2015
Accounting of the acquisitions of participating interests in joint control activities (amendments to IFRS 11)	May 2014	1st January 2016	24 November 2015	(EU) 2015/2173 25 November 2015

Clarification on acceptable amortisation and depreciation methods (amendments to IAS 16 and IAS 38)	May 2014	1st January 2016	2 December 2015	(EU) 2015/2231 3 December 2015
Yearly improvements cycle to IFRS 2012-2014	September 2014	1st January 2016	15 December 2015	(EU) 2015/2343 16 December 2015
Information initiative (amendments to IAS 1)	December 2014	1st January 2016	18 December 2015	(EU) 2015/2406 19 December 2015
Equity method in separate financial statements (amendments to IAS 27)	August 2014	1st January 2016	18 December 2015	(EU) 2015/2441 23 December 2015
Investment entity: application of the consolidation exception (amendments to IFRS 10, IFRS 12 and IAS 28)	December 2014	1st January 2016	22 September 2016	(EU) 2016/1703 23 September 2016

New accounting principles and interpretations already issued but not yet in force

Below are listed, and briefly discussed, the new standards and interpretations already in place and approved by the European Union and therefore not applicable to the preparation of financial statements which closes at 31.12.2016.

IAS/IFRS and relevant IFRIC interpretations applicable to the financial statements of the financial years beginning after 1 January 2016.

IFRS 9

The new accounting standard IFRS 9 – Financial Instruments will replace effective 1st January 2018, the standard IAS 39 with the objective of simplifying the classification of financial assets.
The principal novelties compared to IAS 39 will concern the classification and measurement of financial assets, the definition of one single impairment modality and the new hedge accounting policies.

The Parent Company LSE started a centralized project of analysis and development, involving the Company, for the purpose of defining the qualitative and quantitative impacts and any interventions that should become necessary for the adoption of the new standard. Even if the adoption of IFRS 9 does not have a significant impact on the financial statements the Company, in collaboration with the Parent Company, will complete the assessment process in the course of 2017.

IFRS 15

The new accounting standard IFRS 15 – Revenue from Contracts with Customers will replace effective 1 January 2018, standards IAS 11 Accounting for Construction Contracts and IAS 18 Revenue Recognition and relevant interpretations. The objective of the new standard is to create a complete homogeneous reference framework for the recognition of revenues, applicable to all the commercial contracts, with the exception of leasing contracts, insurance contracts and financial instruments.

The Parent Company LSE started a centralized project of analysis and development, involving the Company, for the purpose of defining the qualitative and quantitative impacts and any interventions that should become necessary for the adoption of the new standard. Even if the adoption of IFRS 15 does not have a significant impact on the financial statements the Company, in collaboration with the Parent Company, will complete the assessment process in the course of 2017.

Be informed that these documents will only be applicable after EU approval.

IFRSs that have not yet been endorsed by the EU at December 31, 2016 with effect from the effective date of administrative exercises that will start after January 1, 2016 (IASB effective date)

Title of documents	Date of issue by IASB	Date of coming into force of IASB document	Envisaged date of validation by the EU
Standards			
IFRS 14 Regulatory Deferral Accounts	January 2014	(Note 2)	(Note 2)
IFRS 16 Leases	January 2016	1st January 2019	2017
Amendments			
Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	September 2014	Deferred till the date of completion of IASB project on the equity method	Deferred while waiting for the conclusion of IASB project on the equity method
Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses	January 2016	1st January 2017	2017
Amendments to IAS 7: Disclosure Initiative	January 2016	1st January 2017	2017
Clarifications to IFRS 15 Revenue from Contracts with Customers	April 2016	1st January 2018	1st semester 2017
Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions	June 2016	1st January 2018	2nd semester 2017
Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	September 2016	1st January 2018	2017

(Note 2) IFRS 14 came into force on 1st January 2016, but the European Commission decided to stay the relevant validation process while awaiting the new accounting standard on the "rate-regulated activities".

For the time being no significant impacts are expected from the adoption of such standards.

Section 3 – Events subsequent to the reference date of these financial statements

In the period between the date of the financial statements and their approval by the Board of Directors no events have occurred that require an adjustment of the data approved at that meeting. The proposed financial statements were approved by the Board of Directors on 24 March 2017 and were authorized for publication on that date (IAS 10).

Section 4 – Other Aspects

In consideration of the unique nature of the service rendered by the Company and the fact that it is geographically concentrated within the country, the Segment reporting provided by IFRS 8 is represented by the financial statements themselves.

Cassa di Compensazione e Garanzia S.p.A.'s financial statements as at 31 December 2016 are subject to accounting audit by EY S.p.A.

A.2 – Part relating to the main items of the financial statements

Evaluation criteria and accounting principles

Cash and cash equivalents

Cash and cash equivalents include items that meet the requirements of on-demand or short-term (3 months) availability, successful outcome and lack of collection costs.

Financial trading assets/liabilities for the Central Counterparty activity

These items include the fair value measurement of open interest positions not regulated at the date of close of the financial statements on the derivatives market (IDEM Equity and IDEX) in which Cassa di Compensazione e Garanzia operates as central counterparty.

In particular, these items include:

- Derivative financial instruments contracts on the FTSE MIB stock market index (index futures, index mini-futures, index options);
- Derivative financial instruments contracts on single stocks (stock futures, stock options).
- Commodity futures contracts (energy and durum wheat futures).

The fair value valuation of such positions is determined on the market price of each individual financial instrument at the closing of the financial year; since the Company has a perfect balance of assets and liabilities, this amount is equally entered in both assets and liabilities, therefore the fair value of both items does not lead to any net profit or loss in the income statement of the Company (item “Net profit/loss from trading activities”).

Financial assets/liabilities valued at fair value for Central Counterparty activities

The company, operating as central counterparty in the trades on regulated markets of standardised financial instruments, decided to adopt the *settlement date* as reference date for the recognition of financial assets and therefore these items include:

- listed share and bond financial instruments, valued at fair value, which CC&G has in its portfolio, having already collected them in the T2S settlement system, and has not yet delivered to the purchasing intermediaries;
- the valuation at fair value of financial assets/liabilities traded and not yet settled on stock and bond markets (both for transactions carried out around the turn of the year and for which the trade date has already passed but not the settlement date and for transactions performed on the settlement date but not yet settled) represented in the item 'Guarantees and commitments' in the section 'Other information'.

The “*fair value”* of the financial instruments in the portfolio has been determined on the basis of the market price of each individual financial instrument at the moment of “withdrawal” in the framework of T2S settlement system (date of first accounting recording); subsequently the changes in fair value of the securities in the portfolio are recorded in the income statement (item “Net income from financial assets and liabilities valued at fair value") on the basis of the market price at the date of the financial statements, perfectly balanced by the offsetting of the equivalent differences with respect of commitments for transactions to be settled. Contra accounts show the nominal value of the open interest positions at the reference date of the financial statements: the difference between the nominal value of the securities to be received and the securities to be delivered is given by the nominal value of the securities in the portfolio in question.

For securities traded as part of the central counterparty activities on stock and bond markets and still not concluded at the settlement date, the difference between the settlement price of each individual financial instrument at the trade date and the market price of each individual financial instrument at the date of close of the financial year is recorded, represented by the prices recorded on the last day of the year. The effects of this valuation are recorded in the income statement (item “Net income from financial assets and liabilities valued at fair value”), to offset the recording of the same amount in respect of the commitment to market counterparties.

Given the company's fully balanced position as market central counterparty with regard to assets and liabilities, no net income or loss is generated.

Financial assets held for sale

This item includes those assets other than receivables, held to maturity or assets valued at fair value.
The CCP has decided to include in this item all the financial assets that do not belong to other categories of financial instruments typical of its business and which are held for an undefined period of time.
Those assets are initially evaluated at fair value, which corresponds to the purchase or subscription cost of the transaction.

This category includes the investment in secured assets of Margins and payments to the Default Funds deposited by participants with the central guarantee system, in compliance with the new EMIR rules.
This concerns the purchase of EU Government Bonds (Austria, Belgium, France, Ireland, Italy, Spain), Securities issued by the European Union and Supranational securities issued by the European Investment Bank, by the European Stability Mechanism, and European Stability Facility which are recorded at fair value under the item relating to financial assets available for sale - in the Assets Side of the Balance Sheet, item 40.
After the initial recording, accrued interest is shown in the Income Statement according to the actual interest rate of the transaction. Assets that are available for sale are valued at fair value on the basis of the closing prices published on the active market. Capital gains and losses resulting from changes in the fair value are shown directly in the shareholders' equity, in an appropriate evaluation reserve fund, except for losses deriving from a reduction in value.
In case of sale before maturity, the profits and losses from valuation pending in the shareholders' equity reserve fund are shown in the income statement in item 90 “Profit/loss deriving from disposal or repurchase of financial assets”.

Receivables/Payables

This item includes overnight deposits held in checking accounts with credit institutions, originated from own funds, cash payments made by members of the CCP service to cover initial margins and cash payments made by participants in the default funds.

Payables, whose maturity falls within the normal commercial terms, are not discounted back and are recorded at cost, identified by their nominal value.

Receivables/Payables due to/from Clearing members

These are trade receivables/payables whose maturity does not exceed thirty days and, therefore, are not discounted back, and are recorded at their nominal value net of any ancillary collection costs.

Receivables/Payables due to/from Clearing members for CCP activities

This item includes receivables/payables originated from clearing member’s activities in the derivative, share and bond segments. These include amounts to be received/delivered for initial margins, variation margins and option premiums. These receivables/payables are settled the day after the determination of the receivable and therefore are not discounted back, and represent the fair value, calculated by Cassa di Compensazione e Garanzia, on the basis of procedures that reflect operational risks.

Operational risks mean risks attributable to the correct functioning of the margining system, also taking into account:

- Equity/technical and organisational risks adopted by CC&G for the selection of participants;
- The organisational structure and the internal audit system.

This item also includes the value of repurchase agreements (repo) entered into by participants in the bond market that make use of the company’s clearing and guarantee system. They represent the value of the transactions already cash settled and not yet forward settled. This item, evaluated at amortised cost, was already valued by allocating

the return of such repurchase agreement on a pro-rata temporis basis (coupon accrued during the year and spread between the spot price and forward price).
Since the company is perfectly balanced as regards asset and liability positions, this evaluation does not impact on the operating result. This item includes receivables for securities posted in guarantee.

Other trade receivables/payables

This item includes receivables for services offered to counterparties with maturity exceeding thirty days. In case such claims are not collected on or before the due date or the delay in their payment exceeds one hundred and eighty days after the invoice has been issued, we proceed with a prudent receivable devaluation. For accounting purposes, the provision for losses on receivables should be recorded in a devaluation fund that is not shown in the financial statements but directly deducted from the value of the receivables.
Since all the receivables are of the same nature, the determination of the devaluation impairment is made according to a synthetic principle, by adopting a unified percentage reducing the value of the receivable.
Any increases/decreases in the devaluation fund occur in function of the contingent impossibility to collect or possible collection after the closing date of the financial statements.
Any decreases or increases in the provision are shown in the Income Statement as contingent losses or profits under item "100 - Adjustments/recoveries of value due to impairment".

Tangible assets

Tangible assets are entered at purchase cost inclusive of directly attributable ancillary charges and the amounts are shown net of depreciation and any losses of value[5].

Maintenance costs relating to improvements are attributed to the asset to which they relate and are depreciated over the remaining useful life of the asset.

Intangible assets

Intangible assets are recorded in the assets when it is likely that the use of the asset will generate future economic benefits and when the cost of the asset can be reliably measured. These assets are recorded at purchase cost, net of impairments and amortised on a straight-line basis over the asset's estimated useful life[6].

Impairment of assets

The Company reviews the book value of its tangible and intangible assets to determine whether there are signs that these assets have suffered any impairment. It is not possible to individually estimate the recoverable amount of an asset; the company

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5 The depreciation periods for each category of tangible assets are as follows:

• Automatic data processing systems	3 years
• Plant and equipment	5 years
• Furniture and fittings	3 years

6 They refer to:

- Software licences, amortised over three years;
- Costs for the development of software applications, amortised over three years;
- Intangible assets in the course of construction and advances relating to costs incurred for the development of specific software applications and the purchase of software licences for projects yet to be finished; no amortisation is calculated on said item.

estimates the recoverable value of the unit generating the financial flow to which the asset belongs[7].

Impairment is recorded if the recoverable amount is below the book value. This impairment is restored in the event that the reasons that led to impairment no longer exist up to the maximum amount of the original value.

Other assets/liabilities

These are valued at cost, representative of the recoverable value of the assets; since they are short-term items, they are not subject to any discounting back.

The item includes receivables relating to bankruptcy proceedings following market insolvencies that have a matching item in the liabilities in the form of amounts owed to participants in the Guarantee Funds. The latter refer to long-term receivables and payables that cannot be offset and which should be valued following impairment tests and therefore discounted back. Considering the importance that these items have for the participants in the Guarantee Funds and considering also that the company will not incur any losses from such insolvency proceedings, it has been deemed appropriate not to proceed with devaluation. Moreover it also includes the receivables/payables to the Parent company (consolidating entity for the time being) as a result of the application of the national tax consolidation system.

Employee severance indemnity

The employee severance indemnity (TFR) pursuant to article 2120 of the Italian Civil Code is subject to an actuarial valuation, based on assumptions regarding the employees' seniority of service and the remuneration received during a certain period of service. The entry in the financial statements of defined benefit plans requires an estimate - by means of actuarial techniques – of the amount of employees' contributions for the work carried out during the current and previous years and the discounted value of such contributions, in order to determine the present value of the company's commitments. The calculation of the current value of the company's commitments is performed by an external expert according to the Projected Unit Credit Method considering only accrued seniority at valuation date, the years of service at the valuation reference date and the total average seniority at the time the benefit liquidation is expected. Moreover, the above mentioned method entails the consideration of the future salary increases, regardless of the reason (inflation, career progress, contracts renewals, etc.) until the termination of the employment.

Regulation no. 475/2012 validated the amendments to IAS 19, as approved by the IASB on 16 June 2011, with the objective of promoting the understandability and

comparability of financial statements, above all having regard to plans with defined benefits. The more important novelty introduced concerns the elimination of different admissible accounting treatments for recording plans with defined benefits and the consequent introduction of a single method that provides for the immediate recognition in the statement of comprehensive income of the discounted profits/losses deriving from the evaluation of the obligation. In relation to the previous accounting layout adopted,

[7] The recoverable value of an asset is the higher between the current value net of sale costs and its value in use. Where the current value is the amount obtainable from the sale of an asset or a cash-generating unit in a financial transaction between knowledgeable, willing parties and the value in use of an asset is calculated by discounting back estimated future cash flows, before taxes, at a pre-tax discount rate which reflects the current market valuations of the time value of money and the specific risks of the asset.

the principal effects consist of the elimination of the recording in the income statement, with immediate recognition in the statement of comprehensive income and, therefore, in the shareholders' equity, of the changes in value of the obligations and of the assets servicing the plan.

Share-based payments

The payments to employees based on shares of the parent company London Stock Exchange Group plc are recognized by recording at cost in the Income Statement the portion of the share allocation plan, determined at fair value on the date of granting of the plan and taking into account the terms and conditions on which such instruments are granted.
For the purpose of being in line with the Group policies, starting from 1 January 2016 the relevant debt is recorded among current liabilities - short-term infragroup debts (until 31 December 2015 the debt was recorded in the shareholders' equity in an appropriate reserve fund).

If they are SBP identified as Equity Settled an increase is recorded in the corresponding Equity reserve in accordance with IFRS 2.

In addition to the cost of the share allocation plan, the portion of Employee Severance Indemnity that the company shall settle or pay at the end of the accrual period is shown in the Income Statement by recording an increase of the relevant liabilities.

Revenues

Revenues are calculated on an accrual basis and are recognized if it is possible to reliably determine their fair value and it is likely that the relevant economic benefits will be achieved, pursuant to the provision of IAS 18.

Costs

Costs are recorded on an economic accrual basis.

Interest payable/receivable and similar income and expenses

Financial income and expenses are recorded, using the actual interest rate, on an accrual e basis of interest accrued on the relevant financial assets and liabilities.

Taxes

Taxes for the period were calculated on the basis of tax regulations currently in force.
Deferred taxes are calculated in accordance with the method of line-by-line allocation of liabilities; they are calculated on all temporary differences that emerge between the taxable base of an asset or liability and the book value in the financial statements. Deferred tax assets (taxes paid in advance) are recognised if it is likely that future taxable income will be earned against which deferred tax assets can be recovered.

Current and deferred tax assets and liabilities are offset when the income taxes are applied by the same tax authorities and when there is a legal right for offsetting.

Anticipated and deferred tax assets are recorded in matching entries to the shareholders' equity related to capital gains and losses arising from changes in fair value of portfolio securities classified as available for sale.

Guarantees and Commitments

Regarding the items recorded as guarantees and commitments referred to in the section "Other information" it is noted that:

- the third party securities deposited as collateral and securities to be received/ delivered for transactions to be settled are recorded at their nominal value;
- Sureties deposited as guarantee are recorded at their nominal value;
- Securities to be received/delivered for transactions to be settled are recorded at the nominal value of open interest positions at the balance sheet reference date.

No guarantees were issued by the company in favour of third parties.

Use of estimates

The preparation of the financial statements and of the relevant notes pursuant to the International Accounting Standards requires the use of estimates and assumptions which impact the value of assets and liabilities in the financial statements and in the information related to potential assets and liabilities at the financial statements date. Final results could differ from the estimates made.

Estimates and assumptions are periodically reviewed and the effects of the changes are recorded in the income statement.

In particular, see the "risk management" section, part D "Other information" of the notes, for an illustration of the methods adopted for the calculation of margins and default funds, as elements of the risk management system of CC&G as Central Counterparty.

A.3 Information on transfers between portfolios of financial assets

It should be noted that during the year there were no reclassifications of financial assets.

A.4 – *Fair value disclosure*

Information of a qualitative nature

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

There are no present assets and/or liabilities valued at fair value related to the level 2 and level 3, on a recurring basis[8].

The fair value evaluations are classified according to a hierarchy that reflects the significance of the inputs used in the assessments. Because CC & G operates exclusively on regulated markets, assets and financial liabilities at fair value are only "Level 1" and that is - as defined by IAS 39 - referring to quoted prices (unadjusted) in an active market for the assets or liabilities to be measured.

A.4.2 Processes and sensitivity of evaluations

Cassa di Compensazione e Garanzia uses no fair value levels other than level 1 in the hierarchies provided by IFRS 13. However, conventionally, as provided by Circular no. 262 of 22 December 2005 of the banks, to which in absence of other regulations the Central Counterparty as financial intermediary makes reference, for assets secured by repos, as well as receivables/payables in the financial statements and available cash, uses level 3 fair value for indicating the amortized cost or real value of what deposited.

A.4.3 The fair value hierarchy

Financial instruments are measured at fair value in accordance with the classes required by IFRS 13, as per the following legend:

Level 1	prices (without adjustments) on the active market as defined by IAS 39 for assets or liabilities to be measured.
Level 2	Inputs other than quoted prices included in the preceding paragraph, that are observable either directly (as prices) or indirectly (derived from prices) on the market.
Level 3	Inputs that are not based on observable market data.

A.4.4 Other Information

Reference is made to paragraphs A.4.1 and A.4.2 above.

Disclosure of quantitative information

A.4.5 The fair value hierarchy

A.4.5.1 Financial assets and liabilities measured at fair value on a recurring basis: division by fair value levels

The following table shows the breakdown of financial portfolios based on the above-mentioned levels of fair value. There are no assets / liabilities classified as level 2 and level 3.

[8] With reference to receivables and payables, evaluated in the financial statements at amortized cost according to IAS 39, it is considered that said evaluation reasonably approximates the fair value of such items, therefore, a hierarchy of third category fair values is shown in the tables of the explanatory notes.

(Amounts in thousands of euro)

Financial assets/liabilities valued at fair value	Level1	Level 2	Level 3	Total
1. Financial assets held for trading CCP activities	6,904,193	-	-	6,904,193
2. Financial assets valued at fair value for CCP activities	3,226	-	-	3,226
3. Financial assets held for sale	8,298,106	-	-	8,298,106
4. Hedging derivatives	-	-	-	-
5. Tangible assets	-	-	-	-
6. Intangible assets	-	-	-	-
Total	**15,205,525**	-	-	**15,205,525**
1. Financial liabilities held for trading CCP activities	6,904,193	-	-	6,904,193
2. Financial liabilities valued at fair value for CCP activities	2,512	-	-	2,512
3. Hedging derivatives	-	-	-	-
Total	**6,906,705**	-	-	**6,906,705**

A.4.5.4 Assets and liabilities not evaluated at fair value or evaluated at fair value on a non recurring basis: division by fair value levels

Assets and liabilities not evaluated at fair value or evaluated at fair value on a non recurring basis: division by fair value levels	31/12/2016				31/12/2015			
	VB	L1	L2	L3	VB	L1	L2	L3
1. Financial assets held until maturity								
2. Receivables	191,173,046,970			191,173,046,970	184,220,732,372			184,220,732,372
3. Tangible assets held for investment purpose	-	-	-	-				
4. Non current assets and groups of assets held for sale		-	-					
Total	191,173,046,970	-	-	191,173,046,970	184,220,732,372			184,220,732,372
1. Debts	199,285,968,123			199,285,968,123	193,111,877,634			193,111,877,634
2. Securities issued								
3. Liabilities associated to assets held for sale								
Total	199,285,968,123	-	-	199,285,968,123	193,111,877,634			193,111,877,634

Legenda:
VB= Book value
L1= Level 1
L2= Level 2
L3= Level 3

A.5 Disclosure of so-called "Day one profit / loss"

The section has not been completed as at the date of the financial statements, there were no balances to the items in question.

ANALYSIS OF THE MAIN ITEMS IN THE FINANCIAL STATEMENTS

Part B – Principal information on the Balance Sheet

BALANCE SHEET – MAIN ASSET ITEMS

Section 1 – Cash and cash equivalents – Item 10

This item amounts to 198 euro (48 euro at 31 December 2015) and is composed by cash in hand.

1.1 Breakdown of item 10 "Cash and cash equivalents"

Items/Values	**Total 31/12/2016**	**Total 31/12/2015**
Cash and cash equivalents	198	48
Total	**198**	**48**

Section 2 - Financial assets held for trading for CCP activities – Item 20

This item, relating to the derivative instruments activities, amounts to 6,904,192,697 euro (10,779,840,695 euro at 31 December 2015) and relates to the matching entry of open interest of financial assets held for trading for CCP activities. This item represents the measurement at fair value of open interest positions on the derivatives markets (IDEM Equity, IDEX and Agrex), in which the Company operates as Central Counterparty.

2.1 Financial assets held for trading: breakdown by product

Items/Values	**Total 31/12/2016**			**Total 31/12/2015**		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
B. Derivative financial instrument						
1. Financial Derivatives	6,904,192,697			10,779,840,695		
FTSE stock market index derivatives:	*4,993,567,855*			*9,065,635,278*		
- Futures	*3,579,003,300*			*7,835,095,180*		
- Mini Futures	*66,933,645*			*111,011,218*		
- Options	*1,347,630,910*			*1,119,528,880*		
Single stock derivatives:	*1,816,162,033*			*1,656,141,409*		
- Futures	*919,303,620*			*936,986,579*		
- Options	*896,858,413*			*719,154,830*		
Commodities derivatives	*94,462,809*			*58,064,008*		
Total B	**6,904,192,697**	**-**	**-**	**10,779,840,695**	**-**	**-**

2.2 Derivative Financial Instruments

Type/underlying	Equity instruments	Other	**Total 31/12/2016**	**Total 31/12/2015**
2. Others				
Financial Derivatives				
- Fair value	6,809,729,888	94,462,809	**6,904,192,697**	**10,779,840,695**
Total	**6,809,729,888**	**94,462,809**	**6,904,192,697**	**10,779,840,695**

Section 3 –Financial assets valued at fair value for CCP activities – Item 30

This item refers to non derivative financial instruments activities and amounts to 3,226,118 euro (1,017,384 euro in the previous year).

3.1 Breakdown of item 30 "Financial assets valued at fair value"

Items/Values	**Total 31/12/2016**			**Total 31/12/2015**		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt instruments	**2,432,312**			**523,260**		
Financial instruments traded but still not settled (1):	2,119,215			294,870		
- Bond segment Government bonds	*2,119,215*			*294,870*		
Financial instruments in the portfolio (2):	313,097			228,390		
- Government bonds of the Bond segment	*313,097*			*228,390*		
2. Equities and UCITS units	**793,806**			**494,124**		
Financial instruments traded but still not settled (1):	390,439			163,545		
- Equities and units in UCITS	*390,439*			*163,545*		
Financial instruments in the portfolio (2):	403,367			330,579		
- Equities	*403,367*			*330,579*		
Total	**3,226,118**	**-**	**-**	**1,017,384**	**-**	**-**

(1) This item represents the difference between the trading value and the market value, as at the date of the financial statements, for instruments already traded but not yet settled.

(2) This item represents the value of the securities withdrawn from the T2S and ICSD settlement system which have been delivered to the respective buyers after the close of the financial year; these values incorporate the valuation at market prices at the date of the financial statements. Compared to the preceding financial year, for the purpose of improving the clarity of the information shown in the table, the component relating to receivables with regard to the settlement system of securities shown in the comparing table as at 31 December 2015 has been reclassified to euro 1,329,735 in the items 60 "Receivables" and shown in tables 6.3 "Receivables vis-à-vis customers" in the sub-items Receivables and vis-à-vis participants in the securities settlement system T2S and ICSD.

Section 4 –Financial assets available for sale – Item 40

4.1 Composition of item 40 "Financial assets available for sale"

Items/Values	Total 31/12/2016			Total 31/12/2015		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt Instruments	**8,298,106,498**			**9,071,261,074**		
- other debt instruments:	*8,298,106,498*			*9,071,261,074*		
including securities purchased through equity financing	*141,446,186*			*107,771,625*		
including securities purchased with contributions of the participants	*8,156,660,312*			*8,963,489,449*		
Total	**8,298,106,498**	**-**	**-**	**9,071,261,074**	**-**	**-**

This item includes all investments in secured assets paid in cash by members of the Central Counterparty system. Investments were also included linked to Equity of the Company to meet the requirements provided by EMIR rules pursuant to Art. 47 paragraphs 1 and 2 in terms of Regulatory Capital invested in secured assets.
The overall investment amounts to 8,298,106,498 euro, corresponding to a nominal value of 8,130,900,000 euro of securities in portfolio, adjusted by 6,509,720 euro resulting from the valuation of the securities at fair value at 31.12.2016.
The share of securities representing the Company's equity, included in the aforementioned total, amounts to € 141,446,186 corresponding to a nominal value of € 138,900,000 adjusted for € 258,434 as the effect deriving from the valuation of the securities at fair value at 31.12.2016. These funds are invested in securities, in compliance with EMIR rules on Regulatory Capital requirements of central counterparties.
Currently the investment in secured assets consists of Government Bonds issued by the Governments of Austria, Belgium, France, Ireland, Italy, Spain, European Union and Supranational Securities issued by the European Investment Bank, the European Stability Mechanism and European Financial Stability Facility. These securities were recorded at their fair value and valued on the basis of the public market prices on the date of these financial statements. The amount of the valuation is recorded in the equity in the Balance Sheet, item 170, net of anticipated and deferred taxes that do not have any economic impacts, as they reflect only the theoretical taxation of Equity items. These anticipated and deferred taxes are present in item 120 A of the assets side of the Balance Sheet and in item 70 of the liabilities side of the Balance Sheet.

4.2 Financial assets available for sale: breakdown by debtor/issuers

Items/Values	Total 31/12/2016	Total 31/12/2015
Financial Assets		
A) Governments and Central Banks	7,314,371,236	8,021,267,934
D) Other issuers	983,735,262	1,049,993,140
Total	**8,298,106,498**	**9,071,261,074**

Section 6 – Receivables – Item 60

This item amounts to 191,173,046,969 euro (184,220,732,372 euro in the previous financial year). Below the breakdown for deposits and bank accounts as well as commissions and other receivables:

6.1 Receivables from banks

Breakdown	**Total 31/12/2016**				**Total 31/12/2015**			
	Book Value	**Fair Value**			**Book Value**	**Fair Value**		
		L1	**L2**	**L3**		**L1**	**L2**	**L3**
1. Bank deposits and accounts (1)	**5,375,101,364**			**5,375,101,364**	**2,442,597,128**			**2,442,597,128**
Cash in bank accounts originated from own funds	*69,441,353*			*69,441,353*	*78,964,957*			*78,964,957*
Cash in bank accounts originated by payments of the participants	*132,114,600*			*132,114,600*	*80,588,279*			*80,588,279*
Cash in Banca Centrale Nazionale accounts originated by payments of the members (2)	*5,173,545,411*			*5,173,545,411*	*2,283,043,892*			*2,283,043,892*
2. Funding	**2,150,000,000**			**2,150,000,000**	**1,420,000,000**			**1,420,000,000**
2.1 Repurchase agreements (4)	*2,150,000,000*			*2,150,000,000*	*1,420,000,000*			*1,420,000,000*
Total	**7,525,101,364**	**-**	**-**	**7,525,101,364**	**3,862,597,128**	**-**	**-**	**3,862,597,128**

L1=level1
L2=level2
L3=level3

(1) This item includes interest income accrued on bank accounts and still not paid, entered in bank accounts availabilities on an accrual basis.
(2) This item comprises also 20,682,369 euro deposited with the International Central Securities *Depository* (ICSD) Euroclear for the Central Counterparty's activity that CC&G performs on the Bond Market ICSD Links (in particular, it is pointed out that, in the framework of its Central Counterparty activity in the ICSD Links Bond Market for instruments settled in US Dollars, the settlement account with Euroclear shows a negative balance in the amount of 63,072 US Dollars).
(3) The rules provided by Article 47.4 of EU Regulation No. 648/2012 govern the investment policy of CCPs, whereby the cash deposits on a CCP must be constituted through highly secure mechanisms with authorized financial entities or, in alternative, through the use of deposits with the National Central Banks/*Banche Centrali Nazionali*.
(4) The rule provided by Article 45 of the Delegated Rule no. 153/2013 provides that if the cash does not take place in deposits with the Central Bank, but is kept overnight, not less than 95% of that cash will be deposited into collateralized deposits also in the form of repurchase agreements. CC&G intended to use triparty agents (the principal international CSDs) in order to comply with such rules.

6.3 Receivables from Customers

Breakdown	**Total 31/12/2016**				**Total 31/12/2015**			
	Book Value	**Fair Value**			**Book Value**	**Fair Value**		
		L1	**L2**	**L3**		**L1**	**L2**	**L3**
3. Other assets:	183,647,945,606				180,358,135,244			
Clearing commissions on contracts entered into in relevant month (1)	*4,356,779*				*3,803,263*			
Commissions on securities deposited as collateral (2)	*211,263*				*275,220*			
Receivables for interest on cash deposited by participants (3)	*25,974,056*				*14,093,213*			
Receivables from participants for margins and premiums (4)	*222,682,759*				*583,692,142*			
Receivables guaranteed by securities	*1,081,452,519*				*1,061,741,926*			
Receivables from MIC members (5)	*2,243,000,000*				*2,258,000,000*			
Receivables from repo transactions for CCP activities (6)	*175,707,799,338*				*173,157,332,533*			
Receivables from other clearing and guarantee systems (7)	*4,362,268,249*				*3,277,779,412*			
Receivables vis-à-vis participants in the settlement system T2S and ICSD (8)	*68,443*				*1,329,735*			
Other receivables for services (9)	*132,200*				*87,800*			
Total	**183,647,945,606**				**180,358,135,244**			

L1=level1
L2=level2
L3=level3

There are no impaired loans and all values are considered to rank in a hierarchy of Level 3 fair value.

(1) These amounts have been collected on the first day of market trading of the month following the reference month.
(2) These amounts have been collected on the first day of market trading of the month following the reference month.
(3) These represent interest owed to the members on the cash deposited to cover initial margins and default funds. The rate applied to the deposits is equal to Eonia daily rate less 25 *basis point*.
(4) These represent the amounts of initial margins due to participants, for open interest positions at the close of the financial year and not yet paid in cash since guaranteed by the prior deposit of securities.
(5) These are contracts to be traded on NewMic as of the closing of the financial year.
(6) This represents, like the corresponding item in the liabilities side, the value of repo transactions carried out by members using the CCP service.
(7) These correspond to the margins paid to LCH Clearnet SA for the interoperability link existing with the French central counterparty on MTS market; in particular the balance can be broken down into 3,761,268,249 euro for initial margins and 601,000,000 euro for the Additional Initial Margin.

(8) These represent the component relating to receivables vis-à-vis the settlement systems reclassified by the item 30 "Financial assets valued at fair value for CCP activity".
(9) These trade receivables mainly relate as to 70,400 euro to invoices pertaining to the financial year but not yet issued for receivables claimed by CC&G vis-à-vis participants in LSE Derivatives Market through BCS technological structure and as to 51,900 euro to receivables vis-à-vis the Nigerian Stock Exchange for consulting services in the financial year provided on the clearing activity.

Section 10 – Tangible Assets – Item 100

10.1 Tangible assets held for operating purposes: breakdown of assets valued at cost

Assets/values	**Total 31/12/2016**	**Total 31/12/2015**
1. Own assets:	374,949	502,183
c) furniture	*14,893*	*21,302*
d) electronic systems	*340,823*	*456,631*
e) others	*19,233*	*24,250*
Total	**374,949**	**502,183**

10.5 Tangible assets held for operating purposes: annual changes

	Furniture	Electronic Systems	Other	**Total**
A. Gross opening inventory	**340,265**	**9,102,265**	**30,103**	**9,472,633**
A.1 Total net reductions in value	(318,963)	(8,645,634)	(5,853)	(8,970,450)
A.2 Opening inventory	**21,302**	**456,631**	**24,250**	**502,183**
B. Increase	**-**	**(945,023)**	-	**(945,023)**
B.1 Purchase	-	168,434	-	168,434
B.7 Other changes	-	(1,113,457)	-	(1,113,457)
C. Decreases	**(6,409)**	**829,215**	**(5.017)**	**817,789**
C.1 Sales	-	-	-	-
C.2 Depreciations	-	(281,802)	-	(293,228)
C.7 Other changes	(6,409)	1,111,017	(5.017)	1,111,017
D. Net final inventory	**14,893**	**340,823**	**19,233**	**374,949**
D.1 Overall net value reductions	352,372	8,929,876	10,870	9,266,118
D.2 Gross final inventory	**340,265**	**9,270,699**	**30,103**	**9,641,067**

During the present financial year electronic systems were purchased for 168,000 euro. The decreases are due to the depreciations of the year as well as to the sale and/or disposal of obsolete electronic data processing equipment.

Section 11 – Intangible assets – Item 110

11.1 Composition of the item 110 "Intangible Assets"

Items/evaluation	Total 31/12/2016		Total 31/12/2015	
	Assets valued at cost	Assets valued at fair value	Assets valued at cost	Assets valued at fair value
2. Other intangible assets:	**3,318,637**		**4,224,377**	
2.1 owned	*3,318,637*		4,224,377	
- others	*3,318,637*		*4,224,377*	
Total 2	**3,318,637**	**-**	**4,224,377**	**-**

11.2 Intangible assets: annual changes

	Total
A. Opening balance	**4,224,377**
B. Increases	**947,937**
B.1 Purchases	912,968
B4 Other changes	34,969
C. Decreases	**(1,853,677)**
C.2 Depreciations	(1,818,708)
C.5 Other changes	(34,969)
D. Final balance	**3,318,637**

The increases for software purchases are mainly linked to the new developments of the X-COM "collateral management" system, to the adjustment project to the "A2A" interface modality between CC&G clearing system and T2S as well as to the investments for the adoption of the accounting system Oracle. The decreases are due to the disposal of the software used on obsolete electronic data processing equipment, in addition to the depreciations of the financial year.

Section 12 – Tax assets and tax liabilities

As of 31 December 2016 the balance of tax liabilities is equal to € 2,339,503, made up of current tax liabilities in the amount of € 557,876 and deferred taxes in the amount of € 1,781,627, broken down as follows:

12.2 Breakdown of item 70 "Tax liabilities: current and deferred"

Items/breakdown	Total 31/12/2016	Total 31/12/2015
Tax liabilities:		
a) current	(557,876)	(1,223,605)
b) deferred	(1,781,627)	(1,646,002)
Total	**(2,339,502)**	**(2,869,607)**

Breakdown of item 120 b)

12.3 Change in anticipated tax (balancing entry of income statement)

Items/details	Total 31/12/2016	Total 31/12/2015
1. Opening balance	**441,088**	**428,465**
2. Increases	**177,366**	**166,639**
2.1 Anticipated tax recorded in the year	177,366	166,639
d) other	177,366	*166,639*
3. Decreases	**(132,802)**	**(154,016)**
3.1 Taxes anticipated cancelled in the year		
a) reversal	(132,802)	*(154,016)*
d) other	(132,802)	-
4. Final amount	**485,652**	**441,088**

The final amount of table 12.3 is netted in item 70 b) of the Balance Sheet.

Increases in anticipated taxes as of 31 December 2016

Items/technical forms	Amounts	IRES	IRAP	TOTAL
Provision to receivables risk fund	17,803	13,011	-	13,011
Fees due to auditing firm	39,900	10,973	-	10,973
Differences in IAS and tax amortizations	479,755	153,382	-	153,382
Total	**537,458**	**177,366**	**-**	**177,366**

Assets for past taxes paid in advance cancelled during the financial year

Items/technical forms	Amounts	IRES	IRAP	TOTAL
Write off share of receivable risk fund	(3,071)	(737)	(171)	(908)
Fees due to auditing firm	(38,540)	(10,599)	-	(10,599)
IAS and tax amortizations differences	(441,074)	(121,295)	-	(121,295)
Total	**(482,685)**	**(132,631)**	**(171)**	**(132,802)**

Breakdown of item 70 b)

12.6 Changes in deferred tax (balancing item in the shareholders'' equity)

Items/breakdown	31/12/2016	31/12/2015
1. Opening balance	**(2,087,091)**	**-**
2. Increases	**(180,188)**	**(2,087,091)**
2.1 Deferred tax recorded in the year	(180,188)	(2,087,091)
d) others	(180,188)	*(2,087,091)*
3. Decreases	**-**	**-**
3.1 Taxes deferred cancelled in the year	-	-
d) others	-	-
4. Final amount	**(2,267,279)**	**(2,087,091)**

The values shown in table 12.6 above refer to deferred taxes on securities in portfolio valued at fair value with balancing item in the shareholders' equity.

Section 14 – Other assets – Item 140

14.1 Breakdown of item 140 "Other assets"

Breakdown	**Total 31/12/2016**	**Total 31/12/2015**
(1) Receivables relating to bankruptcy proceedings	951,239	951,239
(2)Receivables from Group companies	151,642	373,262
(3)Other receivables	327,952	150,607
Guarantee deposits	1,000	
Total	**1,431,833**	**1,475,108**

(1) These amounts refer exclusively to certain "traders/negotiators" participating in guarantee funds, which were adjudged in bankruptcy in previous years and in relation to which CC&G, as fund manager, took actions, pursuant to the applicable provision of law and regulations, in order to recover the disbursement vis-à-vis the insolvent parties in the interest of the participants which sustained the disbursement. Any minor collections of these claims will not lead to losses for the Company, because should that be the case, minor debts will arise vis-à-vis the participants in the Funds. The receivable and payable items for bankruptcy proceedings still under way remain outstanding.

(2)"Receivables from Group companies" are recorded towards:

- Borsa Italiana S.p.A. for approximately € 52,000 euro related to the registration of the receivable for the consolidated IRES (at the time Borsa Italiana S.p.A. was the group fiscal consolidating party) paid as result of the non-deduction of the IRAP incurred for cost related to employees and equivalent personnel net of deductions, pursuant to art. 11, paragraphs 1 letter a), 1-bis, 4-bis and 4-bis1, of Legislative Decree no.446/97 for the financial years 2008 and 2009. This claim originates from the provisions contained in art. 2 of the so-called Decree "Save Italy" Law Decree no.201/11; its refund will be applied for according to the modalities approved in a specific provision of the Italian Internal Revenue Office /*Agenzia delle Entrate* issued on 17 December 2012, based on the transmission schedule of the applications related to the same provision;
- Lse Post Trade Services for approximately 32,980 euro relating to invoices issued for services rendered in relation to IT developments;
- LSE plc for 58,692 euro relating to receivables for taxes paid as tax agent on the payment of the share awards;
- BIt Market System S.p.A. for approximately 1,092 euro relating to prepayments for invoices for services already paid;
- Monte Titoli S.p.A. for approximately 6,986 euro relating to invoices issued for the secondment of CC&G personnel.

(3) Other receivables amounting to 327,952 euro refer mainly as to 239,035 euro to other prepayments for expenses incurred and not fallen due and as to 49,206 euro to advance payments to suppliers for interbank messaging services.

BALANCE SHEET - LIABILITIES

Section 1 – Payables – Item 10

This item amounts to € 199,285,968,123 euro (193,111,877,634 euro as of 31 December 2015).

(1) 1.1 Indebtedness

Items	Total 31/12/2016			Total 31/12/2015		
	To banks	To financial institutions	To costumers	To banks	To financial institutions	To costumers
2. Other payables	4,519,614,541		194,766,353,582	3,679,741,890		189,432,135,744
Interest payable (1)	1,749,990			269,921		-
Payables to participants for margins and premiums:			10,030,748,393			8,257,255,607
Payables to participants for advance account deposits			873,747,355			624,396,708
Amounts due to participants in default funds			5,909,459,000			5,134,927,000
Amounts payable to members for settlement instructions in part withdrawn and not yet paid by CC&G						
Amounts due to discount scheme participants			223,894			223,894
Payables for Repo operations for CCP activities (2)			175,707,799,338			73,157,332,533
Payables to other clearing and guarantee systems (3)	4,517,864,551			3,679,471,969		
Payables to participants in MIC			2,243,000,000			2,258,000,000
Payables to participants in the securities settlement system T2S and ICSD (4)			1,375,602			
Payables to MIC members	**4,519,614,541**		**194,766,353,582**	**3,679,741,890**		**189,432,135,744**
Fair value – level 1						
Fair value – level 2						
Fair value – level 3	**4,519,614,541**		**194,766,353,582**	**3,679,741,890**		**189,432,135,744**
Total fair value	**4,519,614,541**		**194,766,353,582**	**3,679,741,890**		**189,432,135,744**

(1) This amount includes as to € 757,943 interest payable accrued on Repo investments and as to € 992,047 the amount relating to interest accrued on deposits with the National Central Bank, which will be debited at the end of the maintenance period. Effective 10 June 2014, the ECB adopted for deposits with Central Banks by FMIs, negative interest paid on a monthly basis. Such rate, as of 31 December 2016 was equal to 40 bps.

(2) This amount includes, as for the corresponding item in the assets side, the value of repurchase agreements (Repo) entered into by members that use the company's CCP guarantee service.
(3) These correspond to the margins paid by LCH Clearnet SA for the interoperability *link* existing with the French central counterparty on MTS market. The item is made up of 3,907 million euro for initial margins and 607 million euro for the additional initial margin, as well as of 3.7 million euro for interest due by CC&G on the cash deposited as initial margins and additional initial margin.
(4) These represent the part relating to the amounts payable to the settlement system reclassified by item 30 "Financial assets valued at fair value for CCP activity".

Section 3 – Financial liabilities held for trading for CCP activities – Item 30

This item amounts to 6,904,192,697 euro (10,779,840,695 euro in the previous year) and is broken down as follows:

3.1 - Breakdown of item 30 "Financial liabilities held for trading"

Liabilities	Total 31/12/2016					Total 31/12/2015				
	Fair value			FV*	NV	*Fair value*			FV*	NV
	L1	L2	L3			L1	L2	L3		
B. Derivative instruments	**6,904,192,697**					**10,779,840,695**				
1. Financial Derivatives	6,904,192,697					10,779,840,695				
FTSE stock market index derivatives:	*4,993,567,855*					*9,065,635,278*				
- Futures	*3,579,003,300*					*7,835,095,180*				
- Mini Futures	*66,933,645*					*111,011,218*				
- Options	*1,347,630,910*					*1,119,528,880*				
Single stock derivatives:	*1,816,162,033*					*1,656,141,409*				
- Futures	*919,303,620*					*936,986,579*				
- Options	*896,858,413*					*719,154,830*				
Commodities derivatives	*94,462,809*					*58,064,008*				
Total	**6,904,192,697**	**-**	**-**			**10,779,840,695**	**-**	**-**		

L1= level1
L2= level2
L3= level3
FV= fair value calculated excluding changes in value due to changes in the creditworthiness of the customer from the date of issue*
NV= nominal/notional value

This item includes the fair value of the open interest positions on the derivative market in which the company operates as Central Counterparty.

3.3 - "Financial liabilities held for trading": derivative financial instruments

Types/underlying	Equities	Other	Total 31/12/2016	Total 31/12/2015
2. Others				
Financial Derivatives	6,809,729,888	94,462,809	**6,904,192,697**	**10,779,840,695**
- Fair value	6,809,729,888	94,462,809	**6,904,192,697**	***10,779,840,695***
Total	6,809,729,888	94,462,809	**6,904,192,697**	**10,779,840,695**

Section 4 - Financial liabilities valued at fair value for CCP activities – Item 40

This item amounts to 2,512,249 euro (455,894 euro in the preceding financial year) and includes:

4.1 Breakdown of item 40 "Financial liabilities valued at fair value"

Liabilities	Total 31/12/2016					Total 31/12/2015				
	Fair value			FV*	NV	*Fair value*			FV*	NV
	L1	L2	L3			L1	L2	L3		
1. Debts										
2. Debt instruments	2,512,249					455,894				
Bonds	2,118,452					291,977				
Financial instruments traded but not yet settled: *- Government bonds*	2,119,215					294,870				
Financial instruments in portfolio: *- Valuation on Government bonds*	(763)					(2,893)				
Others	393,797					163,917				
Financial instruments traded but not yet settled: *- Instruments of the equity segment*	390,439					163,545				
Financial instruments in portfolio: *- Valuation of instruments in the equity segment*	3,358					*372*				
Total	**2,512,249**	-	-	-	-	**455,894**	-	-	-	-

L1= Level 1
L2= Level 2
L3= Level 3
FV= fair value calculated excluding changes in value due to changes in the creditworthiness of the customer from the date of issue*
NV= nominal/notional value

(1) This value relates to the valuation at market prices on the date of the balance sheet of the bonds withdrawn from the settlement system T2S and ICSD Links for instruments settling both in euro and in US Dollars and which have been delivered to the respective purchasers on the closing date of the financial year.

(2) This value relates to the valuation at market prices on the date of the balance sheet of the shares withdrawn from the settlement system T2S for instruments settling both in euro and in US Dollars and which have been delivered to the respective purchasers after the closing date of the financial year.

Section 7 – Tax liabilities – Item 70

Reference is made to section 12 of the Assets side “Tax assets and tax liabilities”.

Section 9 – Other liabilities – Item 90

The amount of 9,614,981 euro (14,211,582 euro in the previous financial year), is broken down as follows:

9.1 Breakdown of item 90 "Other liabilities"

Items	Total 31/12/2016	Total 31/12/2015
Intercompany debts for taxes	2,649,046	6,002,736
Intercompany debts to suppliers	1,082,675	1,859,329
Payables relating to recoveries from bankruptcy proceedings (1)	1,582,002	1,582,002
Sundry debts (2)	1,978,109	1,940,715
Debts to suppliers (3)	1,562,419	1,239,525
Debts to customers (4)	-	722,919
Debts to social securities and insurance institutions	666,878	607,761
Tax debts	93,556	256,297
Prepaid expenses	296	298
Total	**9,614,981**	**14,211,582**

(1) These amounts refer exclusively to receivables claimed for insolvencies of certain "traders/negotiators" participating in guarantee funds, which were declared insolvent in previous years; the corresponding item in the assets side is recorded under "Other assets", amounting to € 951,239. The difference between the amount recorded in liabilities and the amount charged to assets is due to amounts collected but not yet paid to members while awaiting developments in on-going proceedings. The credit and debt positions for insolvency proceedings still under way remain outstanding.

(2) This item refers to amounts due to employees for deferred salaries, debts for bonus payment, debts for withholding taxes levied on employment salaries and debts arising from fees payable to the members of the Board of Directors and of the Board of Statutory Auditors.

(3) Such debt is related to generic suppliers of services rendered and goods purchased for the operational management of the Company.

(4) As shown in the financial statements relating to the financial year ended on 31 December 2015, this item comprised the amount applied as rebate to some participants in the Equity and Bond markets, which had realized an increase in volumes compared to the previous tax period. The impacted clients received the relevant credit in the month of January 2016.

Section 10- Employee severance indemnity provision – Item 100

This item incorporates the liabilities relating to the Staff Severance Indemnity for employees, adequately discounted back, according to the appraisal of the independent actuary, on the basis of the rates shown below.

10.1 "Staff severance indemnity provision": annual changes

	Total 31/12/2016	Total 31/12/2015
A. Opening balance	**1,024,316**	**1,053,159**
B. Increases	**189,878**	**195,018**
B1. Allocations in the year	64,452	63,055
B2. Other increases	125,426	127,356
B3. Other increases (Share awards/Bonus)	-	4,607
C. Decreases	**(249,643)**	**(223,861)**
C1. Settlement made	(47,422)	(178,657)
C2. Other decreases	(157,396)	(45,203)
C3. Other decreases (Share Awards/Bonus)	(44,825)	-
D. Final balances	**964,551**	**1,024,316**

This table represents the annual changes in the company's employee severance indemnity (TFR). The discounted back value pursuant to IAS 19 is equal to 924,123 euro at 31 December 2016, the other increases and decreases are linked to the employee severance indemnity from Share Awards and Bonus.

10.2 Other information

The table below shows the assumptions of the independent actuary for the purpose of the valuation of staff severance indemnity.

Rates used for the actuarial valuation

Assumptions for actuarial valuation	**Value at 31/12/2016**	**Value at 31/12/2015**
Annual technical discount rate	1.30%	2.03%
Annual inflation rate	1.60%	1.75%
Annual rate of salary increase for managers and middle managers	3.60%	3.75%
Annual rate of salary increase for administrative staff	2.50%	2.75%
Annual rate of increase in staff severance indemnity	2.63%	2.81%

With regard to the discount rate, the iBoxx Eurozone Corporates AA 10+ index was taken as reference for the valorisation of said parameter on the date of evaluation.

Below the sensitivity analysis is reported performed on the main variables adopted in the actuarial calculation of the Severance Indemnity Fund.

Yearly discount rate		Yearly inflation rate		Yearly turnover rate	
0.50%	-0.50%	0.25%	-0.25%	2.00%	-2.0%
867,602	979,937	932,878	909,780	881,350	983,268

Section 12 – Equity - Items 120 – 160 – 170 – 180

The shareholders' equity at the date of the financial statements amounts to 178,015,009 euro (168,773,513 in the preceding financial year). For an analytical breakdown of movements in shareholders‛equity reference must be made to the relevant statement.
The share capital of Cassa di Compensazione e Garanzia S.p.A. is composed of 5,500 shares, with nominal value of 6,000 euro each, for a total value of 33,000,000 euro.

12.1 Breakdown of item 120 "Share Capital"

Type	Amount
1. Share Capital	**33,000,000**
1.1 Ordinary shares	33,000,000

12.5 Other information – Item 160 "Reserves" " and item 170 "Valuation Reserves"

	Legal reserve	Extraordinary reserve	Regulatory Reserves	Share Awards	Reserve for FTA	Reserve for IAS19	Valuation reserves	Other	Total
A. Opening balance	**6,600,000**	**2,518,414**	**20,575,878**	**2,039,581**	**70,540**	**37,525**	**4,252,846**	**50,958,187**	**86,977,921**
B. Increases	**-**	**-**	**-**	**42,987**	**-**	**114,112**	**277,079**	**3,254,251**	**3,688,429**
B1. Allocation of income	-	-	-	-	-	**-**	-	2,441,593	2,441,593
B2. Other increases	-	-	-	42,987		114,112	277,079	*812,658*	1,246,836
C. Decreases	**-**	**-**	**(812,658)**	**-**	**-**		**-**	**-**	**(812,658)**
C1. Settlements made	-	-	-	-	-		-	-	-
C2. Other decreases	-	-	(812,658)	-	-		-	-	(812,658)
D. Final balance	**6,600,000**	**2,518,414**	**19,763,220**	**2,082,568**	**70,540**	**76,587**	**4,529,925**	**54,212,438**	**89,853,692**

The reserves are made up of the Legal Reserve fully paid up according to art. 2430 of the Italian Civil Code, an extraordinary reserve allocated by the company over the years, reserves from *First Time Adoption* and therefore not distributable, valuation reserves on financial assets available for sale in the portfolio as at 31 December 2016 shown in the item 40 BS Assets- and other reserves.

EUR 17,263,220 corresponding to the Skin in the Game (equivalent to 25% of the Regulatory Capital which, according to the European rules and regulations must be allocated to the restricted reserve) have been allocated to the Regulatory Reserves, following the amendment by the Shareholders' Meeting of 16 April 2016 of the previous reserve amounting to € 18,075,878 (with a reduction of € 812,658 compared to the previous financial year).

It is pointed out for the purpose of the reconciliation of the balance of the regulatory reserves in the amount of 19,763,220 that an additional reserve, equal to € 1,000,000, allocated to the coverage of losses (*Internal Buffer*), was approved by the Shareholders' Meeting of 6 November 2013. On 18 November 2015 the establishment was decided of a reserve, in the amount of € 1,500,000 in compliance with Article B.6.2.3. of CC&G Rules, intended to cover the expenses for the default procedure of a Clearing Member (*Second Skin in the Game*), resolved upon later by the Board of Directors of 2 December 2015 and validated by the Shareholders' Meeting of 13 April 2016.

The share awards have increased due to the provisions for the year.

The reserve pursuant to IAS 19 corresponds to the portion of actuarial gains and losses

taken to reserves in this financial year.

Part C – Information on the Income Statement

Section 1 – Interest - Items 10 and 20

Interest receivable and similar revenues - Item 10

This item amounts to 627,486,612 euro (249,099,720 euro in the preceding financial year) and is broken down as follows:

1.1 Breakdown of the item 10 "Interest receivable and similar revenues"

Items/ technical forms	Debt Instruments	Loans	Other transactions	**Total 31/12/2016**	**Total 31/12/2015**
3. Financial assets held for sale (1)	(10,733,802)			**(10,733,802)**	**5,731,659**
5. Receivables:	-	(17,991,871)	656,212,285	**638,220,414**	**243,368,061**
5. 1 receivables from banks	-	(17,991,871)	-	**(17,991,871)**	**(5,131,529)**
On deposits with commercial banks (2)	-	358,254	-	**358,254**	***375,619***
On deposits with the National Central Bank (3)		(9,130,351)		**(9,130,351)**	***(2,103,493)***
On Repos assets (4)		(9,219,744)		**(9,219,774)**	***(3,403,654)***
5.3 Receivables from customers	-	-	656,212,285	**656,212,285**	**248,499,590**
On deposits with other clearing and guarantee systems (5)	-		(12,227,750)	**(12,227,750)**	***(3,827,890)***
On Repos for CCP activity (6)	-	-	668,440,035	**668,440,035**	***252,327,480***
Total	**(10,733,802)**	**(17,991,871)**	**656,212,285**	**627,486,612**	**249,099,720**

(1) This item includes interest payable accrued in the portfolio equal to euro -10,733,802 at 31 December 2016 (euro 5,731,659 of interest receivable at 31 December 2015).
(2) This item includes interest accrued on on-demand bank deposits equal to euro 358,254 at 31 December 2016 (euro 375,619 al 31 December 2015).
(3) The item comprises interest payable accrued on deposits with the National Central Bank, equal to € -9,130,351 as at 31 December 2016, which was debited at the end of the various maintenance periods (the time schedule of which for the Eurosystem is published by the BCE yearly). Starting from 10 June 2014, the BCE has adopted for deposits with the central banks by the FMI a negative interest rate. Such rate, as of 31 December 2016, is equal to -40 *basis points*. As at 31 December 2015 interest payable accrued amounted to € -2,103,493 with a negative interest rate equal to -30 *basis point*.
(4) The item comprises interest payable accrued on investments in Repos that CC&G performs in fulfilment of Article 45 of the Delegated Rule no.153/2013.
(5) The item comprises interest payable accrued on amounts deposited with LCH Clearnet SA for initial margins and the Additional Initial Margin.

(6) The item comprises the valorisation of the Repos as at 31 December 2016 for Central Counterparty activity.

Interest payable and similar charges – Item 20

This item amounts to € 579,020,853 (€ 209,482,142 euro in the preceding financial year) and is composed by:

1.3 Breakdown of item 20 "Interest payable and similar charges"

Items/Technical forms	Loans	Other	**Total 31/12/2016**	**Total 31/12/2015**
3. Debts to customers:	(89,419,183)	668,440,035	**579,020,853**	**209,482,142**
- On deposits by clearing members (1)	(89,419,183)	-	***(89,419,183)***	***(42,845,338)***
- Interest on repurchase agreements for CCP activities (2)	-	668,440,035	**668,440,035**	***252,327,480***
Total	**(89,419,183)**	**668,440,035**	**579,020,853**	**209,482,142**

(1) This item comprises interest owed by the members on the cash deposited to cover initial margins and default funds. The Company has adopted in fact a pricing list whereby the cash deposited by the members entails a negative remuneration at Eonia daily rate less 25 *basis point*.
(2) The item refers to the valorisation of repurchase agreements at 31 December 2016 for the Central Counterparty activity.

Section 2 – Commissions - Items 30 and 40

Commissions receivable – Item 30

This entry includes commissions received for services performed, amounting to € 51,349,535 euro (51,712,093 euro in the preceding financial year), as shown in the following table:

2.1 Breakdown of item 30 "Commissions receivable"

Breakdown	**Total 31/12/2016**	**Total 31/12/2015**
6. services:	39,691,698	*37,129,692*
Revenues from clearing activities	*39,691,698*	*37,129,692*
8. other commissions:	11,657,837	14,582,401
- Other clearing commissions	*5,663,621*	*8,271,981*
- Shareholdings	*2,966,617*	*2,931,944*
- Commissions on guarantees deposited	*3,027,599*	*3,378,477*
Total	**51,349,535**	**51,712,093**

Commissions payable – Item 40

2.2 Breakdown 40 "Commissions payable"

Breakdown/Sectors	**Total 31/12/2016**	**Total 31/12/2015**
4. other commissions	1,338,491	1,312,789
Bank commissions	*1,338,491*	*1,312,789*
Total	**1,338,491**	**1,312,789**

This item amounts to € 1,338,491 (€ 1,312,789 in the preceding financial year) and includes commissions payable for lines of credit (total to 469,654 euro), and costs incurred for bank services.

Section 3 – Dividends and similar income – Item 50

This item amounts to € 494 (€ 3,350,809 in the preceding financial year) and represents the amount of dividends collected on withdrawn securities cum-dividend, delivered in subsequent gross settlement cycles, without dividend due to the effect of CC&G's direct intervention in the settlement system. This item must be offset with the item capital loss from dividends in item 80 of the Income Statement.

3.1 Breakdown of item 50 "Dividends and similar income"

Breakdown	**Total 31/12/2016**		**Total 31/12/2015**	
	Dividends	Income from units in U.C.I.T.S.	Dividends	Income from units in U.C.I.T.S.
3. Financial assets valued at fair value	494	-	3,350,809	-
Total	**494**	**-**	**3,350,809**	**-**

Section 4 – Net income from trading activities – Item 60

4.1 Breakdown of item 60 "Net income from trading activities"

Items / Income	Gains	Profit from trading	Losses	Losses from trading	Net income
Variation margins for CCP activities	-	17,668,703,650	-	(17,668,703,650)	-
Option premiums for CCP activities:	-	9,249,315,498	-	(9,249,315,498)	-
Total	**-**	**26,918,019,148**	**-**	**(26,918,019,148)**	**-**

This item represents the losses and profits which, as at 31 December 2016, the Company has obtained as results from the trading activity. Obviously, Cassa di Compensazione e Garanzia operating in the capacity of Central Counterparty presents an equal exposure of gains and losses with a net result equal to zero (as shown below, in the summary table of the income statement).

Section 6 - Net income from financial assets and liabilities valued at fair value – Item 80

The balance of the item amounts to 102,097 euro (-2,861,663 euro in the preceding financial year).

6.1 Breakdown of item 80 "Net income from financial assets and liabilities valued at fair value"

Items/Income components	Capital gains	Gains on disposals	Capital losses	Losses from disposals	Net result
1. Financial assets	**2,516,857**	**102,592**	**2,484**	-	**2,616,965**
1.1 Debt obligations	2,121,071	45,931	1,232	-	2,165,770
1.2 Capital stocks and units in UCITS	395,786	56,661	1,252	-	451,195
3. Financial liabilities			**2,514,868**		**(2,514,868)**
- bonds	-	-	2,121,071	-	(2,121,071)
- other securities	-	-	393,797	-	(393,797)
Total	**2,516,857**	**102,592**	**2,517,352**	**-**	**102,097**

The capital gains and capital losses items mainly refer to the change deriving from the fair value measurement of the securities traded and not yet settled on the equity and bond markets and of financial instruments in the portfolio withdrawn from the settlement

system T2S and ICSD. In consideration of the perfect balancing of the contractual positions undertaken by the Company, the overall economic impact is null.

Section 7 – Profit (Loss) from sale or repurchase – item 90

The balance of the item amounts to € 3,818,071 (€ 974,769 in the preceding financial year).

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

Items/income components	Total 31/12/2016			Total 31/12/2015		
	Gain	Loss	Net income	Gain	Loss	Net income
1. Financial assets	**3,818,071**	**-**	**3,818,071**	**974,769**	**-**	**974,769**
1.2 Assets available for sale	*3,818,071*	-	*3,818,071*	*974,769*	-	*974,769*
Total	**3,818,071**	**-**	**3,818,071**	**974,769**	**-**	**974,769**

The item refers to gains and losses from the sale of securities made in the financial year. The securities, included under item 40 of the Assets side of the BS, are normally held by CC &G until maturity in order to invest in secured assets the margins of the participants in the market. Sales are conducted solely in order to satisfy the cash requirements of the company or to diversify country risk. Currently the investment of the securities in portfolio is diversified across 6 Countries of the Eurozone such as Austria, Belgium, Spain, France, Ireland and Italy, as well as on securities of Supranational Issuers such as the European Stability Mechanism (ESM) and the European Stability Facility (EFSF).

Section 9 – Administrative costs – Item 110

The balance of the item amounts to € 19,900,742 (€ 19,003,976 in the preceding financial year).

9.1 Breakdown of item 110.a "Employee costs "

Items/Sectors	**Total 31/12/2016**	**Total 31/12/2015**
1. Employees:	**7,014,839**	**6,834,696**
a) Wages and salaries	4,878,371	4,561,182
b) Social security charges	1,193,080	1,159,112
d) Welfare costs	381,050	167,082
e) Provisions for employee severance indemnities	251,744	465,436
h) Other expenses (1)	310,594	481,884
2. Other employees in service (2)	640,406	475,316
3. Directors and Auditors (3)	199,039	208,657
Total	**7,854,284**	**7,518,669**

(1) The item "Other expenses" comprises mainly training expenses, the substitutive indemnity in lieu of the canteen, insurance policies and the expenses for personnel seconded to other locations.

(2) The item "Other Personnel" in service comprises the costs relating to employees seconded at CC&G by Borsa Italiana S.p.A. after deducting the costs for CC&G personnel seconded at the holding company Borsa Italiana S.p.A.

(3) In the item Directors and Auditors the remunerations have been included of the directors and of the board of auditors, as per circular No. 0101799/10 of 8th February 2010 of the Bank of Italy having for its subject "*Normativa in materia di bilanci bancari e finanziari* / Rules in the matter of financial statements of banks and financial institutions".

9.2 Average number of employees by category

Changes in personnel during the financial year were as follows:

Category	**31/12/15**	**Hires**	**Resignations**	**Transfers**	**31/12/16**	**Average**
Executives	7	-	-	-	*7*	7,0
Middle management employees	18	-	(1)	-	17	17,5
Administrative staff	26	9	(3)	-	32	29,0
Total employees	***51***	***9***	***(4)***	***-***	***56***	***53,5***
Seconded in	10	-	-	-	10	10,0
Seconded out	**-**	(2)	**-**	**-**	**(2)**	(1,0)
Tot. Employees and seconded employees	**61**	**7**	**(4)**	**-**	**64**	**62,5**

The average number is calculated as weighted average of employees where the weight is given by the number of months worked in a year. In the case of part-time employees 50% is conventionally taken into consideration.

9.3 Breakdown of item 110.b "Other administrative costs"

Items/Sectors	Total **31/12/2016**	Total **31/12/2015**
IT Services (1)	7,654,363	6,686,149
Professional services (2)	1,042,071	1,065,447
Expenses for Company offices (3)	1,291,398	1,122,196
Electronic services	524,191	1,038,577
Insurance costs	123,296	111,364
Corporate bodies operating costs	12,270	9,752
Consob and FSA contributions	448,578	446,795
Data transmission expenses	78,747	303,297
EMIR Compliance and Trade Repository (4)	479,469	274,942
Other expenses (5)	392,076	426,788
Total other administrative costs	**12,046,458**	**11,485,307**

(1) This item includes assistance fees, rent and maintenance of hardware and software of information systems with relative third party suppliers.
(2) The item includes the costs of legal, tax, notary and auditing consultancy services provided by external professionals and expenses re-charged by Group companies for support services supplied during the year.
(3) Company office expenses refer to the costs of leasing the company headquarters in Rome and Milan and ancillary costs.

(4) Includes all expenses incurred for the adjustment to the EMIR rules.

(5) Includes, inter alia, the contribution to the Authority for Communications Guarantees for € 101,393.

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

This item amounts to € 293,228 as of 31 December 2016 (€ 422,293 in the preceding financial year).

10.1 Breakdown of item 120 "Net adjustments/write-backs on tangible assets"

Items/adjustments and write-backs	Depreciation (a)	Write-backs due to impairment (b)	Adjustments (c)	Net result (a+b-c)
1. Tangible assets:	293,228	-	-	293,228
1.1. owned	293,228	-	-	293,228
c) furniture	*6,409*	-	-	*6,409*
d) capital goods and equipment	*281,802*	-	-	*281,802*
e) others	*5,017*	-	-	*5,017*
Total	**293,228**	**-**	**-**	**293,228**

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

This item amounts to € 1,818,708 (€ 1,449,560 in the preceding financial year).

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

Items/adjustments and write-backs	Depreciation (a)	Write backs due to impairment (b)	Adjustments (c)	Net result (a+b-c)
2. Other intangible assets	1,818,708	-	-	1,818,708
21. owned	1,818,708	-	-	1,818,708
Total	**1,818,708**	**-**	**-**	**1,818,708**

Section 14 – Other operating expenses and income – Item 160

This item, which amounts to 1,462,801 euro (1,601,869 euro in the preceding financial year), includes revenues for services rendered to companies members of LSE Group as to € 1,262,706 including the invoicing for services rendered to LSE Derivative Market in the amount of € 984,125. It also includes other revenues in the amount of € 172,356 mainly relating to proceeds from the Nigerian Stock Exchange for services rendered in the financial year (€ 100,000) and a capital gain recorded after the conclusion of a legal dispute settled with the adverse party (€ 40,000). The residual item concerns profits/losses on exchange rates and other income and charges for costs/revenues that are not attributable to specific activities of CC&G and not deductible.

14.1 Breakdown of item 160 "Other operating income"

Items/sectors	Total 31/12/2016	Total 31/12/2015
Other income (A)		
Other income (intercompany re-charging)	1,262,706	1,411,350
Other operating income	-	-
Positive rounding up	-	-
Profits on foreign exchange transactions	33,264	2,247
Other income	172,356	208,766
Total (A)	***1,468,326***	***1,622,363***
Other charges (B)		
Negative rounding up	332	10,063
Exchange loss	-	-
Other non deductible costs	5,193	10,431
Total (B)	***5,525***	***20,494***
Total other operating expenses and income (A-B)	**1,462,801**	**1,601,869**

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

This item amounts to 26,595,484 euro (23,411,244 euro in the preceding financial year).

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

items	**Total 31/12/2016**	**Total 31/12/2015**
1. Current taxes	26,642,111	23,435,263
2. Change in current taxes of previous years	(2,064)	(11,396)
5. Changes in anticipated taxes	(44,563)	(12,623)
Total taxes for the year	**26,595,484**	**23,411,244**

Item 190 reports the total current taxes and the relevant decreases linked to the change in prepaid taxes in the income statement.

Below is the reconciliation between theoretical and actual charges for IRES and IRAP purposes.

17.2 Reconciliation between theoretical tax charges and actual tax charges in the financial statements

	Total 31/12/2016
Profit before taxes	**81,847,587**
Theoretical IRES	22,508,086
Effect of permanent increases	203,193
Effect of permanent decreases	(868,150)
Actual IRES	**21,843,129**
Irap	4,798,982
Adjustments of previous years	(2,064)
Prepaid taxes	(44,563)
Actual IRAP	**4,752,355**
Total taxes	**26,595,484**

Part D – Other Information

Guarantees and Commitments

These are represented by the following items:

“Third parties' securities deposited as collateral” (6,392.3 million euro) shows the nominal value of Government bonds (1,355 million euro), shares deposited in order to guarantee short call positions in options (6.6 million euro) and guarantees for the New MIC market (5,030 million euro) deposited by CCP members.

“Securities to be received/delivered for transactions to be settled”, for 3,237 and 3,236 million euro, respectively; these represent the nominal value of open positions on the markets in which CC&G provides central counterparty activity, including the securities withdrawn in the framework of the settlement systems Express II and ICSD; the difference between the amount of securities to be received and those to be delivered represents what already withdrawn in the settlement process Express II and ICSD Links.

Long Term Incentive Plan

Below the information is reported as requested by IFRS 2 on the subject of payments based on shares or options on shares.

The plans awarded to the employees of the group are the following:

- The ***Performance Shares*** plan has been implemented for a group of executives and senior managers, and consists of the possibility to receive, free of charge, shares of London Stock Exchange Group, provided, however, that certain Performance Conditions are satisfied; this must be checked at the end of a three-year period (Performance Period) after the date of award.

  The Performance Conditions are measures as follows:

- for 50% of the shares awarded: in terms of Total Shareholder Return (TSR) or rate of return of LSEG shares, in the accrual period, calculated by assuming the reinvestment of dividends on the same shares.
- for the remaining 50% of the shares awarded: the number of shares to be awarded on expiration of individual plans shall be determined on the basis of the growth of EPS or the basic adjusted profit per LSEG share.

- The ***Matching Shares*** plan has been implemented for a restricted number of executives and senior managers and enables them to invest personal resources, within the maximum limit of 50% of the value of the basic salary before taxes, in shares of the London Stock Exchange Group (so called “investment shares") and to receive a bonus (Matching Award) at the end of three years following the realization of certain performance conditions (TSR-EPS). The shares involved in the Matching Award will be finally awarded and transferred to the employee upon expiration of the third year after the date of assignment, provided, however, that the employee has held the "investment shares" and the employment relationship is still in existence.

- The ***Performance Related Plan*** is conceived for rewarding a selected group of highly performing employees showing a high potential. As participant in the Plan, the employee is admitted to receive the bonus in the form of two different components:

- the **Restricted Share Award** that provides for the award of ordinary shares of LSEG Group to the participants if the performance conditions are achieved;

- or the **Share Option Award** in the form of option with an exercise price (i.e. the price that a participant must pay for taking possession of a single share), and this, too, is subject to the same performance conditions as the Restricted Share Award.

Both awards have three-year duration from the day of award.

The Performance Conditions are measured as follows:

1. as to 50% of the shares awarded: the number of shares to be awarded upon expiration of individual plans shall be determined on the basis of the positioning of the Total Shareholder Return (TSR) or the rate of return of LSEG shares in the accrual period calculated assuming the reinvestment of the dividends on the same shares;
2. for the remaining 50% of the shares awarded: the number of shares to be awarded upon expiration of individual plans shall be determined on the basis of the positioning of the Group costs compared to the specific budget targets.

- The ***SAYE*** plan (Save As You Earn) provides for the award of options on shares in favour of employees. At the time of award of the options the employee has the right to agree to participate in a saving plan, managed by the Yorkshire Building Society in the United Kingdom, which provides for monthly withdrawals from the net salary for a period of three years starting from the implementation of the saving plan. The amounts paid in the three-year timeframe will bear interest. Upon expiration of the three-year term ("Maturity Date"), the Plan permits to purchase ordinary shares of the London Stock Exchange Group Plc at a determined price. If conversely, upon expiration of the period, the value of the shares did not increase, the employee shall not be bound to purchase them and may simply withdraw the whole amount set aside for him/her, increased of accrued interest, if any.

The shares forming the subject of the LTIP are purchased on the market by LSEG.

The overall cost as of 31 December 2016 for the award of shares and options on shares appears to be equal to € 537,006 inclusive of the Severance Indemnity.

Below is a table with the movements of LSEG shares in the framework of the LTIP and the weighted average exercise price:

Number of shares	Share options	SAYE	LTIP	**Total**
Initial balance 1 January 2016	4,339	3,697	116,745	**124,781**
Shares granted	-	1,419	23,648	**25,067**
Shares transferred	-	-	-	**-**
Shares exercised	(4,181)	-	(48,250)	**(52,431)**
Shares forfeited	(158)	-	(2,831)	**(2,989)**
Shares lapsed	-	-	-	-
Final balance at 31 December 2016	-	5,116	89,312	**94,428**

The fair value of the shares granted in the framework of the LTIP in the financial year was determined using a probabilistic evaluation model. The principal assumptions of evaluation used in the model are the following:

	SAYE Sharesave Plan	LSEG LTIP Performance Shares	LSEG LTIP Performance Shares	LSEG LTIP Matching Shares
Date of award	5-May-16	17-Mar-16	23-June-16	18-Mar-16
Price of LSE share on the date of award	£26.14	£28.90	£27.35	£28.92
Exercise price	3.16 years	3 years	3 years	3 years
Volatility	£22.38	n.a.	n.a.	n.a.
Expected life	0.90%	1.00%	0.80%	1.00%
Dividend yield	0.60%	0.60%	0.60%	0.50%
Risk free rate of return	25%	25%	26%	25%
Fair value	£6.11	n.a.	n.a.	n.a.
Fair value - TSR	n.a.	£10.22	£9.55	£10.15
Fair value - EPS	n.a.	£28.04	£26.70	£28.60

The volatility has been calculated by means of a weekly analysis of the price of LSEG share since its listing in July 2001. The fair value of the shares awarded during the financial year takes into account the maturity conditions linked to the TSR. The employees to whom the shares linked to the LTIP were awarded are not entitled to receive dividends declared by LSEG during the accrual period.

Relationships with related parties

Intercompany relations

Below is a breakdown relating to "non atypical" transactions that took place in the financial year with related parties, with the equity balances as at 31st December 2016 existing with these.

(Amounts in euro)

London Stock Exchange plc	Revenues	Claims
Fees for services	1,022,525	58,692
	Costs	**Debts**
Fees for services	23,412	57,920

London Stock Exchange Group Holdings Italia S.p.A.	Costs	Debts
Fees for services/tax indebtedness	1,044,980	2,801,535

Borsa Italiana S.p.A.	Revenues	Claims
Fees for services	600	51,891
	Costs	**Debts**
Fees for services	2,360,643	44,258

Monte Titoli S.p.A.	Revenues	Claims
Fees for services	107,360	6,986
	Costs	**Debts**
Fees for services	2,513,360	222,496

EuroMTS Ltd.	Costs	Debts
Fees for services	25,000	-

BIt Market Services S.p.A.	**Revenues**	**Claims**
Fees for services	900	1,092
	Costs	**Debts**
Fees for services	20,583	2,989

London Stock Exchange Group plc	**Costs**	**Debts**
	403,069	622,587

LSEG Post Trade Services Ltd.	**Revenues**	**Claims**
Fees for services	131,921	32,980

MTS S.p.A.	**Costs**	**Debts**
Fees for services	2,400	732

The relationships with companies of the Group are governed on the basis of specific agreements, and on the basis of fees in line with those of the market (so called arm's length conditions).

Remunerations of the members of the Corporate Bodies

As required by IAS 24, the indication is shown below of the amount of the fees payable in the financial year just ended to the members of the Board of Directors, Board of Statutory Auditors and to the *Key managers* of the Company:

Directors and Key Managers	1,445,329
Auditors	80,752

With regard to executives with strategic responsibilities, below is a breakdown of the remuneration categories:

a. Benefits to short-term employees	843,103
b. Post-employment benefits	81,265
c. Other long-term benefits	-
d. Severance benefits	111,573
e. Payments based on shares	305,582
Total	**1,341,523**

Plan	Number of shares	Date of Award
London Stock Exchange Matching Share Award	6,554	10/04/2015
London Stock Exchange Matching Share Award	6,282	18/03/2016
London Stock Exchange Matching Share Award	9,265	30/09/2014
London Stock Exchange Performance Share Award	9,721	2/04/2015
London Stock Exchange Performance Share Award	13,905	27/08/2014
London Stock Exchange Performance Share Award	6,620	17/03/2016
London Stock Exchange SAYE (Italy)	622	11/07/2014
London Stock Exchange SAYE (Italy)	765	05/05/2015

The Directors of the Companies of the Group receive no remuneration. The amount relating to the *key managers* represents the overall cost borne by the Company, inclusive of any and all supplemental elements. The *key managers* category comprises managers with strategic responsibilities, i.e. with powers and responsibilities relating to planning, management and control of the business activities (Managing Director and General Manager).
No loans have been granted and no guarantees were issued in favour of Directors and Statutory Auditors.

Management and Coordination

It is pointed out that as of the reference date of the financial statements for the financial year ended on 31st December 2016 the company is subject to the management and coordination of London Stock Exchange Group Holdings Italia S.p.A..

Summary table of the essential data of the last approved financial statements of the parent Company

The essential data of the parent company London Stock Exchange Group Holdings Italia S.p.A shown in the summary statement required by Section 2497-bis of the Italian Civil Code was extracted from the relevant financial statements for the financial year closed on 31 December 2015.
For an adequate and complete understanding of the equity and financial situation of London Stock Exchange Group Holdings Italia S.p.A at 31 December 2015, as well as of the economic results obtained by the Company in the financial year closed on that date, reference is made to the reading of the financial statements which, complete of the report prepared by the auditing firm, is available in the forms and manner provided by the law.

EQUITY AND FINANCIAL SITUATION AS AT 31 DECEMBER 2015

(Amounts in thousands of euro)

31 December 2015	
Assets	
Noncurrent assets	1,437,914
Current assets	20,863
TOTAL ASSETS	**1,458,777**
Liabilities	
Current liabilities	276,298
Noncurrent liabilities	101,922
TOTAL LIABILITIES	**378,220**
NET RESULT	**1,080,558**
Shareholders' Equity	
Share capital	350,000
Reserves	639.157
Profits/(Losses) of the previous financial year	91,401
TOTAL SHAREHOLDERS' EQUITY	**1,080,558**

OVERALL STATEMENT OF INCOME AS OF 31 DECEMBER 2015

(Amounts in thousands of euro)

31 December 2015	
Revenues	112,194
Other revenues and income	-
TOTAL REVENUES AND INCOME	**112,194**
Costs for personnel	1,345
Costs for services	10,561
Depreciations and amortizations	1,383
Operating charges	161
TOTAL OPERATING CHARGES	**13,450**
Financial income	1
Financial charges	11,401
Other financial income	1,531
PROFIT BEFORE TAXES	**88,875**
Taxes	2,526
NET PROFIT	**91,401**
Other components impacting the shareholders' equity	14
OVERALL NET PROFIT	**91,415**

Disclosure of the auditing fees and for services other than the audit

Pursuant to Article 2427, paragraph 1, sub-paragraph 16 *bis*, of the Italian Civil Code, implementing the provisions of Article 37, paragraph 16 of Legislative Decree No. 39 of 27th January 2010, the following table is shown below:

Description of the Type of Services	Entity that provided the service	Fees (euro)
Legal accounting audit	EY S.p.A.	75,000
Other auditing services (Reporting Package)	EY S.p.A.	38,800
Certification services	EY S.p.A.	2,200
Total		**116,000**

Document Relating to Plans on Security

The "simplification decree", published in the Official Bulletin of the Republic of Italy no. 33 of 9 February 2012 has actually eliminated the obligation to prepare an updated planning document on security (D.P.S.) on or before 31 March every year, however, it did not relieve the Data Controller of the processing of Sensitive Data from fulfilling all the prescriptions contained in Article 34 of Legislative Decree 196/2003 and of the relevant Annex B.

In light of the above, CC&G has considered it appropriate to prepare, however, the D.P.S. in order to have at disposal an instrument that would make it possible to check the performance of all the necessary fulfilments (such as information notices, appointment of internal and external data supervisors and persons in charge of personal data processing, privacy rules on electronic mail and internet), as well as the adequacy of the information security and cyber security activity by the Systems Management Department responsible for computer security plans having particular regard to the following minimum security measures:

a) electronic authentication;

b) adoption of management procedures of authentication credentials;

c) utilization of an authorization system;

d) periodical update of the scope of processing permitted to individual responsible officers and personnel in charge of the management or maintenance of electronic instruments;

e) protection of electronic instruments and data against wrongful processing, unauthorized accesses and certain electronic data processing programs;

f) adoption of procedures for the custody of security copies, restoration of data and systems availability;

g) adoption of encryption techniques or identification codes for data processing carried out by medical bodies suitable to disclose the health conditions or the sexual life of the people involved.

With the preparation of such DPS, in addition to relieving CC&G from any liabilities in case of occurrence of a damaging event, it is considered that the Company has been provided with a valid support for better handling the internal security processes and preserving data and information from loss, destruction, unauthorized accesses, etc.. Such DPS must be considered as a valid support also in the event of controls by the Privacy Guarantor Authority and the Finance Police on the upgrade of the security measures to which the data controller is bound and, in particular, the performance of the obligation to document the choices made within one's own organisation (during

inspections the absence of a document that may attest the information would make its finding longer and more complex).

It is finally pointed out that an organisational model 231 has been implemented in CC&G for preventing not only the risk of the perpetration of crimes related to the wrongful processing of personal data but also the prevention of the perpetration of all electronic data processing crimes, through an accurate and documented security policy as documented in the DPS.

<u>Capital Requirements</u>

The European Banking Authority approved in December 2012 the Delegated Rule No. 152 supplementing Regulation No. 648/2012 (EMIR) concerning technical rules governing the equity requirements of central counterparties. Pursuant to Article 2, a central counterparty must have a capital (inclusive of undistributed profits and reserves) that must be, at any time, sufficient to hedge the total exposure to the following risks:

- risks of winding up and restructuring,
- credit, counterparty's and market risks (not covered by specific financial resources pursuant to Articles from 41 to 44 or EMIR Regulation),
- operational and legal risks,
- business risks.

The capital so identified must be invested in secured assets for the purpose of complying with the provision of Article 47 of EMIR Regulation. On the date of approval of these financial statements, CC&G has invested its Regulatory Capital in Government Bonds.

If the capital held by the central counterparty decreases below 110% equity requirements ("notification threshold"), the CCP must notify the competent Authority immediately, keeping it up to date until the amount of said capital increases and exceeds the above-mentioned notification threshold.

Moreover, pursuant to Article 35 of Delegated Rule no. 153 (ESMA), the central counterparty must hold and show separately in its balance sheet, an amount of equity resources ("Skin in the Game") to be used as defence line in the event of default by the members ("Default Waterfall"). Such an amount is calculated as 25% of the minimum capital (TCR). The CCP shall notify the competent Authority immediately if the amount of the Skin in the Game to be held for Default Waterfall decreases below the mandatory minimum amount.

Article 45, paragraph 4 of EU Regulation No. 648/2012 requires a CCP to have a share equal at least to 25% of the Regulatory Capital allocated to a restricted reserve (*Skin in the Game*).

From this the need derives to comply with such provisions of law and to allocate a share of the reserves represented by profits to the Skin in the Game. Such reserve shall be changed every year depending on the levels of Regulatory Capital, at the time of approval of the Financial Statements, in relation to the levels of risk of the Company.

Moreover, for the purpose of having an additional aid in support of the Regulatory Capital, Cassa di Compensazione e Garanzia S.p.A. has created an additional reserve, equal to € 1,000,000, intended to cover any losses (*Internal Buffer*), pursuant to the resolution of the Shareholders' Meeting of 6 November 2013.

The establishment of a reserve in the amount of € 1,500,000 pursuant to Article B.6.2.3. of CC&G Rules, was defined by the Managing Director on 18 November 2015, in agreement with the Deputy Chairman; such reserve is intended to cover the expenses for the default procedure of a clearing member (*Second Skin in the Game*), resolved

upon later by the Board of Directors' Meeting of 2 December 2015 and validated by the Shareholders' meeting of 13 April 2016.

From a management standpoint, the calculation of the *Regulatory Capital* of Cassa di Compensazione e Garanzia S.p.A. – which takes into account the business risk, the market risk, the counterparty risk and operational risks - evidences at 31 December 2016, a *Skin in The Game* equal to € 19,322,727 (25% of the total regulatory capital equal to € 77,290,907), an amount that is increased by 12% compared to the same data of 31 December 2015, equal to € 17,263,220.

Below the calculation of the Regulatory Capital at 31 December 2016 is reported, from which the value of the *Skin in the Game*, the *Internal Buffer* and of the *Second Skin in the Game* is inferred:

Total Shareholders' Equity *(Amounts in euro)*	**31/12/2016**
Capital	33,000,000
Reserves (*)	89,853,692
Total Shareholder's Equity	**122,853,692**
Tangible & Intangible assets	(3,693,586)
AFS and FTA reserves	(4,677,052)
Share awards	(2,082,568)
Total "NET" Shareholder's Equity	**112,400,486**

Capital Requirement as per art. 16 EMIR Regulation *(amounts in euro)*	**31/12/2016**
Winding down/restructuring requirement	9,218,971
Credit, Market and Counterparty risk	49,703,520
Operational risk	13,758,931
Business Risk	4,609,485
Total Capital Requirement (TCR)	**77,290,907**
Notification threshold (10%)	7,729,091
TCR + Notification threshold	**85,019,998**
Skin in the game (SIG)	19,322,727
TCR + Notification threshold + SIG	**104,342,725**

	31/12/2016
Internal Buffer (IB)	1,000,000
Second Skin in the Game (SIG2)	1,500,000
TCR+SIG+SIG2+IB	**106,842,725**

(*) This item comprises restricted reserves equal to € 19,763,220 linked to the Skin in the game, the Internal Buffer and to the Second Skin in the Game.

The Shareholders' Equity available pursuant to the applicable Provisions of Law, at 31 December 2016, amounts to € 112,400,486 (on an overall amount of Shareholders' Equity on the same date equal to € 122,853,692 net of the operating profit), having the Company sterilised the impact of the reserves from *First Time Adoption, Available for Sale, Ias 19 reserves and Share Awards,* as well as the entire amount of tangible and intangible assets present in the assets side of the Balance Sheet on the date of these financial statements.

Following the requirements of Regulatory Capital, the Company has calculated, according to the parameters provided by EU Regulation No. 152/2013 of the Commission of 19 December 2012:

- the risks of *winding down and restructuring*;
- the *Credit, Counterparty and Market risks*;
- the *operational risk;*
- the *business risk.*

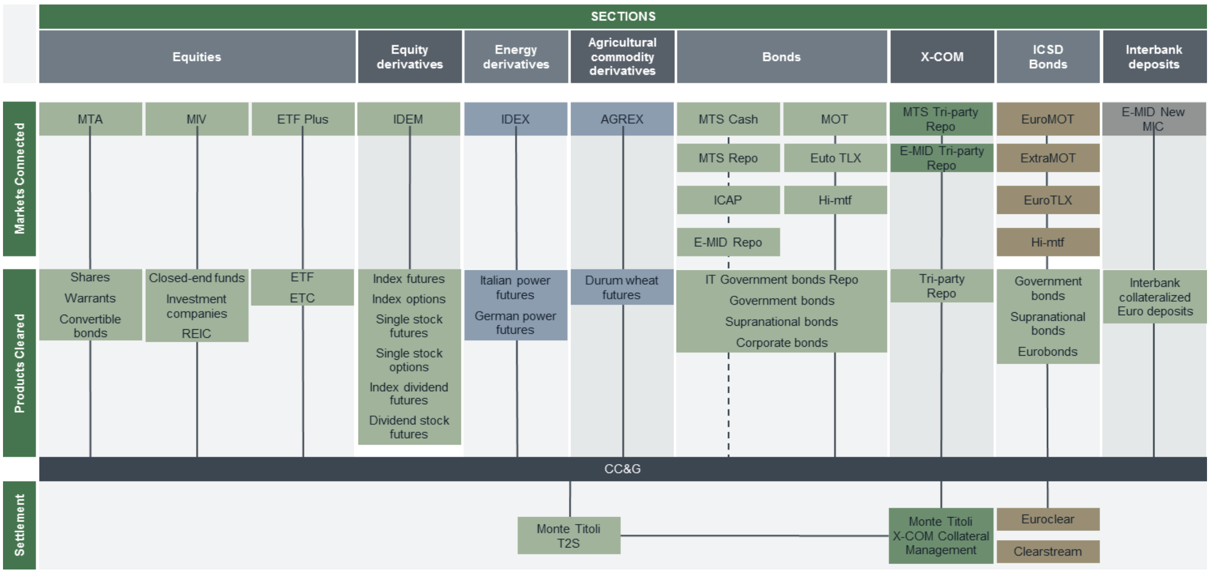
Such risks, evaluated in function of the corporate structure and solidity with respect to the market, have been calculated in € 77,290,907. A 10% notification threshold was then applied to such risks, pursuant to Article 1 of the above-mentioned EU Regulation.

On the only value of the Regulatory Capital in the amount of € 77,290,907, *excluding the notification threshold*, 25% of guarantee threshold was applied (*Skin in the Game*) that will be allocated (after the approval of the shareholders' meeting of 28 April 2017), to restricted reserve and is equal to € 19,322,727. The reserve from Internal Buffer, equal to € 1,000,000 has been allocated to restricted reserve by the shareholders' meeting of 6 November 2013. The reserve from *Second Skin in the Game,* as per resolution of the Board of Directors' meeting of 2 December 2015, was defined in € 1,500,000, and allocated to the restricted reserve by the Shareholders' Meeting of 13 April 2016.

Management of Risks

Preamble

Cassa di Compensazione e Garanzia S.p.A. manages the guarantee system to the Central Counterparty (CCP) on a broad range of markets: shares, warrants and convertible bonds listed on MTA, ETF and ETC listed on ETF Plus, futures and options on single stocks and index listed on IDEM Equity, futures on electricity listed on IDEX, futures on durum wheat listed on AGREX, closed end funds, investment companies and real estate investment companies listed on MIV, Italian Government Bonds listed on MTS, EuroMTS, BrokerTec and Repo e-MID, Italian Government Bonds and bonds listed on MOT, EuroTLX and Hi-MTF. Moreover, CC&G S.p.A. offers its services on the collateralized interbank market NewMIC. CC&G avoids the counterparty risk by becoming itself contractual counterparty to the participants in organized markets and single guarantor of the good outcome of the contracts acting as buyer vis-à-vis the *sellers* and, vice-versa, operating in the capacity as seller vis-à-vis the buyers.



The activity of CC&G is subjected to the supervision of the Bank of Italy and Consob, which approve its Rules.

CC&G's financial protection system is based on 4 levels of protection:

1. membership requirements
2. margin system
3. default funds
4. equity and financial resources

1. <u>Membership Requirements</u>

Membership is the CC&G first line of defence, and establishes which members may be admitted to the system. It is possible to become members of CC&G as Direct Clearing Member, General or Individual (becoming counterparty to CC&G), or as Non-Clearing Member (becoming counterparty to a General Member). The Clearing Members must have a minimum regulatory capital. Each Member must also have an organizational structure, as well as technological and electronic systems, ensuring an orderly, continuing and efficient management of the activities and relationships required by CC&G Rules.

2. <u>Margin System</u>

The margin system represents a fundamental system of risk management adopted by CC&G.
The Members must post sufficient guarantees to cover the theoretical liquidation costs that CC&G would incur in case of default, in order to close the Member's position in the most unfavourable, reasonably possible, market scenario. All the Clearing Members are, therefore, requested to pay margins on all the open positions, except for specific relationships entered into with the Market Manager (GME) as direct counterparty of the Company on the market of energy derivatives, in consideration of the peculiarity of the GME and of the guarantee system to which it is subject.

The margins applied to each category of financial instruments are determined on the basis of statistical analyses so as to provide a prefixed coverage level compared to price variations actually recorded.

Margins are calculated using the MARS - Margining System methodology for the IDEM and BIT markets and the MVP methodology (Method for Portfolio Valuation) for the fixed income markets. Finally, the MMeL methodology is applied to the energy derivative market and the MMeG methodology to the market of Agricultural [Durum Wheat] Commodities Derivatives.

The above-mentioned methodologies are efficient, reliable and accurate margin calculation systems able to recognize the overall portfolio risk and enable the netting of risks between strictly correlated products. MARS - Margining System methodology permits the cross–margining between equity and derivatives instruments composing the portfolio.

Fundamental Principles applying to Equity and Equity Derivative Markets: MarS

All the financial instruments that are considered by CC&G as significantly correlated with one another in terms of price variations are included in one single Integrated Portfolio and, therefore, Initial Margins are calculated at portfolio level.

CC&G's Margining System method enables to determine, at an overall aggregate level, the risk exposure of each Member by:

- Group of Products: integrated portfolio including underlying assets with price variations with significant statistical correlation;
- Group of Classes: cash-derivatives integrated portfolio relating to the same equity instrument.

In order for a Member to be allowed to benefit from *cross-margining* on cash-derivatives integrated portfolios it is necessary that it is General Clearing Member or Individual Clearing Member in both markets, or, if it is a Non-Clearing Member, that it uses the same General Clearing Member in both markets.

Fundamental principles governing the Bond Market: MVP

The MVP methodology permits to include in Classes the financial instruments that are significantly correlated with one another, on the basis of their specific sensitivity to interest rate changes, measured through "*Duration*" or Time to Maturity. It allows to offset the risk between positions of opposite sign of instruments pertaining to the same Class of Duration or Life at Maturity, as well as between Classes of contiguous and well related Durations.

Fundamental principles governing the Energy Derivative Market: MMeL

Derivative contracts traded on IDEX are included in one Integrated Portfolio and, therefore, Initial Margins are calculated at portfolio level. The margination methodology MMeL defines a structure of Classes each of which includes all the contracts of the same kind (futures) having the same underlying asset (Settlement Price of the contract related to Italy Area and Settlement Price of the contract related to Germany/Austria Area) and the same characteristics (Period of delivery and type of supply: *Baseload and Peakload*). Effective August 2016 the method was refined in order to allow for the application of Product Groups fulfilling EMIR/EMSA regulatory requirements.

In addition to the final cash settlement, also the option for the physical delivery/collection of the energy underlying the subscribed futures contract is permitted. Such settlement takes place outside CC&G's system on the platform of the Energy markets manager according to the rules in force therein.

Fundamental Principles governing the derivative Market on Agricultural Commodities: MMeG

Derivative contracts of Durum Wheat traded on AGREX are included in one single Integrated Portfolio and, therefore, Initial Margins are calculated at portfolio level.

MMeG margining methodology defines a structure of Classes comprising: delivery positions, and uncovered positions in delivery and matched delivery positions of the Withdrawing Counterparty and the one in Delivery.

Collateral

The Initial Margins may be paid both in cash (Euro) and/or in euro denominated Government Bonds, traded on MTS and issued by Countries of the Eurozone characterised by a low level of credit risk and market risk. The value of the guarantees deposited in securities usable to cover the Initial Margins is determined on the basis of the concentration limits.

The valorization methodology also provides that each government bond deposited at CC&G to cover initial margins is evaluated daily, also intraday, applying a precautionary *haircut* on the basis of the duration of the security.

Intraday Margins must be covered exclusively in cash (euro).

3. <u>Default Funds</u>

CC&G has an additional protection that is added to the margins system, represented by the Default Funds. The function of the Default Funds is to hedge the risk , generated by extreme changes in market conditions, and not guaranteed by the margin system. The objective is to ensure the integrity of the markets also in the event of multiple defaults in extreme market conditions, in line with the provisions of EMIR.

The amounts of the Default Funds are determined by CC&G on the basis of the results of the "*stress tests"* performed daily. Such results are reviewed by the Risk Committee of CC&G which modifies the amount of the Default Funds if it considers it necessary.

As of 31th December 2016 the Default Funds were made up as follows:

- Equity and Equity Derivatives Market: € 1,100 million;
- Bond Market: € 4,600 million;
- Energy Derivatives Market: € 10,4 million;
- Agricultural Commodities Derivatives Market: € 110,000;
- Default Funds segment for the New-MIC: € 190 million.

The adjustment of Default Fund contribution quota for the participants is usually performed on a monthly basis, as a function of the initial margins paid in the preceding month. For a General Clearing Member, the contribution quota to be deposited includes also those relating to its Non-Clearing Members, if any.

The payment of the contribution quota to the Default Fund must be made in cash (euro).

4. <u>Equity and Financial Resources</u>

As at 31st December 2016 the shareholders' equity of CC&G is equal to 178.1 million euro. Moreover, CC&G has provided itself of adequate credit lines negotiated with the principal Italian banks, in order to cope with the needs linked to the management of the settlement phase (T2S and ICSD).

Insolvency Proceedings against a Member

In case of default of a Clearing Member, for covering the losses CC&G uses the following resources:

a) the *Margins* deposited by the Defaulting Member;

b) the contribution to the Default Fund of the Defaulting Member;

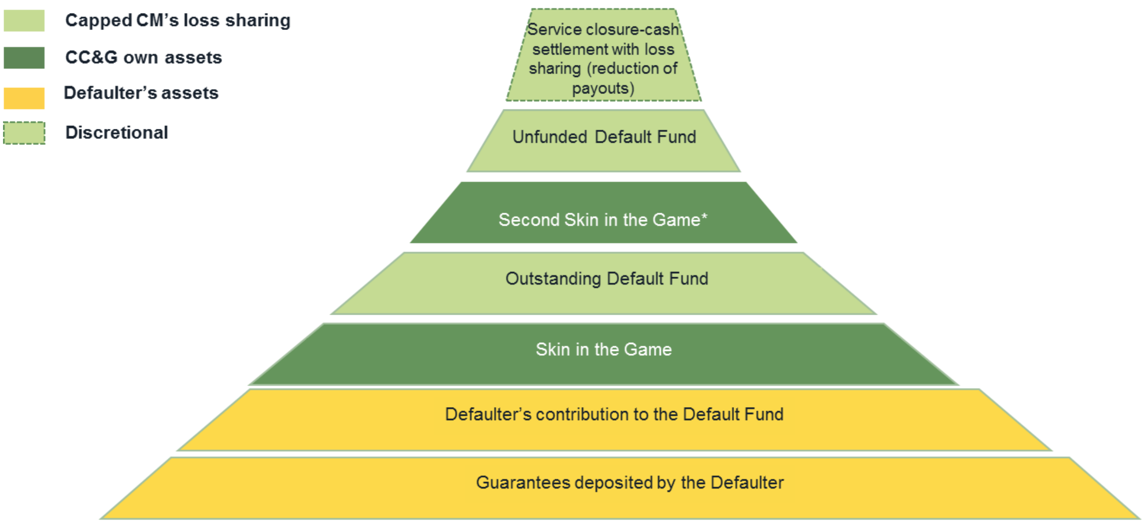
c) CC&G's own resources (*Skin in the game*), determined in compliance with the limits provided by Article 45 of EMIR Rules;

d) the contribution to the *Default Fund* of the other Clearing Members to the Market concerned, in proportion to the amounts paid and limited to the losses related to the Market concerned;

e) CC&G's own resources in the amount of 1,5 mln (*Second Skin in the Game*);

f) the contribution to the Default Fund not financed in advance by the other members, in proportion to the payment of the contributions to the Default Fund of the market concerned.

In conclusion of the above-mentioned activities, CC&G, for the purpose of ensuring the operational continuity of the other Markets and of the interoperability link in place with the other CCP, subject to the prior notification to the competent Authorities, may arrange for the closure of the Market by means of a cash settlement and proceed with an additional pro rata allocation of the losses among the Members, which have a positive balance following the cash settlement, through a reduction proportional to the amounts due to them.



*Pursuant to article B.6.2.3 of CC&G's Regulation, CC&G has defined in € 1.500.000 the amount of own assets set out in comma 1, letter e) of the same article of the Regulation

- The amount of the Skin-in-the-game, corresponding to 25% of the Minimum Regulatory Capital, is equal to € 19,322,727 as of 31 December 2016[9]

CC&G Recovery Plan and changes in the management of a default

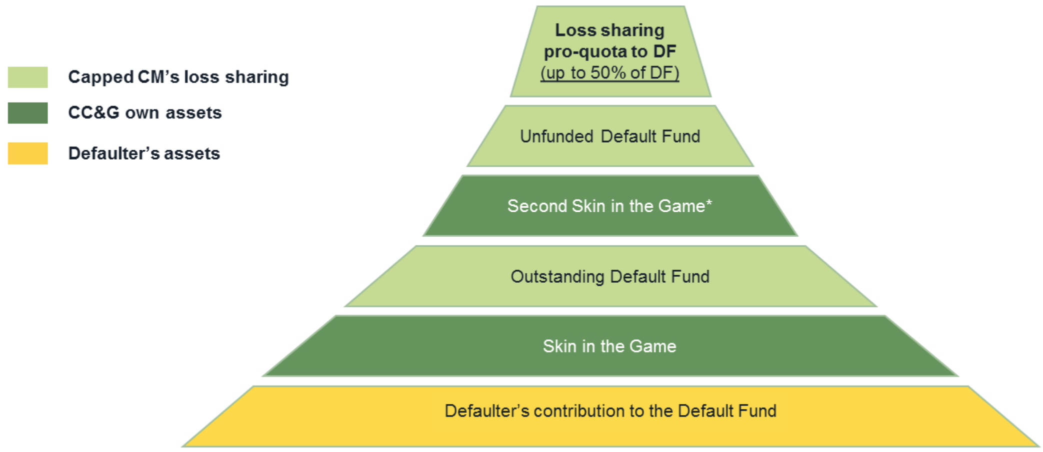
As mentioned in paragraph 2 ("Report on Operations”), in the framework of the Recovery Plan it was considered appropriate to adjust CC&G Rules in order to update the rules governing the management of the default procedure in case of a Member Default.

When the resources of the *default waterfall listed in sub-paragraphs a)-f)* of the preceding paragraph do not appear to be sufficient, CC&G will distribute the remaining losses pro rata to non defaulting Member on the basis of the contribution quota to the default fund for the related Market. In any case, the losses that can be allocated to the non-defaulting Members shall be subject to a maximum limit represented by 50% of the amount of additional resources requested from such members and defined in Article B.6.2.3, letter f).

The amendment has the purpose of preserving the continuity of critical services, as required by international standards in the matter of recovery and resolution of central counterparties. The provision contained in Article B.6.2.3, paragraph 2 previously included in the framework of the closure of the central counterparty service (with distribution of the loss resulting after the cash settlement vis-à-vis those members with a positive balance following such settlement) has therefore been amended.

CC&G has also considered appropriate to amend the provisions concerning the service closure procedure of the CCP Sections, pursuant to Article B.6.2.3, paragraph 2 of the Rules. The amendment was made with the purpose of clarifying that the service closure procedure is a mechanism that must not be necessarily activated following the exhaustion of the resources of CC&G's default waterfall after the occurrence of an event of default, as it is currently provided by the Rules.

Below is the representation of the new *Default waterfall.*



*Pursuant to article B.6.2.3 of CC&G’s Regulation, CC&G has defined in € 1.500.000 the amount of own assets set out in comma 1, letter e) of the same article of the Regulation

[9] Such amount, resulting from the calculation of the Regulatory Capital at 31 December 2016, as shown in the current proposed Financial Statements, will replace, after the approval by the Board of Directors' Meeting and the Shareholders' Meeting, the preceding value of € 17,263,220.

Insolvency proceedings against a Special Member (interoperable CCP)

In case of default of a Special Member, CC&G charges the losses and expenses suffered in the following order:

a) to the *Margins* deposited by the Special Defaulting Member;
b) to CC&G own resources, referred to as Internal Buffer in the amount of 1 million euro, within the limits established in an appropriate *Release/Notification*;
c) to the Members which have a positive balance following a cash settlement, through a reduction in proportion to the amounts due to them.

If the Special Member ceases the central counterparty service vis-à-vis its members and proceeds with a settlement in cash also vis-à-vis CC&G, CC&G reserves the right to proceed with a cash settlement vis-à-vis the Members participating in the Market concerned.

NewMIC Guarantee System

CC&G S.p.A. defines the rules of the *NewMIC Guarantee System* and in particular:

a) the membership procedures;
b) the suspension, exclusion and withdrawal from the System;
c) the netting and guarantee of the contracts concluded on the market and the settlement procedures;
d) the rules governing Guarantees;
e) the management of the default procedures of the Member.

The participants in the NewMIC market are banks, which comply with the rules set out in the "Regulation of the NewMIC Guarantee System in force since 11th October 2010" available on the Company's internet site.

The necessary condition for enabling the participants in the market to operate on the NewMIC is the prior constitution of a collateral, the value of which must be and must remain higher than the exposure that the members assume in the interbank contracts.

Cassa di Compensazione e Garanzia S.p.A. receives securities in the form of *collateral*, which are submitted daily to suitability and evaluation controls as dictated by the annexes to the above-mentioned Regulation.

For additional information and details reference is made to the documentation available on the Company's internet site.

Definition of risks

The main risks identified, monitored and actively managed by CC&G are the following:

(i) country risk
(ii) market risk
(iii) credit risk
(iv) issuer risk

(v) liquidity risk
(vi) interest rate risk
(vii) exchange risk [FX Risk]
(viii) operational risk

The management of such risks is governed according to the "*Investment Policy*".

The definition of risks having an operational nature, as well as the consequent control method, are conversely governed by the policy referred to as "Mapping of operational risks".

Country Risk

Country Risk is the risk that the Company may suffer losses from a worsening of the creditworthiness or default of a sovereign Country which is the issuer of financial instruments that have been the object of investments or whose institutions have a debit with the Company
For the purpose of mitigating such risk, CC&G limits its investments to securities issued by sovereign Countries of the European Union in possession of a qualified rating on the basis of the "SRF" (Sovereign Risk Framework) method adopted for the monitoring and management of Country risk.

Moreover deposits, or receivables of any kind that CC&G may claim vis-à-vis institutions located in the Country considered are included in such limits.

Market Risk

The risk that CC&G may suffer losses as a result of changes in value of the financial instruments traded on the markets for which the Company exercises its Central Counterparty function or changes in value of the financial instruments in which the Company invested the Margins acquired from the Members or its own resources is referred to as Market Risk.

a) Financial instruments traded on markets for which the Company exercises its Central Counterparty function.
In conducting its Central Counterparty's typical activity, CC&G does not incur any market risks since the positions assumed as buyer and seller vis-à-vis all the other counterparties that operate on guaranteed markets, are balanced with respect to amounts, maturities and prices. In case of a Member default the risk is mitigated by the collection of the guarantees represented by Initial Margins and Default Funds.

b) Investments in financial instruments of margins, deposits of default funds or own resources.
The Company's activity is disciplined by EU Regulation No. 648/2012[10] on OTC derivative instruments, central counterparties and trade repositories, subsequently supplemented by EU Delegated Rule No. 153/2013[11] issued in the matter of technical standards related to the requirements for the central counterparties.
In compliance with the above-mentioned rules and regulations, CC&G invests its financial resources exclusively in cash or highly liquid financial instruments with minimum market and credit risks.

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[10] *(UE) Regulation No. 648/2012 of the European Parliament and of the Council of 4 July 212 on OTC derivative instruments, central counterparties and data registers on negotiations.*

[11] *(UE) Delegated Rule no. 153/2013 of the Commission, dated 19 December 2012, supplementing (UE) Regulation No. 648/2012 of the European Parliament and of the Council, as far as technical regulation rules relating to the requirements for central counterparties are concerned.*

Credit Risk

Credit Risk is the risk that CC&G may suffer losses that derive from a worsening of the creditworthiness or default of a counterparty:

a) of which (Member to the Guarantee Systems) the risks are guaranteed through the performance of the business function of Central Counterparty. The risk is mitigated by the application of the admission criteria to the Guarantee Systems provided by the Company's Rules, approved by the Bank of Italy together with Consob, and by the right to request increased margins, also intraday, from Members having a temporarily worsened creditworthiness.

b) at which amounts of money have been deposited coming from margins, Default Funds contributions or own resources.

Investments in securities
For the purpose of mitigating the Credit Risk, CC&G may invest in financial instruments of the monetary or financial market issued by a sovereign State of the European Union having a sufficient creditworthiness. As of 31st December 2016 approximately 52.90% of invested cash appears to be invested in Government Bonds.

Deposits with banks
For the purpose of mitigating the Credit Risk, CC&G may make deposits at the Central Bank or make deposits or "repo" transactions with credit institutions having a sufficient credit worthiness, selected according to criteria and within the amount limits set out in the "*Investment Policy*". CC&G adopts an internal rating method able to provide an evaluation of the counterparties on the basis of financial statements and market data, as well as on the basis of the ratings provided by the three Rating Agencies.

c) on which securities were deposited for custody and administration.

In order to mitigate such risk, CC&G deposits securities with the national central custodian Monte Titoli S.p.A. (member of LSE Group) or with the International Central Securities Depositories or with the Central Bank, to access intraday financing.

Issuer Risk

The risk that the Company may suffer losses deriving from the worsening of the creditworthiness or default of an issuer of financial instruments in which the Company has invested, is referred to as Issuer Risk. Reference is made to the section "Credit Risk".

Liquidity Risk

The Liquidity Risk is the risk that the Company is unable to satisfy its payment obligations on the dates these fall due.
With regard to liquidity the Company, in addition to the obligations deriving from its CCP core business, must take into account those deriving from the Company's participation in the securities settlement process "Target II" managed by Monte Titoli and the securities settlement process managed by the "ICSDs" through Euroclear.

The monitoring of the liquidity risk, in ordinary conditions as well as stress conditions, is performed according to the provisions of the Liquidity Plan approved by the Board of Directors in line with the EMIR/ESMA regulatory requirements.

The mitigation factors of such risks provided by the Liquidity Plan comprise the following:

- the right to access intraday re-financing at the Central Bank;
- the availability of collateralized and non collateralized credit lines, granted by leading commercial banks.
- the possibility to enter into financing repurchase agreements with qualified counterparties in the triparty platforms of Euroclear and Clearstream.

Interest Rate Risk

The risk that the Company may suffer losses deriving from fluctuations in the interest rate levels at which items of the assets and liabilities of the financial statements, which are not matched according to maturities or reference rate parameter, are exposed is referred to as Interest rate Risk.

At 31 December 2016 the Company remunerates, with the reference parameter of the short-term rate "EONIA" –25 bps the initial margins and the Participants' deposits for the Default Funds.

Any derivatives, such as interest rate swaps, may be used exclusively for hedging the risk. As of 31st December 2016 no derivative transactions appear to be in existence.

From the standpoint of loans and/or investments, the Company has no loans in existence either as borrower or lender.

FX Risk

The risk that the Company may suffer losses from the fluctuation of the euro exchange rates, in which its capital is denominated and its accounting books are expressed, or of other currencies in which items of the financial statements not balanced in equal currency are expressed, is referred to as Exchange Rate or FX Risk. The Company has not operated under conditions that entailed an FX Risk.

Operational Risk

The risk that the Company may suffer losses caused by the operational activity of its employees, processes, electronic systems, external suppliers and unexpected events is referred to as Operational Risk. To supervise the Operational Risk, CC&G has arranged a mapping of all the processes relating to its *business* and of the risks connected thereto. For each process, "delicate" procedures and detailed policies have been realized, which are updated on a periodical basis.

The management of the operational risk, in general, is the responsibility of the Risk Policy Office, which prepares a quarterly update report for the Group Risk Department. The Risk Policy office also gathers any problems or incidents relating to operativeness; the management procedure of such incidents is the responsibility of the Chief Risk Officer.

The electronic system (Technology Risk) complies with the Guidelines of the Bank of Italy on the *Business Continuity*:

i) operations are guaranteed by an architectural configuration that provides for the availability of four different operational sites connected through high speed lines (two sites availing themselves of central systems of analogous configuration, permanently managed and maintained at > 500 km distance and data alignment in real time);

ii) re-start possibility in *Disaster Recovery* situation within two hours;

iii) *Disaster Recovery* and Business Continuity tests are conducted at least once a year;

iv) the external supplies are selected according to the above-mentioned Guidelines.

The whole plan is regularly tested, constantly updated and disseminated within the structure.

Rome, 24th March 2017

for the Board of Directors
the Chairman
Renato Tarantola