BANCA PROMOS

Financial Statements at 31 December 2016

36° year

On tne cover: “Banca Promos – Headquarter” – *PH. Peppe Maisto*

Contents

Call of Ordinary Meeting

BANCA PROMOS S.p.A.
Registered Office in Naples, Viale Gramsci 19
Share Capital € 7,740,000.00 fully paid up
Economic and Administrative Index no. 329424

Shareholders are hereby convened at the Ordinary Meeting to be held at the registered office of the Bank, viale Antonio Gramsci 19, Naples, on first call on 28 April 2017 at 5:00 pm and, if necessary, on second call on 8 May 2017 at 10:00 am, in order to discuss and resolve upon the following:

AGENDA

1. Approval of the financial statements at 31 December 2016, Directors' Report, report of the Board of Statutory Auditors and subsequent resolutions according to law provisions;
2. Renewal of the Board of Directors and determination of their remuneration;
3. Resolution as per article 10 of the Corporate By-Laws concerning the remuneration of the Chairman of the Board of Directors;
4. Amendments to the Board of Statutory Auditors;
5. Disclosure on remuneration policies and their implementation;
6. Disclosure on "Internal policy on the control of risky activities and conflicts of interest vis-à-vis connected parties";
7. Any other business.

The procedures for attendance at the Shareholders' Meeting are governed by law and the Corporate By-Laws.

The Chairman of the Board of Directors
Ugo Malasomma

Management and Independent Auditors

Board of Directors

Ugo Malasomma *(Chairman)*

Tiziana Carano *(CEO)*

Stefano de Stefano

Umberto De Gregorio

Luigi Gorga

Board of Statutory Auditors

Ugo Mangia *(President)*

Sergio Vilone *(Auditor)*

Pasquale Mauro *(Auditor)*

Riccardo Pascucci *(Alternate Auditor)*

Independent Auditors

Deloitte & Touche S.p.A.

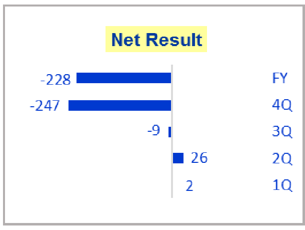
Overview

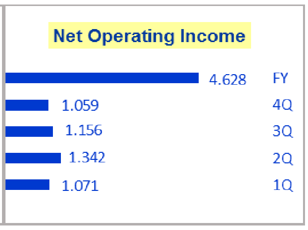
Income Statement

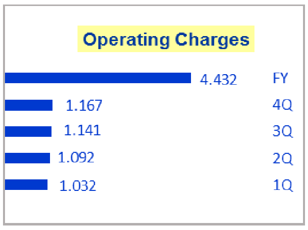
Income Statement (€/000)	31/12/2016	31/12/2015	Absolute changes	% change
Net interest	**1,183**	1,366	(183)	(13.4)
Net commissions	**20**	293	(273)	(93.2)
Income from trading activities(*)	**3,235**	2,943	292	9.9
Net operating income	**4,628**	4,750	(122)	(2.6)
Operating charges	**(4,432)**	(4,918)	(486)	(9.9)
Result from operations	**196**	(168)	364	-
Net adjustments to receivables	**(520)**	(580)	(60)	(10.3)
Net result	**(228)**	(531)	(303)	(57.1)

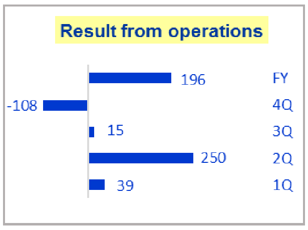
(*) The item includes items 80 + 100 of the Income Statement

Quarterly outlook of the main economic indicators









Balance Sheet figures

Balance Sheet figures (€/000)	31/12/2016	31/12/2015	Absolute changes	% change
Loans to customers	**28,984**	33,549	(4,565)	(13.6)
Customer financial assets:	**96,155**	91,058	5,097	5.6
- Direct deposits	**41,308**	42,123	(815)	(1.9)
- Indirect deposits including institutional customers	**54,847**	48,935	5,912	12.1
Total assets	**64,315**	68,477	(4,162)	(6.1)
Shareholders' equity	**14,335**	14,595	(260)	(1.8)

Structure Data

Structure Data	31/12/2016	31/12/2015	Absolute changes	% change
Number of employees	**45**	46	(1)	(2.2)
Number of branches	**3**	3	-	-

Alternative performance indicators

Income ratios (% values)	31/12/2016	31/12/2015
Net result / Shareholders' equity (ROE)	**(1.6)**	(3.6)
ROA	**(0.5)**	(1.1)
Cost / income ratio	**95.8**	103.5
Interest margin / Brokerage margin	**26.7**	29.7
Net result of financial operations / Total assets	**6.1**	5.9

Risk indicators (% values)	31/12/2016	31/12/2015
Impaired assets / Loans to customers	**12.9**	8.0
Net non-performing loans / Loans to customers	**4.9**	2.1
Unlikely to pay / Loans to customers	**6.0**	5.4
Past due and overdrawn loans / Loans to customers	**2.0**	0.4
Overall adjustments to receivables / Gross loans (hedging ratio)	**7.1**	4.9

Capital ratios (% values)	31/12/2016	31/12/2015
Common Equity Tier 1 / Risk-weighted assets	**30.4**	29.2
Tier 1 / Risk-weighted assets	**30.4**	29.2
Total capital / Risk-weighted assets	**30.4**	29.2
Risk-weighted assets (€/000)	**46,713**	49,338
Own funds	**14,203**	14,423
CET1 surplus compared to the 7.00% threshold (*ex SREP*)	**10,466**	10,476

Directors' Report

Dear Shareholders,

As customarily, before reviewing the results of our 36th year in business, we present an outline of the major developments that have taken place in the economic scenario and in financial markets, which provide insights in the financial statements results and future outlook.

The international framework

The global economic scenario in 2016 was marked by conflicting signals.

Since the second half of the year, growth strengthened in the advanced economies and the economic situation of emerging countries improved. However, this impetus was not enough to drive an outright recovery, mainly due to political developments (Brexit , U.S. elections, referendum in Italy) that led to a climate of uncertainty, slowing down growth and market confidence.

Data available for the third quarter of 2016 show a higher than expected GDP acceleration in the USA (3.5% year-on-year), mainly due to exports and the expansion of private consumption.

In the UK, in the same period, growth remained stable at 2.4% year-on-year, which, at least in the short term, helped mitigate fears of a sharp slowdown following the Brexit referendum. Of course, concerns about the economic repercussions of Brexit in the medium-term remain high.

Growth in China also remained stable, while in Japan GDP slowed down to 1.3% year-on-year, reflecting weak domestic demand and poor investment.

In the European Union, GDP growth continued at moderate but constant pace, driven by domestic demand.

For a complete analysis of the situation in the Euro area, however, the emergency situations affecting the region should also be considered; these included, the management of exceptional migratory flows and the surge of political movements that openly oppose the single currency and any further integration projects, sometimes hindering the implementation of common wide-ranging initiatives.

In Italy, 2016 was a year of moderate recovery. In the second half of the year, in line with the Euro area, GDP grew (+ 0.3% compared to the same period in the third quarter), driven by investment and household spending. Consumer inflation remained low. Households' disposable income moderately grew, exports were up in all manufacturing sectors and employment showed timid signs of improvement.

The capital market

In 2016, conditions in the international financial markets improved slightly. After temporarily rising just before the UK referendum, volatility was back to low levels. Stock prices picked up and, on the bond front, credit risk premiums for companies in the Euro area remained low.

Since the end of June, bond spreads declined both in the investment grade segment and, to a greater extent, in the high yield segment. Yield spreads between Italian 10-year government bonds and the corresponding German bonds declined, although following the outcome of the referendum in Italy, spreads increased again in early December.

In the United States, after the presidential election, expectations for an expansive fiscal policy, rising inflation and growth led to an increase in long-term returns; this trend spread to the other advanced economies, reflecting divergent monetary policies. Of course, these divergences affected the foreign exchange market, with the emerging countries' currencies weakening against the dollar.

In real terms, the Euro slightly depreciated on the dollar (0.5%), returning to the levels observed at the beginning of 2016.

The banking system in Italy

The year just passed was still quite complex for the global banking system, and for the European one in particular. Banks are called to operate in a constantly changing environment.

On the one hand, rules are being reviewed; in the European Union this involves the transition to Community supervision and harmonized principles for the prevention and management of banking crises. On the other hand, technology is rapidly evolving, which will bring further changes in the coming years, such as the use of new IT technologies also in the credit market.

More specifically, at the end of 2016, the Italian Government approved the “Bank Relief” Decree (Decreto Salvabanche), a new measure that aims to protect savers and ensure economic and financial stability, by authorizing the granting of guarantees or capital injections to support Italian banks, up to a maximum of €20 billion.

A deeper change is also taking place that affects the relationship between businesses and banks and which is also catching on in Italy, where the dependence of the former on the latter is still very marked. In keeping with the European and international trend, Italy is seeking to loosen this bond, by embarking in a new phase in which businesses can draw on financing sources other than bank

loans and finally be able to directly access the capital markets. Banking operators of all sizes are therefore called upon to redesign their profile and define their identity to capture a niche where they can survive. Specific *Capital Market* skills are required, and in this regard, Banca Promos, which can count on over 30 years of experience, certainly has the necessary *know-how*.
The industry experienced a positive trend in 2016, which will open up good prospects for the future, as also confirmed by data reported in the 3rd Italian Mini-Bond Report published by the Mini-Bond Observatory of the Politecnico di Milano.
In 2016, 106 Mini-Bond issues were placed on the Italian market by 88 companies, of which 74 were using this instrument for the first time. In addition, the average turnover of issuing companies decreased compared to previous years. At the end of 2016 issued bonds outstanding amounted to a total nominal value of over €11 billion; new issues in the year amounted to more than €3.5 billion (compared to 1.8 billion in 2015). After a start characterized by sporadic and discontinuous transactions, growth has been linear in the last two years, reaching record numbers in December 2016. Given the popularity achieved, all involved actors (*advisors, arrangers* , *rating* companies, agent banks and custodian banks) have been standardizing processes to reduce placement costs.
Of course, so far the figures are relevant in terms of trend only, yet they show with sufficient clarity that businesses, including small businesses, are starting to consider the capital market as an accessible source of funding.

Credit terms relaxed somewhat during the year.
Based on available data (ABI source), loans to households and non-financial companies showed an increase at year-end (+1.4% year-on-year), with a slight recovery in mortgage loans to households, which, according to November data, recorded a positive change of +1.7% over the same period in 2015. For example, lending to service companies increased, while loans to the construction sector, which is still experiencing difficulties, declined.

Interest rates applied to customer loans remained at very low levels, touching new historical lows.
The average rate on total loans in December 2016 was 2.85% (before the crisis, at the end of 2007, it was 6.18%); similarly, the average rate on new home purchasing transactions was down to 2.02% in December 2016 compared to 5.72% at the end of 2007. The average rate for new financing transactions to businesses was 1.54%, (5.48% at the end of 2007).

Credit quality, an area that was especially, and for the longest time, affected by the crisis, slightly improved driven by better economic prospects.
Net non-performing loans at the end of November 2016 were down 4% compared to the peak hit in November 2015, and the ratio of non-performing loans to total loans was 4.80% in November 2016 (4.91% at the end of 2015 and 0.86% before the crisis began).

At the end of December 2016, the trend of deposits was up +4.2% year-on-year, while total funding on the same date recorded a -1.3% change year-on-year, negatively affected by the decline in medium and long-term funding, i.e. through bond issues.
The downward trend on funding rates was also confirmed. The average interest rate on total deposits from customers was 0.97% at the end of December.

The situation in Campania

In Southern Italy and in Campania, the dynamics in the banking sector were in line with those observed at the national level, although the different underlying conditions persisted.
The economic outlook remains cautiously positive also in our region, and business confidence is steadily, albeit moderately, improving. Exports remained stable while employment is finally growing.
The construction sector, in line with national trends, continued to record negative trends, while the real estate market showed signs of recovery, albeit characterized by small size transactions. The trade sector performed well, mainly driven by the car segment.

(Sources: Banca d'Italia: Economic Bulletin no. 1, January 2017; Regional economies no. 43 December 2016; ABI: monthly report January 2017)

Banca Promos core operations

Shareholders, the scenario in which your bank has operated in the current year does not significantly differ from that of last year. Despite the signs of improvement mentioned above, the real economy is stagnating locally and this has once again affected lending performance. Loan impairments in the year had again a significant impact on the final result.
Despite the negative effects of an uncertain and dull market, as evidenced by the decline in volumes, financial activity showed a 10% increase in trading profits, which reflected an aggressive commercial approach by the trading desk and improved margins.
The financial statements for the year reported a loss of €228,267, halved compared to 2015.

In the overview on the Italian banking system we already focused on the new challenges banks are facing in terms of relationships with businesses, introduction of new technologies and need for specialization. This also closely concerns your bank which, as usual and in due proportion, is proving sensitive to innovation signals and ready to capture available opportunities for growth and expansion of its business lines.

In the current year your Bank was affected by significant new events.
The Bank considered it appropriate to participate in the capital increase of Banca Regionale di Sviluppo (formerly Banca Popolare di Sviluppo), in view of the capital strengthening of BRS, which is part of a wider reorganization project.

In August, Banca Promos subscribed 12,500 BRS shares for an equivalent amount of €1,000,000.00.

In early November, the Shareholders' Meeting appointed Tiziana Carano, Chief Executive Officer of Banca Promos, as Vice President of BRS.

The partnership between the major banks of the region is a project that has been building up over the last year.

The need for a form of co-operation that enhances local bank specializations and overcomes overlapping and divisions which, after all, are an obstacle for everyone, had been felt a long time. A collaborative scenario in which each one brings one's own specificity and strengths is the most likely implementation of this project, which is still being defined.

Banca Promos, which has been operating as a bank for over ten years and has over 35 years of experience in investment services, is part of this project.

Given our strong financial market orientation, investment services expertise and IT skills, our Bank is unique in the banking system, with specificities and a well-defined identity that we can make available as part of our cooperation with other local banks.

As early as in 2015, the management began developing new business areas, especially focusing on the bank's financial skills, which it sought to strengthen by expanding its scope of activity from institutional to private investors, with the support of adequate IT tools, some of which were developed in-house.

Corporate finance is one of the new activities that has had the most impact and the segment in which the bank acts as a point of reference in the region, offering strategic and financial assistance for corporate finance transactions, such as bond and stock issues and stock exchange listing.

In 2016, we focused heavily on building a distinctive image of the Bank in this segment, which we have identified as strategic as, on one side, it helps companies grow through transactions that can also be of significant size and, on the other, it capitalizes on the network of relationships with institutional clients that the bank has built over time on a global level.

In 2016, we completed 2 Mini-bond issues for an equivalent amount of €7 million and revenues of €170,000.

In March 2016, the Bank was in charge of a second Mini-bond issue for an important company that is based in the Campania region and is the leading manufacturer of innovative light-weight helicopters.

In August, a second transaction was completed, in which the Bank acted as *advisor* and *arranger* for the issue of a Mini-bond (€5 million) for a leading Italian company in the aerospace & defence industry.

In addition, preparatory activities were carried out and all the technical aspects were defined for a third transaction in favour of a company engaged in the private healthcare sector. It is a health care

facility that has been operating in Campania since 1957, providing about 50,000 emergency services and recording 18,000 hospital admissions annually.
The transaction will be completed in 2017.

As our shareholders already know, in the last two years the bank has invested in technology to support its corporate finance activities, developing IT and application platforms that in 2016 have been further improved and optimized. Of course, we are referring to the "PromosCore" web portal, which aims to facilitate the matching of capital supply and capital demand for SMEs through direct contact between business customers and potential commercial partners and investors. The portal has a public area in which companies publish multimedia or other type of information and content for commercial purposes, and a reserved area, which can be accessed by registration, where additional content is available for a more in-depth evaluation of the company.
In order to develop integrated and modular systems for Mini-bond issuers, the information is integrated with "PrismaQuote" prices from "Prisma", the in-house software that supports a wide range of corporate finance activities and centralizes information on the individual transactions and traded securities, in order to make them visible to all bank operators.

As part of actions taken to support profitability and commission revenues, the Bank promoted a number of initiatives in 2016 to broaden the range of products and services offered to retail customers, namely:

- *Finance lease*: In March 2016 a new cooperation agreement was signed for the distribution to customers of lease products for mobile and real estate assets, with a leading company in the industry, in addition to the mandate already in place with another operator of the same sector;
- Mutual funds: In the same period, an agreement was signed for the distribution of mutual funds with an international operator. Again, this is a new business opportunity in a sector where the bank has been engaged for several years with other partners. Business volumes more than doubled in the year under review.
- Insurance: At the end of the year an agreement was signed with a broker specialized in consulting and insurance solutions, which is part of an important international group, through which the Bank intends to offer its retail customers innovative risk management and insurance services (corporate segment) and insurance assistance and advisory services (private segment).

In order to strengthen deposits from customers as well, on 18 April Banca Promos issued a new three-year maturity bond, with a 1.25% annual fixed rate and semi-annual coupon. The initiative was intended, *inter alia*, to replace a previous bond issued in 2013 and repaid during the year. The new bond was placed for over €5 million.

In December, the Bank joined AIFI, the Italian *Private Equity*, *Venture Capital* and *Private Debt* Association, which aims to develop, co-ordinate and represent, at the institutional level, Italian operators in the *private capital* market (*private equity*, *venture capital* and *private debt*).
In addition to Italian closed-end management companies, the participants also include Italian and international banks that have their own *private capital* division.

Finally, from mid-November 2016 until the beginning of February of this year, Banca Promos underwent a routine inspection conducted by Banca d'Italia.
As part of its ordinary bank supervision activities, the Supervisory Body reviewed, *inter alia,* the loan portfolio, corporate finance activities and the organizational and control measures in places.
When preparing this note, the official results of the inspection had not yet been notified to the Board of Directors.
The changes in the main balance sheet and income statement items are described below, with specific information on the circumstances that led to the loss for the year. For further details, reference should be made to the special sections of the Notes.

Balance sheet items

Net interbank position

The net interbank position - reported in **Table 1** - was positive for €5,802 thousand, up by €846 thousand (+17%) mainly due to the reduction in payables to banks by approximately €2 million, following the early repayment of the TLTRO entered into with the ECB of €1,750 thousand, that took place last June (rather than September 2018).

Tab 1 Net interbank position

Items (€/000)	31/12/2016	% incid.	31/12/2015	% incid.	Absolute changes	% change
Receivables from banks	**10,972**		**12,331**		**(1,359)**	**(11.0)**
A) Demand deposits at banks	11	0.1	14	0.1	(3)	(21.4)
B) Time deposit for the Mandatory Reserve	188	1.7	288	2.3	(100)	(34.7)
C) Current accounts held with other banks	10,773	98.2	12,029	97.6	(1,256)	(10.4)
Payables to banks	**5,170**		**7,375**		**(2,205)**	**(29.9)**
A) Demand deposits from banks	170	3.3	621	8.4	(451)	(72.6)
C) BI loan	5,000	96.7	6,754	91.6	(1,754)	(26.0)
Net interbank position	**5,802**		**4,956**		**846**	**17**

Financial assets available for sale

The available for sale financial assets essentially consist of shares of Banca Regionale di Sviluppo S.p.A., which, as mentioned earlier, were subscribed in August - as part of the Public offer for sale to the public, in which the Bank subscribed the shares not subscribed by the public and for which the pre-emption right was not exercised - for a stake of a total equivalent value of €1,000,000.00.

In accordance with IAS 39, in the reporting year the Bank classified the aforementioned shareholding as financial assets held for sale, as they are not managed for trading purposes and do not qualify as subsidiary, associate or jointly controlled entity.

Loans to customers

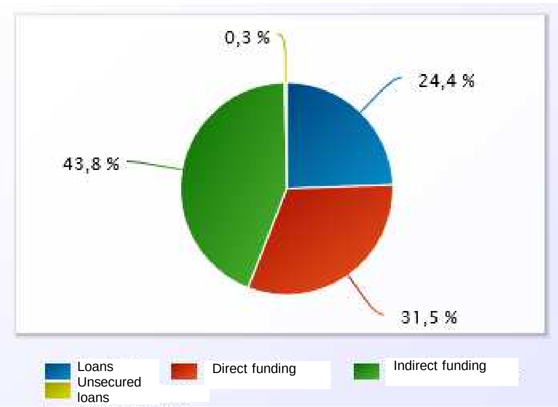
At 31 December 2016 loans to customers amounted to € 28,984 thousand, net of adjustments made as part of credit risk monitoring, showing a decrease of 14% compared to 2015.

The drop in the credit portfolio reflects the weak economic recovery in 2016 in Italy and, especially, in Campania, which during the period was still characterized by a qualitatively and quantitatively poor demand for credit, resulting in the application of more stringent risk assessment criteria.

Based on an analysis of evidence received from Management Control, outstanding cash loans - accounting for approximately 25% of total volume of loans and funding managed by the Bank at the reporting date (Table 1) - are made up by 75% of loans, 17% of overdrafts on current accounts and the remainder of advances on invoices and on bills subject to collection (**Table 2**) .

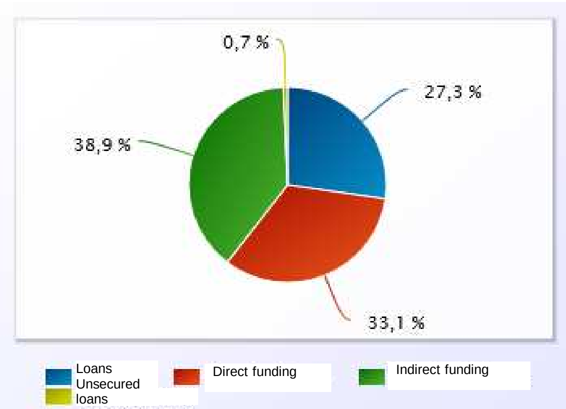
Table 1 Volume of loans and funding managed by the Bank

ASSETS – Total Bank



Figures 2016

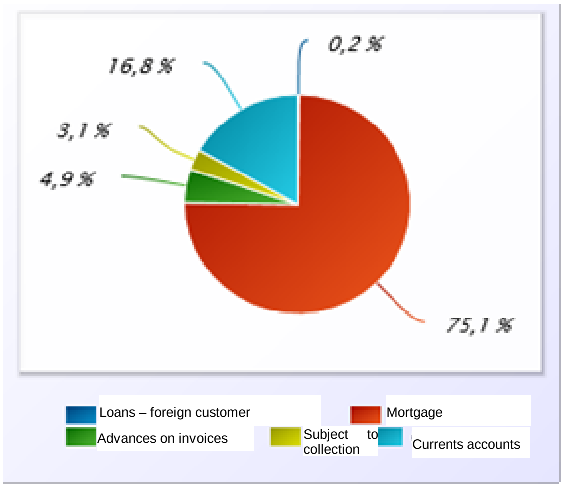
ASSETS – Total Bank



Figures 2015

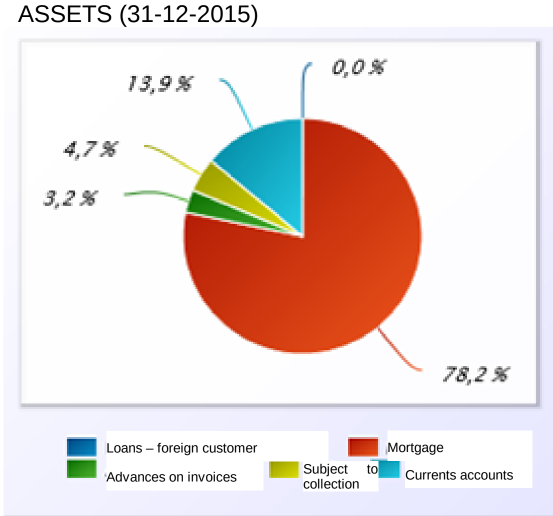
Table 2 Breakdown of outstanding cash loans

ASSETS (31-12-2016)



Figures 2016

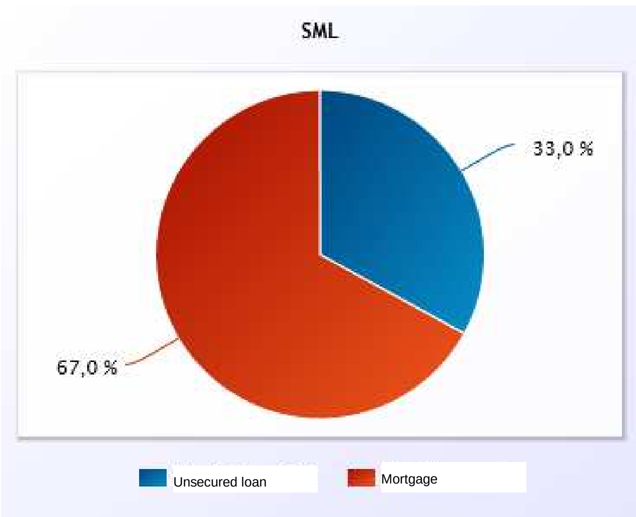
ASSETS (31-12-2015)



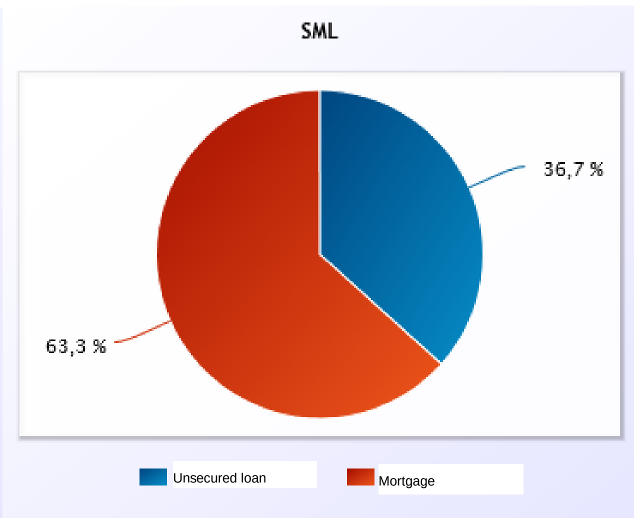
Figures 2015

The year-on-year trend shows a total contraction of the technical forms making up the Bank's loans, except for overdrafts on current accounts which showed an increase (**Table 2**) .
With regard to the loan sector, accounting for 75% of the credit portfolio, mortgage loans prevailed, accounting for 67% slightly up from the figure recorded in 2015 (63%); the remainder, 33%, consisted of unsecured loans, as shown in (**Table 3**).

Table 3 Classification of loans by nature



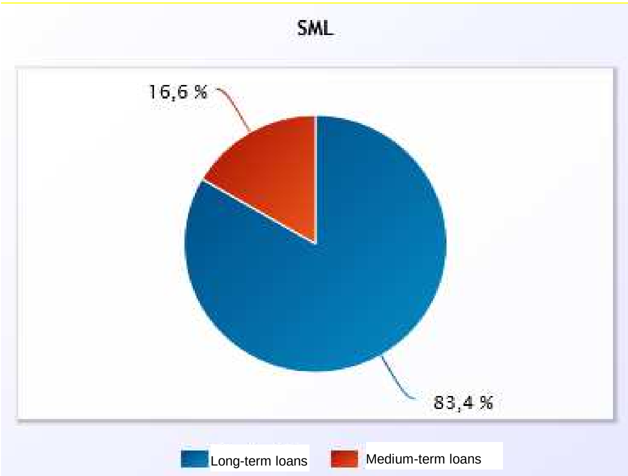
Figures 2016



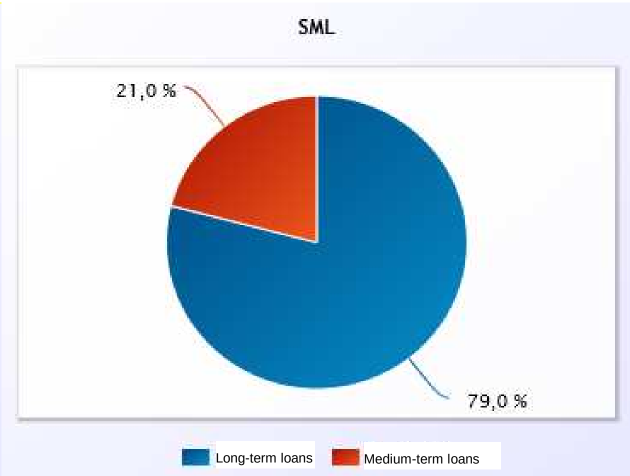
Figures 2015

In terms of maturities that characterize the loans in the portfolio (**Table 4**), there was a greater concentration in the medium to long term, which accounted for 83% of the total.

Table 4 Classification of loans by maturity



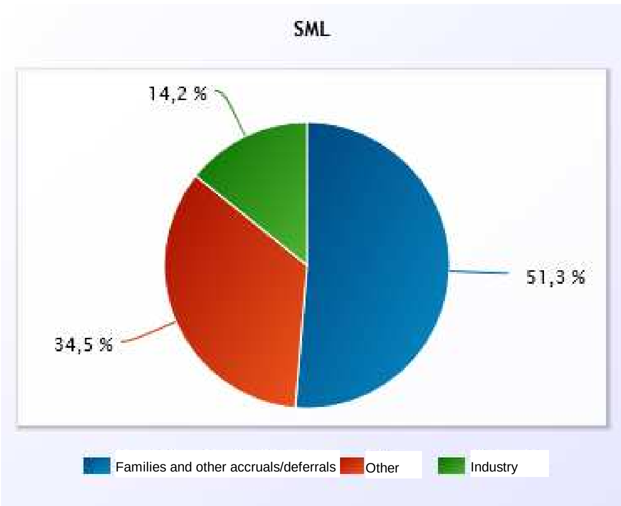
Figures 2016



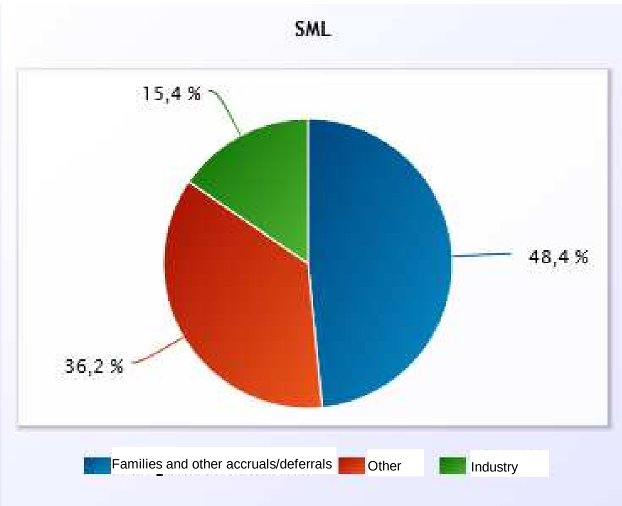
Figures 2015

Lastly, **Table 5** shows a classification of loans by borrower, which shows a slight recovery of loans to households, in line with macroeconomic scenarios.

Table 5 Classification of loans by code of economic activity (ATECO)



Figures 2016



Figures 2015

Loans to customers: credit quality

Credit quality is constantly monitored and optimization of the risk/return profile is pursued by aligning loans to counterparties' creditworthiness, which takes into account the specific risk of the customer, its characteristics, the technical form and any mitigating factors. In 2016, the credit monitoring activity performed by the pertinent entities was particularly strict and intense, with targeted checks on the individual positions characterized by anomaly indicators.

Irregular loans, albeit on the rise, remained at low levels, accounting for 13% of total loans (net of impairments).

The analysis carried out in *Paper* no. 350 "The evolution of bank bad debts in Italy during the global financial crisis and the sovereign debt crisis" published by Banca d'Italia in September 2016 - aimed at quantifying the impact on the evolution of bank bad debts of the two recessions that hit the Italian economy since 2008 - suggests that, in the absence of the two recessions and the economic policy decisions taken to counteract their effects, non-financial corporations' bad debts at the end of 2015 would have reached €52 billion, instead of €143 billion.

At 31 December 2016, impaired loans net of value adjustments (**Table 1**) totalled €3,738 thousand, an increase of + 40% compared to December 2015 (€2,677 thousand).

Tab. 1. Credit quality: breakdown

	31/12/2016					31/12/2015						
Items (€/000)	**Gross exposure**	**Adjustments**	**Net exposure**	**% coverage**	**% incid.**	**Gross exposure**	**Adjustments**	**Net exposure**	**% coverage**	**% incid.**	**Absolute changes**	**% change**
Non-performing loans	3,115	1,696	1,419	54.4	4.9	1,647	941	706	57.1	2.1	713	-
Unlikely to pay	2,001	271	1,730	13.5	6.0	2,346	524	1,822	22.3	5.4	(92)	(5.0)
Restructured loans												
Past due/overdrawn loans	672	83	589	12.4	2.0	195	46	149	23.6	0.4	440	-
Impaired assets	**5,788**	**2,050**	**3,738**	**35.4**	**12.9**	**4,188**	**1,511**	**2,677**	**36.1**	**8.0**	**1,061**	**39.6**
Performing loans	25,420	174	25,246	0.7	87.1	31,087	215	30,872	0.7	92.0	(5,626)	(18.2)
Loans to customers	**31,208**	**2,224**	**28,984**	**7.1**		**35,275**	**1,726**	**33,549**	**4.9**		**(4,565)**	**(14)**

The coverage ratio for impaired loans was 35.4%, slightly less than in December 2015 (36.1%). At 31 December 2016, total net impaired loans accounted for 13% of customer loans, up from December 2015 (8%), also due to the decline in the volume of loans at the end of the period.

Specifically:

- net non-performing loans, up €713 thousand on December 2015, accounted for 5% of total loans at 31 December 2016 - up compared to December 2015 as a result of the classification as NPL of customers previously classified in other risk categories, especially in the "unlikely to pay" category. At 31 December 2016, the coverage ratio was 54%;
- the "unlikely to pay", slightly down (-5%) from the previous year, accounted for 6% of total loans; this contraction, in line with the trend of the loan category commented above, is attributable to some positions previously classified as unlikely to pay being reclassified as non-performing loans. The coverage ratio stood at 14% at 31 December 2016;
- net overdue/overdrawn loans, up €440 thousand on the previous year, accounted for 2% of total loans. The coverage ratio was 13%.

At 31 December 2016, the cost of credit of 1.67% was slightly higher (2bps) compared to the previous year.

Deposits

Payables to banks, amounting to €5,170 thousand, and securities in issue, amounting to €5,419 thousand, declined by 30% and 36% respectively over the previous year; conversely, payables to customers increased by 6% to reach €35,889 thousand.

Interbank funding mainly consists of refinancing operations with the ECB, which at 31 December 2016 totalled €5,000,000; to this end, as mentioned above, in June of last year, in accordance with its liquidity policies, the Bank early repaid its Targeted Longer Term Refinancing Operations (TLTRO) for €1,750,000.

Based on an analysis of evidence received from Management Control, overall funding - accounting for approximately 75% (against 72% of 2015) of the total volume of loans and funding managed by the Bank at the reporting date - increased by €3.7 million (+4%), from €90.6 million in 2015 to €94 million at the end of 2016.

Indirect funding accounted for 58% of total funding, the remainder (42%) consisting of direct funding.

Table 1 shows the yearly data regarding the trend in total funding of the Bank.

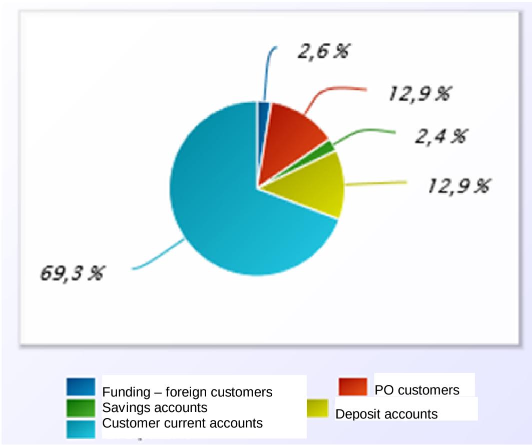
Table 1 Overall funding performance

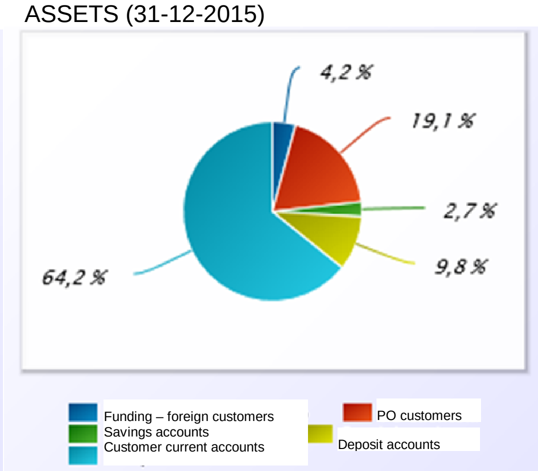
Items (€/000)	31/12/2016	% incid.	31/12/2015	% incid.	Absolute changes	% change
SICAV and funds	611	1.1	256	0.5	355	-
Managed:	54,236	98.9	48,679	99.5	5,557	11.4
- Shares	33,427	60.9	29,610	60.5	3,817	12.9
- Bonds	20,809	37.9	19,069	39.0	1,740	9.1
Indirect deposits	**54,847**	**58.0**	**48,935**	**54.0**	**5,912**	**12.1**
Current accounts	27,328	69.3	26,788	64.2	540	2.0
Time deposits	5,077	12.9	4,103	9.8	974	23.7
Savings accounts	934	2.4	1,110	2.7	(176)	(15.9)
Bonds issued to clients	5,090	12.9	7,950	19.1	(2,860)	(36.0)
Funding from foreign customers	1,028	2.6	1,749	4.2	(721)	(41.2)
Direct deposits	**39,457**	**41.8**	**41,700**	**46.0**	**(2,243)**	**(5.4)**
Total deposits	**94,304**		**90,635**		**3,669**	**4.0**

In terms of the various types of direct funding used by the Bank, the management data show (**Table 2**) a significant incidence of customer current accounts (69%) compared to other forms of funding, confirming the data of the previous year. For a breakdown of direct funding see the tables.

Tab. 2 – Breakdown of direct deposits

ASSETS (31-12-2016) ASSETS (31-12-2015)

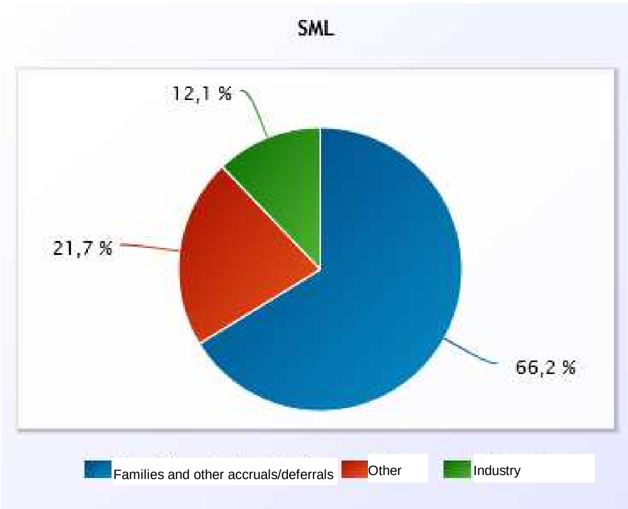


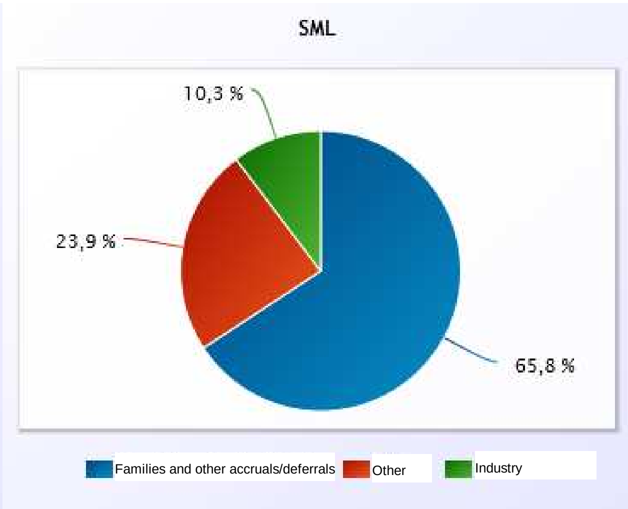


Figures 2016 Figures 2015

Customer current accounts, which accounts for the majority of direct funding used by the bank, are especially concentrated in the household segment, as reported in (**Table 3**).

Table 3 Classification of customer current accounts by economic activity code (ATECO)





Figures 2016 Figures 2015

As in the previous year, indirect funding at 31 December 2016 was essentially made up of assets under management, comprising 61% of shares and 39% of bonds.

Property, plant and equipment

Property, plant and equipment, amounting to €6,073 thousand, recorded a 4% drop due to the depreciation charge for the year.

Intangible fixed assets

Intangible assets amounted to €121 thousand, down 23% from the previous year mainly due to the amortization charge for the year.

Financial assets held for trading

At the reporting date, Asset item 20 amounted to €13,900 thousand, up 6% on the previous year. The increase reflects higher investments in the bank's trading book as well as the increase in funding and the decline in loans to customers.

At year-end, the bank's trading book comprised 26 bonds for a total nominal amount of €13,716,863, up 5% on 31 December 2015. The securities were almost entirely from Italian issuers (97.7%) and the yield on maturity at the calculation date was 1.51% with a *Modified Duration* of 1.29 years. The net result from trading activities was a capital loss of €64,902, largely offset by interest income.

The composition of the portfolio was more diversified than in the past: while bonds from domestic, banking and insurance issuers (whose share fell from 80% to 68%) and Italian government bonds (whose share remained stable at 20%) continued to account for the majority of the portfolio, the share of industrial and corporate issuers increased to 12.13%; this included the position of Mini-bonds from domestic issuers, accounting for 7.6% of the total portfolio.

Market risk at 31 December 2016, corresponding to the maximum potential loss with a 99% confidence interval, estimated through the VaR-Monte Carlo, was 94,614 (0.68%) over one month and 160,108 (1.15%) over three months.

The portfolio's resilience under exceptional and sudden stress, evaluated against a positive / negative change in market rates of 100Bps (on the *swap* curve) decreased in terms of volatility; in particular, a rise in rates would result in a capital loss of €152,211 (-1.10%), while a contraction in *swap* rates would result in a capital gain of €154,728 (+1.11%).

With reference to the current performance and future outlook, the asset portfolio was marked by a significant shortening in average maturities aimed to contain market risk (rate risk) which is inherent in the current performance of US reference rates and which is also expected on the Euro curve, as monetary policies progressively tighten due to the expected upward trend of consumer inflation.

Shareholders' Equity

The share capital was unchanged, consisting of 7,740,000 shares with a nominal value of € 1 each.

Banca Promos' equity, including the loss for the year, amounted to €14.3 million from €14.6 million in 2015, due to the combined effect of the loss for the year (€228 thousand) and retained earnings that reflected the loss recorded in 2015 of €531 thousand.

It should be noted that - as in the past year - in keeping with a prudent and constant monitoring and compliance with mandatory capital requirements - as recommended by the Supervisory

Bodies, the Bank did not distribute dividends from its reserves, given the loss recorded at year-end 2016.

Own Funds and capital ratios

Own Funds, risk-weighted assets and capital ratios as at 31 December 2016 were calculated on the basis of the new harmonized framework for banks and investment firms contained in Directive 2013/36/EU (CRD IV) and in Regulation (EU) 575/2013, which implement in the EU the standards defined by the Basel Committee for Banking Supervision (Basel Framework), and on the basis on Banca d'Italia Circulars no. 285 and 286 (issued in 2013 and 2014) and the update of Circular no. 154.

The legislation on Own Funds provide for the gradual introduction of the new regulatory framework through a transitional period, generally until 2017, to enable a gradual alignment with the more stringent capital requirements at the end of the transitional period ("Fully loaded" capital ratios).

Therefore, the regulatory ratios at 31 December 2016 take into account the adjustments provided in the transitional provisions for 2016.

At 31 December 2016, the Own Funds amounted to €14,203 thousand, compared to weighted average assets of €46,713 thousand, predominantly reflecting credit and market risks, and to a lesser extent, operational risk.

The figures shown in (tab. 1) show that the bank's capital is more than adequate to cover the exposure to the risks assumed, as evidenced by the level of the main Basel 3 ratios, which show the ratio between primary capital and the bank's exposure to risk.

More specifically, the CET1 at 31/12/2016 was 30.4%, more than four times the minimum set by SREP (7%).

Table 1 Own Funds and capital ratios (thousands of Euro)

Own Funds and capital ratios (thousands of Euro)	31/12/2016	31/12/2015
Minimum requirement		
Common Equity Tier 1 (CET1) net of regulatory adjustments	14,203	14,423
Additional Tier 1 (AT1) net of regulatory adjustments	-	-
TIER 1 CAPITAL (TIER 1)	**14,203**	**14,423**
Tier 2 (T2) net of regulatory adjustments	-	-
TOTAL OWN FUNDS	**14,203**	**14,423**
Risk-weighted assets		
Credit and counterparty risks	27,150	29,013
Market risks	10,513	10,900
Operating risks	9,050	9,425
RISK-WEIGHTED ASSETS	**46,713**	**49,338**
% solvency ratio		
Common Equity ratio	30.40%	29.23%
Tier 1 ratio	30.40%	29.23%
Total capital ratio	30.40%	29.23%

The seizable capital of the Bank adequately covers the overall exposure to credit risk, market risk and operational risk, with a significant surplus that at the balance sheet date amounted to € 10,466 thousand. In any case, maintaining an adequate capital surplus compared to the minimum regulatory capital is subject to constant analysis and monitoring, in actual and prospective terms.

Please note that, starting from the communication of the Bank's Own Funds at 31 December 2015, as established by Banca d'Italia pursuant to art. 53-bis, paragraph 1, letter d) of Legislative Decree No. 385/93 (TUB) - for capital adequacy purposes the Bank is required to comply with specific capital requirements (illustrated in tab. 2) as defined at the outcome of the SREP, in addition to the minimum capital measures provided for in the current regulations.

Pending the results of the supervisory inspection - initiated by the Supervisory Body in November 2016 and concluded in February 2017 - by notice of January 2017, Banca d'Italia suspended the running of the procedural time limit (90 days) envisaged by the current legislation for completing the administrative procedure regarding the revision of the additional capital requirement initially set from 11 November 2016.

Therefore, the minimum requirements for the reporting of Own Funds at 31 December 2016 are the same as those used for the previous financial year.

The table below shows the additional capital requirements set for your Bank upon completion of the SREP Supervisory Review and Evaluation Process, i.e. the review and prudential assessment process implemented by Banca d'Italia with respect to Italian banks in compliance with the EU prudential regulations.

Tab. 2 – Additional capital requirements

	CET1 Common Equity Tier 1 Capital Ratio	**T1** Tier 1 Capital Ratio	**Total Capital Ratio**
Minimum requirement (Grand total ex SREP)	7.0%	8.8%	11.8%
BANCA PROMOS INDICATOR AT 31/12/2016	30.4%	30.4%	30.4%
SURPLUS	23.4%	21.6%	18.6%

The *Leverage Ratio* should also be noted, which reflects a quantitative assessment of the risk of excessive leverage: in 2016 this ratio stood at 21.894%, much higher than the minimum 3% required by "Basel 3" regulation, which in any case will enter into force in 2018.

Conversely, the Bank carefully monitored the *Liquidity Coverage Ratio* (LCR), which aims to ensure that an adequate level of high-quality, readily marketable and unencumbered liquid assets is maintained during the year; this indicator, standing at 148% at the end of 2016, was steadily higher than the 70% minimum threshold for 2016.

To complete the quantitative disclosure on the Bank's capital, please refer to Part F of the Notes.

Income statement items

In a still fragile economic environment with rather weak growth signals, in FY year 2016 the Bank reported a loss of €228,000 compared to a loss of €531 thousand in FY 2015.

To provide a more straightforward and effective representation of revenue and cost items, a reclassified income statement is presented below on an annual (**Table 1**) and quarterly basis (**Table 2**).

Tab. 1 – Reclassified income statement (yearly figures/000)

Items	31/12/2016	31/12/2015	Absolute changes	% change
Net interest	1,183	1,366	(183)	(13.4)
Dividends and investment income from equity investments carried at equity	-	-	-	-
Net commissions	20	293	(273)	(93.2)
Income from trading activities (*)	3,235	2,943	292	9.9
Other operating income (expenses)	190	148	42	28.4
Net operating income	**4,628**	**4,750**	**(122)**	**(2.6)**
Personnel costs	(2,575)	(2,551)	24	0.9
Administrative expenses	(1,519)	(1,936)	(417)	(21.5)
Amortization and depreciation of intangible and tangible fixed assets	(338)	(431)	(93)	(21.6)
Operating charges	**(4,432)**	**(4,918)**	**(486)**	**(9.9)**
Result from operations	**196**	**(168)**	**364**	**-**
Net allocations to provisions for liabilities and charges	3	-	3	-
Net adjustments to receivables	(520)	(580)	(60)	(10.3)
Net adjustments to other assets	-	-	-	-
Profits (losses) on financial assets held to maturity and on other investments	-	-	-	-
Current result before taxes	**(321)**	**(748)**	**(427)**	**(57.1)**
Income taxes on current operations	93	217	(124)	(57.1)
Business combination charges (after tax)	-	-	-	-
Adjustments to goodwill (net of tax effects)	-	-	-	-
Profit (Loss) of disposal groups (net of taxes)	-	-	-	-
Net result	**(228)**	**(531)**	**(303)**	**(57.1)**

(*) The item includes items 80 + 100 of the Income Statement

Comparison of the economic performance on a yearly basis shows a positive operating profit of €196 thousand compared to an operating loss of €168 thousand in the prior year. This operating *performance* at year-end 2016 mainly reflects the sharp drop in operating costs (-10%, -€ 486 thousand), and, more specifically, in administrative expenses. Net operating income was substantially confirmed, recording a slight decrease of 3% (€122 thousand) from the prior year; this decline reflected, on the one hand, the good performance of trading activities (+ €292 thousand, + 10%) - i.e. the core business of the Bank - and, on the other hand, the decrease in margins, especially net commission income; in this regard, it should be noted that the decrease in net commission income was due to the greater impact of fees paid back by the Bank for trading activities.

Quarterly income statement changes (**Table 2**) were affected by some components that characterized the individual periods.

More specifically, profit in the second quarter of 2016 was markedly higher compared to the other quarters, mainly due to the positive performance of trading activities, which almost doubled compared to the same quarter of 2015.

Tab. 2 – Reclassified income statement (quarterly figures/000)

	2016				2015			
Items	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
Net interest	292	302	322	267	291	365	308	402
Dividends and investment income (losses) from equity investments carried at equity	-	-	-	-	-	-	-	-
Net commissions	132	(81)	(47)	16	106	83	220	(116)
Income from trading activities (*)	510	901	1,043	781	626	486	581	1,250
Other operating income (expenses)	125	34	24	7	125	11	7	5
Net operating income	**1,059**	**1,156**	**1,342**	**1,071**	**1,148**	**945**	**1,116**	**1,541**
Personnel costs	(649)	(661)	(630)	(635)	(670)	(653)	(641)	(587)
Administrative expenses	(498)	(375)	(356)	(290)	(629)	(384)	(450)	(473)
Amortization and depreciation of intangible and tangible fixed assets	(20)	(105)	(106)	(107)	(108)	(121)	(95)	(107)
Operating charges	**(1,167)**	**(1,141)**	**(1,092)**	**(1,032)**	**(1,407)**	**(1,158)**	**(1,186)**	**(1,167)**
Result from operations	**(108)**	**15**	**250**	**39**	**(258)**	**(215)**	**(70)**	**375**
Net allocations to provisions for liabilities and charges	12	(9)	-	-	-	-		-
Net adjustments to receivables	(279)	(2)	(202)	(37)	(255)	(101)	(227)	3
Net adjustments to other assets	-	-	-	-	-	-	-	-
Profits (losses) on financial assets held to maturity and on other investments	-	-	-	-	-	-	-	-
Current result before taxes	**(375)**	**4**	**48**	**2**	**(513)**	**(316)**	**(297)**	**378**
Income taxes on current operations	128	(13)	(22)	-	268	-	154	(205)
Business combination charges (after tax)	-		-	-	-	-		
Adjustments to goodwill (net of tax effects)	-	-	-	-	-	-		
Profit (Loss) of disposal groups (net of taxes)	-	-	-	-	-	-		
Net result	**(247)**	**(9)**	**26**	**2**	**(245)**	**(316)**	**(143)**	**173**

(*) The item includes items 80 + 100 of the Income Statement

Net interest

Net interest income, which accounts for about 26% of net operating income, amounted to €1,183 thousand at 31 December 2016, down 13% compared to the same period in 2015.

Tab. 1 Breakdown of net interest (figures/000)

Breakdown of Item 10 Income Statement Interest income	31/12/2016	31/12/2015	Absolute changes	% change
Loans to customers	**1,248**	**1,744**	**(496)**	**(28.4)**
Current accounts	356	454	(98)	(21.6)
Subject to collection	36	76	(40)	(52.6)
Advance on invoices	55	56	(1)	(1.8)
Mortgage loans	798	1,146	(348)	(30.4)
Foreign loans	3	12	(9)	(75.0)
Loans to banks	**2**	**7**	**(5)**	(71.4)
Bank current accounts	2	7	(5)	(71.4)
Demand deposits with banks	-	-	-	-
Loans to foreign banks	-	-	-	-
Securities	**302**	**297**	**5**	**1.7**
Totale Impieghi	**1,552**	**2,048**	**(496)**	**(24.2)**

Breakdown of Item 20 Income Statement Interest expense	31/12/2016	31/12/2015	Absolute changes	% change
Funding from customers	**302**	**580**	**(278)**	**(47.9)**
Funding other than securities	**158**	**281**	**(123)**	**(43.8)**
Current accounts	45	163	(118)	(72.4)
Time deposits	107	108	(1)	(0.9)
Savings accounts	6	10	(4)	(40.0)
Total funding through securities	**144**	**299**	**(155)**	**(51.8)**
Certificates of deposit	-	0	-	-
Bonds	144	299	(155)	(51.8)
Banks	**67**	**101**	**(34)**	**(33.7)**
Bank current accounts	48	72	(24)	(33.3)
Central Banks	4	7	(3)	(42.9)
Bonds issued to banks and other institutions	15	23	(8)	(31.4)
Total funding	**369**	**683**	**(313)**	**(45.9)**

Net interest from customers	**1,090**	**1,463**	**(373)**	**(25.5)**
Net interest from banks	**(50)**	**(72)**	**22**	**(30.6)**
Net interest on securities	**143**	**(25)**	**168**	**-**
Total Item 30 Income Statement Interest margin	**1,183**	**1,366**	**(183)**	**(13.4)**

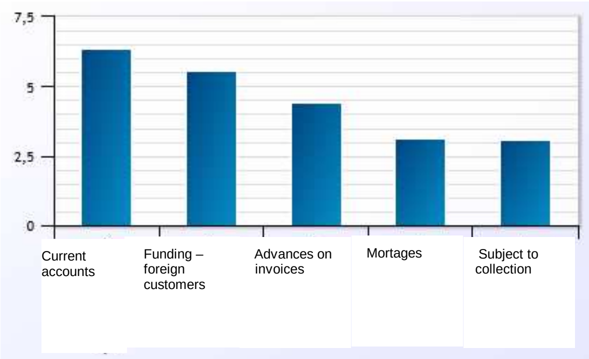
The analysis of the net macro-aggregates comprised in the item shows (**Table 1**) a decline in interest income from customers, which accounted for 92% of total net interest income - reflecting a reduction in the volume of loans to customers and a generalized decline in average rates. This figure was adversely affected by the monetary policy strategies adopted in 2016 aimed at curbing interest rates, which dropped to new historical lows. However, as regards interest expense on funding from customers, the actions taken by the management - in 2016 - had a positive impact for the Bank; as a result, interest expense recorded a sharp drop compared to the prior year.

With regard to item 30 Net Interest Income, the decline in net interest income from customers was partially offset by income on securities, reflecting the increase in financial instruments held for trading and recognized as assets in the Balance Sheet.

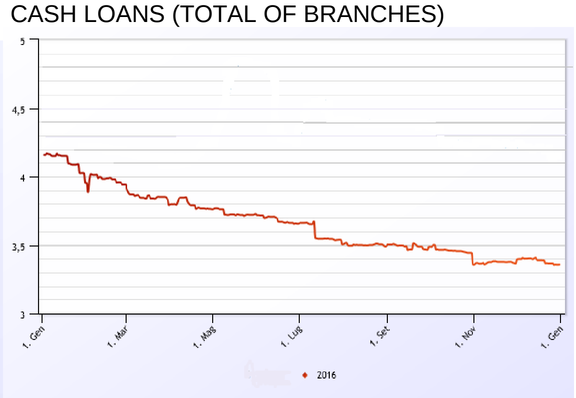
Management data at 31 December 2016, compared to the same period in 2015, showed a decline in average volumes (€3,757 thousand) on the loans side, together with a decline in the average lending rate (from 4.158 at 31 December 2015 to 3.358 in December 2016, **Table 2**).

Table 2 Trend in rates on outstanding loans (average values)

RATE OF OUTSTANDING LOANS



TREND OF RATES OF OUTSTANDING CASH LOANS (TOTAL OF BRANCHES)

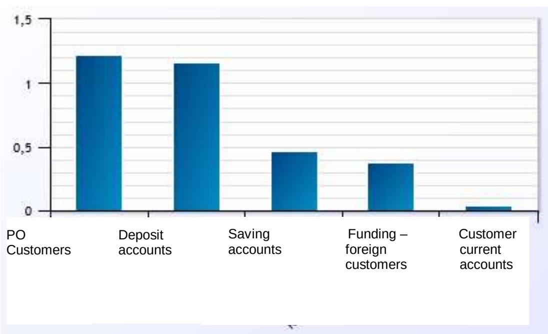


Types of loan	Average gross rate at 31 December 2016
Current Account Overdrafts	6.337
Loans to foreign customers	5.566
Advance on invoices	4.418
Subject to collection	3.101
Mortgage loans	3.115

Funding from customers showed a decrease in average volumes of €2,243 thousand and a marked decline in the average rate applied (from 1.179 at 31 December 2015 to 0.358 at December 2016, **Table 3**).

Table 3 Trend in rates on direct funding (average values)

RATE OF DIRECT FUNDING



TREND OF RATES OF DIRECT FUNDING (TOTAL OF BRANCHES)

Type of funding	Average gross rate at 31 December 2016
Time deposits	1.164
Bonds issued to customers	1.224
Loans to foreign customers	0.379
Savings accounts	0.464
Current accounts	0.043

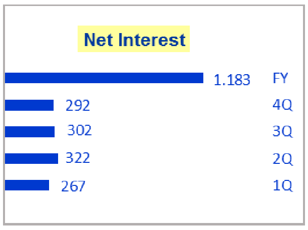
The total differential between outstanding loans and direct funding increased by about 20 bps, from 3.169 at the end of 2015 to 3.365 at the end of 2016 (**Table 4**).

Table 4 Trend in rate differential

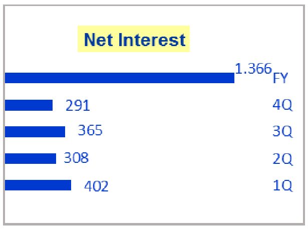
TREND IN DIFFERENTIAL: OUTSTANDING LOANS / DIRECT FUNDING

The quarterly changes in net interest income (**Table 5**) showed a substantially stable trend.

Table 5 Quarterly trend of net Interest income



Figures 2016



Figures 2015

Net commissions

Net commissions at 31 December 2016 are positive for € 20 thousand. As noted above, the contraction in net commission income (-93%) compared with the figure recorded in the prior year, was mainly due to the impact of the fees paid back by the Bank on securities trading.

Tab. 1 Breakdown of net commissions (figures/000)

Breakdown of Item 40 Income Statement Commission income	31/12/2016	31/12/2015	Absolute changes	% change
Trading of financial instruments and currencies	1	8	(7)	(87.5)
Placement	6	4	2	50.0
Receipt and transmission of orders	9	13	(4)	(30.8)
Distribution of third-party products	75	17	58	-
Collection and payment services	242	258	(16)	(6.2)
Current accounts management	368	378	(10)	(2.6)
Guarantees	14	8	6	75.0
Financial consultancy services	170	75	95	-
Custody and management of securities	17	33	(16)	(48.5)
Other	11	14	(3)	(21.4)
Total	**913**	**808**	**105**	**13.0**

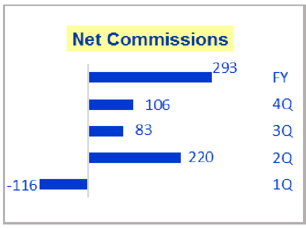
Breakdown of Item 50 Income Statement Commissions expense	31/12/2016	31/12/2015	Absolute changes	% change
Trading of financial instruments and currencies	713	379	334	88.1
Custody and management of securities	31	28	3	10.7
Collection and payment services	33	50	(17)	(34.0)
Other services	116	58	58	100.0
Total	**893**	**515**	**378**	**73.4**

Total Item 60 Income Statement Net commissions	**20**	**293**	**(273)**	**(93.2)**

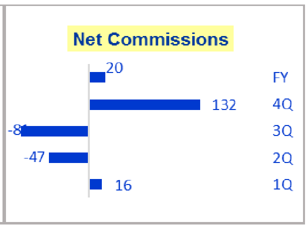
The analysis of the items comprised in net commission income, summarized in (**Table 1**), shows an increase in commission income from the distribution of third-party products to customers, following the expansion of the range of products and services offered by the Bank (*leases*, mutual funds), and of commission income from financial advisory services, which provide evidence of the Bank's constant and continuous development of banking activities to meet businesses' new financing needs.

The quarterly changes in income statement item 60 (**Table 2**) showed a negative trend in the second and third quarters of 2016 - reflecting the increase in negative commissions on trading activities - which, however, was offset by the good performance recorded in the last quarter, driven by commission income on the Bank's *corporate finance* activities.

Table 2 Quarterly trend of net commission income



Figures 2016



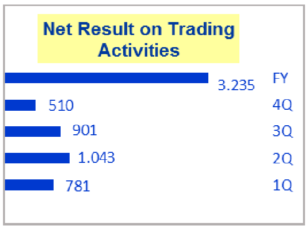
Figures 2015

Net income on trading activity

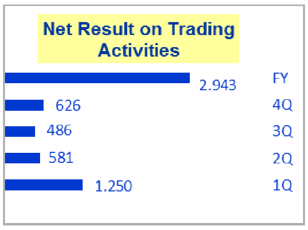
Net income from trading activities amounted to €3,247 thousand, up €296 thousand (+10%) compared to the figure for 2015, in line with the improved conditions that characterized the financial markets in 2016.

The quarterly changes in income statement item 80 are shown in **Table 1**, net of item 100 Profits (losses) on disposal or repurchase of financial liabilities.

Table 1 Quarterly trend of Net income on trading activities



Figures 2016



Figures 2015

Operating charges

Operating expenses at 31 December 2016 amounted to €4,432 thousand, down (-10%, €486 thousand) compared to the previous year, reflecting the constant *management* commitment to effectively implement cost saving policies.

In particular, personnel costs were substantially unchanged from 2015 and essentially in line with the changes in the workforce at the reporting date.

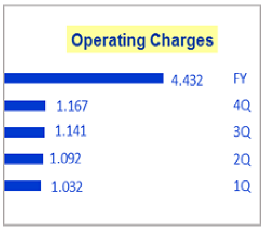
Other administrative expenses, amounting to €1,519 thousand, were down (-22%, €417 thousand) compared to the previous figure. The decrease was partly due to non-recurring costs for the *outsourcing* of services no longer present in the 2016 Income Statement. For details on the individual items included in other administrative expenses see the Notes in Part C.

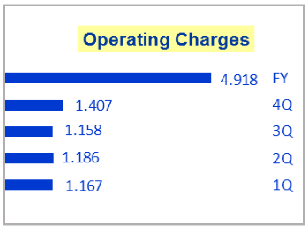
The decrease in the amortization and depreciation of fixed assets (-22%) and, specifically, the depreciation of property, plant and equipment, is largely attributable to the different accounting estimate of the useful life of buildings recognized in the financial statements. Specifically, in accordance with IAS 8 paragraph 34, the *management* has adjusted the estimate criterion used until now, on the basis of new information provided by the independent expert appraisal and also to conform to the tax legislation in force. Further to the new information obtained, the useful life of the building was lengthened from 25 to 33 years and the depreciation rate used so far was accordingly reduced.

For other details, see the Accounting Policies - Section 4.

The quarterly trend of the examined item is illustrated in (**tab.1**).

Table 1 Quarterly trend of Operating Expenses





Figures 2016 Figures 2015

Net adjustments to receivables

Net impairment losses on loans and receivables, amounting to €520 thousand, were down 10% compared to the figure recorded last year (€580 thousand). Overall, the net decrease was determined by the positive impact of recoveries, both from impairment and discounting, on receivables.

However, there was an increase of €384 thousand in the specific adjustments on loans and receivables made by management, in line with the increase in the stock (+ 39%) of non-performing loans, which confirms careful monitoring by the Bank aimed at defining a coverage of credit exposures consistent with the rate of recoveries.

With respect to performing loans, portfolio adjustments for the generic risk on such loans (generic provision) went from €215 thousand at 31 December 2015 to €174 thousand at the end of 2016, which resulted in a positive effect on the Income Statement of €41 thousand.

As in previous years, for adjustments to performing loans the Bank—not having adequate proprietary time series-–adopted a criterion based on the experiences of a group of banks chosen from those most similar to Banca Promos in terms of size, location and type of business.

In particular, we determined the average rate applied by banks in the group for these types of impairment, based on the most recent approved financial statements. This percentage (0.70%) was applied to write down the performing portfolio, without further adjustments.

The same procedure was used to determine the write-down percentage rate to be applied to past due/overdrawn loans, amounting to 7.78%. These measures, together with the increase in non-performing exposures, of course contributed to the negative impact on the income statement.

The trend in taxes, which in the year generated an income item of € 93 thousand, brought down the net loss to € 228 thousand.

The Cash Flow statement showed a balance between cash inflows and outflows, reflecting ordinary operations without any special events, which in the year generated cash totalling € 56,001. Cash and cash equivalents were sufficient to meet funding requirements.

Operations

Operating indicators generally show a positive performance in the various sectors where the bank is engaged. We provide below some figures that illustrate the results recorded at year-end, compared with the previous year:

- the number of current accounts increased by 21%;
- credit transfers executed increased by 24% (+13% executed via Internet banking);
- deposit accounts increased by 71%;
- the number of ATM's installed increased by 4%;
- debit cards in issue increased by 34% and prepaid cards by 74%;
- the number of transactions carried out using the Bank's ATMs increased by 8.74%, in line with the total amount of transactions (+ 8%);
- as part of the distribution of third party products, lease transactions and the related volumes doubled, also as a result of an agreement entered into with an additional company operating in the sector. More specifically, at the end of 2016, 58 new contracts were finalized for an equivalent overall amount of €4,784,580.

The continued evolution of the banking regulatory framework also required some significant organizational activities in 2016, following the introduction of new regulations. The most significant changes are reported below:

- By resolution no. 343, on 3 August 2016 the Interministerial Committee for Credit and Savings (CICR) implemented Law No. 49 of 8 April 2016 which in turn had amended Art. 120 paragraph 2 of the Consolidated Banking Act. This regulatory change completed the reform process on interest rates applied to customer loans.

  As a result, as of 1 October 2016, new provisions came into force, which in essence confirm the ban on anatocism and the obligation to calculate interest payable by customers on an annual basis; the new provisions also introduced a different due date for such interest, which has been postponed by law to 1 March of the year following the year in which interest accrues.

  This short summary is enough to point out how these changes involved a small operational revolution for banks.

  Following a preliminary analysis, carried out with the support of consultants and our external IT provider, actions were taken to:

  - Adapt our IT systems to the new interest regulations and, accordingly, to its new operational and accounting management (annual calculation, postponed payment, management of suspended interest, reporting implications, etc);

- Review our contract models, to include the new provisions, including with regard to banking transparency;
- Review our internal operating procedures and draw up manuals to guide employees in dealing with the new procedures;
- Inform customers and start a widespread awareness-raising effort to clarify the effects of this crucial and complex legislation in order not only to meet statutory obligations, but above all to protect the interests of our customers.

- On 30 September 2016, Banca d'Italia issued an important update to the provisions on "Transparency of banking and financial transactions and services. Fair relationships between brokers and customers", by including "Section VI-bis. Real Estate Loans to Consumers". These provisions were issued in accordance with Legislative Decree no. 72 of 21 April 2016 implementing European Directive 2014/17 (*Mortgage Credit Directive* - MCD), and in some respects they refer to Banca d'Italia Circular no. 285 of 17 December 2013 (Supervisory provisions for banks - 17th update - Internal control system).

  The aim of the legislation is, on the one hand, to increase the level of consumer protection and, on the other hand, to strengthen monitoring measures with respect to assessing the creditworthiness of consumers. Therefore, various adjustments were necessary:

- The general pre-contractual information for customers was revised, with the drafting of a new transparency document "General information on real estate loans offered to consumers";
- The personalized pre-contractual information was revised, with inclusion of the European Standardised Information Sheet (ESIS) which provides information according to a standardized format common to all market operators, thereby facilitating a comparison between the various offers on the market;
- mortgage products were revised from a commercial standpoint, distinguishing them according to customer type (consumers / non-consumers);
- We prepared a document called "Valuation policies and processes for property given as collateral" that fully implements the "Guidelines for the valuation of property given as collateral" issued by ABI; in line with Circular 285, the document also introduces provisions to ensure that the experts and all those involved in real estate valuation, have the necessary professional qualifications and are independent with respect to the marketing of the loan and to other crucial aspects related to it.
- Given that the new regulations affect substantial aspects of lending activities and of the bank / consumer relationship (credit rating, default, consumer assistance, staff qualifications), training meetings were organized with the various operating roles involved in the lending process in order to spread the principles underlying the new regulations.

The Board of Directors also approved a document defining the Bank's guidelines for illiquid financial products, with specific reference to the bonds issued by the bank.

To further ensure the implementation of the regulatory framework provided by Banca d'Italia Circular No. 285, we adopted the "Policies for the selection of the heads of control functions", given the crucial role they play within the bank, and the "Process for approving new products and services, launching new businesses and entering new markets".

As regards ordinary audit activities, the "Credit Regulations", the "Financial Regulations" and the "Board of Directors' Regulations" were updated on 25 February 2016, 28 July 2016 and 30 November 2016, respectively.

Within the legislative framework on related and connected parties, in September, the "Rules for transactions with related and connected parties", the "Internal policy regarding control on risky activities and conflict of interest with respect to related and connected parties" and the "Framework resolution for transactions with related and connected parties" were reviewed.

In accordance with current Supervisory Provisions on the matter, the Bank has prepared the "Remuneration Policy" document, as well as a disclosure document on the implementation of those policies, to be submitted to the shareholders' meeting.

As usual, the IT office of the bank was engaged in development activities, which during the year especially concerned the new technologies and banking services areas. More specifically, the following systems were developed:

- "ETradingPRO", a Java-based on-line trading system that uses the most advanced security protocols. The service is currently being tested.
- "PromosMC", a web platform for mortgage and credit transfer monitoring, that supports Management Control and the Credit Department in the ordinary monitoring of positions.

At the same time, in line with the strategies outlined for the next three years, we integrated and optimized a number of applications already in use to support the finance department, i.e. trading and *corporate finance*.

We are referring in particular to "PromoScore", a business management platform, and "PriceMaster", a real time interface for publishing Banca Promos share price simultaneously on Bloomberg and on the PrismaQuote web portal.

As usual, significant changes were made to the "Prisma" system, the trading platform developed by Banca Promos IT Office and in use since 2013 for trading on OTC markets. Used daily by all our trading room operators, this application is crucial to our business, and is therefore continuously upgraded to improve its functions and features.

In 2016 the Bank also supported social and cultural initiatives.

At Christmas, traditional corporate gifts were replaced by a donation to earthquake populations, and, especially, to the municipality of Amatrice, under the "Adopt a work" initiative, which aims to contribute to the restoration and recovery of important monuments damaged by the earthquake and, where possible, to recreate social and cultural areas that existed before the earthquake. The chosen work is the "Centro Culturale ex Chiesa di San Giuseppe", which is the headquarters of the City Council.

We also confirmed our support to the IPE's Specialization School, with which we have been collaborating for years and which, as known, carries out post-graduate training activities, including through the Master in Advanced Finance.

Collaboration with IPE also involved a project-work carried out at the Bank by students at the end of the Master programme, focusing on the admission to listing on regulated markets of debt instruments .

Workforce statistical information

At 31 December 2016, the bank had 45 employees, essentially in line with 2015.

The analysis of other statistical information on the staff, schematically summarized in the tables below, shows a basically balanced breakdown between men and women (47% male, 53% female) and a prevalence of workers included in the 30-50 years age group, who account for over three quarters of the workforce. The overall average age is 41 years.

In terms of breakdown by operational areas, more than half of the employees, 56%, is employed in the Commercial Area (branches and finance area), while 9% are computer technicians of the in-house IT Office. The rest of the staff works at the Head Office (organization, control, accounting and reporting, securities back office).

Turnover	Balances as at 01/01/2016	Engagement/ Transformation	Resignation/ retirement/ termination Transformation	Balances as at 31/12/2016
Permanent contracts	**45**	**2**	**5**	**42**
of which:				
Senior Managers	1	-	-	1
Middle managers	6	-	1	5
White-collar staff	36	2	4	34
Blue-collar staff	2	-	-	2
Temporary contracts	**1**	**2**	**-**	**3**
of which:				
White-collar staff	1	2	-	3
Blue-collar staff	-	-	-	-
TOTAL	**46**	**4**	**5**	**45**

Breakdown	Senior Managers	Middle managers	White-collar staff	Blue-collar staff	Total
Men	**1**	**1**	**18**	**1**	**21**
Women	**-**	**4**	**19**	**1**	**24**
Average age	54	51	40	43	41
Average length of service	1	13	9	10	9
Permanent contracts	1	5	34	2	42
Temporary contracts	-	-	3	-	3
Apprenticeship contracts	-	-	-	-	0
Education - University Degree	1	5	27	-	33
Education - High School Diploma	-	-	9	-	9
Education - Middle school certificate	-	-	1	2	3

Related parties

The bank identifies the parties who are classified as related parties pursuant to IAS 24. Transactions with these parties were regularly performed during the year and were carried out on an arm's length basis. In compliance with applicable regulations, Part H of the Notes provides the relevant details, as well as the information required by regulations on relations with the Bank's directors and statutory auditors.

Disclosures required by Banca d'Italia /Consob/Isvap documents no.2 of 6 February 2009 and no. 4 of March 2010

The documents jointly issued in 2009 and 2010 by Banca d'Italia, Consob and ISVAP instruct Directors to supplement the financial statements with information aimed at detailing the impact of the crisis on the company.

While in the notes and in other sections of this report the subjects in question are described in detail, for the sake of clarity a summary is provided below of the information required which may have a material impact on the bank.

Going concern assumption

As regards the going concern assumption, the directors of Banca Promos have the reasonable expectation that the company will continue to operate in the foreseeable future, and, accordingly, the financial statements for the year 2016 were prepared on a going concern basis.

Despite the loss reported, financial and operating indicators remain good; as such, the Directors confirm that they have not found any elements in the financial structure and operating performance of the bank that may cause uncertainty as to the going concern basis.

Financial risks

Part E of the notes contains qualitative and quantitative information on key risks, including of a financial nature, to which the Bank is normally exposed, i.e. credit risk, market risk and liquidity risk. This report also provides additional information on risks.

Impairment tests

The Directors' assessment of all Assets reported in the financial statements did not record any impairment of said assets.

Uncertainties associated with the use of estimates

Loans to customers were evaluated according to the policies laid down in the Credit Regulations in force. In this segment, therefore, the uncertainty is that inherent in the system and the current economic situation.

Financial assets are carried at fair value. The methods for measuring fair value are detailed in the document "Policies and processes for the evaluation of corporate assets" that aims to describe the evaluation process and its accounting impact, and are described in the notes - Part A Accounting Policies of this Annual Report.

Fair value hierarchy

The above mentioned document "Policies and processes for the evaluation of corporate assets" was also prepared in accordance with IFRS 13, which regulates the "fair value hierarchy" for the purpose of identifying the different fair value levels. These fair value measurement and classification methods are described in the Notes - Part A Accounting Policies of this Annual Report. The amendments to IFRS 13 ratified by EU Regulation 1361/2014 were not relevant for the Financial Statements of the Bank.

Other information

Dear Shareholders, additional information is provided below regarding your bank's activities. At the close of FY 2016:

- the bank did not, either directly or indirectly, hold treasury shares in the portfolio and no treasury shares were sold or purchased during the year;
- the bank was not and is not a member of any banking group;
- the bank did not carry out research and development;
- the Supervisory Body established pursuant to Legislative Decree 231 carried out its activity in accordance with the annual plan prepared by the body itself.

Internal Audit System

The bank attaches strategic importance to the internal audit system and seeks to spread a culture of control at all levels of the organization, being aware that such a culture should permeate the entire company and not just the control departments.
The internal audit system, in line with the supervisory provisions in force, is structured according to principles that ensure sound and prudent management; it consists of rules, procedures and organizational structures that on the one hand aim to ensure compliance with corporate strategies and, on the other, enable us to achieve the following goals:

- containing risk within the limits set in the Risk Appetite Framework–RAF, which is the frame of reference for defining the risk appetite of the bank.
- Effectiveness and efficiency of business processes (administration, production, distribution, etc.);
- Safeguarding of assets and protection against losses;
- reliability and integrity of business information and IT procedures;
- compliance of operations with the law and supervisory regulations as well as with company policies and internal regulations and procedures.

In addition, the internal audit system aims to prevent the risk that the bank is involved, albeit involuntarily, in illegal activities, such as those related to money laundering, usury and the financing of terrorism.

Under this "System", the internal control process is ensured by different departments and units, set up in three different levels:

- first level controls, carried out by operational managers;
- second-level controls, carried out by the Risk Management, Compliance and Anti-Money Laundering functions;
- third-level control, under the responsibility of Internal Audit.

Audit activities performed

During the year, both second-level control functions and Internal Audit carried out audit activities.
More specifically, Risk Management carried out periodical checks on the exposure to the following risks in terms of capital requirements:

- Pillar I risks (credit risk, market risk and operational risks), for which the Bank adopted quantitative measurement techniques defined by regulation (standard methodologies);

- Pillar II "measurable" risks (concentration and interest rate risks), for which the Bank adopted simplified quantitative measurement methods as provided for by Supervisory regulations.

In addition, quantitative analyses were also carried out on liquidity risk, albeit no capital requirement is yet associated with this risk.
The aforementioned activities were performed both in normal conditions and in stress situations.
In addition, Risk Management prepared the ICAAP Report at 31 December 2015; for the details please see paragraph "ICAAP process and Capital Adequacy".

The Compliance function carried out controls on the following areas:

- Adequacy and effectiveness of business processes and procedures
- Consulting, assistance and training
- Conflicts of interest
- Complaints

The Anti-Money Laundering function carried out an ongoing control activity to prevent and counter money laundering and terrorist financing transactions.
On the one hand, ongoing checks were carried out to ensure that business procedures were consistent with the objective of preventing and countering breaches of hetero-regulations (laws and regulations) and self-regulations on money-laundering and terrorist financing; on the other, compliance of the bank staff with internal procedures and all legal requirements was verified, with specific focus on "active cooperation" and the ongoing analysis of customer operations.
More specifically, the checks carried out were intended to verify compliance with the following obligations:

- Customer due diligence
- Recording and storage of information on accounts and transactions
- Detection, measurement and reporting of suspicious transactions
- Restrictions on the use of cash and bearer securities

Finally, Internal Audit carried out both audits on processes and monitoring activities provided for by current legislation. In addition, follow-up activities were performed regarding remediation of the criticalities detected during control activities.
Specifically, the audit carried out on the basis of check-lists approved by the Board of Directors concerned both banking and financial activities. More specifically, with reference to the banking sector, audits were carried out on money laundering, transparency of banking transactions and services, credit, accountancy, savings, and governance. Vice versa, with reference to the financial sector, the audits concerned various investment services provided by the Bank (trading on own

account, execution of customers' orders, receipt and transmission of orders, placement of financial instruments), the management of conflict of interest as well as an inspection regarding the operations of the London cooperator.
In this respect, some of the mentioned areas (Anti-Money Laundering and Finance) were audited several times throughout the year, in order to constantly monitor the Bank's ordinary operations; checks were carried out both on regulatory aspects and on the effectiveness and reliability of the information systems in support of business operations.

Moreover, during the year, 6 ordinary audits were carried out at the branches, alongside a routine inspection at the Office of the financial advisors in Florence.

Further audits (connected to the laws in force) were conducted regarding the ICAAP process, the Business Continuity Plan, the liquidity management process, the remuneration policies, the management of related-party transactions, and the management of equity investments in non-financial companies, the assessment policy of corporate activities and RAF. Moreover, one inspection was carried out at the service company to which the cash management service has been outsourced and, in accordance with the provisions of the legislation in force, second-level control functions (Compliance, Anti-money laundering and Risk Management functions) were assessed.
The checks carried out revealed no significant irregularities (in addition to those acknowledged further to the change in the IT outsourcer) in the areas subject to control and confirmed the basic adequacy of the internal audit system put in place by the bank.

Risk management

Risk management is one of the major areas on which the bank focuses its attention, since it is well aware that the development of adequate control measures in the various identified risk areas is the best guarantee of sound and prudent management.
Section E of the Notes summarises the information on risks and the related hedging policies. We also recall that the "Risk Management Process" is described in a specific document, according to a bank's practice for many years. This process consists of the following phases:

1. Risk mapping
2. Protective measures
3. Risk measurement
4. Stress testing
5. Risk estimate
6. Risk assessment and corrective measures
7. Risk monitoring and reporting

Risk mapping

Through mapping, the Bank has identified the risks to which it is exposed. Based on the knowledge of the Bank's organisation, the market in which it operates, the regulatory framework, as well as the strategic and operational objectives and the related threats and opportunities, all the risks associated with providing both banking and financial services were identified, i.e.:

- *Credit risk* (counterparty included)
- *Market risk* (associated with proprietary trading)
  - Position risk
  - Settlement risk
  - Concentration risk
  - Exchange rate risk
- *Market risk* (associated with trading on behalf of third parties)
  - Settlement risk
  - Concentration risk
  - Counterparty risk
- *Operational* risk
  - Legal risk
  - Organizational risk
  - Risk linked to human resources
  - IT risk
  - Risk related to external events
- *Concentration risk*
- *Interest rate risk*
- *Liquidity risk*
- *Risk of conflict of interest with respect to "Connected Persons"*
- *Risk associated with equity investments*
- *Country risk*
- *Risk of excessive leverage*
- *Residual risk*
- *Strategic risk*
- *Reputational risk*

Protective measures

Protective measures refer to the process of selecting and implementing the tools necessary to control, mitigate and, where possible, eliminate and/or transfer risks.

For each significant identified risk, the Bank has put in place related mitigating measures, in order to contain exposure to risk within the limits that meet sound and prudent management criteria.

Risk measurement

This activity is intended to measure or, in the case of risks that are difficult to quantify, evaluate the Bank's exposure to all significant risks identified.
The measurement/evaluation methods adopted by the Bank for each risk and the associated capital requirement, where applicable, comply with the provisions laid down by the Supervisory regulations for banks in Class 3.

Stress testing

This activity consists in carrying out stress tests designed to better assess the Bank's exposure to risks, the risk mitigating and monitoring systems and, where necessary, the Internal Capital adequacy.
Stress tests consist in quantitative and qualitative techniques by which we evaluate the Bank's vulnerability to exceptional but plausible events; this is made by assessing the effects on the Bank's risk of specific events (sensitivity analysis) or of concurrent changes in a set of economic and financial variables in the event of adverse scenarios (scenario analysis).

Risk estimate

The *estimate of risks* requires a number of preliminary tasks: first, an analysis of each risk is performed in order to define those factors in the operating business, “Typical Events”, which, as they may cause losses, represent a “threat” to the Bank.
Once the “Typical Events” have been identified, an estimate *is made taking into account* the corrective measures already in place, in order to identify the risks to which the Bank appears to be most exposed.
The estimation process is based on two elements: the probability of the “Typical Events" occurring and their possible impact. To this end, specific qualitative scales (low/medium/high) were used to evaluate both the likelihood and the impact.
In particular, for probability, we consider the likelihood of a given event occurring, i.e. the relative frequency represented by the number of times the event may occur in a given time horizon; for the impact, we consider the consequences arising from the occurrence of the risk.

Risk assessment and corrective measures

The risk assessment step is of crucial importance to preserve the Bank's asset and financial integrity and to implement corporate strategies.
This is based on the analysis of the so-called *“Probability - Impact – Matrix”* which is set for each probability/impact pair associated with each “Typical Event” obtained from the previous estimate.

A score, in terms of significance, is subsequently assigned, allowing for a comparison of the estimated risks, by establishing their relative importance and identifying the most relevant ones.
Each score assesses a risk exposure through a qualitative scale (low/medium/high), enabling the definition of risk acceptance levels, and consequently, the corrective measures to be taken, if any.

Risk monitoring and reporting

Monitoring aims to determine, for each significant risk identified, on the one hand, the effectiveness of the protective measures adopted by the Bank and, on the other, the long-term appropriateness of the limits set.
Thereafter, reporting activities are performed that describe the results of the checks carried out.
A control structure is in place to this end which defines:

- those responsible for conducting the audits (first, second and third level controls);
- object and frequency of controls;
- control methods and tools;
- recipients of information flows.

Audit activities are carried out through integrated controls performed and differently organized according to the various levels within the Bank, in order to prevent multiple audits of operating units.
Any detected anomalies must be reported to the relevant Corporate Bodies along with any corrective actions to be undertaken.

The ICAAP process and Capital Adequacy

As is known, the provisions on the prudential supervision of banks (Circular of Banca d'Italia no.263 of 27 December 2006 as amended and supplemented), require the Bank to prepare the "ICAAP Report" at 31 December 2016, which was timely drawn up by the Bank.
The document is a comprehensive, documented assessment of the key features of the internal process used by the Bank to determine capital adequacy, the overall exposure to banking and financial risks, as well as any capital deemed adequate to cope with those risks, both from a current and prospective standpoint, and both in normal conditions and in stress situations, the so-called "Total internal capital".
In preparing the above Report, all risks, both "measurable" and "non-measurable", identified as a result of the mapping activity, were taken into account.
In order to determine the "internal capital" in relation to each of the "measurable" risks, the Bank measured its exposure to them. In this sense, as provided for banks belonging to Class 3 and in accordance with the principle of proportionality, the following techniques were deemed most appropriate and, therefore used as a reference:

- for Pillar I risks (credit, market and operating risks), the quantitative measurement techniques as provided for by regulations for capital requirements calculations, making use of the standardized approach;
- for Pillar II "measurable" risks (concentration and interest rate risks), the simplified quantitative measurement methods as provided for by the Supervisory regulations.

With regard to *liquidity risk*, although it does not require additional capital for the time being, for the purpose of its estimate the Bank has adopted the guidelines laid down by the Supervisory regulations, on the basis of which it has established specific measurement and control procedures and systems.
With reference to *market risk related to trading on behalf of third parties,* although no specific capital requirement is envisaged, the Bank uses special IT tools through which it can evaluate the exposure in question at all times.
With reference to excessive leverage risk, its quantitative assessment is carried out through the "leverage ratio" indicator, which is the ratio between Tier 1 and total unweighted assets, the value of which is disclosed to the Supervisory Authority as part of the "Base Y" disclosure.
In parallel, with reference to the other "non-measurable" risks (Strategic, reputational and residual risks), which are difficult to quantify due to their intrinsic characteristics, the estimate of the bank's exposure is based on subjective assessments carried out on the basis of mainly qualitative methods defined in relation to the nature of each risk.
The assessment of the risk of conflict of interest with respect to "Connected Persons", the risk associated with the acquisition of equity investments and country risk is performed by checking the effectiveness of the relevant protective measures put in place by the Bank.

To better assess its capital adequacy, the Bank has carried out stress tests that consist of testing the effects of specific events on the risks to which it is exposed. The Bank therefore performed sensitivity analyses aimed at verifying the impact on the bank's balance sheet of "extreme", yet plausible, changes in the following risks (individually assessed):

- Credit
- Concentration
- Interest rate
- Liquidity
- Regulatory capital
- Leverage Ratio

The approach defined allows for an assessment of both the impact of predefined stress tests, based on standard methodological practices, and of customised tests, based on portfolio characteristics or the economic situation.

Consistent with the Supervisory regulations, we calculated the internal capital against Pillar I risks and Pillar II measurable risks which require capital for regulatory purposes. These values were used as the starting point for defining the "Total Internal Capital", by applying a building blocks approach, consisting of an algebraical sum of the internal capital related to each type of risk.
Finally, the connection was made between the Bank's Regulatory Capital and the different types of "total internal capital" (relating to actual and budgeted data, stressed and non-stressed data), in order to verify its adequacy.
The results of this analysis showed that, under all tested conditions, despite the required increase in capital resulting from calculation on actual data in a stress situation and prospective data in both normal and stress conditions, the Bank's capital is such as to guarantee a significant capital surplus.

Public disclosure

According to supervisory regulations, capital adequacy, risk exposure and the general features of the systems used to identify, measure and manage those risks are to be disclosed (i.e. Pillar III).
This document, available to the public on the Bank's website (www.bancapromos.it), provides information on the level of business risk, the methods used by the bank to quantify and manage its risks, in relation to the size of existing and future capital resources.

Events subsequent to 31 December 2016

In early 2017, the mandates for two new Mini-bond issues were finalized. The first bond, for an amount of € 20 million, was issued by a company based in Campania, engaged in the healthcare industry on the basis of agreements with the Italian national health service.
The issuer of the other bond, which will not exceed € 5 million, is a leading industrial glassware company, engaged in glass processing for about 20 years and at the forefront of the industry in terms of production techniques and environmental protection.
In addition, we continue developing our relationships with other companies that need assistance for extraordinary corporate finance transactions.
As part of the integration project with some local banks, already discussed in this report, there are several interesting opportunities for operating developments, that offer good profitability prospects for all the involved parties. In 2017, the project will be more clearly outlined. Surely there is a wide range of opportunities: from *cross-selling* agreements to the centralization of services in various areas. From a commercial standpoint, a number of contacts are already in place which see Banca Promos engaged in the provision of financial services (cash management, support in proprietary asset management) and financial tools closely related to the financial sector (market access).

Moreover, there are potential opportunities for the integration of services (administrative or support services) through the creation of ad hoc companies to pursue economies of scale and optimize operating costs .

Finally, in the first part of 2017, a training plan was launched involving various departments of the bank, both at the operating and managerial level. In particular, this activity has already involved 18 persons. The topics include, for example, Anti-Money Laundering, New Cheque Procedure and Asset Allocation.

Business outlook

In general, the global economic and financial scenario is still marked by strong instability. The new direction taken by the U.S. administration with regard to fiscal, commercial and monetary policy is not yet clearly defined, which of course affects the outlook for the future, opening up different potential scenarios. For example, a change of course in interest rates, with the launch of a new phase of rising rates by the Fed, could significantly affect the markets.

In accordance with its defined strategies, Banca Promos intends to maintain the current level of assets and liabilities through customer retention and balancing of mismatches and to develop *corporate finance* activities.

Proposal to approve the Financial Statements

Dear Shareholders, the Board of Directors submits the financial statements for 2016 for your approval, together with the attached reports of the Independent Auditors, Deloitte & Touche SpA, and the Statutory Auditors' report.

Therefore, the Shareholders' Meeting, after acknowledging the Balance Sheet, Income Statement, Statement of Comprehensive Income, statements of changes in Shareholders' Equity, Cash Flow Statement and the Notes, as well as the Directors' Report, the Report of the Board of Statutory Auditors and the Report of the Auditing Firm, shall resolve upon the carry forward of the resulting loss, i.e. € 228,267.

Acknowledgements

As usual, we would like to close this note by renewing our thanks to all those who, in their various roles, have supported the Bank and worked for its growth, year after year.

Of course, our first thought goes to all of you, Shareholders, who have confirmed your trust and commitment.

We also thank the Board of Statutory Auditors, with a special mention for Mr Settimio Briglia who resigned, after serving the Bank for many years. We express our most sincere esteem and affection and heartfelt thanks for the work done.

We also have to thank our staff for their commitment and dedication, especially and mostly when the operating environment has proved particularly tough.

Our most heartfelt thanks to the Supervisory Bodies, and especially to Banca d'Italia. The active collaboration and professionalism that inspire our relationship has led to fruitful exchanges and developments.

Finally, we would like to thank the independent auditors for their timely and ongoing contribution.

The Board of Directors

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(Translation from the original issued in Italian)

BANCA PROMOS SOCIETA' PER AZIONI

Registered Office: VIALE GRAMSCI, 19 – NAPLES (NA)
Registered with the Business Registry of: NAPLES
Tax Identification and registration number: 03321720637
Registered with the Economic and Administrative Index [R.E.A.] of NAPLES under no.329424
Subscribed share capital €: 7,200,000.00 fully paid-up
VAT number: 04368171007

Members of the Audit Body

Ordinary financial statements as at 31 December 2016

Shareholders, given that, pursuant to the Company's by-laws currently in force, the control body has been tasked with the administrative supervision of the company only, while the statutory audit of the accounts has been assigned to the independent auditors Deloitte & Touche SpA, appointed by letter of engagement until the approval of the financial statements for the year ending 31/12/2018, this report only concerns the activities carried out in terms of statutory control function.

Report to the Shareholders' Meeting pursuant to article 2429, paragraph 2, of the Italian Civil Code – Administrative supervision

During the FY that closed on 31/12/2016, we carried out or role as supervisors pursuant to article 2403 of the Italian Civil Code, in accordance with the regulations of the Board of Statutory Auditors recommended by the Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili (National Accounting Board).

The draft Financial Statements closed at 31/12/2016, submitted to us by the Administrative Body pursuant to article 2429 of the Italian Civil Code in order for it to be reviewed, have been drafted, pursuant to Legislative Decree no.38 of 28 February 2005, in compliance with the *International Accounting Standards* (IAS) and the *International Financial Reporting Standards* (FRS) approved and in force at 31 December 2016.

The result for the year showed a loss of € 228,267, broken down as follows

Balance Sheet

Breakdown		FY 2016
TOTAL ASSETS		64,314,591
TOTAL LIABILITIES		64,314,591
- Shareholders' equity	14,335,214	
- Severance indemnity	1,009,867	

	Breakdown	FY 2016
-	Payables	48,954,510
-	Provision for liabilities and charges	15,000

Income Statement

Breakdown	FY 2016
INTEREST MARGIN	1,182,731
NET COMMISSIONS	19,624
BROKERAGE MARGIN	4,437,831
Net result of financial operations	3,918,187
OPERATING COSTS	(4,239,408)
PRE-TAX RESULT	(321,218)
INCOME TAXES FOR THE YEAR	92,951
PROFIT (LOSS) FOR THE YEAR	(228,267)

Activities carried out by the control body during the year

During the FY under examination, we supervised compliance with the law and the Corporate By-Laws as well as with the principles of correct administration.

Specifically, the work carried out refers to the following:

- we obtained from the Administrative Body the necessary information on the business performed and on the major economic, financial and equity transactions made by the Company and we can provide reasonable assurance that the actions resolved upon and adopted are in compliance with the law and the corporate by-laws, and that they are not careless or unwarrantedly risky, that they do not create any potential conflict of interests or are in contrast to the resolutions of the Meeting and are not such as to endanger the share capital of the company.

- we supervised the adequacy of the organizational, administrative and accounting structure and ascertained its actual operation, by collecting information from the heads of the organization function. In this regard we have no specific observations to make.

- we did not detect any atypical or unusual transactions, including with regard to those carried out with group companies or with related parties.

- neither legal actions based on art. 2408 of the Italian Civil Code nor third-party reports were notified.

  - We have met the entity in charge of audit (Deloitte & Touche), and no significant data or information has emerged that need be illustrated in this report.

- We have met the Supervisory Body and no critical issues have emerged with regard to the proper implementation of the organizational model that need be mentioned in this statement.
- We monitored compliance with "Data Protection" and "'Money Laundering" regulations.

- We have participated in the Meetings of the Shareholders and in the meetings of the Administrative Body, which were all conducted in compliance with the statutory and legislative rules that govern their procedures, and about which we can provide reasonable assurance that the resolutions issued are in compliance with the law and the Corporate By-Laws, and are not such to endanger the share capital of the company.

- in the performance of our supervisory duties, and on the basis of the information obtained, we did not detect any other omissions, misconduct, irregularities or significant events that need be reported or simply mentioned in this report.

- As noted above, the control body believes that the Company's overall results in the financial year are in line with the negative trend recently forecast by the governing Body. The financial statements for the year reported a loss of €228,267, halved compared to 2015.

Financial Statements Disclosure

On the basis of an in-depth analysis of the financial statements as at 31/12/2016, we report the following:

- pursuant to article 2426, item 5 of the Italian Civil Code, the control Body certifies that no start-up and expansion costs were recognized as assets in the financial statements.

- pursuant to article 2426, item item 5 of the Italian Civil Code, the control Body certifies that no development costs were recognized as assets in the financial statements.

- pursuant to article 2426, item 6 of the Italian Civil Code, the control Body certifies that no goodwill costs were recognized as assets in the financial statements.

- in drafting the financial statements, the governing Body did not make use of the provisions of Art. 2423, paragraph 4 and 5 of the Italian Civil Code with regard to the exceptions granted for the preparation of the financial statements.

- We oversaw the financial statements' compliance with the law, as regards both its structure and its substantial content.

- We also certify that we verified the measurement criteria provided by art. 2426 of the Italian Civil Code and that our supervisory work has constantly been inspired by the aim of preserving the integrity of the company's assets.

- We also verified compliance with the law in relation to the preparation of the Directors' Report.

- The financial statements faithfully reflect the corporate affairs and the information we have obtained in the performance of our duties.

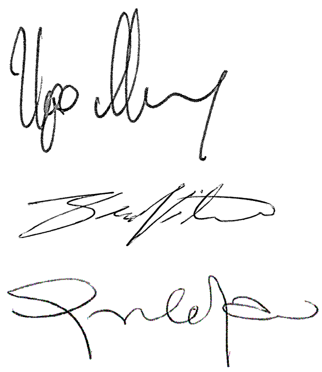
Conclusions

In view of the above considerations and taking into account the information received from the company, considering the results of the activities carried out by the entity in charge of the statutory audit of the accounts - Deloitte & Touche S.p.A. - there are no impediments to the approval by the Shareholders' meeting of the financial statements for the year ended 31/12/2016, as submitted by the governing Body.

There are furthermore no observations to make with regard to the allocation of the profit for the year as proposed by the governing Body.

Naples

THE BOARD OF STATUTORY AUDITORS



Financial Statements

at 31 December 2016

Translation from the Italian original which remains the definitive version. The Financial Statements are the English translations of the Italian Financial Statements prepared for and used in Italy. The Financial Statements were prepared using International Financial reporting Standards (IAS/IFRS); therefore they are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles and practices other than IAS/IFRS”

Statements making up the Financial Statements of Banca Promos S.p.A.

Balance Sheet - Assets

(Amounts in Euros)

	Assets	2016	2015
10.	Cash and cash equivalents	871,430	815,429
20.	Financial assets held for trading	13,899,720	13,136,987
30.	Financial assets carried at fair value	-	-
40.	Financial assets available for sale	1,006,731	-
50.	Financial assets held to maturity	-	-
60.	Receivables from banks	10,972,028	12,330,622
70.	Loans to customers	28,983,933	33,549,344
80.	Hedging derivatives	-	-
90.	Adjustment to financial assets subject to macro-hedging (+/-) Equity Investments	-	-
100.	Property, plant and equipment	-	-
110.	Intangible assets of which:	6,073,261	6,343,120
120.	- goodwill	121,127	158,474
	Tax assets	-	-
130.	a) current	824,238	794,270
	b) prepaid	342,329	371,308
	of which as per Law no. 214/2011	481,909	422,962
	Non-current assets and disposal groups	237,102	249,581
140.	Other assets	-	-
150.	Cash and cash equivalents	1,562,123	1,348,714
	Total assets	**64,314,591**	**68,476,960**

Balance Sheet - Liabilities

(Amounts in Euros)

	Liabilities and shareholder's equity	2016	2015
10.	Payables to banks	5,169,553	7,375,385
20.	Trade payables	35,888,993	33,715,588
30.	Outstanding securities	5,418,545	8,406,922
40.	Financial liabilities held for trading	-	-
50.	Financial liabilities carried at fair value	-	-
60.	Hedging derivatives	-	-
70.	Adjustment to financial liabilities subject to macro-hedging (+/-)	-	-
80.	Tax liabilities	913,887	950,413
	a) current	-	-
	b) deferred	913,887	950,413
90.	Liabilities related to discontinuing operations	-	-
100.	Other liabilities	1,563,532	2,463,111
110.	Employee severance indemnity	1,009,867	952,491
120.	Provisions for liabilities and charges:	15,000	18,016
	a) retirement and similar obligations	-	-
	b) other provisions	15,000	18,016
130.	Valuation reserves	-151,500	-119,947
140.	Redeemable shares	-	-
150.	Capital instruments	-	-
160.	Reserves	5,904,069	6,434,753
170.	Share premium account	1,070,912	1,070,912
180.	Share capital	7,740,000	7,740,000
190.	Treasury shares (-)	-	-
200.	Profit (loss) for the year (+/-)	-228,267	-530,684
	Total Liabilities and shareholder's equity	**64,314,591**	**68,476,960**

Statements making up the Financial Statements of Banca Promos S.p.A.

Income Statements

(Amounts in Euros)

	Items	2016	2015
10.	Interest and similar income	1,551,966	2,047,745
20.	Interest and similar expenses	(369,235)	(682,349)
30.	**Interest margin**	**1,182,731**	**1,365,396**
40.	Commission income	912,523	808,446
50.	Commissions expense	(892,899)	(515,719)
60.	**Net fees and commissions**	**19,624**	**292,727**
70.	Dividends and similar income	3	3
80.	Net income on trading activity	3,247,213	2,951,591
90.	Net income on hedging activity	-	-
100.	Profits (losses) on disposal or repurchase of:	(11,740)	(8,573)
	a) receivables	-	-
	b) financial assets available for sale	-	-
	c) financial assets held to maturity	-	-
	d) financial liabilities	(11,740)	(8,573)
110.	Net result of financial assets/liabilities carried at fair value	-	-
120.	**Brokerage margin**	**4,437,831**	**4,601,144**
130.	Net adjustments/write-backs for impairment of:	(519,644)	(579,688)
	a) receivables	(519,644)	(579,688)
	b) financial assets available for sale	-	-
	c) financial assets held to maturity	-	-
	d) other financial transactions	-	-
140.	**Net result of financial operations**	**3,918,187**	**4,021,456**
150.	Administrative expenses:	(4,094,630)	(4,486,230)
	a) staff expenses	(2,575,205)	(2,550,597)
	b) other administrative expenses	(1,519,425)	(1,935,633)
160.	Net allocations to provisions for liabilities and charges	3,016	-
170.	Net adjustments to/write-backs on tangible assets	(295,784)	(399,780)
180.	Net adjustments to/write-backs on intangible assets	(42,438)	(31,083)
190.	Other operating expenses/income	190,428	147,719
200.	**Operating costs**	**(4,239,408)**	**(4,769,374)**
210.	Profits (losses) on equity investments	-	-
220.	Net result of tangible and intangible assets carried at fair value	-	-
230.	Adjustments to goodwill	-	-
240.	Profits (losses) on investment disposal	3	-
250.	**Pre-tax profit (loss) of current operations**	**(321,218)**	**(747,918)**
260.	Income taxes for the year on current operations	92,951	217,234
270.	**Profit (loss) of current operations, after taxes**	**(228,267)**	**(530,684)**
280.	Profit (Loss) of disposal groups, after taxes	-	-
290.	**Profit (Loss) for the year**	**(228,267)**	**(530,684)**

Statements of comprehnsive Income

(Amounts in Euros)

	Items	2016	2015
10.	**Profit (loss) for the year**	**(228,267)**	**(530,684)**
	Other income items – after taxes – not reversed to income statement		
20.	Property, plant and equipment	-	-
30.	Intangible assets	-	-
40.	Defined-benefit plans	(30,087)	4,578
50.	Non-current discontinuing operations	-	-
60.	Share of valuation reserves for equity investments carried at equity	-	-
	Other income items – after taxes – reversed to income statement		
70.	Foreign investment hedging	-	-
80.	Exchange rate differences	-	-
90.	Cash flow hedging	-	-
100.	Financial assets available for sale	(1,466)	-
110.	Non-current discontinuing operations	-	-
120.	Share of valuation reserves for equity investments carried at equity	-	-
130.	**Total of other income items, after taxes**	**(31,553)**	**4,578**
140.	**Comprehensive income (Item 10+130)**	**(259,820)**	**(526,106)**

Statements making up the Financial Statements of Banca Promos S.p.A.

Statement of changes in Shareholder's equity at 31.12.2016

(Amounts in Euros)

	At 31/12/2015	Change in opening balances	At 01/01/2016	Allocation of result from previous FY		Allocation of result from previous FY								Shareholders' equity at 31/12/2016
							Operations on shareholders' equity							
				Reserves	Reserves	Changes in reserves	Comprehensive income, FY 2015	Treasury shares purchased	Dividend extraordinary payment	Change in capital instruments	Derivatives on treasury shares	*Stock options*	Comprehensive income, FY 2016	
Share capital:														
a) ordinary shares	7.740.000		7.740.000	-			-	-						**7.740.000**
b) other shares	-		-	-			-	-						**-**
Share premium account	1.070.912		1.070.912	-		-	-							**1.070.912**
Reserves:														
a) profits	6.434.753	-	6.434.753	-530.684		-	-	-	-					**5.904.069**
b) other	-	-	-	-		-	-		-		-	-		**-**
Valuation reserves	-119.947	-	-119.947			-							-31.553	**-151.500**
Capital instruments	-		-							-				**-**
Treasury shares	-		-				-	-						**-**
Profit (loss) for the year	-530.684	-	-530.684	530.684	-								-228.267	**-228.267**
Shareholders' equity	14.595.034	-	14.595.034	-	-	-	-	-	-	-	-	-	-259.820	**14.335.214**

Statements making up the Financial Statements of Banca Promos S.p.A.

Statement of changes in Shareholder's equity at 31.12.2015

(Amounts in Euros)

	At 31/12/2014	Change in opening balances	At 01/01/2015	Allocation of result from previous FY		Changes for the year								Shareholders' equity at 31/12/2015
							Operations on shareholders' equity							
				Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Treasury shares purchased	Dividend extraordinary payment	Change in capital instruments	Derivatives on treasury shares	*Stock options*	Comprehensive income, FY 2015	
Share capital:														
a) ordinary shares	7,740,000		7,740,000	-			-	-						**7,740,000**
b) other shares	-		-	-			-	-						**-**
Share premium account	1,070,912		1,070,912	-			-	-						**1,070,912**
Reserves:														
a) profits	6,387,609	-	6,387,609	47,144		-	-	-	-					**6,434,753**
b) other	-	-	-	-		-	-		-		-	-		**-**
Valuation reserves	-124,525	-	-124,525			-							4,578	**-119,947**
Capital instruments	-		-							-				**-**
Treasury shares	-		-				-	-						**-**
Profit (loss) for the year	124,544	-	124,544	-47,144	-77,400								-530,684	**-530,684**
Shareholders' equity	15,198,540	-	15,198,540	-	-77,400	-	-	-	-	-	-	-	-526,106	**14,595,034**

Cash Flow Statement

Indirect method (Amounts in Euros)

A. OPERATIONS	*Amount*	
	2016	*2015*
1. Operations	**725,006**	**448,077**
- operating result (+/-)	-228,267	-530,684
- capital gains/losses on financial assets held for trading and on financial assets/liabilities carried at fair value (-/+)	64,902	86,286
- capital gains/losses on hedging activities (-/+)	-	-
- net adjustments/write-backs for impairment (+/-)	519,644	579,688
- net adjustments to/write-backs on tangible and intangible fixed assets (+/-)	338,222	430,863
- net allocations to provisions for liabilities and charges and other costs/revenue (+/-)	126,014	99,188
- outstanding taxes and tax credits (+/-)	-92,951	-217,234
- net adjustments to/write-backs of disposal groups net of tax effects (+/-)	-	-
- other adjustments (+/-)	-2,558	-31
2. Liquidity generated/absorbed by financial assets	**3,386,865**	**-1,951,498**
- financial assets held for trading	-827,635	-2,397,690
- financial assets carried at fair value	-	-
- financial assets available for sale	-1,008,197	-
- receivables from banks: on demand	1,358,594	-2,665,510
- receivables from banks: other receivables	-	-
- loans to customers	4,045,767	2,845,623
- other assets	-181,664	266,078
3. Liquidity generated/absorbed by financial liabilities	**-4,022,855**	**1,808,834**
- payables to banks: on demand	-2,205,833	494,738
- payables to banks: other payables	-	-
- trade payables	2,173,405	1,819,142
- outstanding securities	-2,988,377	-421,853
- financial liabilities held for trading	-	-
- financial liabilities carried at fair value	-	-
- other liabilities	-1,002,050	-83,194
Net liquidity generated/absorbed by operations	**89,016**	**305,412**
B. INVESTMENT ACTIVITIES		
1. Liquidity generated by	**-**	**-**
- disposal of equity investments	-	-
- dividends collected on equity investments	-	-
- sale of financial assets held to maturity	-	-
- sale of tangible assets	-	-
- sale of intangible assets	-	-
- sale of business units	-	-
2. Liquidity absorbed by	**-33,015**	**-163,914**
- purchase of equity investments	-	-
- purchase of financial assets held to maturity	-	-
- purchase of tangible assets	-27,925	-7,463
- purchase of intangible assets	-5,090	-156,451

- purchase of business units	-	-
Net liquidity generated/absorbed by investments	**-33,015**	**-163,914**
C. BORROWING ACTIVITIES		
- issue/purchase of treasury shares	-	-
- issue/purchase of capital instruments	-	-
- allocation of dividends and other aims	-	-77,400
Net liquidity generated/absorbed by borrowing activities	**-**	**-77,400**
NET LIQUIDITY GENERATED/ABSORBED IN THE FINANCIAL YEAR	**56,001**	**64,098**

Key: (+) generated (-) absorbed

RECONCILIATION

Items	**Amounts**	
	2016	**2015**
Opening cash and cash equivalents	**815,429**	**751,331**
Net total liquidity generated/absorbed during the financial year	**56,001**	**64,098**
Cash and cash equivalents: effect of changes in exchange rates	**-**	**-**
Closing cash and cash equivalents	**871,430**	**815,429**

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Notes

Part A – Accounting Policies

A.1 – General Section

Section 1 – Statement of compliance with International Accounting Standards

These financial statements, pursuant to Legislative Decree no. 38 of 28 February 2005, were drafted in accordance with the *International Accounting Standards* (IAS) and *International Financial Reporting Standards* (IFRS) issued by the *International Accounting Standard Board* (IASB) and with the pertinent interpretations of the *International Financial Reporting Interpretations Committee* (IFRIC), as endorsed by the European Commission in compliance with the EC Regulation no. 1606 dated 19 July 2002 – and in force at the reporting date..

The financial statements have been prepared by applying the IAS/IFRS standards as approved and in force at 31 December 2016, the detail of which is provided in the attachments to the financial statements.

In applying the IAS / IFRS, reference has been made to the "Framework for the preparation and presentation of financial statements" (*framework*) specifically with regard to the fundamental principle of the prevalence of substance over form, and the concept of relevance and materiality of information.

In addition to the instructions contained in Banca d'Italia Circular No. 262 of 22 December 2005 "Banks' financial statements: Layouts and preparation", 4th update of 15 December 2015, interpretation also took account of the documents on the adoption of IAS/IFRS in Italy prepared by the Italian Accounting Standard Body (OIC) and the Italian Banking Association (ABI).

The following table shows the new international accounting standards and/or the amendments to the accounting standards already in force, with the relevant approval regulations by the European Commission entered into force in the year 2016.

International accounting standards approved at 31/12/2016 and in force since 2016

(EU) Approval Regulation	Topic	Effective date
28/2015	Amendments to IFRS 2 - Share-Based Payment Amendments to IFRS 3 – Business Combinations Amendments to IFRS 8 – Operating Segments Amendments to IAS 16 - Property, plant and equipment Amendments to IAS 24 - Related Party Disclosures Amendments to IAS 38 – Intangible Assets	01/01/2016 First FY beginning on or after 01/02/2015
29/2015	Amendments to IAS 19 - Employee Benefits	01/01/2016 First FY beginning on or after 01/02/2015
2113/2015	Amendments to IAS 16 - Property, plant and equipment Amendments to IAS 41 - Agriculture	01/01/2016 First FY beginning on or after 01/01/2016
2173/2015	Amendments to IFRS 11 – Joint arrangements	01/01/2016 First FY beginning on or after 01/01/2016
2231/2015	Amendments to IAS 16 - Property, plant and equipment	01/01/2016

	and equipment Amendments to IAS 38 – Intangible Assets	First FY beginning on or after 01/01/2016
2343/2015	Amendments to IFRS 1 – First-time Adoption of International Financial Reporting Standards Amendments to IFRS 5 - Non-current Assets Held for Sale and Discontinued Operations Amendments to IFRS – Financial instruments: Disclosures Amendments to IAS 19 - employee Benefits Amendments to IAS 34 – Interim Financial Reporting	01/01/2016 First FY beginning on or after 01/01/2016
2406/2015	Amendments to IAS 1 – Presentation of Financial Statements	01/01/2016 First FY beginning on or after 01/01/2016
2441/2015	Amendments to IAS 27 – Separate Financial Statements	01/01/2016 First FY beginning on or after 01/01/2016
1703/2016	Amendments to IFRS – Consolidated Financial Statements Amendments to IFRS 12 – Disclosure on interest in other entities Amendments to IAS 28 – Investments in associates or joint ventures	01/01/2016 First FY beginning on or after 01/01/2016

With reference to statutory accounting rules that are mandatory as of 2016, they mainly consist of amendments to existing accounting standards - endorsed by the European Commission in 2015 and 2016 - which are not significant for the Bank's Financial Statements.

The table below shows the new international accounting standards or the amendments to the accounting standards already in place which will become mandatory on (for financial statements coinciding with the calendar year) or after 1 January 2018.

International accounting standards approved at 31/12/2016 and in force after 31/12/2016

(EU) Approval Regulation	**Topic**	**Effective date**
1905/2016	IFRS 15 – Revenue from Contracts with Customers	01/01/2018 First FY beginning on or after 01/01/2018
2067/2016	IFRS 9 – Financial instruments	01/01/2018 First FY beginning on or after 01/01/2018

Given the relevance of the new accounting standards - IFRS 15 - Revenue from contracts with customers - and IFRS 9 - Financial instruments - further details are provided below.

The IFRS 15 accounting principle - Revenue from contracts with customers - has been approved with publication of Regulation no. 1905/2016 with effect from January 2018. Following adoption of IFRS 15, the standards IAS 18 Revenues and IAS 11 Construction Contracts, and the relevant interpretations, IFRIC 13 (Customer Loyalty Programmes), IFRIC 15 (Agreements for the construction of real estate), IFRIC 18 (Transfers of assets from customers) and SIC 31 (Barter transactions involving advertising services) will be superseded by IFRS 15.

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

The main steps for the recognition of revenue under the new model are:

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

The above-mentioned standard applies from 1 January 2018, though earlier application is permitted.

The changes to IFRS 15, *Clarifications to IFRS 15 – Revenue from Contracts with Customers*, published by IASB on 12 April 2016, have not yet been endorsed by the European Union.

The impacts of IFRS 15 will essentially depend on the types of measured transactions (the standard introduces potential estimates in determining the transaction price, with reference to the variable component) and the sector in which the enterprise is engaged (the most affected sectors apparently being telecommunications and residential real estate). The implications for the Bank will presumably mainly consist in greater disclosure requirements, as the standard imposes a wide-ranging set of information on the nature, amount, timing and degree of uncertainty of revenue as well as on cash flows from contracts with customers.

As regards the new IFRS 9 issued by the IASB in July 2014 and approved by the European Commission through Regulation no. 2067/2016, it will replace - as of 1 January 2018 - IAS 39, which currently governs the classification and measurement of financial instruments.

The IFRS 9 covers three different areas: classification and measurement of financial instruments, impairment and hedge accounting.

As regards the first area, the IFRS 9 introduces a model where the classification of financial assets is led, on the one hand, by the contractual characteristics of the cash flows of the instrument and, on the other hand, by the entity's business model objective for managing the instrument. Rather than in the current four accounting categories, financial assets under IFRS 9 can be classified - on the basis of the two drivers described above - in three categories: assets measured at amortized cost, assets measured at fair value through profit or loss and, lastly, assets measured at fair value through shareholders' equity (the reserve is transferred to the income statement if the instrument is transferred). Financial assets can be measured at amortized cost or *fair value* through shareholders' equity only if the test of the contractual characteristics of the *cash flows of the instrument is passed*. Equity instruments continue to be measured at fair value through profit or loss, unless the entity chooses, (irrevocably, upon initial recognition) for shares that are not held for trading, to present the changes in value in an equity reserve that will not subsequently be reclassified to profit or loss, including upon disposal of the financial instrument ("no recycling").

For financial liabilities, no substantial changes are introduced in terms of classification and measurement compared to the current standard. The only new element is the accounting treatment of own credit risk: For financial liabilities designated at fair value (fair value option liabilities), the standard provides that changes in the fair value of financial liabilities attributable to a change in own credit risk should be recognized in equity, unless such treatment determines or amplifies an accounting symmetry in profit for the year, while the residual amount of changes in the fair value of liabilities should be recognized through profit or loss.

With reference to impairment, for financial instruments recognized at amortized cost and at fair value with contra entry to equity (other than equity instruments), a model based on the "expected loss" concept is introduced, replacing the current "incurred loss" model, to ensure more timely recognition of losses.

IFRS 9 requires companies to account for losses expected in the next 12 months (stage 1) since initial recognition of the instrument. Vice versa, the time horizon for calculating the expected loss becomes the entire remaining life of the asset being valued if the credit quality of the financial instrument has deteriorated "significantly" compared to the initial measurement (stage 2) or when it is impaired (stage 3).

Lastly, with reference to hedge accounting, the new model for hedges tends to align the accounting presentation with risk management activities and to strengthen the disclosure of the risk management activities undertaken by the company drafting the financial statements.

Given the pervasive impacts of IFRS 9, both on organizational and reporting activities, in 2016 the Bank launched an in-depth analysis of the various areas affected by the new standard, to define its qualitative and quantitative impacts and to identify and implement the IT and organizational actions required to ensure consistent, comprehensive and effective adoption within the Bank as a whole.

Based on initial assessments, the transition to the new accounting standard requires the Bank to have suitable technical skills in order to adapt the IT and management systems, expand the information set (wider and more detailed than that currently required to quantify the value adjustments on loans), review and intensify interactions between the various internal units, in particular accounting and risk management, and optimize risk measurement and control systems. The activities currently underway mainly concern the classification and measurement of loans and receivables through the definition of the reference business models, the analysis of portfolios for the application of the so-called SPPI test and the definition of staging rules.

At the time of drawing up these financial statements, it was not yet possible to reasonably estimate the impact on the balance sheet of first-time application of the new standard, which is expected to be available after the end of the first half of 2017.

Lastly, the table below shows the accounting standards affected by the amendments, specifying the scope or subject of the amendments. Since, at present, they have not been approved by the European Commission, none of these updates is relevant for the Bank's financial statements.

International accounting standards not yet approved at 31/12/2016

Interpretation/Standard	**Title**	**Issued on**
IFRS 14	*Regulatory Deferral Accounts*	30/01/2014
IFRS 16	*Leases*	13/01/2016
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*	08/12/2016
Interpretation/Standard	**Amendments**	**Issued on**
IFRS 10	*Sales or Contribution of Assets between an Investor and its Associate or Joint Venture*	11/09/2014
IAS 28	*Sales or Contribution of Assets between an Investor and its Associate or Joint Venture*	11/09/2014
IAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*	19/01/2016
IAS 7	*Disclosure Initiative*	29/01/2016
IFRS 15	*Clarification to IFRS 15 Revenue from Contracts with Customers*	12/04/2016
IFRS 2	*Classification and Measurement of Share-based payment Transactions*	20/06/2016
IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*	12/09/2016
IFRS 1	*First-time Adoption of International Financial Reporting Standards*	08/12/2016
IFRS 12	*Disclosure of Interests in Other Entities*	08/12/2016
IAS 28	*Investments in Associates and Joint Ventures*	08/12/2016
IAS 40	*Transfers of Investment Property*	08/12/2016

Section 2 – General drafting principles

The Financial Statements consist of Balance Sheet, Income Statement, Statement of Comprehensive Income, Statement of Changes in Shareholders' equity, Cash Flow Statement – drafted according to the indirect method – and the Notes. They are also accompanied by the Directors' Report on the Bank's operations and situation.

The Financial Statements were drafted on a going concern basis and in accordance with the general drafting standards (IAS 1) set out below:

- accrual accounting;
- going concern assumption;
- understandable information;
- relevance and materiality of information;
- reliability of the information (accuracy of the representation; prevalence of substance over form; information neutrality; completeness; prudence in the estimates not to overestimate revenues / assets or underestimate costs / liabilities);
- comparability over time.

The financial statements are also drawn up in application of the specific accounting standards approved by the European Commission and illustrated in Part A.2 of these Notes.

There were no exceptions to the application of IAS/IFRS.

In preparing the financial statements, the formats and rules for compilation referred to in Bank of Italy Circular no. 262 of 22/12/2005, 4th Update of 15 December 2015, were observed.

In addition complementary information was provided as deemed necessary to provide a more comprehensive representation of the financial statements, although not specifically required by legislation.

In accordance with art. 5 of Legislative Decree No. 38/2005, the financial statements are prepared using the Euro as reporting currency.

The balance sheet and income statement, the statement of comprehensive income, the statement of changes in equity and the cash flow statement are expressed in euros, while the notes, unless otherwise indicated, are expressed in thousands of euros. For comparative purposes, the financial statements and, where required, the tables in the notes also report data for the previous year.

Section 3 – Events subsequent to the reporting period

In the period between the reporting date and the date of approval of these financial statements, no events occurred requiring changes to the data approved at such time, nor did any significant event occurred requiring the disclosure of additional information.

Please refer to the information given in the Directors' Report in the section on significant events subsequent to the reporting period.

Section 4 – Other aspects

Going concern assumption

With regard to the going concern basis, in accordance with the guidelines contained in Document No. 2 of 6 February 2009 "Disclosures in financial reports on the going concern assumption, financial risks, impairment tests on assets and uncertainties in the use of estimates" issued jointly by Banca d'Italia, Consob and ISVAP, the Bank is reasonably certain to continue to operate profitably in the foreseeable future and has therefore prepared its financial statements under the going concern assumption.

The uncertainty resulting from the current economic environment, though it has affected the financial statements, does not however raise doubts as to the mentioned going concern basis.

More detailed information on key market issues and factors is contained in the Directors' Report.

Use of estimates and assumptions in preparing the financial statements

The preparation of financial statements requires the use of estimates and assumptions which may significantly affect the amounts stated in the balance sheet and the income statement, as well as the information on contingent assets and liabilities recorded.

Such estimates require the use of available information and the adoption of subjective valuations, also based on the historical experience used to make reasonable assumptions for the recording of management operations.

The estimates and assumptions used may, by their very nature, vary from one financial period to the next. Therefore the current amounts stated in the financial statements in the subsequent financial years might significantly differ as a result of changes in the subjective valuations used.

The main instances in which subjective valuations are used by the Board of Directors include:

- the quantification of impairment losses on loans and, generally, of the other financial assets;
- the determination of fair value of financial instruments to be used for reporting purposes;
- the use of valuation models for determining the fair value of financial instruments not listed in active markets;
- the estimates and assumptions on the recoverability of deferred tax assets.

The description of the accounting policies applied to the main financial statement aggregates provides the detailed information necessary for identifying the main assumptions and subjective assessments used in preparing the financial statements.

For further details on the breakdown and the carrying values of items calculated using estimates, please refer to the specific sections of the Notes to the financial statements.

Change in accounting estimate

The useful life of a depreciable asset, by its nature, cannot be accurately measured and is therefore subject to management's estimate.

As a result of new information obtained through a real estate appraisal issued by an independent expert, the Bank, in accordance with IAS 8 paragraph 34, revised the estimate so far used to determine the useful life of buildings recognized as assets in the balance sheet, thereby also ensuring compliance with the tax regulations in force.

As a result of the change in estimate, the useful life of the depreciable asset has been extended to 33 years compared to the 25-year period of the previous depreciation schedule; consequently, the depreciation rate used for the year 2016 has been reduced by approximately 1% compared to the previously applied rate.

The effect on the income statement of the change in estimate is described below:

- Accumulated depreciation according to the 25-year depreciation schedule: € 288 thousand;
- Accumulated depreciation according to the 33-year depreciation schedule: € 202 thousand

Therefore, the impact on the 2016 income statement was of Euro 86 thousand.

Other aspects

The financial statements of the Bank are audited by Deloitte & Touche S.p.A., in application of the Shareholders' Meeting Resolution of 28/04/2010, which appointed the mentioned firm as independent auditors for the years 2010-2018.

A.2 – Main items of the financial statements

The accounting standards adopted in the preparation of the Financial Statements for the year ended 31 December 2016 are indicated below. The presentation of the standards adopted was carried out referring to the stages of initial recognition, classification, recording, measurement and derecognition of the items of assets and liabilities. The same applies to the recognition method of costs and revenue.

1 - Financial assets held for trading

Classification criteria

The financial assets held for trading category includes financial instruments that are held with the intention of generating short term profits from changes in the prices of those instruments.

Where present – debt securities, equity securities, UCIT units (mutual funds or SICAVs) are recognized as "financial assets held for trading" by the Bank. Financial assets allocated to the trading book also include the positive value of derivative contracts held for trading.

Conversely, derivatives designated as effective hedging instruments under hedge accounting rules, are recognized as Hedging derivatives, the amount of which is recorded in item 80 of the assets.

The Bank did not own and had not traded derivatives as at the reporting date.

Recognition criteria

Financial assets are initially recognised at the settlement date for debt and equity instruments and UCIT units, and at the subscription date for derivative financial instruments.

At initial recognition, financial assets held for trading are recorded at fair value. This is represented by the consideration paid to carry out the transactions without considering any cost or income relating to it and attributable to the instrument, which are directly recognised in the income statement.

Valuation criteria

After initial recognition, financial assets held for trading are measured at fair value, with relevant gains or losses recognised as a contra entry in the income statement

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

The fair value of financial instruments traded in active markets is based on quoted market prices ("bid" price or, if not provided, average prices) at the reporting date. A market is defined as active if prices reflect normal market transactions, are readily and regularly available and reflect the price of actual and regular market transactions.

In the absence of an active market, fair value is determined by estimates and commonly adopted valuation methods taking into account all the risk factors related to the instruments, and which are based upon data available on the market. More specifically, the Bank uses methods based on the valuation of listed instruments with similar characteristics; discounted cash flow analysis; models for the calculation of option prices; values recorded in recent comparable transactions and other techniques commonly used by market participants. Equity instruments for which fair value cannot be reliably determined, are carried at cost, adjusted for any impairment losses.

For more details about the correct measurement of fair value, please see the following paragraph A.4 of these Notes.

Derecognition criteria

Financial assets are derecognised when the contractual rights on cash flows from the assets expire or when a financial asset is disposed of, basically transferring all the pertinent risks/benefits. Vice versa, if a relevant share of the risks and benefits related to the financial assets sold is retained, the financial assets continue to be recognised in the financial statements, even though their legal title has actually been transferred. When it is not possible to ascertain the substantial transfer of the risks and benefits, financial assets are derecognised, provided that the bank has not retained any kind of control over them. Otherwise, when even partial control is retained, assets continue to be recognised in the financial statements to the extent of their residual involvement, which is measured through the bank's exposure to changes in the value of the assets sold and to changes in the related cash flows. Transferred financial assets are derecognised when the contractual rights to the related cash flows are retained but at the same time a contractual obligation to pay precisely those cash flows to third parties is assumed.

Recognition criteria of Income Statement items

Revenue items comprising interest income on securities and similar revenues are recognized in the interest items of the income statement on an accrual basis.

Gains and losses realized on disposal or redemption and unrealized gains and losses arising from changes in fair value of the trading portfolio are classified in the income statement under "Net profit/(loss) from trading activities"; the effect of the measurement of monetary assets and liabilities in foreign currency at the end-of-period exchange rate is also included in this item.

2 - Financial assets available for sale

Classification criteria

This category includes financial assets other than Loans and Receivables, Assets held for trading and Assets held to maturity or measured at fair value. Specifically, this item includes, in addition to bonds other than those held for trading or classified as Assets held-to-maturity or measured at fair value or classified as Loans and Receivables, equity investments other than those held for trading or qualifying as subsidiaries, associates or jointly controlled entities, including private equity investments and investments in private equity funds, as well as the underwritten share of syndicated loans held for disposal at inception.

Reclassification is only permitted into the "Financial assets held to maturity" category, in the cases provided for by accounting principles. In addition to the Financial assets held to maturity category, debt securities may also be reclassified as Loans and Receivables, if there is an intention to hold them for the foreseeable future and the conditions for recognition are met. They are transferred at their fair value at the time of reclassification.

Recognition criteria

Financial assets are initially recognised at the settlement date for debt and equity instruments, and at the date of issue for receivables.

Upon initial recognition, assets are stated at fair value, including transaction costs or income directly attributable to the instrument.

Valuation criteria

After initial recognition, AFS financial assets are measured at fair value with recognition of amortised cost in profit or loss, while the fair value gains or losses are recognised in a specific equity reserve until the financial asset is derecognised or an impairment loss is recognised. At the time of (partial or total) disposal or upon recognition of an impairment loss, the accumulated profit or loss is reversed, wholly or in part, to the income statement.

As regards the determination of fair value, reference is made to the previous comments on financial assets held for trading.

Equity instruments and units of UCIs that invest in equity securities, not listed on an active market and for which fair value cannot be determined, are measured at cost.

The financial assets included in this category are tested for impairment. If there is evidence of impairment, the amount of the loss is measured as the difference between the carrying amount of the asset and its fair value.

If the reasons for the impairment are removed as a result of an event occurring after recognition of the impairment loss, the loss is reversed with contra-entry to the income statement, in the case of loans and receivables or debt securities, and to equity, in the case of equity securities; in any case, the amount of the reversal may not exceed the amortized cost that would be attributable to the instrument, had no previous adjustments been made.

Derecognition criteria

Financial assets are derecognised only if the sale entailed the transfer of all the risks and benefits associated with the asset. When it is possible to ascertain the substantial transfer of the risks and benefits, financial assets are derecognised, provided that the bank has not retained any kind of control over them. Otherwise, when even partial control is retained, assets continue to be recognised in the financial statements to the extent of their residual involvement, which is measured through the bank's exposure to changes in the value of the assets sold and to changes in the related cash flows. Transferred financial assets are derecognised when the contractual rights to the related cash flows are retained but at the same time a contractual obligation to pay precisely those cash flows to third parties is assumed.

Recognition criteria of Income Statement items

Interest calculated using the effective interest rate method, which takes into account the amortization of transaction costs and the difference between cost and redemption value, is recognized in the income statement.

Gains and losses from changes in fair value are recognised in a specific equity reserve, called “Valuation reserve”, until the asset is either derecognised or an impairment loss is recognized; upon derecognition or recognition of the impairment loss, the cumulative gain or loss is booked to the income statement.

If the reasons for impairment cease to exist due to an event occurring after the impairment of the financial asset, the reversal on debt securities are recognised in the income statement, whereas the reversals on equity securities are charged to a special shareholders’ equity reserve named “Valuation Reserve”.

4 - Receivables

Classification criteria

Receivables include loans to customers and banks, whether directly disbursed or acquired from third parties, with fixed or foreseeable payments, that are not listed on an active market and are not initially classified as available-for-sale financial assets.

Receivables also include trade receivables, reverse repurchase agreements and securities purchased through subscription or private placement, with fixed or determinable payments, whose price is not quoted in active markets.

Instruments cannot be reclassified into other IAS 39 financial assets categories.

Recognition criteria

Initial recognition of a loan occurs at the date the contract is signed, which normally coincides with the date of disbursement. Should this not be the case, at the time of signing the contract a commitment to disburse funds is entered into, which expires on the date of disbursement of the loan.

Loans are recognised according to their fair value, which is equal to the amount disbursed (or subscription price), including costs/income directly attributable to the individual loan and determinable at origin, even where settled at a later date. Costs that - despite having the above characteristics - are repaid by the debtor or can be classified as ordinary administrative expenses are excluded.

If, in rare circumstances, the inclusion in this category is made following reclassification from available for sale or held for trading financial assets, the fair value of the asset at the date of reclassification is taken as the new amortized cost of the asset.

For loans entered into at non-market conditions, the initial recognition is made at an amount equal to the future cash flows discounted at a market rate. Any difference between the initial recognition and the amount disbursed is recognized in profit or loss upon initial recognition.

Valuation criteria

After initial recognition, loans are accounted for at amortised cost, i.e. the initially recognised amount less/plus any principal repayments, impairment losses/reversals and amortisation – calculated using the actual interest method – of the difference between the amount disbursed and the amount repayable at maturity, generally corresponding to costs/income directly attributable to the individual loan.

The actual interest rate is the rate that equates the current value of future cash flows from the loan, for principal and interest, to the amount disbursed, including the costs/income attributable to the loan. This accounting method, using a financial logic, allows for the distribution of the financial effect of the costs/income over the presumed remaining life of the loan.

The amortised cost method is not used for short-term loans, as the effect of discounting to current value is deemed to be negligible. Said receivables are stated a the nominal value disbursed. Any income and charges attributable to them are recognized in the income statement.

The amortised cost method is not used for loans without a defined maturity or repayable on demand.

Loans are subject to an analysis aimed at identifying those showing any objective evidence of impairment as a result of circumstances occurring after initial recognition. This category includes non-performing, unlikely to pay, past due/overdrawn loans as defined by Banca d'Italia's regulations in force and consistent with IAS/IFRS and European supervisory rules.

First, the need is assessed to individually write down any non-performing loans, as classified into the various risk categories pursuant to the regulations issued by the Bank of Italy and described in point A1. Section 4. "Other aspects".

Non-performing loans are analytically measured – together with the other individually significant loans – and the impairment loss for each loan corresponds to the difference between the carrying amount at the time of measurement (amortised cost) and the current value of estimated future cash flows, calculated by applying the original actual interest rate.

The expected cash flows take into account the expected recovery period, the estimated realisable value, any existing guarantees and the costs likely to be incurred in order to recover the loan.

The original actual interest rate of each loan is unvaried in time, also if the relationship is subsequently restructured, leading to a variation in the contractual rate and even if the relationship becomes effectively non-interest bearing.

The impairment loss is recognised in the income statement. The impairment component resulting from cash flow discounting is released on an accruals basis in accordance with the actual interest method and recognised under write-backs.

Cash flows related to loans that are expected to be recovered in the short term are not discounted.

The resulting write-back is recognised in the income statement and may not exceed the amortised cost of the loan had no impairment been recognised. The write-backs also include the positive effects of discounting, following repayment, deriving from the progressive reduction of the estimated time necessary to recover the loan written down.

The original carrying amount of loans is reinstated in future FYs if the circumstances that resulted in the impairment no longer exist, provided that this assessment is objectively linked to an event that took place after the impairment was recognised.

Performing loans (including loans to counterparties resident in countries at risk) for which there is no objective evidence of impairment attributable to individual loans, are collectively evaluated for impairment. This assessment is based on homogeneous loan categories in terms of credit risk; the related loss percentages are estimated on the basis of time series allowing to appreciate the value of the latent loss for each loan category. The same applies to loans that have been overdue or overdrawn for more than 90 days, for which, although identified by law as impaired loans, a collective write-down is considered adequate, in line with the impairment methods applied to performing loans, with an additional percentage write-down, as they are in any event viewed as more risky.

Collectively assessed impairment losses are recognised in the income statement. At each reporting period, any additional impairment losses or write-backs are recalculated on a differential basis compared to the amount of the collective write-downs of the previous FY.

At the end of the current reporting period, since there were no significant historical losses and in accordance with paragraph AG89 of IAS 39, the collective impairment test on performing loans was carried out using "a similar-group experience for comparable groups of financial assets".

Derecognition criteria

Loans are derecognised when the right to receive cash flows ceases, when the sale has resulted in the transfer of substantially all the risks and benefits associated with the loan or if the loan is considered as definitively non recoverable, after all the necessary recovery procedures have been pursued.

Vice versa, when a consistent part of risks and benefits is retained, loans are derecognised, provided that the bank has not retained any kind of control over them. Otherwise, when even partial control is retained, the loans continue to be recognised in the financial statements to the extent of the residual involvement, which is measured by the bank's exposure to changes in the value of the loans sold and to changes in the related cash flows.

If the risks and benefits related to the loans sold are retained, those loans continue to be recognised as an asset in the financial statements, even though their legal title has actually been transferred, recording a liability for the amount received by the purchaser.

Finally, the loans disposed of are derecognised when the contractual rights to the related cash flows are retained but at the same time a contractual obligation to pay precisely those cash flows to other parties is assumed.

Recognition criteria of Income Statement items

Interest generated by "loans to banks and customers" is recognized under "Interest income and similar revenues" in the income statement, on an accrual basis and according to the effective interest rate.

Any Impairment losses are recognized in the income statement under item 130 "net impairment losses/recoveries of a) loans", as are the recoveries of part or all of the amounts previously written down. Reversals are recognized where there is either an improvement in credit quality as a result of which there is reasonable certainty that principal will be recovered according to the loan’s original contractual terms, or in relation to the gradual elimination of the discounting effect, calculated at the time the value adjustment was recognized.

In the case of collective evaluation, any additional impairment losses or reversals are recalculated on a differential basis with reference to the entire loan portfolio.

Gains and losses resulting from the sale of loans are recognized in item 100 a) of the income statement "Profit (loss) on disposal or repurchase of loans"

8 - Property, land and equipment

Classification criteria

This item mainly includes land, operating and investment properties, technical plant, vehicles, furniture, fittings and equipment of any type expected to be used for more than one period.

According to IAS 16, “operating properties” are the assets either owned or held under finance lease, which are used for the production and provision of services or for administrative purposes.

As required by IAS 40, investment properties include property held to earn rental income or for capital appreciation, or both.

Property, plant and equipment also includes assets held under finance lease, even though the lessor maintains legal title to the assets.

Leasehold improvements are also included in this category, provided they refer to identifiable and separable tangible assets (e.g. ATMs). If the above costs are not incurred for an autonomous use or function, but they are expected to provide future benefits, they are recognized under "other assets" and are depreciated over the shorter of the expected useful life of the improvements and the residual term of the lease.

Property, plant and equipment also include the advances paid for the acquisition and restoration of assets not yet entered into the production process, and therefore not yet subject to depreciation.

Recognition criteria

Tangible assets are initially recorded at acquisition or construction cost, which includes any incidental costs directly attributable to the purchase and incurred to make the asset operative.

Non-routing maintenance expenses and the cost of improvements that result in an increase in future benefits are recognized as an increase in the value of the related assets and depreciated over the remaining useful life of such assets.

Conversely, the costs for repairs, maintenance or other work carried out to ensure the normal operation of the assets are charged to the income statement as incurred.

Valuation criteria

After initial recognition, tangible assets, including investment properties, except as specified below, are carried at cost less accumulated depreciation and any accumulated impairment losses.

Property, plant and equipment are systematically depreciated in every FY over their useful life using the straight-line method. The depreciable amount is the cost of the assets, since the residual value at the end of the depreciation process is considered negligible. Buildings are depreciated to the extent deemed suitable to represent their deterioration over time following use, taking account of the non-routine maintenance expenses that increase the value of the assets.

The useful life of depreciable tangible assets is periodically reviewed; in the event of adjustment to the initial estimates, the depreciation charge is modified accordingly.

Vice versa, the following assets are not subject to depreciation:

- land, whether purchased separately or incorporated in the value of the buildings, as it is deemed to have an indefinite useful life. If the value of the land is included in that of the building, land can be accounted for separately from the building; the allocation between the value of the land and the value of the building is carried out on the basis of independent expert appraisals only for entire buildings;
- works of art, the useful life of which cannot be estimated and whose value generally increases over time;

The depreciation process begins when the asset becomes available for use.

At each reporting date, the Bank verifies if there are any indications of impairment of the asset. The impairment loss is determined by comparing the carrying value of the tangible asset and the lower recoverable value.

The latter is the higher of the fair value of the asset, net of any selling costs, and the value in use which is the present value of future cash flows generated by the asset. Any amendment is recorded in the income statement under item *"Net adjustments to/write-backs on tangible assets".*

When the reasons that led to the recognition of the loss no longer exist, the impairment is reversed; the value after write-back cannot exceed the carrying amount, net of depreciation, that would have been determined had no impairment loss been recognised.

Derecognition criteria

Tangible assets are derecognized upon disposal or decomissioning and, consequently, no future economic benefits are expected from their sale or use.

Recognition criteria of Income Statement items

The straight-line depreciation is recorded in the income statement under item "*Net adjustments to/write-backs on tangible assets".*

In the first year, depreciation is recognized in proportion to the actual period in which the asset was available for use. For assets sold and/or disposed of during the year, depreciation is calculated on a daily basis until the date of sale and/or disposal.

Capital gains and losses on the sale or disposal of tangible assets are calculated as the difference between the net consideration from disposal and the carrying amount of the asset; they are recognized in the income statement on the same date in which the assets are derecognized.

The income statement item "*Profit (loss) on disposal of investments"* contains the net positive or negative balance between gains and losses on the sale of investments.

9 - Intangible assets

Classification criteria

The item includes those non-monetary assets, without physical substance, which are held in order to be used over a number of years or an indefinite time, which meet the following characteristics:

- they can be identified;
- the company has control over them;
- it is likely that the future economic benefits attributable to the asset will flow to the company;
- the cost of the asset can be measured reliably.

In the absence of any of the above characteristics, the cost to acquire the asset or generate it internally is recognized as an expense when it is incurred.

Intangible assets mainly include the multi-annual application software and other identifiable assets arising from legal or contractual rights. They also include goodwill, which represents the positive difference between the purchase price and the *fair value* of assets and liabilities acquired within business combination transactions.

Valuation and recognition criteria

Intangible assets are stated at cost, adjusted by any incidental charges, only when the future economic benefits attributable to the assets are likely to be realised and if the cost of the asset can be measured reliably. Otherwise the cost of the intangible asset is expensed as incurred.

After initial recognition, intangible assets with a "finite" life are carried at cost, less accumulated amortization and accumulated impairment losses. Assets with an indefinite useful life are not subject to straight-line amortisation but to a periodic test to verify the adequacy of the relevant book value.

The amortization process begins when the asset is available for use, i.e. when it is in place and in suitable condition to function as specified, and ceases when the asset is derecognised.

Intangible assets are amortised on a straight line basis, in order to reflect the long-term use of the assets on the basis of their estimated useful life.

In the first year, amortization is recognized in proportion to the actual period in which the asset was available. For assets sold and/or disposed of during the year, amortisation is calculated on a daily basis until the date of sale and/or disposal.

At the end of each annual or interim reporting period, if there is evidence of impairment, the asset's recoverable value is estimated.

The amount of the loss, which is recognised in the income statement, corresponds to the difference between the asset's carrying amount and its recoverable amount.

Intangible assets include:

- technology-based intangible assets, such as application software, which are amortized on the basis of their expected technological obsolescence and in any case over a maximum period of seven years;
- intangible assets linked to customers, represented by the value, at the time of mergers, of asset management accounts and the insurance portfolio. These assets, with a finite life, are originally measured by discounting to present value, using a rate representing the time value of money and the specific business risks, the cash flows corresponding to the profit margins over the period of residual contractual or estimated maturity of the accounts in place at the time of the merger. They are amortized on a straight-line basis over the period when the most significant economic benefits of accounts without a predetermined deadline are expected to flow into the company or according to a declining balance method corresponding to the term of the contract for accounts with a defined deadline. Asset management accounts are amortized over 7-10 years and accounts related to insurance contracts are amortised according to the declining balance method over the remaining life of the policies;
- marketing-related intangible assets that reflect the value of the "brand name", which was also recognized upon merger transactions. This asset is considered to have an indefinite life as it is expected to contribute to the formation of income flows for an indefinite period.

Derecognition criteria

Intangible assets are derecognised from the balance sheet upon disposal or when no future economic benefits are expected any longer.

Recognition criteria of Income Statement items

Both amortisation and any adjustments/write-backs for impairment on intangible assets other than goodwill, are entered in the income statement under "Net adjustments/write-backs on intangible assets".

Capital gains and losses on the sale or disposal of intangible assets are calculated as the difference between the net consideration from disposal and the carrying amount of the asset and are recognized in the income statement.

The item "*Profit (loss) on disposal of investments*" contains the net positive or negative balance between gains and losses on the sale of investments.

11. Current and deferred taxes

Recognition and classification criteria

This item includes tax assets and liabilities (current and deferred) recognized in accordance with IAS12.

Income taxes – calculated in compliance with national tax laws – are recognized in the income statement, on an accrual basis, except for those relating to items charged or credited directly in equity.

The provision for income taxes is determined on the basis of a prudent forecast of current, prepaid and deferred taxation.

Current tax assets include recoverable tax credits (including advance payments); current tax liabilities include current taxes not yet paid at the reporting date.

Deferred taxation is determined on the basis of the balance sheet liability method, taking into account the tax effect related to temporary differences between the carrying amounts of assets and liabilities and their tax value, which will determine taxable or deductible amounts in future periods. For this purpose, temporary taxable differences" are those that in future periods will determine taxable amounts and "temporary deductible differences" are those that in future years will determine deductible amounts.

Deferred tax assets are recognized when likely to be recovered. However the probability of recovery of deferred tax assets relating to goodwill, other intangible assets recognized until 31.12.2014 and loan adjustments is deemed as automatically confirmed as a result of legal provisions that provide for their conversion into a tax credit in the event of loss for the year for statutory and/or IRES tax purposes or of negative production value for IRAP purposes. More specifically, in the event of statutory loss for the year, deferred tax assets related to goodwill, other intangible assets recognized until 31.12.2014 and loan adjustments will be partially converted into tax credit pursuant to the provisions of Art. 2, paragraph 55, of Law Decree no. 225 of 29 December 2010, converted with amendments by Law no. 10 of 26 February 2011, as amended by art. 1, paragraphs 167 and following of Law no.147 of 27 December 2013.

The conversion shall take effect as of the date of approval by the shareholders' meeting of the individual financial statements in which the loss is reported, according to art. 2, paragraph 56, of the mentioned Law Decree 225/2010 *(if any or of filing the tax return in case of tax losses for IRES purposes or negative production value for IRAP purposes*).

Deferred taxes are calculated by applying the tax rates laid down by the statutory provisions in force, on taxable temporary differences which are likely to be actually taxed and on taxable temporary differences for which there is reasonable certainty that future taxable amounts will be available when the tax deductibility applies Deferred tax assets and liabilities relating to the same tax and due in the same period are offset.

Should the deferred tax assets and liabilities relate to items affecting the income statement, the contra item is income taxes.

When deferred tax assets and liabilities regard transactions recognised directly under equity, with no impact on the Income Statement, they may be recognised in separate reserves (e.g. valuation reserves).

“Deferred tax liabilities" are recognized in all cases when it is probable that the associated liability will arise.

"Deferred tax assets" represent a future reduction in taxable income, following an advance payment of taxes compared to the economic and statutory period of relevance, while "deferred tax liabilities" represent a future increase in taxable income, resulting in a tax deferral compared to the economic and statutory period of relevance.

Valuation criteria

The effects of current and deferred taxes calculated in accordance with national legislation are recognised on the basis of accrual accounting, consistent with the recognition in the financial statements of the costs and revenues from which they arose, by applying the tax rates in force.

Current taxes are offset, with respect to the individual taxes: the advances paid and the corresponding tax liability are presented as a net balance under "Tax assets a) current" or under "Tax liabilities a) current" depending on whether the balance is positive or negative.

Deferred tax assets and deferred tax liabilities are calculated using the applicable tax rates according to the law in force in the period in which the deferred tax asset is realized or the deferred tax liability is settled.

They are systematically measured to reflect any changes in regulations or tax rates.

Deferred tax assets and liabilities are recognized in the balance sheet without offsetting, respectively under “Tax assets a) deferred" and "Tax liabilities b) deferred” .

Recognition criteria of Income Statement items

If the deferred tax assets and liabilities relate to items affecting the income statement, the contra item is income taxes.

When deferred tax assets and liabilities regard transactions recognised directly under equity, with no impact on the Income Statement (such as the measurement of available-for-sale financial assets), they are recognised in separate Shareholders' equity reserve.

Derecognition criteria

Deferred tax assets and deferred tax liabilities are derecognised in the year in which:

- the temporary difference from which they derive becomes taxable with regard to deferred tax liabilities or deductible with regard to deferred tax assets;

- the temporary difference from which they originate is no longer relevant for tax purposes.

12 - Provisions for liabilities and charges

Classification criteria

The provisions for liabilities and charges include provisions for current obligations (legal or constructive) arising from a past event, for which an outflow of resources is likely in order to settle the obligation, provided that the related amount can be reliably estimated.

No provision is recognized for liabilities that are merely potential and not likely, for which information is however provided in the notes, except in cases where the probability of using resources is remote or the amount is not significant.

Recognition criteria

The sub-item "other provisions" in Balance Sheet Liabilities contains provisions for liabilities and charges set aside in accordance with the provisions of international accounting standards (IAS 37), except for write-downs due to the impairment of guarantees issued, which are included in "Other liabilities ".

The sub-item "Provision for pensions and similar obligations" includes provisions recognised pursuant to IAS 19 "Employee benefits" in order to cover the technical deficit of the fund set up to pay pensions. The calculation of present values, as required by the standard referred to above, is carried out by an independent actuary, using the “projected unit credit method”.

Valuation criteria

The amount recognized as a provision represents the best estimate of the expense required to settle the obligation at the reporting date.

A provision is recognized if and only if:

- there is an obligation (legal or implicit) in course as a consequence of a past event;
- the utilisation of resources for economic benefits is likely to be used to comply with the obligation;
- a reliable estimate of the obligation amount deriving from the fulfilment can be made.

Where the time element is significant, provisions are discounted using current market rates.

Provisions are periodically reviewed and adjusted to reflect the current best estimate. When as a result of the review, the occurrence of the cost becomes improbable, the provision is reversed.

Derecognition criteria

The provision must be reversed when it is unlikely that resources that can produce economic benefits are to be used in order to comply with the obligation. A provision should only be used to cover the charges for which it was recognised.

Recognition criteria of Income Statement items

The allowance is recorded in the income statement under item “Net allowances to provisions for liabilities and charges”. The item shows the balance, positive or negative, between the provisions made and any release to the income statement of provisions considered to be in excess.

Net allocations also include the decrease in provisions due to the discounting effect, and the corresponding increases due to the passage of time (accrual of interest inherent in discounting).

If the provisions relate to employees, such as the seniority bonuses described in section 17 "Other information", the relevant income statement item affected is "Administrative expenses a) staff costs”.

13 – Payables and outstanding securities

Classification criteria

The items "Payables to banks", "Payables to customers" and "Outstanding securities" include the various forms of interbank funding, funding from customers and fundraising through certificates of deposit and bonds outstanding, not classified under “Financial liabilities carried at fair value”: the items are net of any repurchased amounts. They include securities expired but not yet reimbursed as at the reporting date. They include operating payables connected with the supply of financial services.

Recognition criteria

Financial liabilities are initially recognised when the contract is subscribed, usually coinciding with the receipt of the money raised or issue of debt securities.

The value at which they are recorded corresponds to their *fair value*, which is normally the amount collected or the issue price, plus any additional costs/income directly attributable to individual funding or issue transactions and not reimbursed by the creditor. The initial carrying amount does not include all the charges that are reimbursed by the creditor or that are attributable to administrative costs.

The *fair value* of any financial liabilities issued at different conditions than those available on the market is specifically estimated and the difference on the amount collected is recognised in the income statement.

Repurchased derecognised securities placed back on the market are considered as a new issue and are recognised at the new issue price, with no effect on the income statement.

Valuation criteria

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

Short-term liabilities, for which the time factor is negligible, are excluded from this method and are recognised at the amount collected; any costs and income directly attributable to the transaction are recognised in the income statement under their pertinent items.

Derecognition criteria

Financial liabilities are derecognised when they expire or are extinguished. Derecognition also occurs when bonds previously issued are repurchased. Securities previously repurchased and placed back on the market are considered as a new issue and are recognised at the new issue price.

Recognition criteria of Income Statement items

Cost items consisting of interest expense are recognized in the interest items of the income statement on an accrual basis.

Any difference between the repurchase value of own securities and the corresponding carrying amount of the liability is recognized in the income statement under "Profits/losses on disposal or repurchase of: d) financial liabilities."

14 - Financial liabilities held for trading

Recognition criteria

This category of liabilities includes, in particular, the negative value of trading derivatives as well as the negative value of derivatives embedded, but not closely related, to complex contracts. It also includes the liabilities arising from uncovered short trading positions and certificates.

At the issue or subscription date, financial liabilities are recognized at cost, corresponding to the fair value of the instrument, excluding any transaction costs or income directly attributable to the instruments.

Valuation criteria

Financial liabilities held for trading are measured at fair value and the resulting valuation gain or loss is recognized in the income statement.

Derecognition criteria

Financial liabilities held for trading are derecognised when the contractual rights on the pertinent cash flows expire or when a financial liability is disposed of, basically transferring all the risks/benefits due to their ownership.

16 - Transactions in foreign currencies

Classification criteria

Assets and liabilities in foreign currency include not only those explicitly denominated in a currency other than the Euro, but also those with financial indexation clauses linked to the Euro exchange rate against a specific currency or against a specific basket of currencies.

For the purposes of translating foreign currency assets and liabilities, they are broken down into monetary items (classified as current items) and non-monetary items (classified as non-current items).

Monetary items include cash on hand and assets and liabilities to be received or paid in a fixed or determinable amount of money.

Non-monetary items are characterized by the absence of a right to receive or an obligation to pay a fixed or determinable amount of money.

Recognition criteria

Upon initial recognition, foreign currency transactions are recorded in the reporting currency, converting the foreign currency amount using the exchange rate applicable at the transaction date.

Valuation criteria

At each reporting date, any element originally denominated in foreign currency is valued in euros as follows:

- monetary items are converted using the reporting rate;
- non-monetary items carried at historical cost are converted using the rate applicable at the transaction date;
- non-monetary items carried at fair value are converted using the exchange rate at the reporting date.

Recognition criteria of Income Statement items

For monetary items, the exchange differences arising between the transaction date and the date of payment, are recognized in the income statement for the period, under "Net profit (loss) from trading activities"; the same item includes the differences arising from the translation of monetary items at rates other than those of initial translation or of translation at the previous reporting date.

When a gain or a loss relating to a monetary item is recognised in equity, the exchange differences relating to that element is also recorded in shareholders' equity.

17 - Other information

Accruals and deferrals

Accruals and deferrals that concern income and expenses accrued during the FY on assets and liabilities are recognised as adjustments to the assets and liabilities to which they relate. Where it is not possible to attribute them to a specific account, they will be reported in "Other assets" or "Other liabilities".

Employee severance indemnity

The Employee Severance Indemnity (TFR) is similar to a post employment benefit falling under the category of defined benefit plans, the value of which has to be determined using actuarial methods in accordance with IAS 19.

In accordance with Law no. 296 of 27 December 2006 (2007 Budget Act), companies with a minimum of 50 employees are obliged to pay on a monthly basis – and in accordance with the employee's wishes – the Employee Severance Indemnity accrued after 1 January 2007 to the supplementary pension scheme as per Legislative Decree 252/05 or to a special Fund managed by INPS for the payment of employee severance indemnity to private sector employees pursuant to article 2120 of the Italian Civil Code (hereinafter the Treasury Fund).

The following options are therefore available:

a) the severance indemnity being accrued is paid to supplementary pension schemes;

b) the severance indemnity being accrued is kept in the company (for companies with less than 50 employees);

c) the severance indemnity being accrued is transferred to INPS Treasury Fund (for those who, despite having chosen not to allocate the severance indemnity to supplementary pension schemes, work in companies with at least 50 employees).

In the cases referred to in b), which specifically apply to the bank, the total severance indemnity liability shall be assessed pursuant to IAS; the actuarial valuation shall be carried out according to the usual criteria set out in IAS 19, except for the exclusion of the pro rata relating to employees who decided to transfer their entire accrued amount to supplementary pension schemes, in order to preserve methodological consistency as indicated by the Board of Actuaries with regard to other pension schemes.

The Employee severance indemnity (TFR) is recognised on the basis of its actuarial value.

The actuarial estimate of the employee severance indemnity is carried out on the basis of "benefits accrued" pursuant to the Projected Unit Credit criterion, as provided for in paragraphs 67-69 of IAS 19.

The calculation method is summarised below:

- projection of allocated employee severance indemnity for each employee and of future employee severance indemnity payments matured until the time of payment, based on the valuation date, the estimates being based on the employee's salary;
- determination of estimate employee severance indemnity payments, for each employee, which must be made by the Company in the event of the termination of an employee's contract due to dismissal, resignation, incapacity, death and retirement and in the event of advance payment requests;
- discounting, at the valuation date, of each payment estimate;
- recalculation, for each employee, of estimated length of service and discounting based on seniority matured at the valuation date in respect of overall seniority corresponding to the as yet undetermined payment date.

The actuarial analysis is conducted annually by an independent actuarial and statistics consulting firm.

The cost for the severance indemnity accrued during the year and recognised in the income statement as staff costs is the sum of the current value of employee benefits accrued during the year, and the annual interest accrued on the current value of existing liabilities at the beginning of the year. Gains or losses resulting from changes in actuarial assumptions compared to previous year estimates are charged to a separate reserve in equity.

Treasury shares

Any treasury shares held are entered as a reduction of shareholders' equity.

Likewise, their original cost resulting from their subsequent sale is recognised as changes in equity.

Income Statement

Revenue is measured at the fair value of the consideration received or receivable and is recognized when future benefits are received and such benefits can be reliably quantified.

Costs are recognised as incurred.

Costs that cannot be matched to revenues are immediately recognized in the income statement.

Specifically:

- the costs and revenues directly attributable to financial instruments measured at amortized cost and which can be determined when they arise regardless of when they are settled, flow into the income statement by applying the effective interest rate.
- dividends are recognized in the income statement when their distribution is approved
- revenue from brokerage of securities held for trading, resulting from the difference between the transaction price and the instrument's fair value, are recognised in the income statement on recognition of the transaction if the fair value can be determined with reference to parameters or recent transactions observed in the same market where the instrument is traded;
- the other commissions are recognised on an accrual basis

the costs directly attributable to financial instruments measured at amortized cost and which can be determined when they arise regardless of when they are settled, flow into the income statement by applying the effective interest rate. For a definition of the effective interest rate please see Section "Loans and receivables"

Impairment losses are recognized in the income statement in the FY when they occur.

Default interest, if contractually provided, is recognized in the income statement only when actually collected.

Impairment losses are recognized in the income statement in the FY when they occur.

Calculation of amortized cost

The amortized cost of a financial asset or liability is the value at which it was measured on initial recognition, less any principal repayments, plus or minus cumulative amortization, determined under the effective interest method, the differences between initial value and value at maturity, and less any impairment loss.

The effective interest rate is the rate that equates the present value of a financial asset or liability to the contractual cash flows paid or received until maturity or until the date the rate is next redetermined.

For instruments with fixed rate or fixed rate for time periods, future cash flows are determined on the basis of the known interest rate during the life of the instrument.

For floating rate financial assets or liabilities, future cash flows are calculated on the basis of the last known interest rate. Every time the price is revised, the amortization plan and the effective interest rate are recalculated for the entire useful life of the financial instrument, i.e. until the maturity date.

The amortized cost is applied for receivables, financial assets held to maturity, available for sale financial assets, payables and securities in issue.

Financial assets and liabilities traded at market conditions are initially recognized at their fair value, which normally corresponds to the amount paid or disbursed, including directly attributable transaction costs and commissions.

Transaction costs are internal incidental costs and income that can be attributed to the instrument on initial recognition, which cannot be charged back to customers.

These ancillary components, which must be attributable to the individual assets or liabilities, affect the actual return and make the effective interest rate different from the contractual interest rate.

The costs and income generally attributable to more than one transaction and the related components that may be recognized during the life of the financial instrument are excluded.

The calculation of the amortized cost also does not include the costs that the bank has to incur regardless of the transaction, such as administrative, stationery and communication costs.

As already explained in the paragraph on criteria for the measurement of receivables, payables and securities in issue, the amortized cost measurement does not apply to short-term financial assets / liabilities for which the economic effect of discounting is immaterial nor to demand loans or loans without a specified maturity.

A.3 – Disclosure on transfers between portfolios of financial assets

The Bank did not make any transfers between financial asset portfolios in the current or in previous years; therefore no data are provided for the tables in this section.

A.4 - *Fair value* reporting

Qualitative information

In December 2012, by Commission Regulation (EU) No. 1255/2012, the European Commission approved the new IFRS 13 "Fair Value Measurement", in force since 1 January 2013.

IFRS 13 defines Fair Value as: "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date". For financial instruments, this definition of Fair Value replaces the previous version in IAS 39 Financial Instruments: Recognition and Measurement.

Therefore, according to the new Fair Value definition laid down in IFRS 13, the fair value of financial liabilities is the value that would be paid for the transfer of that liability (exit price), rather than the amounts necessary to settle it (definition as per IAS 39). This leads to a strengthening of the issue concerning the recognition of the Fair Value adjustments of financial liabilities, compared to the provisions established in IAS 39. With regard to the Fair Value measurement of OTC derivatives in the balance sheet assets, IFRS 13 confirmed the rule that requires the adjustment to be applied for counterparty risk (Credit Valuation Adjustment - CVA). With regard to financial liabilities consisting of OTC derivatives, IFRS 13 introduces the Debit Valuation Adjustment + -

(DVA), which is a Fair Value adjustment designed to reflect an entity's own default risk on these instruments, an issue not explicitly addressed by IAS 39.

A.4.1 Fair Value levels 2 and 3: valuation techniques and inputs used

For assets and liabilities measured at Fair Value on a recurring basis, for which directly observable prices in active markets are not available, Fair Value has to be determined based on the "Comparable Approach" and the "Valuation Model." It should be noted that the only Bank items that are measured at Fair Value on a recurring basis are financial assets and liabilities, as shown below in more detail.

Financial instruments listed on active markets

The Fair Value measurement process begins by verifying whether an active market exists from which quoted prices can be obtained regularly.

Regulated markets are usually considered as active markets except for any regulated markets that Risk Management were to identify as "not active". With reference to non-regulated markets (OTC markets) the presence of active contributors is assessed.

If, as a result of this process, the existence of an active market for the listed instruments is established, Fair Value of the instrument coincides with the price quoted on the valuation date (Mark to Market).

Given the specific liquidity prevailing on regulated markets, the official price published by the market operator is taken as the reference price.

In general, the application of the Mark to Market process based on price sources is carried out as follows:

a) for prices quoted in regulated markets, in particular in the Italian market, the price is determined on the basis of the price quoted on the Italian Stock Exchange for each financial instrument in the portfolio;
b) in the case of prices quoted in unregulated markets, the price is determined by identifying the prices quoted by other Information Providers.

Financial instruments recognised using the methods in point sub a) here above, are classified in Level 1 of the fair value hierarchy.

Financial instruments recognised using the methods in sub point b) here above, are classified in Level 2 of the fair value hierarchy.

Financial instruments not listed on active markets

In the absence of an active market for a particular financial instrument, an internal valuation technique is used.

For the purposes of fair value determination, the Bank has chosen to apply the discounted cash flow method, mainly based on observable market parameters, for instruments that can be measured by discounting the related cash flows (including debt securities).

Should we consider financial instruments other than debt securities, alternative valuation techniques, also based on non-observable market parameters, shall be taken into account.

In general, through the DCF method, the fair value of financial instruments can be determined by discounting the future contractual cash flows (or those deemed most likely) at an established interest rate.

First, the interest rate risk must be taken into account; in the usual practice, reference is made to well accepted and recognised rates, such as the Euribor and/or the Swap rates. In this case, the interest rates used reflect an 'interbank' risk, which is limited, albeit usually higher than government risk. There are, however, other components besides interest rate risk that determine market risk. The premium for all these other components can be summarised in a "spread" to be added to the "Risk Free" curve, for each reference maturity, to obtain a curve that can be used to discount the future cash flows generated by the asset being measured. The Bank calculates the aforesaid "Spread" with reference to the "Credit Default Swaps" quoted for the issuer of the security in question, or, if unavailable, for other issuers of similar size and sector or industry averages.

Therefore, the elements useful for the DCF calculation are:

- *Timing*, maturity and amount (certain or estimated) of the instrument's future cash flows;
- Appropriate discount rate (depending on the credit risk associated with the debtor);
- Currency in which the instrument's cash flows are to be paid.

The *pricing* models for the fair value calculation are based on market parameters.

The main market parameters used in valuation techniques for measuring financial instruments not listed on active markets are:

- the interest rate curves;
- credit risk.

The main curves used are the Euribor rates and Swap rates curves.

The curves reflecting the issuer's creditworthiness are obtained by adding the zero coupon yield curve (or risk-free rates) to a "Spread" that shows the issuer's creditworthiness; these curves are generally used to evaluate bonds not listed on active markets.

To this end, the operator should use the following hierarchy of information:

- credit *spreads* derived from *Credit Default Swaps* (CDS);
- curves for homogeneous sector/rating classes

The instruments measured using the Mark to Model technique will be classified in Level 3 of the fair value hierarchy.

A.4.2 Processes and sensitivity analyses

The techniques and parameters used for measuring Fair Value and the criteria for assigning the Fair Value hierarchy have been defined and formalised in a specific policy adopted by the bank; the policy governs the determination of financial instruments' Fair Value in accordance with the provisions of applicable international accounting standards IFRS issued by the International Accounting Standards Board (IASB), taking into account the interpretations issued by the Financial Reporting Interpretations Committee (IFRIC) and the provisions of Circular 262 of Banca d'Italia.

The sensitivity analysis of receivables from and payables to bank (level 2 of the Fair Value hierarchy), considering the models used to determine their Fair Value, primarily based on year-end balance-sheet data, is not relevant because it cannot be directly attributed to changes in external parameters.

The Fair Value of the portfolio of loans to customers (level 3 of the Fair Value hierarchy) is only affected by the market parameters necessary to discount the future cash flows appropriately adjusted to take account of counterparty risk.

In relation to the Fair Value of the securities portfolio (level 2 and 3), no quantitative analysis was performed on the sensitivity of the Fair Value to changes in unobservable inputs, as the Fair Value was either derived from third party sources without making any adjustment, or is the result of a model with specific inputs and it is not reasonable to expect alternative values.

A.4.3 Hierarchy of Fair Value

The Fair Value hierarchy, based on IFRS 13, must be applied to all financial instruments that are measured at Fair Value and to assets and liabilities not measured at Fair Value or measured at Fair Value on a non-recurring basis. In this regard, for these instruments the highest priority is given to official quoted prices in active markets and the lowest priority to the use of unobservable inputs, as they are more discretionary. As a result, Fair Value is determined by using prices obtained from financial markets, in the case of instruments quoted on active markets, or, for the other financial instruments, by using valuation techniques whose objective is to estimate Fair Value (exit price). The levels used for the classifications shown in the following notes are as follows:

* "Level 1": the Fair Value of financial instruments is determined on the basis of quoted prices observable in active markets (unadjusted) and accessible at the measurement date;
* "Level 2": the Fair Value of financial instruments is determined on the basis of quoted inputs, directly or indirectly observable for that asset or liability, also using valuation techniques;
* "Level 3": the Fair Value of financial instruments is determined on the basis of unobservable inputs for that asset or liability, including the use of valuation techniques.

A quoted price in an active market provides the most reliable evidence of Fair Value and, when available, should be used with no adjustments to measure Fair Value.

Where quoted prices in active markets are not available, financial instruments must be classified in Levels 2 or 3.

The classification in Level 2 or Level 3 is determined on the basis of the market observability of the relevant inputs used to measure Fair Value.

Level 2 inputs include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in markets that are not active;
- inputs other than quoted prices that are observable for the asset or liability (such as interest rates and yield curves observable at commonly quoted intervals, implied volatilities and credit spreads);
- market-corroborated inputs.

All other variables used in valuation techniques that cannot be substantiated on the basis of observable market data are considered unobservable.

If the Fair Value of a financial instrument is not determined by the price recorded in an active market ("Level 1"), the total Fair Value may consist of different levels due to the impact generated by observable or unobservable inputs used in the measurements (impact is intended as the contribution, in terms of significance, that each input used in the evaluation makes to the total Fair Value of the instrument). However, the level attributed must be unique and referred to the total Fair Value of the instrument as a whole; thus, the single level assigned reflects the lowest level of input with a significant impact on the instrument's Fair Value measurement.
In order for unobservable market data to have a significant impact on the instrument's overall Fair Value measurement, their overall impact is assessed in such a way as to make the overall assessment uncertain (i.e. it cannot be ascertained through market data); in cases where the weight of unobservable data is prevalent with respect to the overall evaluation, the level assigned is "3".

Therefore, the bank classified its financial assets and liabilities in the different Fair Value levels on the basis of the following principles:

- Level 1: instrument measured at market price obtained from prices listed on active markets;
- Level 2: measurement based on prices quoted by reliable *infoproviders*;
- Level 3: measurement based on internal evaluation techniques.

Finally, with regard to receivables from and payables to banks, as these are entirely short-term and/or variable rate loans, *Fair Value* was assumed to be equal to their nominal value.

A.4.4 Other Information

There is no further information to provide.

Quantitative information

A.4.5 Hierarchy of fair value

A.4.5.1 Assets and liabilities measured at fair value on a recurring basis: breakdown by fair value levels (€/000)

Financial assets/liabilities measured at fair value	2016			2015		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Financial assets held for trading	10,096	3,804	-	6,494	6,643	-
2. Financial assets carried at fair value	-	-	-	-	-	-
3. Financial assets available for sale	-	-	1,007	-	-	-
4. Hedging derivatives	-	-	-	-	-	-
5. Property, plant and equipment	-	-	-	-	-	-
6. Intangible fixed assets	-	-	-	-	-	-
Total	**10,096**	**3,804**	**1,007**	**6,494**	**6,643**	**-**
1. Financial liabilities held for trading	-	-	-	-	-	-
2. Financial liabilities carried at fair value	-	-	-	-	-	-
3. Hedging derivatives	-	-	-	-	-	-
Total	-	-	-	-	-	-

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

The table has not been filled our since there were no balances for this item at the reporting date.

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

The table has not been filled our since there were no balances for this item at the reporting date.

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

(€/000)

	2016			
Assets/ liabilities measured at fair value or measured at fair value on a non-recurring basis	Book value	Level 1	Level 2	Level 3
1. Financial assets held to maturity	-	-	-	-
2. Receivables from banks	10,972	-	10,972	-
3. Loans to customers	28,984	-	-	30,680
4. Tangible assets held as investment	-	-	-	-
5. Non-current assets and disposal groups	-	-	-	-
Total	**39,956**	**-**	**10,972**	**30,680**
1. Payables to banks	5,170	-	5,170	-
2. Payables to customers	35,889	-	-	35,889
3. Outstanding securities	5,419	-	5,586	-
4. Liabilities related to discontinuing operations	-	-	-	-
Total	**46,478**	**-**	**10,756**	**35,889**

	2015			
Assets/ liabilities measured at fair value or measured at fair value on a non-recurring basis	Book value	Level 1	Level 2	Level 3
1. Financial assets held to maturity	-	-	-	-
2. Receivables from banks	12,331	-	12,331	-
3. Loans to customers	33,549	-	-	34,491
4. Tangible assets held as investment	-	-	-	-
5. Non-current assets and disposal groups	-	-	-	-
Total	**45,880**	**-**	**12,331**	**34,491**
1. Payables to banks	7,375	-	7,375	-
2. Payables to customers	33,716	-	-	33,716
3. Outstanding securities	8,407	-	8,557	-
4. Liabilities related to discontinuing operations	-	-	-	-
Total	**49,498**	**-**	**15,932**	**33,716**

A.5 Information on "day one profit/loss"

During the year, the Bank did not enter into any transaction requiring to account for a "day one profit/loss". Accordingly, the information required by IFRS 7, par. 28.

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Part B – Information on the Balance Sheet

Assets

Section 1 – Cash and cash equivalents – Item 10

1.1 Cash and cash equivalents: breakdown
(€/000)

	Total 2016	Total 2015
a) Cash	790	683
b) Sight deposits with Central Banks	81	132
Total	**871**	**815**

The sub-item “a) Cash” consists of holdings of coins and banknotes at the branches, ATMs and centralized vaults. "Demand deposits with central banks" refer to deposits held with Banca d’Italia, excluding the mandatory reserve which is recognized in item 60 "Loans and advances to banks".

Section 2 – Financial assets held for trading – Item 20

2.1 Financial assets held for trading: commodity breakdown
(€/000)

Items/Values	Total 2016			Total 2015		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A On-balance sheet assets						
1. Debt securities	10,096	3,804	-	6,494	6,643	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	10,096	3,804	-	6,494	6,643	-
2. Equity shares	-	-	-	-	-	-
3. UCIT units	-	-	-	-	-	-
4. Loans	-	-	-	-	-	-
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total A	**10,096**	**3,804**	**-**	**6,494**	**6,643**	**-**
B Derivative instruments						
1. Financial derivatives:	-	-	-	-	-	-
1.1 trading derivatives	-	-	-	-	-	-
1.2 connected with fair value option	-	-	-	-	-	-
1.3 other	-	-	-	-	-	-
2. Credit derivatives	-	-	-	-	-	-
2.1 trading derivatives	-	-	-	-	-	-
2.2 connected with fair value option	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
Total B	**-**	**-**	**-**	**-**	**-**	**-**
Total (A+B)	**10,096**	**3,804**	**-**	**6,494**	**6,643**	**-**

2.2 Financial assets held for trading: breakdown by debtor/issuer
(€/000)

Items/Values	Total 2016	Total 2015
A. ON-BALANCE SHEET ASSETS		
1. Debt securities	**13,900**	**13,137**
a) Governments and Central Banks	2,727	2,644
b) Other public entities	-	-
c) Banks	9,132	10,008
d) Other issuers	2,041	485
2. Equity shares	**-**	**-**
a) Banks	-	-
b) Other issuers:	-	-
- insurance companies	-	-
- financial institutions	-	-
- non-financial institutions	-	-
- other	-	-
3. UCIT units	-	-
4. Loans	**-**	**-**
a) Governments and Central Banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other entities	-	-
Total A	**13,900**	**13,137**
B. DERIVATIVE INSTRUMENTS		
a) Banks	-	-
b) Customers	-	-
Total B	**-**	**-**
Total (A+B)	**13,900**	**13,137**

Section 3 – Financial assets carried at *fair value* – Item 30

There were no items to be reported in the tables of “Section 3 - Financial assets carried at fair value – Item 30” envisaged by Banca d’Italia Circular 262, 4th update of 15 December 2015.

Section 4 – Financial assets available for sale – Item 40

4.1 Financial assets available for sale: commodity breakdown
(€/000)

Items/Values	Total 2016			Total 2015		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	-	-	-	-	-	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	-	-	-	-	-	-
2. Equity shares	-	-	1,007	-	-	-
2.1 Carried at fair value	-	-	7	-	-	-
2.2 Carried at cost	-	-	1,000			-
3. UCIT units	-	-	-	-	-	-
4. Loans	-	-	-	-	-	-
Total	**-**	**-**	**1,007**	**-**	**-**	**-**

Item 2.1 "Equity instruments measured at fair value" includes assets recognized as contra-entry to the contributions made by the Bank to the Voluntary Scheme established within the Interbank Fund for Deposit Protection, following the recapitalization in favour of Cassa di Risparmio di Cesena. The share paid by the Bank is Euro 9 thousand.

As regards the assessment of the mentioned equity instruments, the Interbank Fund for Deposit Protection (FITD), by a specific notice sent to the participating banks at the end of the financial year, provided a number of elements as common reference for the fair value measurement of the financial asset acquired as a result of the recapitalization transaction. Based on the information obtained, the carrying amount of the financial asset amounted to Euro 7 thousand.

Item 2.2 "Equity instruments measured at cost" includes the shares of Banca Regionale di Sviluppo S.p.A., subscribed by the Bank in August, as part of the recapitalization of the said bank.

In accordance with IAS 39, the Bank classified the aforementioned shareholding as financial assets held for sale, as they are not managed for trading purposes and do not qualify as subsidiary, associate or jointly controlled entity.

Since these securities are not listed on an active market and their fair value cannot be determined reliably, they are recognized at cost.

Equity shares – breakdown

(€/000)

Name	% share held	Book value
Equities carried at fair value		
Schema Volontario-CR Cesena	**0.0031767**	**7**
Total	***0.0031767***	***7***
Equities carried at cost		
Banca Regionale di Sviluppo S.p.A.	**3.64**	**1,000**
Total	***3.64***	***1,000***

4.2 Financial assets available for sale: breakdown by debtor/issuer
(€/000)

Items/Values	Total 2016	Total 2015
1. Debt securities	**-**	**-**
a) Governments and Central Banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other issuers	-	-
2. Equity shares	**1,007**	**-**
a) Banks	1,007	-
b) Other issuers:	-	-
- insurance companies	-	-
- financial institutions	-	-
- non-financial institutions	-	-
- other	-	-
3. UCIT units	-	-
4. Loans	**-**	**-**
a) Governments and Central Banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other entities	-	-
Total	**1,007**	**-**

4.3 Financial assets available for sale subject to micro-hedging

At 31 December 2016 the Bank held no financial assets available for sale subject to micro-hedging.

Section 5 – Financial assets held to maturity – Item 50

There were no items to be reported in the tables of “Section 5 - Financial assets held to maturity – Item 50” envisaged by Banca d’Italia Circular 262, 4th update of 15 December 2015.

Section 6 – Receivables from Banks – Item 60

6.1 Receivables from banks: commodity breakdown
(€/000)

Transaction type/Values	Total 2016				Total 2015			
	BV	Fair value			BV	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Receivables from Central Banks	**-**				**-**			
1. Term deposits	-	X	X	X	-	X	X	X
2. Mandatory reserve	-	X	X	X	-	X	X	X
3. Repurchase agreements	-	X	X	X	-	X	X	X
4. Other	-	X	X	X	-	X	X	X
B. Receivables from banks	**10,972**	**-**	**10,972**	**-**	**12,331**	**-**	**12,331**	**-**
1. Loans								
1.1 Current accounts and demand deposits	10,784	X	10,784	X	12,043	X	12,043	X
1.2. Term deposits	188	X	188	X	288	X	288	X
1.3. Other loans:	-	X	X	X	-	X	X	X
- Reverse repurchase agreements	-	X	X	X	-	X	X	X
- Finance lease	-	X	X	X	-	X	X	X
- Other	-	X	X	X	-	X	X	X
2. Debt securities								
2.1 Structured securities	-	X	X	X	-	X	X	X
2.2 Other debt securities	-	X	X	X	-	X	X	X
Total	**10,972**	**-**	**10,972**	**-**	**12,331**	**-**	**12,331**	**-**

Key
BV = book value

Receivables from banks showed a decrease of € 1,359 thousand, mainly due to the drop in sub-item 1.1 - current accounts and demand deposits.
Item "1.2 Term deposits" includes the amounts used to fulfil the mandatory reserve requirement, which is met via the Istituto Centrale delle Banche Popolari Italiane.
At 31 December 2016 receivables from banks showed no impairment.
As specified in the fair value determination criteria illustrated in Part A – Accounting Policies, as these are entirely short-term and/or variable rate loans, fair value is assumed to be equal to the nominal value.

6.2 Receivables from banks: assets subject to micro-hedging

The Bank held no receivables from banks subject to micro-hedging at 31 December 2016.

6.3 Finance lease

At 31 December 2016, the Bank had no finance lease agreements outstanding with any banks.

Section 7 – Loans to Customers – Item 70

7.1 Loans to customers: commodity breakdown
(€/000)

Transaction type/Values	Total 2016					
	Book value			Fair value		
	Non impaired	Impaired		L1	L2	L3
		Purchased	Other			
Loans	**25,246**	**-**	**3,738**			
1. Current accounts	3,898	-	794	X	X	X
2. Reverse repurchase agreements	-	-	-	X	X	X
3. Mortgage loans	18,118	-	2,888	X	X	X
4. Credit cards, personal loans and CQ loans	445	-	19	X	X	X
5. Finance lease	-	-	-	X	X	X
6. Factoring	-	-	-	X	X	X
7. Other loans	2,785	-	37	X	X	X
Debt securities	**-**	**-**	**-**			
8. Structured securities	-	-	-	X	X	X
9. Other debt securities	-	-	-	X	X	X
Total	**25,246**	**-**	**3,738**	**-**	**-**	**30,680**

Transaction type/Values	Total 2015					
	Valore di bilancio			Fair value		
	Non impaired	Impaired		L1	L2	L3
		Purchased	Other			
Loans	**30,872**	**-**	**2,677**			
1. Current accounts	4,050	-	517	X	X	X
2. Reverse repurchase agreements	-	-	-	X	X	X
3. Mortgage loans	22,894	-	2,050	X	X	X
4. Credit cards, personal loans and CQ loans	512	-	26	X	X	X
5. Finance lease	-	-	-	X	X	X
6. Factoring	-	-	-	X	X	X
7. Other loans	3,416	-	84	X	X	X
Debt securities	**-**	**-**	**-**			
8. Structured securities	-	-	-	X	X	X
9. Other debt securities	-	-	-	X	X	X
Total	**30,872**	**-**	**2,677**	**-**	**-**	**34,491**

At 31 December 2016, loans to customers recorded a decline of € 4,565 thousand mainly due to "Mortgage loans" for € 3,938 thousand and "Other loans" for € 678 thousand (the breakdown is provided in Table 7. Other loans).

For performing exposures, the write-downs were carried out on the basis of the experiences of a group of banks chosen from those most similar to the Bank in terms of size, location and type of business

In particular, we determined the average rate applied by banks in the group for these types of impairment, based on the most recent approved financial statements, which was equal to 0.70%.

The same procedure was used to determine the write-down percentage rate to be applied to past due/overdrawn loans, amounting to 7.78%.

With reference to Credit Quality, please see Part E – Information on Risks and Hedging Policies, Credit risk Section.

Breakdown of Sub-Item 7. Other loans
(€/000)

Transaction type	Total 2016			Total 2015		
	Non-impaired	Impaired		Non-impaired	Impaired	
		Purchased	Other		Purchased	Other
Advances on invoices subject to collection	2,240	-	6	2,554	-	84
Trade discount	-	-	31	-	-	-
Deposits at Organismi di compensazione e garanzia (Clearing Bodies)	519	-	-	836	-	-
Security deposits	26	-	-	26	-	-
Other loans to businesses	-	-	-	-	-	-
Total	**2,785**	**-**	**37**	**3,416**	**-**	**84**

7.2 Loans to customers: breakdown by debtor/issuer
(€/000)

Transaction type/Values	Total 2016			Total 2015		
	Non-impaired	Impaired		Non-impaired	Impaired	
		Purchased	Other		Purchased	Other
1. Debt securities	**-**	**-**	**-**	**-**	**-**	**-**
a) Governments	-	-	-	-	-	-
b) Other public entities	-	-	-	-	-	-
c) Other issuers	-	-	-	-	-	-
- non-financial institutions	-	-	-	-	-	-
- financial institutions	-	-	-	-	-	-
- insurance companies	-	-	-	-	-	-
- other	-	-	-	-	-	-
2. Loans to:	**25,246**	**-**	**3,738**	**30,872**	**-**	**2,677**
a) Governments	-	-	-	-	-	-
b) Other public entities	-	-	-	-	-	-
c) Other entities	25,246	-	3,738	30,872	-	2,677
- non-financial institutions	13,520	-	1,963	17,766	-	1,079
- financial institutions	740	-	3	1,072	-	2
- insurance companies	-	-	-	-	-	-
- other	10,986	-	1,772	12,034	-	1,596
Total	**25,246**	**-**	**3,738**	**30,872**	**-**	**2,677**

7.3 Loans to customers subject to micro-hedging

The Bank held no loans to customers subject to micro-hedging at 31 December 2016.

7.4 Finance lease

At 31 December 2016, the Bank had no finance lease agreements outstanding with any customers.

Section 8 – Hedging derivatives – Item 80

There were no items to be reported in the tables of "Section 8 – Hedging derivatives – Item 80" envisaged by Banca d'Italia Circular 262, 4th update of 15 December 2015.

Section 9 – Adjustment to financial assets subject to macro-hedging – Item 90

There were no items to be reported in the tables of "Section 9 – Adjustment to financial assets subject to macro-hedging – Item 90" envisaged by Banca d'Italia Circular 262, 4th update of 15 December 2015.

Section 10 – Equity investments – Item 100

There were no items to be reported in the tables of "Section 10 – Equity investments – Item 100" envisaged by Banca d'Italia Circular 262, 4th update of 15 December 2015.

Section 11 – Property, land and equipment – Item 110

11.1 Operating assets: breakdown of assets carried at cost
(€/000)

Assets/values	Total 2016	Total 2015
1. Own assets	**6,073**	**6,343**
a) land	-	-
b) buildings	5,880	6,105
c) furniture	137	182
d) electronic systems	31	23
e) other	25	33
2. Assets acquired on finance lease	**-**	**-**
a) land	-	-
b) buildings	-	-
c) furniture	-	-
d) electronic systems	-	-
e) other	-	-
Total	**6,073**	**6,343**

11.2. Tangible assets held as investment: breakdown of assets carried at cost

There were no tangible assets held as investment at 31 December 2016.

11.3 Operating assets: breakdown of revalued assets

There were no revalued operating assets at 31 December 2016.

11.4. Tangible assets held as investment: breakdown of assets carried at fair value

There were no tangible assets held as investment at 31 December 2016.

11.5 Operating assets: year-on-year changes (€/000)

	Land	Buildings	Fixtures	Electronic systems	Other	Total
A. Gross opening balances	**-**	**8,318**	**586**	**377**	**291**	**9,572**
A.1 Net total impairments	-	2,213	404	354	258	3,229
A.2 Net opening balance	**-**	**6,105**	**182**	**23**	**33**	**6,343**
B. Increases:	**-**	**-**	**-**	**21**	**7**	**28**
B.1 Purchases	-	-	-	21	7	28
B.2 Capitalised improvement expenses	-	-	-	-	-	-
B.3 Write-backs	-	-	-	-	-	-
B.4 Positive changes in fair value charged to	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
B.5 Exchange profits	-	-	-	-	-	-
B.6 Transfers from buildings held as investment	-	-	-	-	-	-
B.7 Other changes	-	-	-	-	-	-
C. Decreases	**-**	**225**	**45**	**13**	**15**	**298**
C.1 Sales	-	-	-	2	-	2
C.2 Depreciation	-	225	45	11	15	296
C.3 Adjustments due to impairment charged to	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.4 Negative changes in fair value charged to	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.5 Exchange losses	-	-	-	-	-	-
C.6 Transfers to:	-	-	-	-	-	-
a) tangible assets held as investment	-	-	-	-	-	-
b) discontinuing operations	-	-	-	-	-	-
C.7 Other changes	-	-	-	-	-	-
D. Net closing balances	**-**	**5,880**	**137**	**31**	**25**	**6,073**
D.1 Net total impairments	-	2,438	449	365	273	3,525
D.2 Gross closing balance	**-**	**8,318**	**586**	**396**	**298**	**9,598**
E. Measurement at cost	-	-	-	-	-	-

Items A.1 and D.1 "Total net reductions" include the amount of depreciation on property, plant and equipment recognized in the accounts.
As indicated by Banca d'Italia, no amounts are reported in Sub-item "E. Measurement at cost" – as this item is intended only for tangible assets carried at fair value, which the Bank did not own at 31 December 2016.

11.6. Tangible assets held as investment: year-on-year changes

There were no tangible assets held as investment at 31 December 2016.

11.7 Commitments to purchase property, plant and equipment (IAS 16/74.c)

At 31 December 2016 the Bank had no commitments for the purchase of property, plant and equipment.

Section 12 – Intangible assets – Item 120

12.1 Intangible assets: breakdown by type of asset
(€/000)

Assets/values	Total 2016		Total 2015	
	Definite life	Indefinite life	Definite life	Indefinite life
A.1 Goodwill	X	-	X	-
A.2 Other intangible assets	**121**	**-**	**158**	**-**
A.2.1 Assets carried at cost:	121	-	158	-
a) Internally generated intangible assets	-	-	-	-
b) Other assets	121	-	158	-
A.2.2 Assets carried at fair value:	-	-	-	-
a) Internally generated intangible assets	-	-	-	-
b) Other assets	-	-	-	-
Total	**121**	**-**	**158**	**-**

The amounts related to the aggregate "A.2.1 b) Other Assets" with a definite life are software costs and licenses purchased entirely from third parties and amortised on a straight-line basis over their estimated 5 year useful life.

At the reference date, there were no internally generated intangible assets.

12.2 Intangible assets: year-on-year changes
(€/000)

	Goodwill	Other intangible assets: generated internally		Other intangible assets: other		Total
		definite life	indefinite life	definite life	indefinite life	
A. Opening balance	**-**	**-**	**-**	**638**	**-**	**638**
A.1 Net total impairments	-	-	-	480	-	**480**
A.2 Net opening balance	**-**	**-**	**-**	**158**	**-**	**158**
B. Increases	**-**	**-**	**-**	**5**	**-**	**5**
B.1 Purchases	-	-	-	5	-	**5**
B.2 Increases in internal intangible assets	X	-	-	-	-	**-**
B.3 Write-backs	X	-	-	-	-	**-**
B.4 Positive changes in fair value		-	-	-	-	**-**
- to shareholders' equity	X	-	-	-	-	**-**
- to income statement	X	-	-	-	-	**-**
B.5 Exchange profits	-	-	-	-	-	**-**
B.6 Other changes	-	-	-	-	-	**-**
C. Decreases	**-**	**-**	**-**	**42**	**-**	**42**
C.1 Sales	-	-	-	-	-	**-**
C.2 Adjustments	-	-	-	42	-	**42**
- Amortisation	X	-	-	42	-	**42**
- Write-downs	-	-	-	-	-	**-**
+ shareholders' equity	X	-	-	-	-	**-**
+ Income statement	-	-	-	-	-	**-**
C.3 Negative changes in fair value		-	-	-	-	**-**
- to shareholders' equity	X	-	-	-	-	**-**
- to income statement	X	-	-	-	-	**-**
C.4 Transfers to non-current disposal assets	-	-	-	-	-	**-**
C.5 Exchange losses	-	-	-	-	-	**-**
C.6 Other changes	-	-	-	-	-	**-**
D. Net closing balance	**-**	**-**	**-**	**121**	**-**	**121**
D.1 Net total adjustments	-	-	-	522	-	**522**
E. Gross closing balance	**-**	**-**	**-**	**643**	**-**	**643**
F. Measurement at cost	-	-	-	-	-	**-**

Items A.1 and D.1 "Total net reductions" include the amount of amortization of intangible assets recognized in the accounts.

12.3 Other information
In accordance with the requirements of IAS 38, paragraphs 122 and 124, the Bank states that it has not:
- intangible assets written back;
- intangible assets licensed by the government;
- intangible assets as collateral for its liabilities;
- commitments to purchase intangible assets;
- other intangible assets through finance or operating leases.

At 31 December 2016, no goodwill was accounted for in the financial statements.

Section 13 – Tax assets and liabilities – Item 130 of assets and Item 80 of liabilities

This item includes tax assets (current and deferred) and liabilities (current and deferred) recorded, respectively, in item 130 of the Assets and item 80 of the Liabilities.
Deferred tax assets and liabilities are accounted for in accordance with the accrual principle, in order to match costs and revenues that determine the result for the period.
According to IAS 12 the recognition of deferred taxes in the financial statements should be based on the following criteria:

- deferred tax liabilities must be recognised on all the temporary taxable differences,
- deferred tax assets can be recognised for all deductible temporary differences where it is likely that the entity will earn taxable income against which it may set off the temporary deductible difference.

Therefore, in compliance with IAS 12, the Bank tested (probability test) the conditions for recognition of deferred taxes in the financial statements for the year 2016; the test result confirmed the reasonable certainty of achieving taxable income in the future and, therefore, the ability to recover deferred tax assets.
Deferred tax assets and liabilities were recognized in accordance with the current tax legislation, providing for the application of a 27.5% rate for IRES and a 5.72% rate for IRAP.

13.1 Deferred tax assets: breakdown

contra entry to the income statement
(€/000)

	IRES	IRAP	TOTAL
Non-deducted provisions for liabilities and charges	4		4
Adjustments to receivables and losses	211	26	237
Other items	240	-	240
Total	**455**	**26**	**481**

Contra entry to the shareholders' equity
(€/000)

	IRES	IRAP	TOTAL
Negative reserve on AFS	1	-	1
Total	**1**	**-**	**1**

13.2 Deferred tax liabilities: breakdown

contra entry to the income statement
(€/000)

	IRES	IRAP	TOTAL
Deducted off-balance sheet provisions	-	-	-
Land and Buildings	-	-	-
Capital gains taxed according to equal instalments	757	157	914
Other items	-	-	-
Total	**757**	**157**	**914**

As at the reporting date there were no deferred tax liabilities as a contra entry in Shareholders' equity.

13.3 Changes in deferred tax assets (contra entry to the income statement)
(€/000)

	Total 2016	Total 2015
1. Opening balance	**423**	**253**
2. Increases	**240**	**170**
2.1 Prepaid taxes recorded for the year	240	170
a) related to previous FYs	-	-
b) due to changes in accounting criteria	-	-
c) write-backs	-	-
d) other	240	170
2.2 New taxes or increase in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**181**	**-**
3.1 Prepaid taxes derecognised for the year	172	-
a) reversals	172	-
b) write-downs due to impossibility of recovery	-	-
c) change in accounting criteria	-	-
d) other	-	-
3.2 Reductions in tax rates	-	-
3.3 Other decreases:	9	-
a) amounts reclassified as tax credits pursuant to Law no. 214/2011	9	-
b) other	-	-
4. Closing balance	**482**	**423**

The increase recorded in the item at 31 December 2016 include the tax effects - calculated for IRES purposes - due to the tax loss carried forward (€ 528 thousand) in accordance with art. 84 of the Consolidated Income Tax Code (Tuir). This change was charged to the income statement under Item 260 “Income taxes for the year on current operations”.

13.3.1 Change in deferred tax assets pursuant to Law n. 214/2011 (contra entry to the income statement)
(€/000)

	Total 2016	Total 2015
1. Opening balance	**250**	**201**
2. Increases	**-**	**49**
3. Decreases	**12**	**-**
3.1 Reversals	4	-
3.2 Amounts reclassified as tax credits	9	-
a) resulting from losses for the period	9	-
b) resulting from tax losses	-	-
3.3 Other decreases	-	-
4. Closing balance	**237**	**250**

13.4 Change in deferred taxes (contra entry to the income statement)
(€/000)

	Total 2016	Total 2015
1. Opening balance	**950**	**1,002**
2. Increases	**-**	**-**
2.1 Deferred taxes recorded for the year	-	-
a) related to previous FYs	-	-
b) due to changes in accounting criteria	-	-
c) other	-	-
2.2 New taxes or increase in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**36**	**51**
3.1 Deferred taxes derecognised for the year	36	51
a) reversals	36	51
b) due to changes in accounting criteria	-	-
c) other	-	-
3.2 Reductions in tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	**914**	**950**

The decrease recorded during the year 2016 refers to taxes calculated on the depreciation charge for the period relating to the capital gain on the property recognized in the financial statements.

13.5 Change in prepaid taxes (contra entry to shareholders' equity)
(€/000)

	Total 2016	Total 2015
1. Opening balance	**-**	**-**
2. Increases	**1**	**-**
2.1 Prepaid taxes recorded for the year	1	-
a) related to previous FYs	-	-
b) due to changes in accounting criteria	-	-
c) other	1	-
2.2 New taxes or increase in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**-**	**-**
3.1 Prepaid taxes derecognised for the year	-	-
a) reversals	-	-
b) due to changes in accounting criteria	-	-
c) other	-	-
3.2 Reductions in tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	**1**	**-**

The increased item refers to the tax effect calculated on the negative valuation reserve of the equity securities classified under financial assets available for sale in the financial statements.

13.6 Change in deferred taxes (contra entry to shareholders' equity)

At 31 December 2016, no deferred taxes were recognised directly in equity.

13.7 Other information
Breakdown of current taxes
(€/000)

	IRES / IRPEG	IRAP	OTHER	TOTAL
Current tax liabilities (-)	-	-11	-	**-11**
Advances paid (+)	-	-	-	**-**
Other tax credits (+)	59	51	-	**110**
Withholding taxes paid (+)	14	-	-	**14**
Tax credits as per Law no. 214/2011 (+)	129	8	-	**137**
Debit balance of item 80 a) of liabilities	**-**	**-**	**-**	**-**
Credit balance of item 130 a) of assets	**202**	**48**	**-**	**250**
Tax credits that cannot be offset: principal	92	-	-	**92**
Tax credits that cannot be offset: interest	-	-	-	**-**
Balance of tax credits that cannot be offset	**92**	**-**	**-**	**92**
Credit balance of item 130 a) of assets	**294**	**48**	**-**	**342**

The "Other tax credits" recognized for € 59 thousand represent the amount of the DTA Credit sold - by way of performance in lieu effected by act of 02 November 2016- by the originator Banca M.B. S.p.A. in favour of the Bank.

Section 14 – Non-current assets and disposal groups and related liabilities – Item 140 of assets and item 90 of liabilities

There were no items to be reported in the tables – provided for in Banca d'Italia Circular no. 262, 4th update of 15 December 2015 – related to "Section 14 – Non-current assets and disposal groups and related liabilities – Item 140 of Assets and Item 9 of Liabilities.

Section 15 – Other assets – Item 150

15.1 Other assets: breakdown
(€/000)

	Total 2016	Total 2015
Items in progress	208	178
Credit transfers being charged	562	477
Miscellaneous tax items	459	419
Deferred income	49	75
Other minor items	284	200
Total	**1,562**	**1,349**

The "Items in progress" reflect temporary transactions, which primarily refer to items processed in the last days of the year 2016, with contra entry in the subsequent year.
The sub-item "Other tax items" mainly includes stamp duty advances for € 261 thousand and tax advances on assets under administration for € 87 thousand.
"Other minor items" essentially include loans to customers for invoices issued for € 217 thousand.

Liabilities

Section 1 – Payables to banks – Item 10

1.1 ***Payables to banks: commodity breakdown***
(€/000)

Transaction type/Values	Total 2016	Total 2015
1. Payables to central banks	**5,000**	**6,754**
2. Payables to banks	**170**	**621**
2.1 Current accounts and demand deposits	170	621
2.2 Term deposits	-	-
2.3 Loans	-	-
2.3.1 Repurchase agreements	-	-
2.3.2 Other	-	-
2.4 Payables for repurchase commitments of equity instruments	-	-
2.5 Other payables	-	-
Total	**5,170**	**7,375**
***Fair value* – level 1**	**-**	**-**
***Fair value* – level 2**	**5,170**	**7,375**
***Fair value* – level 3**	**-**	**-**
Total fair value	**5,170**	**7,375**

Item “1.Payables to central banks” includes the amount payable to the European Central Bank for loans outstanding at 31 December 2016 in relation to a loan granted by the ECB against securities given as collateral by the Bank. The decline in deposits from central banks compared to the previous year was due to the longer term refinancing operation (TLTRO) of Euro 1,750 thousand that was early repaid in June.
With regard to the criteria for determining the fair value of this item, reference is made to the comments in Part A - Accounting Policies.

1.2 ***Breakdown of item 10 “Payables to Banks”: subordinated payables***

At 31 December 2016, the Bank held no subordinated payables.

1.3 ***Breakdown of item 10 “Payables to Banks”: structured payables***

At 31 December 2016, the Bank held no structured payables.

1.4 Payables to banks subject to micro-hedging

At 31 December 2016 the Bank held no payables subject to micro-hedging.

1.5 Finance lease payables

At 31 December 2016, the Bank held no finance lease payables to banks.

Section 2 – Payables to customers – Item 20

2.1 Payables to customers: commodity breakdown

(€/000)

Transaction type/Values	Total 2016	Total 2015
1. Current accounts and unrestricted deposits	29,899	28,017
2. Term deposits	5,990	5,699
3. Loans	-	-
3.1 Repurchase agreements	-	-
3.2 Other	-	-
4. Payables for commitments to repurchase own equity instruments	-	-
5. Other payables	-	-
Total	**35,889**	**33,716**
Fair value – level 1	-	-
Fair value – level 2	-	-
Fair value – level 3	**35,889**	**33,716**
Total fair value	**35,889**	**33,716**

The item Payables to Customers showed an overall increase of € 2,173 thousand mainly due to the increase in sub-item 1, "Current accounts and unrestricted deposits".
"Restricted deposits" at 31 December 2016 included time deposits for € 889 thousand.
As this item includes only sight deposits (current accounts and demand deposits) and term deposits maturing within 12 months, fair value is assumed to be equal to the amortised cost.

2.2 Breakdown of item 20 "Payables to customers": subordinated payables

At 31 December 2016, the Bank held no subordinated payables.

2.3 Breakdown of item 20 "Payables to customers": structured payables

At 31 December 2016, the Bank held no structured payables.

2.4 Payables to customers subject to micro-hedging

At 31 December 2016 the Bank held no payables subject to micro-hedging.

2.5 Finance lease payables

At 31 December 2016, the Bank held no finance lease payables to customers.

Section 3 – Outstanding securities – Item 30

3.1 Outstanding securities: commodity breakdown
(€/000)

Type of securities/Values	Total 2016			
	Book value	Fair value		
		Level 1	Level 2	Level 3
A. Securities				
1. bonds	5,419	-	5,586	-
1.1 structured	-	-	-	-
1.2 other	5,419	-	5,586	-
2. other securities	-	-	-	-
2.1 structured	-	-	-	-
2.2 other	-	-	-	-
Total	**5,419**	**-**	**5,586**	**-**

Type of securities/Values	Total 2015			
	Book value	Fair value		
		Level 1	Level 2	Level 3
A. Securities				
1. bonds	8,407	-	8,557	-
1.1 structured	-	-	-	-
1.2 other	8,407	-	8,557	-
2. other securities	-	-	-	-
2.1 structured	-	-	-	-
2.2 other	-	-	-	-
Total	**8,407**	**-**	**8,557**	**-**

The Fair Value of the two bonds issued by the Bank, considered in chronological order of issue, amounted to € 636 thousand and € 4,950 thousand respectively at 31 December 2016.

With reference to the fair value determination criteria, the Bank discounted the future cash flows of the financial instruments held, referring to the linearly interpolated swap rate curve at 31 December 2016, and the expected credit spreads for banks rated BBB (Senior).

3.2 *Breakdown of item 30 "Outstanding securities": subordinated securities*

At 31 December 2016, the Bank held no subordinated securities.

3.3 Outstanding securities subject to micro-hedging

At 31 December 2016 the Bank held no securities subject to micro-hedging.

Section 4 – Financial liabilities held for trading – Item 40

There were no items to be reported in the tables of "Section 4 – Financial liabilities held for trading – Item 40" envisaged by Banca d'Italia Circular 262, 4th update of 15 December 2015.

Section 5 – Financial liabilities carried at fair value – Item 50

There were no items to be reported in the tables of “Section 5 – Financial Liabilities carried at fair value – Item 50” envisaged by Banca d’Italia Circular 262, 4th update of 15 December 2015.

Section 6 – Hedging derivatives – Item 60

There were no items to be reported in the tables of “Section 6 – Hedging derivatives – Item 60” envisaged by Banca d’Italia Circular 262, 4th update of 15 December 2015.

Section 7 – Adjustment to financial liabilities subject to macro-hedging – Item 70

There were no items to be reported in the tables of “Section 7 – Adjustment to financial liabilities subject to macro-hedging – Item 70” envisaged by Banca d’Italia Circular 262, 4th update of 15 December 2015.

Section 8 – Tax liabilities – Item 80

Reference is made to the comments in section 13 of the Assets.

Section 9 – Liabilities related to discontinuing operations – Item 90

Reference is made to the comments in section 14 of the Assets.

Section 10 – Other Liabilities – Item 100

10.1 Other liabilities: breakdown
(€/000)

	Total 2016	Total 2015
Portfolio credited subject to collection and after collection	99	728
Credit transfers settled through clearing house	477	633
Sums payable to the Inland Revenue on behalf of clients/staff	479	461
Trade payables	253	276
Payables to other entities	103	110
Accrued liabilities and deferred income	3	3
Personnel costs	98	113
Amounts payable to customers	51	77
Other payables to third parties	1	62
Total	**1,564**	**2,463**

Section 11 – Staff severance indemnity - Item 110

11.1 Staff severance indemnity: year-on-year changes (€/000)

	Total 2016	Total 2015
A. Opening balances	**952**	**872**
B. Increases	**167**	**131**
B.1 Allocation for the year	126	99
B.2 Other changes	41	32
C. Decreases	**109**	**51**
C.1 Indemnities disbursed	98	15
C.2 Other changes	11	36
D. Closing balances	**1,010**	**952**
Total	**1,010**	**952**

The B.1 sub-item “Allocation for the year” is broken down as follows:

- € 107,681 as service cost;
- € 18,333 as interest cost.

"Other changes" in sub-items B.2 and C.2 include actuarial losses (€ 41,025) and actuarial gains (€ 10,939) arising from the actuarial valuation, with contra entry to an equity reserve.

The sub-item C.1 refers to uses of the provision.

11.2 Other information

11.2.1 Other Information: Staff severance indemnity calculated according to article 2120 of the Italian Civil Code (€/000)

	Total 2016	Total 2015
Opening provision	**874**	**769**
Increases	123	120
Decreases	98	15
Closing provision	**899**	**874**

The provision for the staff severance indemnity governed by art. 2120 of the Italian Civil Code, accrued as at 31 December 2016, amounted to € 899 thousand. The Staff Severance Indemnity accruing continues to be kept in the company, as the Bank did not exceed the minimum threshold of 50 employees, as provided for by Law no. 296 of 27 December 2006.

Please note that as at 31 December 2016 no employee of the Bank had opted to request the monthly direct payment of their accruing severance indemnity - salary supplement (QU.IR) - as an integral part of the remuneration, as permitted and governed by Prime Minister's Decree no. 29 of 20 February 2016.

11.2.2 Other Information: Break down of actuarial assumptions

The actuarial model for the valuation of the staff severance indemnity is based on demographic and economic assumptions.

Within the framework of the technical-economic bases used, it should be noted that the annual discount rate (1.31%) used to calculate the present value of the liability was determined in accordance with paragraph 83 of IAS 19, with the IBoxx Corporate AA index with a duration of over 10 years as quoted on 31 December 2016.

The additional information required by IAS 19 for post-employment defined benefit plans is provided below:

Sensitivity analysis on the main valuation parameters

Rate breakdown	DBO at 31/12/2016
Turnover rate +1%	1,001,911.44
Turnover rate -1%	1,018,866.31
Inflation rate +0.25%	1,029,748.77
Inflation rate -0.25%	990,570.74
Discounting rate +0.25%	985,055.38
Discounting rate -0.25%	1,035,742.14

Service Cost and Duration

Service Cost 2017	116,986.93
Plan duration	13.9

Estimated future disbursements

Years	Expected disbursements
1	84,202.24
2	81,933.51
3	84,687.93
4	86,781.70
5	88,288.75

Section 12 – Provisions for liabilities and charges – Item 120

12.1 Provisions for liabilities and charges: breakdown
(€/000)

Items/Values	Total 2016	Total 2015
1 Company retirement funds	-	-
2. Other provisions for liabilities and charges	15	18
2.1 legal disputes	-	-
2.2 staff expenses	-	-
2.3 other	15	18
Total	**15**	**18**

Allocations to the provision for liabilities and charges attributable exclusively to the item 2.3 “Other provisions for liabilities and charges – Other provisions” at 31 December 2016, refer to the deductible under the insurance coverage following a € 50 thousand cash shortage caused by the company Ipervigile Srl, which provided cash transport and custody services to the Bank.
Contingent liabilities, for which a financial outlay is unlikely according to the opinion of legal advisors, refer to the following situations:

- Case pending against an Icelandic company that requested the annulment of a transaction completed in 2010 for a total amount of around Euro 300 thousand. The Reykjavík District Court of first instance dismissed the plaintiff's claim pursuant to art. 16, paragraph 2, of the Icelandic Code of Civil Procedure and did not upheld the request for cancellation of the transaction. In addition to dismissing the plaintiff’s claim, the Court ruled that the other party, as losing party, would have to pay a sum of approximately Euro 16,500 as reimbursement of court costs.
  The other party has appealed before the Supreme Court, challenging the District Court’s decision.

- With reference to the writ of summons received upon application by a customer claiming the invalidity and unlawfulness of some financial transactions entered into with the Bank over the three year 2010-2013 period, the Naples court postponed again the hearing for the examination of witnesses to 26/05/2017;

- in October 2016, the bank received a request for arbitration from its previous IT service provider, regarding the non-payment of the penalty (about Euro 71 thousand) for early termination, as per the arbitration clause contained in the contract signed by the parties.

- On 4 April 2017, the Bank was notified an application brought by a former employee pursuant to art. 1, para. 47 et seq. 47 and following. of Law 92/2012 challenging the dismissal for just cause notified in September 2016. The applicant requests the immediate reinstatement in his/her job and indemnification for an amount of not less than five months of his/her overall de facto remuneration. The Court of Naples - Labour and Welfare Section has set the hearing for the appearance of the parties on 10/05/2017.

12.2 Provisions for liabilities and charges: year-on-year changes (€/000)

	Retirement funds	Other provisions	**Total**
A. Opening balances	**-**	**18**	**18**
B. Increases	**-**	**-**	**-**
B.1 Allocation for the year	-	-	-
B.2 Changes due to the passage of time	-	-	-
B.3 Changes due to discount rate adjustments	-	-	-
B.4 Other changes	-	-	-
C. Decreases	**-**	**3**	**3**
C.1 Use for the year	-	-	-
C.2 Changes due to discount rate adjustments	-	-	-
C.3 Other changes	-	3	3
D. Closing balances	-	**15**	**15**

12.3 Defined-benefit company retirement funds

At 31 December 2016 there were no defined-benefit company retirement funds.

12.4 Provisions for liabilities and charges – other provisions

Reference is made to the comments in paragraph 12.1 of this section.

Section 13 – Redeemable shares – Item 140

There were no items to be reported in the tables of "Section 13 – Redeemable shares – Item 140" envisaged by Banca d'Italia Circular 262, 4th update of 15 December 2015.

Section 14 – Corporate equity – Items 130, 150, 160, 170, 180, 190 and 200

14.1 "Share capital" and "Treasury shares": breakdown

At 31 December 2016 the share capital consisted solely of no. 7,740,000 shares, with a par value of € 1.00 each. There are no rights, privileges or restrictions on the shares.
The Bank holds no treasury shares.

14.2 Share capital – Number of shares: year-on-year changes

Items/Types	Ordinary	Other
A. Shares at the beginning of the FY	**7,740,000**	**-**
- fully paid-up	7,740,000	-
- not fully paid-up	-	-
A.1 Treasury shares (-)	-	-
A.2 Outstanding shares: opening balances	**7,740,000**	**-**
B. Increases	**-**	**-**
B.1 New issues	-	-
- for consideration:	-	-
- business combinations transactions	-	-
- bond conversion	-	-
- warrants exercised	-	-
- other	-	-
- scrip issue:	-	-
- in favour of employees	-	-
- in favour of directors	-	-
- other	-	-
B.2 Disposal of treasury shares	-	-
B.3 Other changes	-	-
C. Decreases	**-**	**-**
C.1 Write-off	-	-
C.2 Purchase of treasury shares	-	-
C.3 Company disposal transactions	-	-
C.4 Other changes	-	-
D. Outstanding shares: closing inventories	**7,740,000**	**-**
D.1 Treasury shares (+)	-	-
D.2 Existing shares at the end of the FY	7,740,000	-
- fully paid-up	7,740,000	-
- not fully paid-up	-	-

14.3 Share capital: other information

Change in the shareholding structure

	Males	Females	Not natural persons	Total
Number of shareholders at 01 January 2016	47	23	4	74
Number of shareholders: in	-	-	-	-
Number of shareholders: out	4	-	1	5
Number of shareholders at 31 December 2016	43	23	3	**69**

14.4 Profit reserves: other information

In keeping with the requirements of IAS 1, paragraph 76.b and art. 2427 paras. 4 and 7-bis of the Italian Civil Code in relation to the composition of the Bank's shareholders equity, the required information is provided in the table below.

Shareholders' equity	Amount 31/12/2016	Principal	Profits	Potential use	Use of the last 3 FYs
Share Capital	7,740	7,740			-
Share premium account	1,071	1,071		A,B,C	-
Legal reserve	802	802		B	-
Business combinations reserve	621	621		A,C	-
Valuation reserve	-151		-151	A,C	-
FTA provision	115	115		A,C	-
Use of previous FYs	4,366		4,366	A,B,C	-531
Total	**14,564**	**10,349**	**4,215**		**-531**

A = for share capital increase
B = for coverage of losses
C = for payment to shareholders

14.5. Capital instruments: breakdown and year-on-year changes

At 31 December 2016, the Bank held no capital instruments.

14.6 Other information

There is no further information to provide in relation to this section.

Other information

1. Guarantees granted and commitments
(€/000)

Transactions	Amount 2016	Amount 2015
1) Financial guarantees granted	91	84
a) Banks	84	84
b) Customers	7	-
2) Commercial guarantees granted	358	867
a) Banks	-	-
b) Customers	358	867
3) Irrevocable commitments to grant finance	589	2,536
a) Banks	-	-
i) certain use	-	-
ii) uncertain use	-	-
b) Customers	589	2,536
i) certain use	-	-
ii) uncertain use	589	2,536
4) Commitments underlying credit derivatives: protection sales	-	-
5) Assets pledged as security for third party commitments	-	-
6) Other commitments	-	-
Total	**1,038**	**3,487**

2. Assets pledged as collateral for own liabilities and commitments
(€/000)

Portfolios	Amount 2016	Amount 2015
1. Financial assets held for trading	11,203	10,923
2. Financial assets carried at fair value	-	-
3. Financial assets available for sale	-	-
4. Financial assets held to maturity	-	-
5. Receivables from banks	-	-
6. Loans to customers	519	836
7. Property, plant and equipment	-	-

The sub-item 1 “Assets held for trading” includes the securities used as collateral against the loans received from the European Central Bank.
The item “Loans to customers” shows the commitment to Cassa di Compensazione e Garanzia (Clearing House).

3. Information on operating lease

At 31 December 2016 the Bank had no operating leases in place.

4. Third-party management and brokerage

(€/000)

Type of service	Amount
1. Execution of orders on behalf of clients	**-**
a) purchases	-
1. settled	-
2. unsettled	-
b) sales	-
1. settled	-
2. unsettled	-
2. Asset management	**-**
a) individual	-
b) collective	-
3. Custody and management of securities	
a) third-party securities in custody: in the capacity of custodian bank (excluding asset management)	-
1. securities issued by the bank drafting the financial statements	-
2. other securities	-
b) third-party securities in custody (excluding asset management): other	28,819
1. securities issued by the bank drafting the financial statements	5,390
2. other securities	23,429
c) third-party securities in custody with third parties	28,962
c) own securities in custody with third parties	21,097
4. Other transactions	**-**

5. *Financial assets that were offset in the balance sheet, or subject to master netting agreements or similar arrangements*

At 31 December 2016 the Bank had no financial assets that were offset in the balance sheet, or subject to master netting agreements or similar arrangements.

6. *Financial liabilities that were offset in the balance sheet, or subject to master netting agreements or similar arrangements*

At 31 December 2016 the Bank had no financial liabilities that were offset in the balance sheet, or subject to master netting agreements or similar arrangements.

7. *Securities lending transactions*

At 31 December 2016 the Bank had no outstanding securities lending transactions.

8. *Disclosure of joint operations*

There were no joint operations as at the reporting date.

Part C – Information on the Income Statement

Section 1 – Interest – Items 10 and 20

1.1 ***Interest and similar income: breakdown***
(€/000)

Items/Technical forms	Debt securities	Loans	Other transactions	Total 2016	Total 2015
1. Financial assets held for trading	302	-	-	302	297
2. Financial assets available for sale	-	-	-	-	-
3. Financial assets held to maturity	-	-	-	-	-
4. Receivables from banks	-	2	-	2	7
5. Loans to customers	-	1,248	-	1,248	1,744
6. Financial assets carried at fair value	-	-	-	-	-
7. Hedging derivatives	X	X	-	-	-
8. Other assets	X	X	-	-	-
Total	**302**	**1,250**	**-**	**1,552**	**2,048**

1.2 Interest and similar income: hedging differentials

At 31 December 2016 there were no differentials receivable related to hedging transactions..

1.3 Interest and similar income: other information

1.3.1 Interest income on financial assets in foreign currency
(€/000)

Items/Values	Total 2016	Total 2015
Interest and similar income on financial assets in foreign currency	**16**	**58**

1.3.2 Interest income on finance lease transactions

At 31 December 2016 there was no interest income on finance lease transactions.

1.4 Interest expense and similar charges: breakdown
(€/000)

Items/Technical forms	Payables	Securities	Other transactions	Total 2016	Total 2015
1. Payables to central banks	(4)	X	-	(4)	(7)
2. Payables to banks	(48)	X	-	(48)	(72)
3. Payables to customers	(158)	X	-	(158)	(281)
4. Outstanding securities	X	(159)	-	(159)	(322)
5. Financial liabilities held for trading	-	-	-	-	-
6. Financial liabilities carried at fair value	-	-	-	-	-
7. Other liabilities and provisions	X	X	-	-	-
8. Hedging derivatives	X	X	-	-	-
Total	**(210)**	**(159)**	**-**	**(369)**	**(682)**

The item Payables to central banks include interest expense related to the loan from the European Central Bank.

1.5 Interest expense and similar charges: hedging differentials

At 31 December 2016 there were no differentials payable related to hedging transactions..

1.6 Interest expense and similar charges: other information

1.6.1 Interest expense on financial liabilities in other currencies

At 31 December 2016 there were no Interest expense and similar charges on liabilities in foreign currency.

1.6.2 Interest expense on liabilities for finance lease transactions

At 31 December 2016 there was no interest expense on finance lease transactions.

Section 2 – Fees and Commissions – Items 40 and 50

These items include income and expenses relating, respectively, to services provided and services received by the bank.

2.1 Fees and commissions receivable: breakdown
(€/000)

Type of service/Values	Total 2016	Total 2015
a) guarantees granted	14	8
b) credit derivatives	-	-
c) management, brokerage and consultancy services:	278	150
1. trading of financial instruments	-	6
2. trading of foreign currencies	1	2
3. asset management	-	-
3.1. individual	-	-
3.2. collective	-	-
4. custody and management of securities	17	33
5. custodian bank	-	-
6. placement of securities	6	4
7. receipt and transmission of orders	9	13
8. consultancy services	170	75
8.1. in investments	-	-
8.2. in financial structure	170	75
9. distribution of third-party services	75	17
9.1. asset management	-	-
9.1.1. individual	-	-
9.1.2. collective	-	-
9.2. insurance products	-	-
9.3. other products	75	17
d) collection and payment services	242	258
e) *servicing* for securitisation	-	-
f) services for factoring	-	-
g) tax collection and treasury services	-	-
h) management of multilateral trading systems	-	-
i) operation and management of current accounts	368	378
j) other services	11	14
Total	**913**	**808**

2.2 Fees and commissions receivable: distribution channels of products and services
(€/000)

Channels/Values	Total 2016	Total 2015
a) at own branches:	**-**	**-**
1. asset management	-	-
2. placement of securities	-	-
3. third-party products and services	-	-
b) external offer:	**81**	**21**
1. asset management	-	-
2. placement of securities	6	4
3. third-party products and services	75	17
c) other distribution channels:	**-**	**-**
1. asset management	-	-
2. placement of securities	-	-
3. third-party products and services	-	-

2.3 Fees and commissions payable: breakdown
(€/000)

Services/Values	Total 2016	Total 2015
a) guarantees received	-	-
b) credit derivatives	-	-
c) management and brokerage services:	(744)	(407)
1. trading of financial instruments	(713)	(379)
2. trading of foreign currencies	-	-
3. asset management:	-	-
3.1. own assets	-	-
3.2. delegated by third parties	-	-
4. custody and management of securities	(31)	(28)
5. placement of financial instruments	-	-
6. external placement of financial instruments, products and services	-	-
d) collection and payment services	(33)	(50)
e) other services	(116)	(59)
Total	**(893)**	**(516)**

Section 3 – Dividends and similar income – Item 70

There were no items to be reported in the tables of "Section 3 – Dividends and similar income – Item 70" envisaged by Banca d'Italia Circular 262, 4th update of 15 December 2015.

Section 4 – Net profit/loss from trading activities – Item 80

4.1 Net profit/(loss) from trading activities: breakdown
(€/000)

Transactions/Income items	Capital gains (A)	Trading profits (B)	Capital losses (C)	Trading losses (D)	Net result [(A+B) - (C+D)]
1. Financial assets held for trading	**18**	**3,865**	**(83)**	**(582)**	**3,218**
1,1 Debt securities	18	3,865	(83)	(582)	**3,218**
1.2 Equity shares	-	-	-	-	**-**
1.3 UCIT units	-	-	-	-	**-**
1.4 Loans	-	-	-	-	**-**
1.5 Other	-	-	-	-	**-**
2. Financial liabilities held for trading	**-**	**-**	**-**	**-**	**-**
2.1 Debt securities	-	-	-	-	**-**
2.2 Payables	-	-	-	-	**-**
2.3 Other	-	-	-	-	**-**
3. Other financial assets and liabilities: exchange rate differences	X	X	X	X	**29**
4. Derivative instruments	**-**	**-**	**-**	**-**	**-**
4.1 Financial derivatives:	-	-	-	-	**-**
- On debt securities and interest rates	-	-	-	-	**-**
- On equity shares and stock indexes	-	-	-	-	**-**
- On foreign currencies and gold	X	X	X	X	-
- Other	-	-	-	-	**-**
4.2 Credit derivatives	-	-	-	-	**-**
Total	**18**	**3,865**	**(83)**	**(582)**	**3,247**

The item includes:

a) the net profit (loss) on transactions classified as "financial assets held for trading" and "financial liabilities held for trading", including the results on the valuation of such transactions;

b) the net profit (loss) on financial transactions in foreign currencies including the results on the valuation of these transactions;

c) capital gains, amounting to € 18 thousand, and capital losses amounting to € 83 thousand on securities in the portfolio as at 31 December 2016.

Section 5 – Net income on hedging activity – Item 90

There were no items to be reported in the tables of “Section 5 – Net income on hedging activity – Item 90” envisaged by Banca d’Italia Circular 262, 4th update of 15 December 2015.

Section 6 – Profits (losses) on disposal/repurchase – Item 100

6.1 Profits (losses) on disposal/repurchase: breakdown
(€/000)

Income items/breakdown	Total 2016			Total 2015		
	Profits	Losses	Net result	Profits	Losses	Net result
Financial assets						
1. Receivables from banks	-	-	-	-	-	-
2. Loans to customers	-	-	-	-	-	-
3. Financial assets available for sale	-	-	-	-	-	-
3.1 Debt securities	-	-	-	-	-	-
3.2 Equity shares	-	-	-	-	-	-
3.3 UCIT units	-	-	-	-	-	-
3.4 Loans	-	-	-	-	-	-
4. Financial assets held to maturity	-	-	-	-	-	-
Total assets	-	-	**-**	**-**	**-**	**-**
Financial liabilities						
1. Payables to banks	-	-	-	-	-	-
2. Payables to customers	-	-	-	-	-	-
3. Outstanding securities	-	(12)	(12)	-	(9)	(9)
Total liabilities	-	**(12)**	**(12)**	**-**	**(9)**	**(9)**

The item includes gains and losses from the repurchase of bonds issued by the Bank.

Section 7 – Net income on financial assets and liabilities carried at fair value – Item 110

There were no items to be reported in the tables of “Section 7 – Net income on financial assets and liabilities carried at fair value – Item 110” envisaged by Banca d’Italia Circular 262, 4th update of 15 December 2015.

Section 8 – Net impairment losses/recoveries – Item 130

8.1 Net adjustments for impairment of loans: breakdown
(€/000)

Transactions/Income items	Adjustments (1)			Recoveries (2)				Total 2016	Total 2015
	Specific		Portfolio	Specific		Portfolio		(3) = (1)-(2)	
	Write-offs	Other		Interest	Other recoveries	Interest	Other recoveries		
A. Receivables from banks	-	-	-	-	-	-	-	**-**	**-**
- Loans	-	-	-	-	-	-	-	-	-
- Debt securities	-	-	-	-	-	-	-	-	-
B. Loans to customers	(8)	(1,117)	(27)	124	440	-	68	**(520)**	**(580)**
Purchased impaired loans	-	-		-	-			-	**-**
- Loans	-	-	X	-	-	-	X	-	-
- Debt securities	-	-	X	-	-	-	X	-	-
Other receivables	(8)	(1,117)	(27)	124	440	-	68	**(520)**	**(580)**
- Loans	(8)	(1,117)	(27)	124	440	-	68	**(520)**	**(580)**
- Debt securities	-	-	-	-	-	-	-	-	-
C. Total	**(8)**	**(1,117)**	**(27)**	**124**	**440**	**-**	**68**	**(520)**	**(580)**

Recoveries include recoveries from collection for € 23 thousand.

8.2 Net adjustments for impairment of financial assets available for sale: breakdown

At 31 December 2016 there were no net adjustments for impairment of financial assets available for sale.

8.3 Net adjustments for impairment of financial assets held to maturity: breakdown

At 31 December 2016 there were no net adjustments for impairment of financial assets held to maturity.

8.4 Net adjustments for impairment of other financial transactions: breakdown

At 31 December 2016 there were no net adjustments for impairment of other financial transactions.

Section 9 – Administrative expenses – Item 150

9.1 Staff expenses: breakdown
(€/000)

Type of expense/Values	Total 2016	Total 2015
1) Employees	(2,196)	(2,175)
a) wages and salaries	(1,606)	(1,576)
b) social security charges	(412)	(406)
c) employee severance pay	-	-
d) social security charges	-	-
e) allowance to employee severance indemnity	(126)	(99)
f) allowance to retirement fund and similar funds:	-	-
- defined contribution	-	-
- defined benefits	-	-
g) payments to external social security funds:	-	-
- defined contribution	-	-
- defined benefits	-	-
h) costs deriving from payment agreements based on own equity instruments	-	-
i) other benefits in favour of employees	(52)	(94)
2) Other employed personnel	-	-
3) Directors and Auditors	(379)	(376)
4) Personnel in retirement	-	-
5) Recovery of expenses for employees in secondment at other businesses	-	-
6) Recovery of expenses for third-party employees in secondment at the company	-	-
Total	**(2,575)**	**(2,551)**

Sub-item e) allowance to employee severance indemnity – employees consists of:
- € 107,681 as *service cost;*
- € 18,333 as *interest cost*.

Item 3) "Directors and Auditors", includes the remuneration paid to directors and statutory auditors, including social security contributions paid by the company.

9.2 Average number of staff by category

	2016	2015
Employees:	**43**	**44**
a) Managers	1	1
b) Middle managers	5	6
c) Remaining employed staff	37	37
Other staff	**-**	**-**

The average number of employees is calculated in terms of weighted average, where the weight is the number of months worked by each person during the year. Part-time employees are accounted for at 50%.

9.3 Defined-benefit company retirement funds: costs and revenue

At 31 December 2016 there were no defined-benefit company retirement funds.

9.4 Other benefits in favour of employees
(€/000)

	Total 2016	Total 2015
Sundry staff expenses: Allowance to loyalty premium	-	-
Sundry staff expenses: Accident insurance	-	-
Sundry staff expenses: Incentive expenses for voluntary layoffs	-	-
Sundry staff expenses: training expenses	(23)	(41)
Sundry staff expenses: costs for luncheon vouchers	(14)	(13)
Sundry staff expenses: reimbursement for mileage and expenses on submitting an expense account	(15)	(40)
Sundry staff expenses: other benefits	-	-
Other benefits in favour of employees	**(52)**	**(94)**

9.5 Other administrative expenses: breakdown
(€/000)

	Total 2016	Total 2015
Administrative expenses	***(1,326)***	***(1,764)***
General expenses	**(941)**	**(1,146)**
Expenses for electronic services	(740)	(932)
Postal and telephone expenses	(82)	(109)
Stationery and printed material	(24)	(31)
Membership and similar fees	(72)	(51)
Finance leases and rentals	(23)	(23)
Real estate expenses	**(181)**	**(219)**
Lease payable and condominium expenses	(67)	(67)
Energy costs	(46)	(51)
Cleaning of premises	(3)	(3)
Security and surveillance expenses	(19)	(22)
Maintenance and repairs	(46)	(76)
Professional and insurance expenses	**(174)**	**(352)**
Fees for professional services	(34)	(34)
Auditing fees	(47)	(77)
Legal and sundry consultancy	(69)	(216)
Insurance	(24)	(25)
indirect staff costs	**-**	**-**
Transport and travels	-	-
Other administrative expenses - Other	**(6)**	**(4)**
Miscellaneous	(6)	(4)
Promotional and advertising expenses	**(24)**	**(43)**
Advertising and entertainment	(24)	(43)
Direct and indirect taxes	***(193)***	***(172)***
Other	(193)	(172)
Total administrative expenses	**(1,519)**	**(1,936)**

The sub-item "Membership and similar fees" - in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" and IFRIC 21 "Levies" - includes Euro one thousand as ordinary contributions to the Single

Resolution Fund (SRF) , Euro 2 thousand for additional contributions to the National Resolution Fund and Euro 14 thousand for ordinary contributions to the Interbank Deposit Protection Fund.

Section 10 – Net allowances to provisions for liabilities and charges – Item 160

10.1 Net allocations to provisions for liabilities and charges: breakdown (€/000)

	Legal disputes	Revocatory actions	Other	Total 2016	Total 2015
A. Increases	-	-	-	-	-
A.1 Allocation for the year	-	-	-	-	-
A.2 Changes due to the passage of time	-	-	-	-	-
A.3 Changes due to discount rate adjustments	-	-	-	-	-
A.4 Other increases	-	-	-	-	-
B. Decreases	-	-	3	3	-
B.1 Changes due to discount rate adjustments	-	-	-	-	-
B.2 Other decreases	-	-	3	3	-
Total	**-**	**-**	**3**	**3**	**-**

Item B.2 "Other decreases" includes the reversal of the provision for long-term benefits in favour of key personnel, allocated over the last three years, due to the non-achievement of profit for the year in accordance with the Bank Remuneration Policies.

Section 11 – Net adjustments to/recoveries on tangible assets – Item 170

11.1 Net adjustments to tangible assets: breakdown (€/000)

Assets/Income item	Depreciation (a)	Adjustments for impairment (b)	Recoveries (c)	**Net result (a + b + c)**
A. Tangible assets				
A.1 Owned	(296)	-	-	(296)
- Functional assets	(296)	-	-	(296)
- For investment	-	-	-	-
A.2 Acquired on finance lease	-	-	-	-
- Functional assets	-	-	-	-
- For investment	-	-	-	-
Total	**(296)**	**-**	**-**	**(296)**

Depreciation on property, plant and equipment amounted to € 296 thousand and includes depreciation on the properties, recognised on the basis of their useful life.

As already explained in the Accounting Policies - Section 4 Other aspects, in the current year there was a change in accounting estimates, in accordance with IAS 8, para. 34, concerning the useful life of the building recognized in the Financial Statements, which resulted in lower depreciation of this asset of € 86 thousand.

For the additional information required by IAS 8, see the Accounting Policies.

Section 12 – Net adjustments to/recoveries on intangible assets – Item 180

12.1 Net adjustments to intangible assets: breakdown
(€/000)

Assets/Income item	Amortisation (a)	Adjustments for impairment (b)	Recoveries (c)	**Net result (a + b + c)**
A. Intangible assets				
A.1 Owned	(42)	-	-	(42)
- Internally generated	-	-	-	-
- Other	(42)	-	-	(42)
A.2 Acquired on finance lease	-	-	-	-
Total	**(42)**	**-**	**-**	**(42)**

Section 13 – Other operating income and expenses – Item 190

13.1 Other operating expenses: breakdown
(€/000)

Expense item/Values	**Total 2016**	**Total 2015**
Non-recurring gains/losses that cannot be classified into a specific item	(17)	(10)
Other expenses	(24)	(13)
Total	**(41)**	**(23)**

13.2 Other operating income: breakdown
(€/000)

Income item/Values	**Total 2016**	**Total 2015**
Non-recurring gains/losses that cannot be classified into a specific item	41	15
Recovery of expenses	190	156
Other operating income	-	-
Total	**231**	**171**

The item “Recovery of expenses” relates to the recovery of stamp duties charged to customers, with offsetting entry in the sub-item Taxes and duties included under Other administrative expenses.

Section 14 – Profits (Losses) on equity investments – Item 210

There were no items to be reported in the tables of “Section 14 – Profits (losses) on equity investments – Item 210” envisaged by Banca d’Italia Circular 262, 4th update of 15 December 2015.

Section 15 – Net result of tangible and intangible assets carried at fair value – Item 220

There were no items to be reported in the tables of “Section 15 – Net result on tangible and intangible assets carried at fair value – Item 220” envisaged by Banca d’Italia Circular 262, 4th update of 15 December 2015.

Section 16 – Adjustments to goodwill – Item 230

There were no items to be reported in the tables of “Section 16 – Adjustments to goodwill – Item 230” envisaged by Banca d’Italia Circular 262, 4th update of 15 December 2015.

Section 17 – Profits (losses) on investment disposal – Item 240

There were no items to be reported in the tables of "Section 17 – Profits (losses) on investment disposal – Item 240" envisaged by Banca d'Italia Circular 262, 4th update of 15 December 2015.

Section 18 – Income taxes for the year on current operations – Item 260

18.1 Income taxes for the year on current operations: breakdown
(€/000)

Income items/Values	**Total 2016**	**Total 2015**
1. Current taxes (-)	(11)	(4)
2. Changes in current taxes for previous years (+/-)	-	-
3. Reduction in current taxes for the period (+)	-	-
3.*bis* Reduction in current taxes for the year for tax credits as per law no. 214/2011 (+)	9	-
4. Change in prepaid taxes (+/-)	59	170
5. Change in deferred taxes (+/-)	36	51
6. Taxes for the year (-) (-1+/-2+3+3 bis +/-4+/-5)	93	217

18.2 Reconciliation of notional and actual tax burden
(€/000)

Pre-tax profit (item 250 CE)	**(321)**
Notional tax burden (2016: 27.5%)	**(88)**
Taxes on increases	48
Taxes on decreases	(10)
Actual IRES tax	**-**
IRAP	**(11)**

Section 19 – Profit / (Loss) on disposal groups, after taxes – Item 280

There were no items to be reported in the tables of "Section 19 – Profit / (Loss) on disposal groups, after taxes – Item 280" envisaged by Banca d'Italia Circular 262, 4th update of 15 December 2015.

Section 20 – Other information

At 31 December 2016 there was no further information to provide on the income statement.

Section 21 – EPS

21.1 Average number of ordinary shares with diluted capital earnings

At 31 December 2016 the Bank owned no ordinary shares with diluted capital earnings.

21.2 Other information

Earnings per share for 2016 amounted to € -0.03, calculated - as provided for by law - by dividing the result for the period by the average number of shares outstanding during the year.

Part D COMPREHENSIVE INCOME

BREAKDOWN OF COMPREHENSIVE INCOME
(€/000)

	Items	Gross amount	Income taxes	Net amount
10.	**Profit (loss) for the year**	**X**	**X**	**(228)**
	Other income items not reversed to income statement			
20.	Property, plant and equipment	-	-	-
30.	Intangible assets	-	-	-
40.	Defined-benefit plans	(30)	-	(30)
50.	Non-current discontinuing operations:	-	-	-
60.	Share of valuation reserves for equity investments carried at equity:	-	-	-
	Other income items reversed to income statement			
70.	**Foreign investment hedging:**	-	-	-
	a) changes in fair value	-	-	-
	b) reversal to income statement	-	-	-
	c) other changes	-	-	-
80.	**Exchange rate differences:**	-	-	-
	a) changes in value	-	-	-
	b) reversal to income statement	-	-	-
	c) other changes	-	-	-
90.	**Cash flow hedging:**	-	-	-
	a) changes in fair value	-	-	-
	b) reversal to income statement	-	-	-
	c) other changes	-	-	-
100.	**Financial assets available for sale:**	**(2)**	**1**	**(1)**
	a) changes in fair value	(2)	1	(1)
	b) reversal to income statement	-	-	-
	- adjustments due to impairment	-	-	-
	- profits/losses on disposal	-	-	-
	c) other changes	-	-	-
110.	**Non-current discontinuing operations:**	-	-	-
	a) changes in fair value	-	-	-
	b) reversal to income statement	-	-	-
	c) other changes	-	-	-
120.	**Share of valuation reserves for equity investments carried at equity:**	-	-	-
	a) changes in fair value	-	-	-
	b) reversal to income statement	-	-	-
	- adjustments due to impairment	-	-	-
	- profits/losses on disposal	-	-	-
	c) other changes	-	-	-
130.	**Total of other income items**	**(32)**	**1**	**(31)**
140.	**Comprehensive income (Item 10+130)**	**(32)**	**1**	**(260)**

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Part E – Information on Risks and Hedging Policies

Introduction

In compliance with supervisory regulations, please note that the information concerning the capital adequacy and risk exposure of the Bank are published on the corporate website (www.bancapromos.it).

Section 1 – Credit risk

Credit risk, also known as counterparty risk, generally refers to the risk that the customer/counterparty does not perform its obligations in the manner and within the time provided for by the contract, due to lack of funds.

It is specifically the risk that the customer-debtor fails to fulfil even a part of their obligation in a loan transaction to reimburse principal and pay interest.

Credit risk, therefore, includes solvency, concentration and Country risks[1].

Qualitative information

1. *General aspects*

At 31 December 2016 loans are broken down as follows:

- a major component (72.47%) is represented by loans, 67% of which are medium-long term real estate loans secured by mortgage;
- a sizeable amount of the bank's exposure is represented by credit lines that are part of the ordinary cash lending business (16.19%);
- a residual part is represented by advances on invoices subject to collection (7.75%), through which companies are ensured immediate availability of cash against their trade receivables not yet due, by personal loans (1.60%), by security deposits (1.88%) and by trade discounts (0.11%).

Loans were granted with a view to limiting and spreading risk on the basis of:

- a careful selection of individual counterparties through an appropriate prior creditworthiness assessment, i.e. during the credit approval process, and subsequent on-going monitoring of their ability to fulfil obligations;
- diversification of credit risk, by limiting the concentration of exposure to groups of related customers, business groups or individual sectors of the economy;
- performance monitoring of individual positions, carried out using our IT systems and through constant monitoring of relationships showing any irregularities.

2. *Credit risk management policies*

2.1 Organisational issues

The Bank is aware that the risk of an adverse evolution is inherent in the lending business, and thus pays close attention to controlling this type of risk.

To this end, the Bank implements management policies and control systems aimed at minimising exposure to risk within the limits of sound and prudent management, by following the general guidelines established by the Board of Directors. They respond to the twofold need of:

- regulating lending operations in accordance with specific business objectives in terms of risk/return;
- complying with the Supervisory Instructions laying down the minimum capital requirements the Bank must ensure as a safeguard against risk and which must be met at all times.

[1] Country risk is the risk associated with international transactions, when the foreign customers-debtors do not fulfil their obligations, due to the macroeconomic conditions in the country in which they operate.

2.2 Management, measurement and control systems

The management of credit risk depends on lending policies. For this purpose, the Board of Directors establishes the general principles governing lending to customers, approves the strategic guidelines and policies for loan disbursement and risk management, through the definition of specific parameters (type of loans, percentage of funding to be used in lending).
Consistent with these policies, the Board of Directors has defined and approved the methods for measuring credit risk and monitoring performance.
The whole lending process, from the preliminary assessment to disbursement, as well as monitoring positions, reviewing credit lines and responding to abnormal situations, was formalised in the "Credit Regulations", approved by the Board of Directors and periodically audited.
The regulations cover: credit authorities, prudential limits, acceptable collateral, loans classification, credit monitoring, control and reporting system.
Proper management of the credit process also requires an adequate risk measurement and control system.
In order to verify the effectiveness of the measures adopted, the Bank uses a "Control System", which is organised differently at the various levels within the Bank; each person involved in the system is responsible both for the supervisory activities and for reporting on the results of their audits.

The system is organised into the three levels outlined below:

1) line controls or first-level controls, to ensure that operations are properly carried out; these are performed by the commercial staff;

2) second-level controls, which are the responsibility of:
- the Credit Control and Litigation department, which, as part of its ordinary activities, carries out checks with regard to loan applications, granting and classification as well as audits on any unusual use of funds in the early stages of the loan and on loans performing in anomalous ways and therefore impaired;
- the Risk Management department, which monitors the activity, verifying transactions carried out and performing an overall assessment of the risk to which the Bank is exposed, also in relation to loan performance;
- the Compliance department, which verifies compliance with internal and external regulations.

3) third-level controls, carried out by Internal Audit, which, on the basis of a plan specifically set out for the purpose, verifies any anomalies or breaches of procedures and internal and external regulations, also assessing the functionality and adequacy of the overall internal control system.

Moreover, the following activities are carried out:
- preventive controls, which take place prior to granting the credit line and are specifically aimed at verifying compliance with credit authority limits, guarantee standards, the completeness and adequacy of all documents delivered to and/or signed by the customer;
- on-going controls, which take place after the loan has been granted and disbursed, involving monitoring of the positions in their various operating aspects, with particular reference to risk management (unauthorised overdrafts, compliance with guarantee margins, etc.), in order to verify the recoverability of the loan at all times.

Finally, the Bank uses a management tool to carry out first-level controls through which the Credit Control Office and the branches can periodically monitor existing positions; this procedure uses historical internal databases and assigns a risk rating to each customer. Ratings are determined at the NDG level and any anomalies and data that contributed to their formulation are logged.

2.3 Credit risk mitigation techniques

Credit risk mitigation is pursued by granting loans only to reliable customers with sound financial positions and proven credit standing.
Where necessary, lending transactions are backed by various types of guarantees according to the type of loan granted:

- personal guarantees;
- collateral (mortgages and other collateral).

With regard to personal guarantees, sureties on first demand are accepted, issued by Italian and foreign banks or by natural or legal persons of proven solvency. In addition guarantees backed by Confidi and Medio Credito Centrale are also accepted.

With regard to collateral, the Bank accepts the following guarantees:

- mortgages;
- pledge on deposits in euros or foreign currency;
- pledge on securities.

Overdraft facilities for trading purposes must be backed by securities, which are evaluated according to their nature and riskiness and also taking into account the ratings assigned by specialised agencies. A discount on market value is applied to the securities pledged as collateral, to an extent related to the nature of the securities. The Bank may accept securities as collateral at its own discretion, and can apply higher discounts to the securities it deems riskier.
The guarantee may also consist of a cash balance, in which case no discount is applied.

Real estate mortgage loans are granted against first real estate mortgages.

The acquisition of guarantees requires careful evaluation, not only to determine the guarantees' value, on which the maximum amount of credit that can be extended is based, but also to verify any restrictions or impediments that might in some way limit their validity.

2.4 Impaired financial assets

With regard to the technical and organisational procedures and methods used in managing and controlling impaired assets, as determined by the internal "Credit Regulations", the method used to classify loans performing irregularly are described below.

Impaired financial assets include loans when there is any objective evidence of impairment as a result of circumstances occurring after initial recognition. In classifying impaired assets in the various risk categories (non-performing, unlikely to pay and past due and/or overdrawn exposures, according to their decreasing level of severity) the Bank makes reference to the regulations issued by the Bank of Italy and in force since January 2016, consistent with the applicable regulations laid down by the Basel Accords and the IAS/IFRS principles, supplemented by internal provisions that establish criteria and rules for the reclassification of exposures across the various risk categories, including automatically (except for non-performing loans).

Again with effect on 1 January 2016, in implementation of the new legislation, a further parallel classification was introduced, which covers both performing and non-performing exposures: “Forborne exposures”.

Thus, the following new parallel categories have been introduced:

- forborne non performing. these exposures fall within the non-performing, unlikely to pay or impaired past due and/or overdrawn exposures, as appropriate, and are not a separate category of impaired assets.
- forborne performing.

These concessions are subject to careful monitoring as the legislation sets very strict criteria for migration across the categories (forborne non-performing, forborne performing, non-forborne).

In order to enable a correct and continuous monitoring of exposures with forborne status, the outsourcer has put in place specific functionalities that report, propose and in some cases update the changes in status.

The Credit Control and Litigation department has been tasked with the monitoring and overall management of impaired loans.

That activity mainly consists in:
- Monitoring the positions, supporting the branches that are in charge of 1st level controls;
- Defining, in agreement with the Branch Manager, the actions necessary to bring the exposures back to regular performance;
- Identifying and recommending reimbursement procedures or restructuring plans to the relevant bodies;
- Identifying and recommending value adjustments to the exposures to the relevant bodies;
- Recommending the reclassification of positions into the "non-performing” category to the relevant bodies.

Non-performing assets are individually assessed in accordance with the provisions laid down by the Supervisory regulations and by the Credit Regulations adopted by the Bank.
The assessment is made at the time the loans are classified in the various risk categories of impaired assets, and is reviewed periodically in accordance with criteria and procedures laid down by the Credit Regulations.

In any case, the loan assessment is subject to review whenever the Bank becomes aware of significant events that can alter the prospects of recovery. In order for such events to be timely detected, the information database of borrowers is periodically monitored and the progress of out-of-court agreements and the various phases of judicial proceedings are constantly checked.

The Risk Management Department is responsible for assessing the consistency of the classifications, the adequacy of provisions and the effectiveness of the recovery process; it also verifies the correct application of valuation parameters laid down by internal regulations for non-performing loans subject to individual assessment. More specifically, it verifies the correct application of the criteria envisaged for assessing:

- loans secured by real estate collateral;
- loans secured by lien;
- loans secured by guarantees provided by consortia /MCC;
- loans secured by principal obligor and/or by guarantors by way of surety who own real estate assets that may be seized (both in the case of classification as unlikely to pay and as non-performing);
- unsecured loans to individuals without seizable assets;
- unsecured loans to sole proprietorships, partnerships and companies.

The return to performing status of exposures classified as unlikely to pay and NPLs, governed by the Supervisory Authority and by specific internal regulations, is made upon recommendation of Credit Control and Litigation to the Chief Executive Officer, after verifying that the anomalies leading to the classification of exposures as impaired financial assets no longer apply and the stability of the new counterparty's situation.
With regard to exposures classified as "Past due and overdrawn loans" the return to performing status takes place automatically when payment is received.

In conclusion, the overall non-performing loan portfolio is continually monitored through a predefined control system, including through "single name" audits conducted by the Credit Control and Litigation Department, and is subject to periodic management reporting.

All impaired loans (unlikely to pay, non-performing loans) are evaluated analytically by the units involved in the lending process.
Impaired (overdue) loans are subject to a flat-rate assessment, using the same methodology as for the impairment of "performing" receivables; if an actual loss is expected, a write-down of the individual account is carried out.
The CEO is responsible for classifying non-performing loans.

In particular, with regard to impaired financial assets, the following should be noted:

- the presence of overdue loans to customers, accounting for 2.03% of total loans;
- the presence of "unlikely to pay" loans to customers, accounting for 5.97% of total loans;
- the presence of non-performing loans to customers, accounting for 4.90% of total loans.

Quantitative information

A. Credit quality

A.1 Impaired and performing credit exposures: amounts, adjustments, trend, financial and territorial distribution

A.1.1 Breakdown of exposures by portfolio and credit quality (book values)
(€/000)

Portfolio/Quality	Non-performing loans	Unlikely to pay	Impaired overdue exposures	Non-impaired overdue exposures	Other non-impaired exposures	Total
1. Financial assets available for sale	-	-	-	-	-	-
2. Financial assets held to maturity	-	-	-	-	-	-
3. Receivables from banks	-	-	-	-	10,972	10,972
4. Loans to customers	1,419	1,730	589	1,340	23,906	28,984
5. Financial assets carried at fair value	-	-	-	-	-	-
6. Discontinuing operations	-	-	-	-	-	-
Total 2016	**1,419**	**1,730**	**589**	**1,340**	**34,878**	**39,956**
Total 2015	**706**	**1,822**	**149**	**1,596**	**41,607**	**45,880**

At 31 December 2016, the portfolio of loans to customers included forborne exposures :

- 861 thousand included in the unlikely to pay category;
- 93 thousand included in the impaired overdue exposures;
- 309 thousand included in the other non-impaired exposures.

With reference to non-impaired financial assets, the breakdown by portfolio and maturity is provided below:

(€/000)

Credit exposures	Due up to 3 months	Due 3 to 6 months	Due 6 to 12 months	Due > 1 year	Total
Loans to customers	1,329	11	-	-	**1,340**

A.1.2 Breakdown of exposures by portfolio and credit quality (gross and net values)
(migliaia di euro)

Portfolio/Quality	Impaired assets			Non-impaired assets			Total
	Gross exposure	Specific adjustments	Net exposure	Gross exposure	Portfolio adjustments	Net exposure	(net exposure)
1. Financial assets available for sale	-	-	-	-	-	-	-
2. Financial assets held to maturity	-	-	-	-	-	-	-
3. Receivables from banks	-	-	-	10,972	-	10,972	10,972
4. Loans to customers	5,788	2,050	3,738	25,420	174	25,246	28,984
5. Financial assets carried at fair value	-	-	-			-	-
6. Discontinuing operations	-	-	-	-	-	-	-
Total 2016	**5,788**	**2,050**	**3,738**	**36,392**	**174**	**36,218**	**39,956**
Total 2015	**4,188**	**1,511**	**2,677**	**43,418**	**215**	**43,203**	**45,880**

Portfolio/Quality	Assets of manifest poor credit quality		Other assets
	Accrued capital losses	Exposure	Net exposure
1. Financial assets held for trading	-	-	13,900
2. Hedging derivatives	-	-	-
Total 2016	**-**	**-**	**13,900**
Total 2015	**-**	**-**	**13,137**

At the reporting date, there were no impaired financial assets partially derecognized over the years.

A.1.3 On- and off-balance sheet exposure with banks: gross and net amounts, and past due ranges
(€/000)

Type of exposure/amounts	Gross exposure					Specific adjustments	Portfolio adjustments	Net exposure
	Impaired assets							
	Up to 3 months	From over 3 to 6 months	From over 6 to 9 months	Over 1 year	Non-impaired assets			
A. ON-BALANCE SHEET EXPOSURES								
a) Non-performing	-	-	-	-	X	-	X	-
- of which: Forborne exposures	-	-	-	-	X	-	X	-
b) Unlikely to pay	-	-	-	-	X	-	X	-
- of which: Forborne exposures	-	-	-	-	X	-	X	-
c) Impaired overdue exposures	-	-	-	-	X	-	X	-
- of which: Forborne exposures	-	-	-	-	X	-	X	-
d) Non-impaired overdue exposures	X	X	X	X	-	X	-	-
- of which: Forborne exposures	X	X	X	X	-	X	-	-
e) Other non-impaired exposures	X	X	X	X	20,104	X	-	20,104
- of which: Forborne exposures	X	X	X	X	-	X	-	-
TOTAL A	**-**	**-**	**-**	**-**	**20,104**	**-**	**-**	**20,104**
B. OFF-BALANCE SHEET EXPOSURES								
a) Impaired	-	-	-	-	X	-	X	-
b) Non-impaired	X	X	X	X	84	X	-	84
TOTAL B	**-**	**-**	**-**	**-**	**84**	**-**	**-**	**84**
TOTAL A+B	**-**	**-**	**-**	**-**	**20,188**	**-**	**-**	**20,188**

The item includes the amount of loans and advances to banks for € 10,972 thousand and the total amount of debt securities issued by banks for € 9,132 thousand.

A.1.4 On-balance sheet exposures with banks: dynamics of gross impaired exposures

At 31 December 2016 there were no impaired credit exposures among the receivables from banks.

A.1.4bis On-balance sheet exposures with banks: changes in gross forborne exposures broken down by credit quality

At 31 December 2016 there were no on-balance-sheet forborne exposures to banks.

A.1.5 Impaired on-balance sheet exposures with banks: overall adjustment trend

At 31 December 2016 there were no impaired on-balance-sheet forborne exposures to banks.

A.1.6 On- and off-balance sheet exposure with clients: gross and net amounts, and past due ranges (€/000)

Type of exposure/amounts	Gross exposure					Specific adjustments	Portfolio adjustments	Net exposure
	Impaired assets				Non-impaired assets			
	Up to 3 months	From over 3 to 6 months	From over 6 months to 1 year	Over 1 year				
A. ON-BALANCE SHEET EXPOSURES								
a) Non-performing	-	-	-	3,115	X	1,696	X	1,419
- of which: Forborne exposures	-	-	-	-	X	-	X	-
b) Unlikely to pay	1,150	158	-	693	X	271	X	1,730
- of which: Forborne exposures	812	158	-	20	X	129	X	861
c) Impaired overdue exposures	46	249	339	38	X	83	X	589
- of which: Forborne exposures	15	62	33	-	X	17	X	93
d) Non-impaired overdue exposures	X	X	X	X	1,350	X	10	1,340
- of which: Forborne exposures	X	X	X	X	12	X	-	12
e) Other non-impaired exposures	X	X	X	X	28,838	X	164	28,674
- of which: Forborne exposures	X	X	X	X	299	X	2	297
TOTAL A	**1,196**	**407**	**339**	**3,845**	**30,188**	**2,050**	**174**	**33.752**
B. OFF-BALANCE SHEET EXPOSURES								
a) Impaired	6	-	-	-	X	-	X	6
b) Non-impaired	X	X	X	X	947	X	-	947
TOTAL B	**6**	**-**	**-**	**-**	**947**	**-**	**-**	**953**
TOTAL A+B	**1.202**	**407**	**339**	**3,845**	**31,135**	**2,050**	**174**	**34,705**

At the reporting date, the impaired unlikely-to-pay forborne exposures included in the "up to 3-month" maturity range refer to exposures that are not past-due in the "cure period".

A.1.7 On-balance sheet exposures with clients: dynamics of gross impaired exposures
(€/000)

Transactions/Categories	Non-performing loans	Unlikely to pay	Impaired overdue exposures
A. Opening gross exposure	**1,647**	**2,344**	**196**
- of which: exposures disposed of (not derecognised)	-	-	-
B. Increases	**1,501**	**2,347**	**822**
B.1 transfers from performing exposures	182	1,075	742
B.2 transfers from other categories of impaired exposures	1,272	1,099	-
B.3 other increases	47	173	80
C. Decreases	**-33**	**-2,690**	**-346**
C.1 transfers into performing exposures	-	-151	-69
C.2 write-offs	-6	-	-6
C.3 repayments	-23	-116	-103
C.4 revenue from disposals	-	-	-
C.5 losses on disposals	-	-	-
C.6 transfers to other categories of impaired exposures	-	-2,285	-86
C.7 other decreases	-4	-138	-82
D. Closing gross exposure	**3,115**	**2,001**	**672**
- of which: exposures disposed of (not derecognised)	-	-	-

A.1.7bis On-balance sheet exposures with clients: dynamics of gross forborne exposures divided by credit quality
(€/000)

Transactions/Quality	Forborne exposures: impaired	Forborne exposures: non-impaired
A. Opening gross exposure	**-**	**-**
- of which: exposures disposed of (not derecognised)	-	-
B. Increases	**1,243**	**463**
B.1 transfers from performing exposures other than forborne exposures	74	394
B.2 transfers from performing forborne exposures	58	X
B.3 transfers from impaired forborne exposures	X	-
B.4 other increases	1,111	69
C. Decreases	**-143**	**-152**
C.1 transfers into performing exposures other than forborne exposures	X	-58
C.2 transfers into performing forborne exposures	-	-
C.3 transfers into impaired forborne exposures	X	X
C.4 write-offs	-	-
C.5 repayments	-130	-68
C.6 revenue from disposals	-	-
C.7 losses on disposals	-	-
C.8 other decreases	-13	-26
D. Closing gross exposure	**1,100**	**311**
- of which: exposures disposed of (not derecognised)		

A.1.8 Impaired on-balance sheet exposures with clients: overall adjustment trend
(€/000)

Transactions/Categories	Non-performing loans		Unlikely to pay		Impaired overdue exposures	
	Total	Of which: Forborne exposures	Total	Of which: Forborne exposures	Total	Of which: Forborne exposures
A. Opening overall adjustments	**941**	**-**	**524**	**-**	**46**	**-**
- of which: exposures disposed of (not derecognised)	-	-	-	-	-	-
B. Increases	**1,299**	**-**	**655**	**408**	**133**	**32**
B.1 Adjustments	829	-	207	158	81	17
B.2 losses on disposals	-	-	-	-	-	-
B.3 transfers from other categories of impaired exposures	262	-	254	249	-	-
B.4 other increases	208	-	194	1	52	15
C. Decreases	**-544**	**-**	**-908**	**-279**	**-96**	**-15**
C.1 write-backs for valuations	-471	-	-76	-29	-17	-
C.2. write-backs for repayments	-23	-	-262	-250	-37	-15
C.3 profits on disposals	-	-	-	-	-	-
C.4 write-offs	-6	-	-	-	-6	-
C.5 transfers to other categories of impaired exposures	-	-	-498	-	-18	-
C.6 other decreases	-44	-	-72	-	-18	-
D. Closing overall adjustments	**1,696**	**-**	**271**	**129**	**83**	**17**
- of which: exposures disposed of (not derecognised)						

A.2. Classification of exposures based on external and internal ratings

A.2.1 Distribution of on- and off-balance sheet exposures by external rating classes (€/000)

Exposures	External rating classes						Unrated	Total
	Aaa/Aa3	A1/A3	Baa1/Baa3	Ba1/Ba3	B1/B3	< B3		
A. On-balance sheet exposures	**-**	**-**	**7,620**	**1,575**	**-**	**-**	**44,661**	**53,856**
B. Derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B.1 Financial derivatives	-	-	-	-	-	-	-	**-**
B.2 Credit derivatives	-	-	-	-	-	-	-	**-**
C. Guarantees granted	**-**	**-**	**-**	**-**	**-**	**-**	**445**	**445**
D Commitments to grant finance	**-**	**-**	**-**	**-**	**-**	**-**	**589**	**589**
E. Other	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**-**	**-**	**7,620**	**1,575**	**-**	**-**	**45,695**	**54,890**

The risk classes for external ratings in this table refer to those used by the agency Moody's.

A.2.2 Distribution of on- and off-balance sheet exposures by internal rating classes

This table is not provided, since to date the Bank has not used internal rating models to manage credit risk.

A.3 Distribution of secured exposures by type of guarantee

A.3.1 Secured credit exposures with banks

This table is not provided, since to date the Bank has no secured on-balance sheet exposures with banks.

A.3.2 Secured credit exposures with customers
(€/000)

	Net exposure value	Guarantees secured by assets (1)				Personal guarantees (2)									Total (1+2)
						Credit derivatives					Credit commitments				
		Properties					Other derivatives								
		Mortgages	Finance lease	Securities	Other secured guarantees	Credit linked notes	Governments and Central Banks	Other public institutions	Banks	Other entities	Governments and Central Banks	Other public institutions	Banks	Other entities	
1. Secured on-balance sheet exposures:	**25,084**	**15,541**	**-**	**-**	**430**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**8,548**	**24,519**
1.1 wholly secured	23,704	15,008	-	-	271	-	-	-	-	-	-	-	-	8,425	**23,704**
- of which impaired	2,773	1,172	-	-	-	-	-	-	-	-	-	-	-	1,601	**2,773**
1.2 partially secured	1,380	533	-	-	159	-	-	-	-	-	-	-	-	122	**814**
- of which impaired	466	376	-	-	10	-	-	-	-	-	-	-	-	-	**386**
2. "Off-balance sheet" secured cash exposures:	**396**	**-**	**-**	**-**	**267**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**59**	**326**
2.1 wholly secured	251	-	-	-	192	-	-	-	-	-	-	-	-	59	**251**
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
2.2 partially secured	145	-	-	-	75	-	-	-	-	-	-	-	-	-	**75**
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**

B. Distribution and concentration of credit exposures

B.1 Distribution of on- and off-balance sheet exposures with clients by sector (book values) – Part 1 (€/000)

Exposures/Counterparties	Governments			Other public institutions		
	Net exposure	Specific adjustments	Portfolio adjustments	Net exposure	Specific adjustments	Portfolio adjustments
A. On-balance sheet exposures						
A.1 Non-performing loans	-	-	X	-	-	X
of which: Forborne exposures	-	-	X	-	-	X
A.2 Unlikely to pay	-	-	X	-	-	X
of which: Forborne exposures	-	-	X	-	-	X
A.3 Overdue exposures	-	-	X	-	-	X
of which: Forborne exposures	-	-	X	-	-	X
A.4 Non-impaired exposures	2.727	X	-	-	X	-
of which: Forborne exposures	-	X	-	-	X	-
Total A	**2,727**	**-**	**-**	**-**	**-**	**-**
B. Off-balance sheet exposures						
B.1 Non-performing loans	-	-	X	-	-	X
B.2 Unlikely to pay	-	-	X	-	-	X
B.3 Other impaired assets	-	-	X	-	-	X
B.4 Non-impaired exposures	-	X	-	-	X	-
Total B	**-**	**-**	**-**	**-**	**-**	**-**
Total (A+B) 31.12.2016	**2,727**	**-**	**-**	**-**	**-**	**-**
Total (A+B) 31.12.2015	**2,644**	**-**	**-**	**-**	**-**	**-**

B.1 Distribution of on- and off-balance sheet exposures with clients by sector (book values) – Part 2
(€/000)

Exposures/Counterparties	Financial companies			Insurance companies		
	Net exposure	**Specific adjustments**	**Portfolio adjustments**	**Net exposure**	**Specific adjustments**	**Portfolio adjustments**
A. On-balance sheet exposures						
A.1 Non-performing loans	3	2	X	-	-	X
of which: Forborne exposures	-	-	X	-	-	X
A.2 Unlikely to pay	-	-	X	-	-	X
of which: Forborne exposures	-	-	X	-	-	X
A.3 Overdue exposures	-	-	X	-	-	X
of which: Forborne exposures	-	-	X	-	-	X
A.4 Non-impaired exposures	1,074	X	2	-	X	-
of which: Forborne exposures	-	X	-	-	X	-
Total A	**1,077**	**2**	**2**	**-**	**-**	**-**
B. Off-balance sheet exposures						
B.1 Non-performing loans	-	-	X	-	-	X
B.2 Unlikely to pay	-	-	X	-	-	X
B.3 Other impaired assets	-	-	X	-	-	X
B.4 Non-impaired exposures	-	X	-	-	X	-
Total B	**-**	**-**	**-**	**-**	**-**	**-**
Total (A+B) 31.12.2016	**1,075**	**2**	**2**	**-**	**-**	**-**
Total (A+B) 31.12.2015	**1,073**	**2**	**2**	**-**	**-**	**-**

B.1 Distribution of on- and off-balance sheet exposures with clients by sector (book values) – Part 3
(€/000)

Exposures/Counterparties	Non-financial institutions			Other entities		
	Net exposure	**Specific adjustments**	**Portfolio adjustments**	**Net exposure**	**Specific adjustments**	**Portfolio adjustments**
A. On-balance sheet exposures						
A.1 Non-performing loans	537	1,307	X	879	387	X
of which: Forborne exposures	-	-	X	-	-	X
A.2 Unlikely to pay	1,241	193	X	489	78	X
of which: Forborne exposures	845	125	X	16	3	X
A.3 Overdue exposures	185	34	X	404	49	X
of which: Forborne exposures	66	12	X	29	5	X
A.4 Non-impaired exposures	15,227	X	95	10,986	X	77
of which: Forborne exposures	33	X	-	275	X	2
Total A	**17,190**	**1,534**	**95**	**12,758**	**514**	**77**
B. Off-balance sheet exposures						
B.1 Non-performing loans	-	-	X	-	-	X
B.2 Unlikely to pay	-	-	X	-	-	X
B.3 Other impaired assets	6	-	X	-	-	X
B.4 Non-impaired exposures	569	X	-	378	X	-
Total B	**575**	**-**	**-**	**378**	**-**	**-**
Total (A+B) December 2016	**17,765**	**1,534**	**95**	**13,136**	**514**	**77**
Total (A+B) December 2015	**20,481**	**1,052**	**127**	**15,398**	**457**	**86**

B.2 Distribution of on- and off-balance sheet exposures with clients by territory (book values) (€/000)

Exposures/Geographical areas	**Italy**		**Other European countries**	
	Net exposure	**Overall adjustments**	**Net exposure**	**Overall adjustments**
A. On-balance sheet exposures				
A.1 Non-performing loans	1,419	1,696	-	-
A.2 Unlikely to pay	1,730	271	-	-
A.3 Impaired overdue exposures	589	83	-	-
A.4 Non-impaired exposures	29,671	173	342	1
Total A	**33,409**	**2,223**	**342**	**1**
B. Off-balance sheet exposures				
B.1 Non-performing loans	-	-	-	-
B.2 Unlikely to pay	-	-	-	-
B.3 Other impaired assets	6	-	-	-
B.4 Non-impaired exposures	947	-	-	-
Total B	**953**	**-**	**-**	**-**
TOTAL (A+B) December 2016	**34,362**	**2,223**	**342**	**1**
TOTAL (A+B) December 2015	**40,049**	**1,726**	**32**	**-**

Exposures / Geographical areas	**America**		**Asia**		**Rest of the World**	
	Net exposure	**Overall adjustments**	**Net exposure**	**Overall adjustments**	**Net exposure**	**Overall adjustments**
A. On-balance sheet exposures						
A.1 Non-performing loans	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-
A.3 Impaired overdue exposures	-	-	-	-	-	-
A.4 Non-impaired exposures	-	-	-	-	-	-
Total A	**-**	**-**	**-**	**-**	**-**	**-**
B. Off-balance sheet exposures						
B.1 Non-performing loans	-	-	-	-	-	-
B.2 Unlikely to pay	-	-	-	-	-	-
B.3 Other impaired assets	-	-	-	-	-	-
B.4 Non-impaired exposures	-	-	-	-	-	-
Total B	**-**	**-**	**-**	**-**	**-**	**-**
TOTAL (A+B) December 2016	**-**	**-**	**-**	**-**	**-**	**-**
TOTAL (A+B) December 2015	**-**	**-**	**-**	**-**	**-**	**-**

B.3 Distribution of on- and "off-balance sheet" exposures with banks by territory (book values) (€/000)

Exposures / Geographical areas	Italy		Other European countries	
	Net exposure	Overall adjustments	Net exposure	Overall adjustments
A. On-balance sheet exposures				
A.1 Non-performing loans	-	-	-	-
A.2 Unlikely to pay	-	-	-	-
A.3 Impaired overdue exposures	-	-	-	-
A.4 Non-impaired exposures	17,057	-	3,047	-
Total A	**17,057**	**-**	**3,047**	**-**
B. Off-balance sheet exposures				
B.1 Non-performing loans	-	-	-	-
B.2 Unlikely to pay	-	-	-	-
B.3 Other impaired assets	-	-	-	-
B.4 Non-impaired exposures	84	-	-	-
Total B	**84**	**-**	**-**	**-**
TOTAL (A+B) December 2016	**17,141**	**-**	**3,047**	**-**
TOTAL (A+B) December 2015	**17,758**	**-**	**4,640**	**-**

Exposures / Geographical areas	America		Asia		Rest of the World	
	Net exposure	Overall adjustments	Net exposure	Overall adjustments	Net exposure	Overall adjustments
A. On-balance sheet exposures						
A.1 Non-performing loans	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-
A.3 Impaired overdue exposures	-	-	-	-	-	-
A.4 Non-impaired exposures	-	-	-	-	-	-
Total A	**-**	**-**	**-**	**-**	**-**	**-**
B. Off-balance sheet exposures						
B.1 Non-performing loans	-	-	-	-	-	-
B.2 Unlikely to pay	-	-	-	-	-	-
B.3 Other impaired assets	-	-	-	-	-	-
B.4 Non-impaired exposures	-	-	-	-	-	-
Total B	**-**	**-**	**-**	**-**	**-**	**-**
TOTAL (A+B) December 2016	**-**	**-**	**-**	**-**	**-**	**-**
TOTAL (A+B) December 2015	**25**	**-**	**-**	**-**	**-**	**-**

B.4 Large exposures (€/000)	**Total 2016**	**Total 2015**
a) Amount (book value)	18,958	17,542
b) Amount (weighted value)	14,966	14,898
c) Number	6	5

At 31/12/2016 there were risk positions representing a major risk for a nominal value of € 18,958 thousand.
These positions include:

- € 3,992 thousand for exposures to the Italian Government (Italian government securities which for supervisory purposes are included in the trading book);
- € 4,067 thousand for securities issued by Italian banks which for supervisory purposes are included in the trading book;
- € 10,899 thousand in interbank demand deposits.

Therefore, in accordance with supervisory regulations according to which exposures to the Italian Government are assigned a zero weight and those to banks a 100% weight, the weighted value of these exposures is € 14,966 thousand.

C. Securitisations

There were no items to be reported in the tables of Section C. Securitisation envisaged by Banca d'Italia Circular 262, 4th update of 15 December 2015.

D. Disclosures related to unconsolidated structured entities (other than special purpose vehicles for securitisation)

There were no items to be reported in the tables of Section D. Disclosures related to unconsolidated structured entities (other than special purpose vehicles for securitization) envisaged by Banca d'Italia Circular 262, 4th update of 15 December 2015.

E. Disposals

There were no items to be reported in the tables of Section E. Disposals envisaged by Banca d'Italia Circular 262, 4th update of 15 December 2015.

F. Credit risk measurement models

The Bank does not use internal models for measuring credit risk.

Section 2 – Market risks

Market risk is the general risk associated with the unpredictable performance of macro-economic variables. Therefore, the development of operations on the financial markets and trading in securities and currencies may lead to increased risks associated with changes in market prices that result in:
- Interest rate risk
- Price/equity risk
- Exchange rate risk

Before analysing each risk category, please note that for the purposes of this Section, the quantitative and qualitative information is reported with reference to the "trading book" and the "banking book" as defined in the legislation governing supervisory reporting. In particular, the trading book comprises all the financial instruments subject to capital requirements for market risks.

2.1 – Interest rate risk and price risk – Regulatory Trading Book

Qualitative information

A. General aspects

The regulatory trading book is composed exclusively of Euro-denominated debt securities of issuers from Zone A countries. With reference to rating, the book is composed for 55% of securities with a rating falling into the so-called "investment grade" category, from Baa1 to Baa3 (Moody's); for around 11% of securities with a rating lower than the "investment grade" category and for the remaining part for unrated securities.
Furthermore, the Bank does not take speculative positions in derivatives and does not trade equities.

B. Measurement and management of market rate risk and price risk

Interest rate risk is the effect on price due to changes in interest rates on financial markets. This effect depends on the characteristics of the instrument, such as, for example, its residual life, the coupon rate and any early repayment options.
Therefore, the risk of a change in interest rates having an adverse impact on the Bank's financial situation is inherent in the trading business, as the Bank's performance is affected by the fluctuations in interest rates in Europe and in the other markets where it carries out its business.
In view of this and given the impossibility to fully predict changes to securities and currency prices and, in general, the evolution of markets, the Bank implements management policies and control systems which ensure sound and prudent management of market risks, in line with the general guidelines established by the Board of Directors.
They respond to the twofold need of:
- regulating operations in the financial markets area according to specific business objectives in terms of risk/return;
- complying with the directions given by Banca d'Italia, in terms of capital requirements.

In particular, in order to limit the risk of changes in interest rates and fluctuations in market prices, the activity on the regulatory trading book is governed by the operating limits established in the "Financial Markets Regulation", approved by the Board of Directors and regularly audited.
These limits were set with reference to the following control parameters, which are built into the Bank's IT system:
- "modified duration", an indicator generally used for bond-like instruments;
- "VAR", a model for evaluating the risk involved in a given financial portfolio;
- short sales;
- stop loss.

In order to verify the effectiveness of the measures adopted, the Bank uses a "Control System", which is organised differently at the various levels within the Bank; each person involved in the system is responsible both for the supervisory activities and for reporting on the results of their audits.
The system is organised into the three levels outlined below:
1. first-level controls or line checks, aimed at ensuring that operations are properly carried out; these controls are carried out directly by operating managers, who, during daily operations, verify compliance with the limits set into the system. Moreover, with particular reference to financial activities, first-level controls are ensured automatically through the IT system on the basis of the control parameters set into the system;
2. second-level controls, which are the responsibility of:
   - Back Office which, in the ordinary course of transaction processing, verifies compliance with the system of limits and the proper exercise of authorities. It identifies any transactions not completed due to non-compliance with one or more of the control parameters established and requests their approval by the persons in charge;
   - the Risk Management department, which monitors the activity, verifying transactions carried out and performing an overall assessment of the risk to which the Bank is exposed in relation to market trends, the nature of the instruments traded and the issuers and the counterparties involved;

3. third-level controls, carried out by Internal Audit, which, on the basis of a plan specifically set out for the purpose, verifies any anomalies or breaches of procedures and internal and external regulations, also assessing the functionality and adequacy of the overall internal control system.

On the other hand, with respect to the method adopted to measure the risk in question, the Bank performs systematic stress tests through sensitivity analyses of the regulatory trading book following an hypothetical interest rate shock of +/-100 bps .

Quantitative information

1. Regulatory trading book: breakdown of on-balance sheet financial assets and liabilities and financial derivatives by residual term (repricing date)

(€/000) **Total of currencies**

Type/ Residual term	**On demand**	**Up to 3 months**	**From over 3 to 6 months**	**From over 6 months to 1 year**	**From over 1 year to 5 years**	**From over 5 to 10 years**	**Over 10 years**	**Undetermined term**
1. On-balance sheet assets	-	**3,708**	**3,024**	**2,287**	**4,390**	**417**	-	-
1.1 Debt securities	-	**3,708**	**3,024**	**2,287**	**4,390**	**417**	-	-
- with option of early redemption	-	-	-	-	-	317	-	-
- other	-	**3,708**	**3,024**	**2,287**	**4,390**	**100**	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. On-balance sheet liabilities	-	-	-	-	-	-	-	-
2.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives	-	-	-	-	-	-	-	-
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-

The Bank has assessed its vulnerability to adverse market scenarios through stress tests, by applying to the regulatory trading book an assumed shift of +/-100 bps in interest rates, in accordance with Regulatory regulations in force.

The results of the stress test on the Bank's brokerage margin, profit for the year and shareholders' equity are summarized in the table below.

Assumed change in interest rates	Δ Brokerage margin	Δ Operating result	Δ Shareholders' equity
+100 bps	-3.43%	66.68%	-1.06%
- 100 *bps*	3.49%	-67.68%	1.08%

2. Regulatory trading book: breakdown of equity share and share index exposure by the major listing market countries

This table is not provided, since at the end of the reporting period the Bank did not hold equity instruments or equity indices.

3. Regulatory Trading book – internal models and other sensitivity analysis methods

The Bank does not use internal models for measuring the risk in question.

2.2 – Interest rate risk and price risk – Banking book

Qualitative information

A. General aspects, measurement and management of market rate risk and price risk

The risk of a change in interest rates having an adverse impact on the Bank's financial situation is inherent in the banking book.
Therefore, the sources of interest rate risk to which the Bank is exposed mainly consist in the assets and liabilities making up the banking book, namely:

- receivables;
- various types of funding from customers.

Interest rate risk, essentially, arises from mismatches between asset and liability items sensitive to changes in interest rates in terms of amount, maturity, financial duration, and interest rate.
In line with the nature and complexity of its business, the Bank has put in place appropriate mitigation and control measures to contain the extent of this risk.

Specifically, from an organizational standpoint, the Bank has identified Risk Management as the unit in charge of overseeing the interest rate risk management process for the banking book, with the monitoring activity being performed quarterly.
As regards the method adopted to measure the risk in question, the Bank uses the methodological guidelines provided for in Circular 285/2013, as amended, consistent with the guidelines provided by the Basel Committee, for the implementation of the simplified approach to calculate own funds with respect to the interest rate risk of the banking book under ordinary and stressed conditions.
Thus, this methodology assesses the impact of a hypothetical change in interest rates on the exposure to interest rate risk of the banking book.
In determining own funds under ordinary conditions, the Bank takes into account the annual changes in interest rates recorded over a 6-year observation period, alternatively considering the 1st percentile (downward) or 99-th percentile (upward). For downward scenarios, negative rates of interest are excluded.

B. Fair value hedging

The Bank does not enter into accounting or economic fair value hedges.

C. Cash flow hedging

The Bank does not enter into cash flow hedges.

D. Foreign investment hedging

The Bank does not enter into foreign investment hedges.

Quantitative information

1. Banking book: breakdown of financial assets and liabilities by residual term (by date of repricing)

(€/000) **Total of currencies**

Type/Residual term	On demand	Up to 3 months	From over 3 to 6 months	From over 6 months to 1 year	From over 1 year to 5 years	From over 5 to 10 years	Over 10 years	Undetermined term
1. On-balance sheet assets	**17,465**	**17,917**	**104**	**2,338**	**1,822**	**310**	**-**	**-**
1.1 Debt securities	-	-	-	-	-	-	-	-
- with option of early redemption	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Loans to banks	10,784	188	-	-	-	-	-	-
1.3 Loans to customers	6,681	17,729	104	2,338	1,822	310	-	-
- current accounts	3,898	60	49	535	146	5	-	-
- other loans	2,783	17,669	55	1,803	1,676	305	-	-
- with option of early redemption	-	-	-	-	-	-	-	-
- other	2,783	17,669	55	1,803	1,676	305	-	-
2. On-balance sheet liabilities	**35,169**	**5,308**	**36**	**22**	**5,941**	**-**	**-**	**-**
2.1 Trade payables	35,000	308	36	22	523	-	-	-
- current accounts	28,966	-	-	-	-	-	-	-
- other payables	6,034	308	36	22	523	-	-	-
- with option of early redemption	-	-	-	-	-	-	-	-
- other	6,034	308	36	22	523	-	-	-
2.2 Payables to banks	170	5,000	-	-	-	-	-	-
- current accounts	170	-	-	-	-	-	-	-
- other payables	-	5,000	-	-	-	-	-	-
2.3 Debt securities	-	-	-	-	5,419	-	-	-
- with option of early redemption	-	-	-	-	-	-	-	-
- other	-	-	-	-	5,419	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with option of early redemption	-	-	-	-	-	-	-	-
- other							-	-
3. Financial derivatives	-	-	-	-	-	-	**-**	**-**
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
4. Other off-balance sheet transactions	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-

The Bank has assessed its vulnerability to adverse market scenarios through stress tests, by applying to the banking book an assumed shift of +/-100 bps in interest rates, in accordance with the regulatory rules in force.
The results of the stress test on the Bank's brokerage margin, profit for the year and shareholders' equity are summarized in the table below.

Assumed change in interest rates	Δ Interest margin	Δ Operating result	Δ Shareholders' equity
+100 bps	0.95%	-4.91%	-1.02%
- 100 *bps*	0.08%	-0.42%	0.04%

The table below shows the capital requirement resulting from a hypothetical change in rates, taking as reference the annual changes in historical interest rates recorded over the 2010-2016 period, and alternatively considering the 1st percentile (decrease / floor with non-negative rates constraint) and 99-th percentile (upward / cap). The maximum exposure, which was taken into account, was obtained by applying the floor.
In accordance with the applicable legislation, we also calculated the "Risk Index" (ratio of own funds for the risk in question to the Bank's own funds) which at 31 December 2016 was 0.11%. This value is considerably lower than the 20% limit value set by the Bank of Italy.

	31/12/2016 (€/000)
Capital requirement with respect to interest rate risk under ordinary conditions	16
Own funds	14,203
Risk Index (20% threshold)	0.11%

For the estimate of own funds under stressed conditions, the hypothetical changes in rates are determined on the basis of scenarios predefined by the Bank, which assume parallel and non-parallel shifts of the interest rate curve, as well as a parallel change of +/- 200 basis points. Again, for downward scenarios, negative rates of interest are excluded.
By comparing the results obtained by applying the various alternative scenarios with the result obtained under ordinary conditions, as envisaged by prudential regulations, the Bank was found to be more vulnerable to the latter situation. Given the composition of the entire banking book, this condition represents the most appropriate stress situation to "test" its capital strength.
It follows that the own funds for the risk in question is the same as in normal conditions.

In addition to monitoring interest rate risk using the above methodology, the Bank performs systematic stress tests through a sensitivity analysis of the banking book following a hypothetical interest rate shock.
The vulnerability assessment of the banking book is summarized in a special "sensitivity report", drawn up on a monthly basis, with the support of Cassa Centrale Banca, which estimates the impact on the present value of asset and liability items of a hypothetical shift of the yield curve of +/- 100 and +/- 200 basis points.
This impact is further broken down by individual technical form of asset and liability to identify their contribution to the overall sensitivity and capture the different response of fixed and floating rate positions.

2. Banking book – internal models and other sensitivity analysis methods

The Bank does not use internal models for measuring the risk in question.

2.3 – Exchange rate risk

Exchange rate risk is the risk of a loss in the purchasing power of a currency held and of an impairment in receivables resulting from adverse changes to the foreign exchange rates.

Qualitative information

A. General aspects, management and measurement of exchange rate risk

The exchange rate risk to which the Bank is exposed is assessed with reference to the receivables and payables denominated in foreign currencies. Receivables in foreign currency consist exclusively of deposits with clearing houses and/or banks, made up of commissions generated from securities trading on OTC markets (Eurobonds), which takes place in the instrument's currency of denomination.

The main balances generally consist of cash deposits in U.S. dollars, which are considered as a strategic currency from the point of view of volumes.

In order to limit exchange rate risk, the Bank has management policies and control systems in place which ensure sound and prudent risk management, in line with the general guidelines established by the Board of Directors.

In particular, the "Financial Markets Regulations" lay down limitations on the assumption of foreign currency positions both in terms of currency and volume. In addition, exposure to currency risk is measured through a method that reflects the requirements of the relevant supervisory regulations. This is based on the calculation of the "net foreign exchange positions", i.e. the net balance of all assets and liabilities (on and off balance-sheet) for each currency. The internal audit system previously described provides for the periodic verification of the adequacy of and compliance with the limits set by the Regulations.

B. Currency exchange hedge

At the reporting date of 31 December 2016 there were no outstanding foreign currency hedges.

Quantitative information

1. Breakdown by currency of assets, liabilities and derivatives
(€/000)

Items	Currencies					
	US Dollar	British Pound	Yen	Canadian Dollar	Swiss Frank	Other currencies
A. Financial assets	**225**	**-**	**-**	**-**	**-**	**-**
A.1 Debt securities	-	-	-	-	-	-
A.2 Equity shares	-	-	-	-	-	-
A.3 Loans to banks	225	-	-	-	-	-
A.4 Loans to customers	-	-	-	-	-	-
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	**-**	**-**	**-**	**-**	**-**	**-**
C. Financial liabilities	**140**	**-**	**-**	**-**	**-**	**-**
C.1 Payables to banks	-	-	-	-	-	-
C.2 Trade payables	140	-	-	-	-	-
C.3 Debt securities	-	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
D. Other liabilities	-	-	-	-	-	-
E. Financial derivatives	**-**	**-**	**-**	**-**	**-**	**-**
- Options	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-
Total assets	**225**	**-**	**-**	**-**	**-**	**-**
Total liabilities	**140**	**-**	**-**	**-**	**-**	**-**
Imbalance (+/-)	**85**	**-**	**-**	**-**	**-**	**-**

The amounts in the table relate to:

- deposits with banks in foreign currencies for trading activities;
- import financing to customers;
- cash balances in foreign currencies related to customer deposits.

During the current year an overall foreign exchange loss was incurred amounting to € 29 thousand, which is due to the impact of exchange rates fluctuations on trading commissions.

2. internal models and other sensitivity analysis methods

The Bank does not use internal models for measuring the risk in question.

2.4. Derivative instruments

There were no items to be reported in the tables of this Section envisaged by Banca d’Italia Circular 262, 4th update of 15 December 2015.

Section 3 – Liquidity risk

It is the risk that:

- in relation to banking activities:
  - in a lending transaction, the customer-debtor fails to fulfil their monetary obligations within the agreed time limits;
  - the Bank is unable to fulfil its obligations as they fall due;
- in relation to financial brokerage activities, in a securities transaction, it is difficult to liquidate market positions within the desired time limits.

Qualitative information

A. General issues, management processes, and methods of measurement for liquidity risk

Banks are naturally exposed to liquidity risk – or rather, the risk of not being able to fulfil their payment obligations due to the inability to gather funding in the market (funding liquidity risk) or to ensure asset disposal (market liquidity risk) – due to the transformation of maturities. Having access to an adequate system for regulating and managing this risk plays a fundamental role in maintaining stability not only for the individual bank, but also for the market in general, considering that the imbalances of a single financial institute may have repercussions across the board.
To this end, in line with prudential supervisory requirements, the Bank has adopted:

- a specific "Liquidity Risk Governance and Management Policy", for the management of liquidity in the "ordinary" course of business;
- a "Contingency Funding and Recovery Plan", which is an integral and substantial part of the policy as it governs the process, roles and responsibilities in case the Bank finds itself in a "liquidity stress" situation.

1. Liquidity Risk Governing Policy
The objective of the "Liquidity Risk Governance and Management Policy" is to establish internal guidelines and rules for the management of liquidity and funding to ensure the Bank maintains and manages an appropriate liquidity level, including as part of the adequacy self-assessment under current, prospective and stressed conditions.
In particular, in compliance with the principle of proportionality and taking into account the operating size and organizational complexity of the Bank, the nature of its business and the type of services offered, we first defined the roles, tasks and responsibilities of the organizational units involved in the liquidity management process.

Subsequently, we identified the step that make up the "Liquidity risk management process", which is designed to ensure that a sufficient amount of liquid assets is maintained over time under stress scenarios relating to events that affect the bank and the market. These activities are:

1. Identification of risk factors and measurement of risk exposure;
2. Conducting stress tests;
3. Definition of mitigation tools;
4. Controls;
5. Reporting.

Concerning stress tests, please note that the Bank conducts stress testing regularly in order to evaluate the impact, in both quantitative and qualitative terms, of negative events on the risk exposure and adequacy of liquidity reserves.
Through these tests, we assume that the Bank is facing difficulties or is unable to meet its commitments as they fall due unless it undertakes procedures and/or uses tools that, due to their intensity and/or method of application, deviate from ordinary management.
In this respect, consistent with the regulatory requirements for banks in Class 3 and the principle of proportionality, stress tests are carried out through "sensitivity analyses" to assess the Bank's vulnerability to "specific" but plausible exceptional events.
More specifically, the Bank's ability to cope with liquidity stresses using its own funds, is first and foremost assessed through ongoing monitoring, including on a prospective basis (when performing the Internal Capital Adequacy Assessment Process - "ICAAP"), of compliance with the short-term minimum capital requirement indicator, namely the "Liquidity coverage ratio - "LCR".
The purpose of this indicator is to ensure that the Bank maintains an adequate level of unencumbered, high quality liquid assets that can easily and readily be converted into cash on private markets to meet its liquidity requirements within a period of 30 calendar days in a serious stress liquidity scenario.
Furthermore, with the same frequency, an additional stress test is performed on the regulatory "LCR" indicator that assumes an additional shock in terms of haircut to "high quality" securities in the Bank's portfolio.
With specific reference to the audit phase, this aims to determine on the one hand, the effectiveness of the protective measures adopted by the Bank and, on the other, the long-term appropriateness of the limits set.
In order to guarantee a proper management of the liquidity risk for both short term (up to 1 year) and medium/long-term (over 1 year), integrated controls are performed and differently organized according to the various levels within the Bank, in order to prevent multiple audits of operating units.
In particular, audits are carried out by the following departments:

- *Treasury*
- *Risk Management*

- *Internal Audit*

The Treasury function is responsible for managing both short-term and structural liquidity and funding.
It carries out its activities in compliance with the authorizations and authorization procedures provided by the Board of Directors and with any other guidance provided by the Chief Executive Officer, by taking appropriate steps to secure the resources required to meet the Bank's payment commitments.
To this end, it directly and exclusively controls and manages the Bank's "liquidity buffers", which are held as a separate aggregate under its responsibility, to be used as a potential source of funding, including during stress situations.

The Risk Management function, which is independent from the operational "liquidity risk management" functions, contributes to developing the "Liquidity Risk Governance and Management Policy", verifies compliance with the limits imposed and proposes risk mitigation initiatives to the Corporate Bodies.
It is in charge of measuring and controlling both "short term" and "structural" liquidity risk, under "normal" and "stressed" conditions, to verify the effectiveness of the bank's control measures and the adequacy over time of established operating limits.
More in detail, the Risk Management function monitors liquidity risk by:

- verifying that the bank has the "very short-term" liquidity (1 to 30 days) and "short-term" liquidity (up to 12 months) necessary to carry out operations, respectively on a daily and monthly basis;
- monitoring compliance with operational limits to the assumption of liquidity risks on a monthly basis, through the observation of early warning short-term and structural indicators;
- performing "stress tests" on a monthly basis;
- monitoring "systemic" and "specific" early warning indicators, respectively on a daily and monthly basis.

To this end, with the support of Cassa Centrale Banca, the Risk Management function adopts data collection and processing procedures at suitable intervals that ensure the production of reliable and timely information. Such information is incorporated in specific "reports" developed to support the measurement and control of liquidity risk.
The Internal Audit function also conducts regular audits on:

- the adequacy of the system for collection and verification of information;
- the system for measuring liquidity risk and the pertinent internal evaluation process, as well as the pertinent stress testing process;
- the process of reviewing and updating the Emergency Plan;

It also assesses the functioning and reliability of the overall control system in place for liquidity risk management and verifies that the corporate functions and bodies make full use of the information available.
Reviews and updates of the Policy are approved by resolution of the Board of Directors.

2. *Contingency Funding Plan*

To cope with adverse funding situations and to readily cover liquidity needs, a specific instrument has been put in place called "Contingency Funding and Recovery Plan" - "CFRP" .
The Plan's main objective is to protect the Bank's assets in situations of liquidity drain by putting in place crisis management strategies and procedures to be triggered in order to mitigate the negative impact and to obtain funding in the event of additional and/or alternative sources of financing.
In particular, the CFRP documents the management of any specific or systemic liquidity crisis in terms of mitigating actions available to the Bank and responsibilities assigned to the relevant corporate functions.
The Plan, therefore, responds to stress conditions, intended as situations other than ordinary business, in which the Bank is able to meet its liquidity requirements through its self-funding ability.
Reviews and updates of the Plan are approved by resolution of the Board of Directors.

Quantitative information

1. Time distribution by residual contract term of financial assets and liabilities

Total of currencies

(€/000)

Items/Time frames	On demand	From over 1 day to 7 days	From over 7 to 15 days	From over 15 days to 1 month	From over 1 month to 3 months	From over 3 to 6 months	From over 6 months to 1 year	From over 1 year to 5 years	Over 5 years	Undetermined term
On-balance sheet assets	**13,985**	**276**	**595**	**242**	**4,460**	**1,837**	**8,116**	**16,882**	**8,353**	**188**
A.1 Government securities	-	-	-	-	-	9	1,009	1,001	700	-
A.2 Other debt securities	-	-	6	12	2,342	448	2,574	5,550	300	-
A.3 UCIT units	-	-	-	-	-	-	-	-	-	-
A.4 Loans	13,985	276	589	230	2,118	1,380	4,533	10,332	7,353	188
- Banks	10,784	-	-	-	-	-	-	-	-	188
- Customers	3,201	276	589	230	2,118	1,380	4,533	10,332	7,353	-
On-balance sheet liabilities	**30,049**	**52**	**70**	**495**	**7,551**	**1,982**	**402**	**6,154**	**-**	**-**
B.1 Deposits and current accounts	30,049	-	70	495	2,296	1,916	343	111	-	-
- Banks	1,764	-	-	-	-	-	-	-	-	-
- Customers	28,285	-	70	495	2,296	1,916	343	111	-	-
B.2 Debt securities	-	-	-	-	-	30	37	5,520	-	-
B.3 Other liabilities	-	52	-	-	5,255	36	22	523	-	-
"Off balance sheet" transactions	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
C.1 Financial derivatives with exchange of capital	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.2 Financial derivatives without exchange of capital	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.3 Loans and deposits to be received	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to grant finance	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees granted	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of capital	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

At 31 December 2016, the Bank did not hold any securitised financial assets or ABS securities.

The measurement and control of both "short term" and "structural" liquidity risk, under "normal" and "stressed" conditions, intended to verify the effectiveness of the bank's control measures and the adequacy over time of established operating limits, led to the following outcome.

The daily checks on the very short-term liquidity (from 1 to 30 days) necessary for the Bank's operations never showed any deficiency in the bank's "liquidity buffers" to cover any negative daily prospective balance over the analysis horizon . Therefore, the Bank's "liquidity buffers" have always been sufficient to cover any net funding requirements.
The analysis of the Bank's short-term (up to 12 months) "Net Financial Position" and "liquidity buffers", carried out on a monthly basis, did not show any imbalance over the 12-month assessment horizon.
With specific reference to 31/12/2016, the "Time to Survival" is longer than 12 months. Therefore, the Bank is able to cover the cumulative liquidity gap resulting from the inertial operation of all financial statement items, through its own "liquidity buffers", without having to change its funding plan/asset disposal plan or having to resort to third-party sources.
The monitoring of "short-term" and "structural" early warning indicators carried out on a monthly basis showed full compliance with operational limits to the assumption of liquidity risks, as the threshold limits established by the Bank were never exceeded. Therefore, the Bank can cope with potential imbalance situations that may compromise its resilience to either "short-term" or "structural" liquidity risk.
The stress tests carried out monthly did not show any special vulnerability or the inadequacy of the "liquidity buffers" held by the Bank.
More specifically, the value of the short-term indicator "Liquidity Coverage Ratio" - "LCR" at 31/12/2016 was 147.90%, which is significantly higher than the 70% minimum requirement laid down by law as of 1 January 2016.
Similarly, the results of the additional stress test on the "LCR" regulatory indicator, also performed monthly, showed a stressed value of this indicator of 140.70%, which is considerably higher than the 70% minimum requirement laid down by law as of 1 January 2016.
Therefore, the Bank is able to cope with short-term liquidity needs through its autonomous funding capacity, both in stress situations and in the event of an additional stress scenario compared to that envisaged by the legislation in force.
Lastly, the monitoring of "systemic" and "specific" early warning indicators carried out daily and monthly, respectively, never showed any breach of the threshold limits established by the Bank. Therefore, no situations outside the "ordinary course of business" were detected that might lead to the beginning of a "systemic" or specific crisis.

Section 4 – Operational risks

This is the risk of incurring unexpected losses resulting from inadequate or malfunctioning processes, human resources and information systems, caused by human error, technical failures and/or anomalies in procedures and controls, or external events.

Qualitative information

A. General aspects, management and measurement of operational risk

Operational risk, as such, is a pure risk as it is associated with events that have only adverse effects. It comprises all the anomalies that by affecting the company's output exclusively result in:

- financial loss;
- higher operating costs;
- lower revenue.

Because it is aware that operational risk is inherent in the banking business, the Bank pays close attention to controlling this type of risk.

For this purpose, the internal audit system that the company employs is based on principles of prudent and effective management. Furthermore, the system is periodically reviewed to determine whether it is adequate and functions properly in terms of efficacy (the system's capacity to achieve the goals) and efficiency (the system's capacity to achieve the above goals in terms of costs, risks and profitability consistent with those achieved by similar companies).

In this context, i.e. to ensure that risks are managed properly, the Bank has regulated every step of each process and established appropriate audit levels. It has also created specific units within its organisational structure in charge of overseeing these levels of control.

In order to evaluate risk exposure and the effects that adequate mitigation measures have on said exposure, qualitative and quantitative information must be appropriately combined. The qualitative component ("self-risk assessment") can be summarised as the assessment of the risk profile of each organisational unit, in terms of potential future losses, efficiency of the control system and appropriate management of risk mitigation techniques. The quantitative component, on the other hand, is based mainly on the statistical analysis of historical loss data. As the available information on losses, with reference to certain types of events, is not always relevant, internal data can be supplemented with system data.

In the event of a loss resulting from one of the above events, the Bank will supply the internal database of incurred operating losses, to be used in the future when applying its internal risk calculation model.

As part of business continuity, the Bank has adopted a "business continuity management process" which prescribes the methods for analysing the impact on business and the criteria for drawing up the "Business Continuity Plan".

The "Plan" explains how to deal with emergencies, in order to ensure, where appropriate, the continuity of the bank's vital operations and the return to normal operation within a reasonable time.

Both documents were approved by the Bank's Board of Directors.

With reference to significant legal disputes, disclosure is provided below on threatened and/or ongoing litigation with third parties as at 31 December 2016:

- Case pending against an Icelandic company that requested the annulment of a transaction completed in 2010 for a total amount of around Euro 300 thousand. The Reykjavík District Court of first instance dismissed the plaintiff's claim pursuant to art. 16, paragraph 2, of the Icelandic Code of Civil Procedure and did not upheld the request for cancellation of the transaction. In addition to dismissing the plaintiff's claim, the Court ruled that the other party, as losing party, would have to pay a sum of approximately Euro 16,500 as reimbursement of court costs.
  The other party has appealed the District Court's decision before the Supreme Court; to date, the first hearing has not yet been set. In this respect, no allocation was made to the provision for liabilities and charges on the basis of the opinions expressed by the Bank's legal advisors;

- With reference to the writ of summons received upon application by a customer claiming the invalidity and unlawfulness of some financial transactions entered into with the Bank over the three year 2010-2013 period, the Naples court postponed again the hearing for the examination of witnesses to 26/05/2017. It should be noted that, on the basis of the views expressed by our legal advisor, as at the reporting date the Bank had not recognized any provision in the financial statements as it is not possible to reliably estimate the potential liability;

- There are no updates on the pending dispute with Ipervigile srl, regarding the loss of Euro 50 thousand in the year 2013, in relation to which the bank, on the one hand, has activated the insurance coverage, and on the other, has made a provision of Euro 15 thousand corresponding to the deductible to be paid by the Insured;

- nel mese di ottobre 2016 è pervenuta alla banca una domanda di arbitrato, da parte del precedente *outsourcer* informatico, relativa al mancato pagamento della penale (di circa 71mila euro) prevista dalla clausola compromissoria di recesso anticipato inserita nel contratto stipulato tra le parti. At the reporting date of these financial statements, on the basis of the views expressed by our legal advisor, the Bank had not recognized any provision in the financial statements as it is not possible to reliably estimate the potential liability.

- On 4 April 2017, the Bank was notified an application brought by a former employee pursuant to art. *1, para. 47 et seq.* of Law 92/2012 challenging the dismissal for just cause notified in September 2016. Accordingly, the applicant requests the immediate reinstatement in his/her job and indemnification for an amount of not less than five months of his/her overall de facto remuneration. The Court of Naples - Labour and Welfare Section has set the hearing for the appearance of the parties on 10/05/2017.

Quantitative information
In order to calculate its capital requirement, the Bank adopts the Basic Indicator Approach provided for by the legislation. At 31 December 2016 the capital requirement was € 724 thousand (€ 754 thousand at 31 December 2015).

In 2016 there were no events resulting in operating losses.

Part F – Information on Equity

Section 1 – Corporate equity

A. Qualitative information

As of 31 December 2016, the Company's equity, consisting of the share capital and the reserves of any type, amounted to Euro 14,335 thousand.

This amount constitutes a protection against the risks previously analysed to which the Bank is exposed. In this regard, the Bank's strategic planning process, while pursuing the goal of maximizing productivity and profitability, carefully assesses the levels of risk arising from any planned activity to ensure optimal capitalization levels at all times.
Through a risk-based approach, the objectives and relevant implementing actions were defined by taking into account the changes in minimum regulatory capital requirements envisaged by the legislation in force and their impact on the Bank's equity.
More specifically, to define the Bank's risk appetite, which is the maximum total risk that the Bank intends to assume in relation to the expected return on assets, we defined, within the "Risk Appetite Framework- RAF", the maximum percentage of equity intended to cover the various risks that result in a capital charge.

B. Quantitative information

B.1 Corporate equity: breakdown
(€/000)

Items/Values	Amount 2016	Amount 2015
1. Share capital	7,740	7,740
2. Share premium account	1,071	1,071
3. Reserves	5,904	6,435
- profit reserve	5,904	6,435
a) legal reserve	802	802
b) statutory reserve	-	-
c) treasury share reserve	-	-
d) other	5,102	5,633
- other	-	-
4. Capital instruments	-	-
5. (Treasury shares)	-	-
6. Valuation reserves:	-152	-120
- Financial assets available for sale	-2	-
- Tangible assets	-	-
- Intangible assets	-	-
- Foreign investment hedging	-	-
- Cash flow hedging	-	-
- Exchange rate differences	-	-
- Non-current discontinuing operations	-	-
- Actuarial gains (losses) relating to defined benefits pension plans	-150	-120
- Shares of valuation reserves for subsidiaries carried at equity	-	-
- Special revaluation regulations	-	-
7. Profit (loss) for the year	-228	-531
Total	**14,335**	**14,595**

B.2 Valuation reserves of financial assets available for sale: breakdown
(€/000)

Assets/values	Total 2016		Total 2015	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	-	-	-	-
2. Equity shares	-	-2	-	-
3. UCIT units	-	-	-	-
4. Loans	-	-	-	-
Total	-	**-2**	-	-

B.3 Valuation reserves of financial assets available for sale: year-on-year changes
(€/000)

	Debt securities	Equity shares	UCIT units	Loans
1. Opening balance	**-**	**-**	**-**	**-**
2. Positive changes	-	-	-	-
2.1 Fair value increases	-	-	-	-
2.2 Reversal to the income statement of negative reserves for impairment due to disposal	-	-	-	-
2.3 Other changes	-	-	-	-
3. Negative changes	-	-	-	-
3.1 Fair value decreases	-	-2	-	-
3.2 Adjustments due to impairment	-	-	-	-
3.3 Reversal to the income statement from positive reserves: due to disposal	-	-	-	-
3.4 Other changes	-	-	-	-
4. Final inventories	-	**-2**	-	-

B.4 Valuation reserves relating to defined-benefit pension plans: year-on-year changes
(€/000)

	Amount 2016
1. Opening amount	**-120**
2. Positive changes	**-**
2.1 Actuarial gains relating to defined-benefit pension plans	-
2.2 Other changes	-
2.3 Business combinations	-
3. Negative changes	**-**
3.1 Actuarial losses relating to defined-benefit pension plans	-
3.2 Other changes	-30
3.3 Business combinations	-
4. Closing inventories	**-150**

Section 2 – Own Funds and regulatory ratios

2.1 Own Funds

A. Qualitative information

The Own Funds and the regulatory ratios were calculated according to the provisions in force (Circular no. 285 and no. 286, both issued in 2013, and update of Circular no. 154 of 22 November 1991) issued by the Bank of Italy following the implementation of Directive 2013/36/EU (CRD IV) and Regulation (EU) 575/2013 (CRR) of 26 June 2013 implementing in the EU the standards defined by the Basel Committee on Banking Supervision (Basel 3 framework).
The legislation on Own Funds provide for the gradual introduction of the new regulatory framework through a transitional period, generally until 2017, to enable a gradual alignment with the more stringent capital requirements at the end of the transitional period (“Fully loaded” capital ratios).

The Bank's own funds at 31 December 2016 amounted to € 14,203 thousand.

1. Common Equity Tier 1 - CET 1

The "Common Equity Tier 1 - CET1 before application of prudential filters", totalling € 14,335 thousand, includes the paid-in share capital (€ 7,740 thousand), the share premium reserve (€ 1,071 thousand), the legal reserve (€ 802 thousand), Other profit reserves (€ 4,680 thousand including the loss for the period), and other reserves (€ 194 thousand). The item also includes the valuation reserve relating to employee severance indemnity (negative by € 150 thousand) determined in accordance with IAS 19, and the valuation reserve related to the AFS security entered in the financial statements (negative by € 2 thousand).
The Bank did not hold any innovative capital instruments at the reporting date.
At 31 December 2016, the "Common Equity Tier 1 - CET1 net of the positive/negative effects of the application of prudential filters (€ 15,000), of the items to be deducted (€ 267 thousand) and of the transitional arrangements (€ 150 thousand) amounted to € 14,203 thousand.

2. Additional Tier 1 - AT1

At 31 December 2016, there were no items of "Additional Tier 1- AT1” capital.

3. Tier 2 capital - T2

At 31 December 2016, there were no items of "Tier 2- T2” capital.
Accordingly, the total amount of Own Funds - equivalent to the CET1 item - amounted to € 14,203 thousand.

B. Quantitative information

(€/000)

	Total 2016	Total 2015
A. Common Equity Tier 1 - CET 1 prior to first-time application of prudential filters	**14,335**	**14,595**
of which CET1 instruments subject to transitional provisions	**-**	**-**
B. CET1 prudential filters (+/-)	**(15)**	**(13)**
C. CET1 before items to be deducted and the effects of the transitional arrangements (A+/- B)	**14,320**	**14,582**
D. Elements to be deducted from CET 1	**(267)**	**(477)**
E. Transitional arrangements - Impact on CET1 (+/-)	**150**	**318**
F. Total Common Equity Tier 1 - CET 1 (C - D +/- E)	**14,203**	**14,423**
G. Additional Tier 1- AT1 capital before items to be deducted and the effects of the transitional arrangements	**-**	**-**
of which AT1 instruments subject to transitional provisions	**-**	**-**
H. Elements to be deducted from AT1	**-**	**-**
I. Transitional arrangements - Impact on AT1 (+/-)	**-**	**-**
L. Total Additional Tier 1 - AT (G - H+/-I)	**-**	**-**
M. Tier 2- T2 capital before items to be deducted and the effects of the transitional arrangements	**-**	**-**
of which T2 instruments subject to transitional provisions	**-**	**-**
N. Elements to be deducted from T2	**-**	**-**
O. Transitional arrangements - Impact on T2 (+/-)	**-**	**-**
P. Total Tier 2 - T2 (M - N +/- O)	**-**	**-**
Q. Total own funds (F + L + P)	**14,203**	**14,423**

2.2 Capital adequacy

A. Qualitative Information

To calculate its capital requirements for credit and counterparty risk, market risk and operational risk, the Bank adopts quantitative measurement techniques established by regulations, making use of standard methodologies.
Please note that, starting from the communication of the Bank's Own Funds at 31 December 2015, as established by Banca d'Italia pursuant to art. 53-bis, paragraph 1, letter d) of Legislative Decree No. 385/93 (TUB) - for capital adequacy purposes the Bank is required to comply with specific capital requirements as defined at the outcome of the SREP, in addition to the minimum capital measures provided for in the current regulations.
Pending the results of the supervisory inspection - initiated by the Supervisory Body in November 2016 and concluded in February 2017 - by notice of January 2017, the Bank of Italy suspended the running of the procedural time limit (90 days) envisaged by the current legislation for completing the administrative procedure regarding the revision of the additional capital requirement initially set from 11 November 2016.
In this sense, the minimum requirements for the reporting of Own Funds at 31 December 2016 are the same as those used for the previous financial year. Specifically:

- 7% for the CET1 ratio - which is the ratio of the Common Equity Tier 1 to total risk-weighted assets - inclusive of 2.5% by way of Capital Conservation Buffer; this ratio is binding to the extent of 6.6%;
- 8.8% for the Tier 1 Ratio, which is the ratio of the tier 1 capital to total risk-weighted assets;
- 11.8% for the Total Capital Ratio, which is the ratio of total Own Funds to total risk-weighted assets.

As can be seen from the table below, both the Tier 1 Capital Ratio and the Total Capital Ratio amount to 30.40%.
The sizeable capital of the Bank adequately covers the overall exposure to credit and counterparty risk, market risk and operational risk, with a capital surplus that at the balance sheet date amounted to € 10,466 thousand. Therefore, the bank's own funds are sufficient to support its investment plans as envisaged for by the Bank's management.
In any case, maintaining an adequate capital surplus compared to the minimum regulatory capital is subject to constant analysis and monitoring, in actual and prospective terms and in normal and stressed conditions.

B. Quantitative information

(€/000)

Categories/Amounts	Unweighted amounts		Weighted amounts / requirements	
	2016	**2015**	**2016**	**2015**
A. RISK ASSETS				
A.1 Credit and counterparty risk	**54,494**	**62,011**	**27,150**	**29,013**
1. Standardised method	54,494	62,011	27,150	29,013
2. Internal-rating based method	-	-	-	-
2.1 Base	-	-	-	-
2.2 Advanced	-	-	-	-
3. Securitisations	-	-	-	-
B. PRUDENTIAL CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			**2,172**	**2,321**
B.2 Risk of credit valuation adjustment			**-**	**-**
B.3 Settlement risk			**-**	**-**
B.4 Market risk			**841**	**872**
1. Standard method			841	872
2. Internal models			-	-
3. Concentration risk			-	-
B.5 Operational risk			**724**	**754**
1. Base method			724	754
2. Standardised method			-	-
3. Advanced method			-	-
B.6 Other elements of the calculation			**-**	**-**
B.7 Total prudential requirements			**3,737**	**3,947**
C. RISK ASSETS AND REGULATORY COEFFICIENTS				
C.1 Risk-weighted assets			46,713	49,338
C.2 Common Equity Tier 1 /Risk-weighted assets (CET1 capital ratio)			30.40%	29.23%
C.3 Tier 1 /Risk-weighted assets (Tier 1 capital ratio)			30.40%	29.23%
C.4 Total own funds /Risk-weighted assets (Total capital ratio)			30.40%	29.23%

The risk weighted amounts in Item A.1 are obtained by multiplying the amount of regulatory capital for credit risk and counterparty risk (item B.1) by the reciprocal (12.5%) of the minimum required ratio for credit risks; Item C.1 is determined by multiplying the total capital requirements (Item B0.7) by the reciprocal (12.5%) of the minimum required ratio for risks.

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Part H – Transactions with Related Parties

1. Information on the remuneration of managers with strategic responsibilities

The 2016 emoluments pertaining to managers with strategic responsibilities, also including directors and members of the Board of statutory auditors, can be summarised as follows:

(€/000)

Overall remuneration paid to Directors	31.12.2016
- Salaries and other short-term benefits	337
- Post-employment benefits (social security, insurances, etc.)	3

(€/000)

Overall remuneration paid to Auditors	31.12.2016
- Salaries and other short-term benefits	36
- Post-employment benefits (social security, insurances, etc.)	3

(€/000)

Overall remuneration paid to Managers	31.12.2016
- Salaries and other short-term benefits	75
- Post-employment benefits (social security, insurances, etc.)	-
- Severance indemnity	-
- Other long-term benefits	-

The values were determined as provided for in IAS 24 paragraph 16.

2. Information on transactions with related parties

Related parties were identified according to the definition provided in IAS 24. In particular, related parties can be summarised as subsidiaries and/or associates, directors, statutory auditors and key management personnel (members of the General Management), the immediate families of the above persons, and the subsidiaries and/or associates of any of the above entities. Immediate family includes the person's cohabiting partner and children, the partner's children and other dependants of the person or partner.

Transactions with related parties

(€/000)

	Assets	Liabilities	Guarantees granted	Guarantees received	Revenue	Costs
Directors and Managers	33	203	-	-	-	-
Auditors	-	8	-	-	-	-
Family members	-	59	-	-	-	-
Other related parties	-	314	-	-	-	-
Total	**33**	**584**	**-**	**-**	**-**	**-**

Relationships and transactions with related parties do not give rise to critical issues, were carried out as part of ordinary banking business, and developed during the year on the basis of contingent needs and benefits. The individual relationships or transactions with related parties were carried out on an arm's length basis.
Revenue and expenses corresponding to the disclosed assets and liabilities are not included in the table as they are below the minimum reportable figures.

Annexes

Annexes

Audit Fees as per para. 1 no. 16bis article 2427 of the Italian Civil Code

In compliance with the provisions of article 2427 para. 1 no. 16bis of the Italian Civil Code, the contractually agreed fees for FY2016 with the auditing company Deloitte & Touche S.p.A. to audit the Bank's accounts and for the other services rendered to the Bank are broken down here below, net of VAT and expenses.

(€/000)

Type of service	Fees' amount
Audit of the Financial Statements	32
Checking proper keeping of accounting records and proper reporting of the operations	10
Audit for the signing of tax returns	2

Public disclosure by state

As set forth by Bank of Italy Circular no. 285 of 17 December 2013 6th update - the information is published on the Bank's website at the following link www.bancapromos.it/it/documenti.

Annexes

IAS/IFRS ratified by the European Commission at 31 December 2016

IAS/IFRS	RATIFYING REGULATION
IAS 1 Presentation of financial statements	1126/2008, 1274/2008, 53/2009, 70/2009, 494/2009, 243/2010, 149/2011, 1205/2011, 475/12, 1254/12, 1255/12, 301/13, 2113/2015, 1905/2016(*), 2067/2016(*)
IAS 2 Inventories	1126/2008, 70/2009, 1255/2012, 1905/2016(*), 2067/2016(*)
IAS 7 Statement of cash flows	1126/2008, 1260/2008, 1274/2008, 70/2009, 494/2009, 243/2010, 1254/2012,1174/2013
IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors	1126/2008, 1274/2008, 70/2009, 1255/2012, 2067/2016(*)
IAS 10 Events after the reporting period	1126/2008, 1274/2008, 70/2009, 1142/2009, 1255/2012, 2067/2016(*)
IAS 11 Construction Contracts	1126/2008, 1260/2008, 1274/2008, 1905/2016(*)
IAS 12 Income taxes	1126/2008, 1274/2008, 495/2009, 475/2012, 1254/2012, 1255/2012, 1174/2013, 1905/2016(*), 2067/2016(*)
IAS 16 Property, plant and equipment	1126/2008, 1260/2008, 1274/2008, 70/2009, 495/2009, 1255/2012, 301/2013, 28/2015, 2113/2015, 2231/2015, 1905/2016(*)
IAS 17 Leases	1126/2008, 243/2010, 1255/2012, 2113/2015
IAS 18 Revenue	1126/2008, 69/2009, 1254/2012, 1255/2012, 1905/2016(*)
IAS 19 Employee Benefits	1126/2008, 1274/2008, 70/2009, 475/2012, 1255/2012, 29/2015, 2343/2015
IAS 20 Accounting for Government Grants and Disclosure of Government Assistance	1126/2008, 1274/2008, 70/2009, 475/2012, 1255/2012, 2067/2016(*)
IAS 21The Effects of Changes in Foreign Exchange Rates	1126/2008, 1274/2008, 69/2009, 494/2009, 149/2011, 475/2012, 1254/2012, 1255/2012, 2067/2016(*)
IAS 23 Borrowing Costs	1126/2008, 1260/2008, 70/2009, 2113/2015, 2067/2016(*)
IAS 24 Related Party Disclosures	1126/2208, 1274/2008, 632/2010, 475/2012, 1254/2012, 1174/2013, 28/2015
IAS 26 Accounting and Reporting by Retirement Benefit Plans	1126/2008
IAS 27 Consolidated and Separate Financial Statements	1126/2008, 1274/2008, 69/2009, 70/2009, 494/2009, 1254/2012, 1174/2013, 2441/2015

IAS 28 Investments in Associates	1126/2008, 1274/2008, 70/2009, 494/2009, 495/2009, 1254/2012, 1255/2012, 2441/2015, 1703/2016, 2067/2016(*)
IAS 29 Financial Reporting in Hyperinflationary Economies	1126/2008, 1274/2008, 70/2009
IAS 32 Financial instruments: presentation	1126/2008, 1274/2008, 53/2009, 70/2009, 494/2009, 495/2009, 1293/2009, 475/2012, 1254/2012, 1255/2012, 1256/2012, 301/2013, 1174/2013, 1905/2016(*), 2067/2016(*)
IAS 33 Earnings per Share	1126/2008, 1274/2008, 494/2009, 495/2009, 475/2012, 1254/2012, 1255/2012, 2067/2016(*)
IAS 34 Interim Financial Reporting	1126/2008, 1274/2008, 70/2009, 495/2009, 149/2011, 475/2012, 1255/2012, 301/2013, 1174/2013, 2343/2015, 2406/2015, 1905/2016(*)
IAS 36 Impairment of Assets	1126/2008, 1274/2008, 69/2009, 70/2009, 495/2009, 243/2010, 1254/2012, 1255/2012, 1374/2013, 2113/2015, 1905/2016(*), 2067/2016(*)
IAS 37 Provisions, Contingent Liabilities and Contingent Assets	1126/2008, 1274/2008, 495/2009, 28/2015, 1905/2016(*), 2067/2016(*)
IAS 38 Intangible Assets	1126/2008, 1260/2008, 1274/2008, 70/2009, 495/2009, 824/2009, 243/2010, 1254/2012, 1255/2012, 28/2015, 2231/2015, 1905/2016(*)
IAS 39 Financial Instruments: recognition and measurement	1126/2008, 1274/2008, 53/2009, 70/2009, 494/2009, 495/2009, 824/2009, 839/2009, 1171/2009, 243/2010, 149/2011, 1254/2012, 1255/2012, 1174/2013, 1375/2013, 28/2015, 1905/2016(*), 2067/2016(*)
IAS 40 Investment Property	1126/2008, 1274/2008, 70/2009, 1255/2012, 1361/2014, 2113/2015, 1905/2016(*)
IAS 41 Agriculture	1126/2008, 1274/2008, 70/2009, 1255/2012, 2113/2015
IFRS 1 First-time Adoption of International Financial Reporting Standards	1126/2008, 1260/2008, 1274/2008, 69/2009, 70/2009, 254/2009, 494/2009, 495/2009, 1136/2009, 1164/2009, 550/2010, 574/2010, 662/2010, 149/2011, 1205/2011, 475/2012, 1254/2012, 1255/2012, 183/2013, 301/2013, 1174/2013, 2173/2015, 2343/2015, 2441/2015, 1905/2016(*), 2067/2016(*)
IFRS 2 Share-Based Payment	1126/2008, 1261/2008, 495/2009, 243/2010, 244/2010, 1254/2012, 1255/2012, 28/2015, 2067/2016(*)
IFRS 3 Business Combinations	1126/2008, 495/2009, 149/2011, 1254/2012, 1255/2012, 1174/2013, 1361/2014, 28/2015, 1905/2016(*), 2067/2016(*)
IFRS 4 Insurance Contracts	1126/2008, 1274/2008, 494/2009, 1165/2009, 1255/2012, 1905/2016(*), 2067/2016(*)
IFRS 5 Non-current Assets Held for Sale and	1126/2008, 1274/2008, 70/2009, 494/2009, 1142/2009

Discontinued Operations	243/2010, 475/2012, 1254/2012, 1255/2012, 2343/2015, 2067/2016(*)
IFRS 6 Exploration for and Evaluation of Mineral Assets	1126/2008
IFRS 7 Financial Instruments: disclosures	1126/2008, 1274/2008, 53/2009, 70/2009, 495/2009, 824/2009, 1165/2009, 574/2010, 149/2011, 1205/2011, 475/2012, 1254/2012, 1255/2012, 1256/2012, 1174/2013, 2343/2015, 2406/2015, 2067/2016(*)
IFRS 8 Operating Segments	1126/2008, 1274/2008, 243/2010, 632/2010, 475/2012, 28/2015
IFRS 9 Financial instruments	2067/2016(*)
IFRS 10 Consolidated Financial Statements	1254/2012, 313/2013, 1174/2013, 1703/2016
IFRS 11 Joint Arrangements	1254/2012, 313/2013, 2173/2015
IFRS 12 Disclosure of Interests in Other Entities	1254/2012, 313/2013, 1174/2013, 1703/2016
IFRS 13 – Fair value measurement	1255/2012, 1361/2014, 2067/2016(*)
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SIC 7 Introduction of the Euro	1126/2008, 1274/2008, 494/2009
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SIC 15 Operating Leases - Incentives	1126/2008, 1274/2008
SIC 25 Income Taxes – Changes in the Tax Status of an Enterprise or its Shareholders	1126/2008, 1274/2008
SIC 27 Evaluating the Substance of Transactions in the Legal Form of a Lease	1126/2008, 1905/2016(*), 2067/2016(*)
SIC 29 Disclosure – Service Concession Arrangements	1126/2008, 1274/2008, 254/2009
SIC 31 Revenue – Barter Transactions Involving Advertising Services	1126/2008, 1905/2016(*)
SIC 32 Intangible Assets – Web Site Costs	1126/2008, 1274/2008, 1905/2016(*)
IFRIC 1 Changes in Existing Decommissioning, Restoration and Similar Liabilities	1126/2008, 1260/2008, 1274/2008
IFRIC 2 Members' Shares in Co-operative Entities and Similar Instruments	1126/2008, 53/2009, 1255/2012, 301/2013, 2067/2016(*)

IFRIC 4 Determining Whether an Arrangement Contains a Lease	1126/2008, 254/2009 1255/2012
IFRIC 5 Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	1126/2008, 1254/2012, 2067/2016(*)
IFRIC 6 Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment	1126/2008
IFRIC 7 Applying the Restatement Approach under IAS 29 - Financial Reporting in Hyperinflationary Economies	1126/2008, 1274/2008
IFRIC 9 Reassessment of Embedded Derivatives	1126/2008, 495/2009, 1171/2009, 243/2010, 1254/2012, 2067/2016(*)
IFRIC 10 Interim Financial Reporting and Impairment	1126/2008, 1274/2009, 2067/2016(*)
IFRIC 12 Service Concession Agreements	254/2009, 1905/2016 (*), 2067/2016(*)
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IFRIC 21 Levies	634/2014

(*) The Bank applies the provisions of these Regulations as from 1 January 2018.

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