BANCA PROMOS

Financial Statements at 31 December 2017

37° year

On the cover: PH. Peppe Maisto

Contents

Call of Ordinary Meeting

BANCA PROMOS S.p.A.

Registered Office in Naples, Viale A.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 26 April 2018 at 4:30 pm and, if necessary, on second call on 30 April 2018 at 10:00 am, in order to discuss and resolve upon the following:

AGENDA

1. Approval of the financial statements at 31 December 2017, Directors' Report, report of the Board of Statutory Auditors and subsequent resolutions according to law provisions
2. Disclosure on remuneration policies and their implementation;
3. 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)*

Giorgio Gargiulo *(Alternate Auditor)*

Independent Auditors

Deloitte & Touche S.p.A.

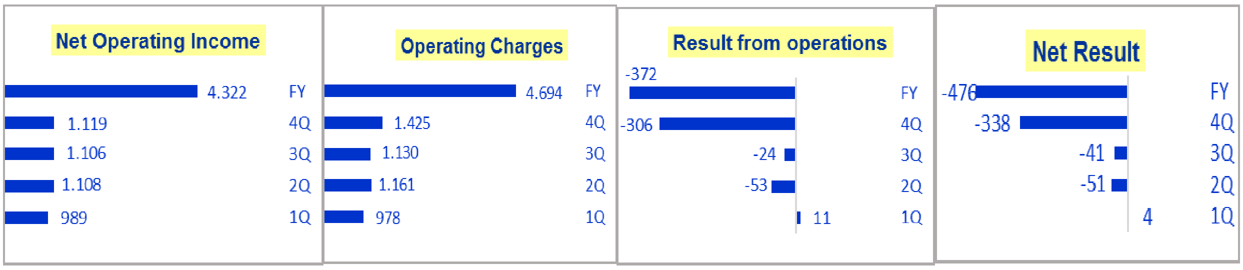
Overview

Income Statement

Income Statement (€/000)	31/12/2017	31/12/2016	Absolute changes	% change
Net interest	**1,089**	**1,183**	(94)	(7,9)
Net commissions	**162**	**20**	142	-
Income from trading activities(*)	**2,892**	**3,235**	(343)	(10,6)
Net operating income	**4,322**	**4,628**	(306)	(6,6)
Operating charges	**(4,694)**	**(4,432)**	262	5,9
Result from operations	**(372)**	**196**	(568)	-
Net adjustments to receivables	**(115)**	**(520)**	(405)	(77,9)
Net result	**(476)**	**(228)**	248	-

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

Quarterly outlook of the main economic indicators



Balance Sheet figures

Balance Sheet figures (€/000)	31/12/2017	31/12/2016	Absolute changes	% change
Loans to customers	**26,988**	**28,984**	(1,996)	(6.9)
Customer financial assets:	**110,287**	**96,155**	14,132	14.7
- Direct deposits	**44,288**	**41,308**	2,980	7.2
- Indirect deposits including institutional customers	**65,999**	**54,847**	11,152	20.3
Total assets	**67,206**	**64,315**	2,891	4.5
Shareholders' equity	**13,862**	**14,335**	(473)	(3.3)

Structure Data

Structure Data	31/12/2017	31/12/2016	Absolute changes	% change
Number of employees	**44**	**45**	(1)	(2.2)
Number of branches	**3**	**3**	-	-

Alternative performance indicators

Income ratios (% values)	31/12/2017	31/12/2016
Net result / Shareholders' equity (ROE)	(3.4)	(1.6)
ROA	(0.7)	(0.5)
Cost / income ratio	108.6	95.8
Interest margin / Brokerage margin	26.3	26.7
Net result of financial operations / Total assets	6.0	6.1

Risk indicators (% values)	31/12/2017	31/12/2016
Impaired assets / Loans to customers	10.5	12.9
Net non-performing loans / Loans to customers	5.3	4.9
Unlikely to pay / Loans to customers	3.6	6.0
Past due and overdrawn loans / Loans to customers	1.6	2.0
Overall adjustments to receivables / Gross loans (hedging ratio)	7.8	7.1

Capital ratios (% values)	31/12/2017	31/12/2016
Common Equity Tier 1 / Risk-weighted assets	28.6	30.4
Tier 1 / Risk-weighted assets	28.6	30.4
Total capital / Risk-weighted assets	28.6	30.4
Risk-weighted assets (€/000)	47,743	46,713
Own funds	13,636	14,203
CET1 surplus compared to the 8.00% threshold	9,816	10,466

Director's Report

Dear Shareholders,

we submit to your attention the 2017 draft financial statements, drawn up according to the IAS/IFRS international accounting standards on a going concern basis, the Bank's own funds being more than adequate to cover the risks to which it is exposed, and in compliance with the additional prudential requirements established by the Bank of Italy.

As usual, to ensure an effective understanding of the bank’s specific situation, which is described below, we consider it appropriate to briefly outline the developments in the general economic and production environment and in the region where your Bank is engaged.

Global scenario

In line with a trend already observed in the previous year, 2017 was characterized by a moderately positive economic situation on a global level and by steady economic growth both in the main advanced economies and in the emerging areas.

In the United States, the United Kingdom and Japan, the economic and financial indicators for the first nine months of the year recorded a positive trend.

Similarly, in the emerging countries such as India, China and Brazil, moderate GDP growth has continued unabated since the beginning of 2017.

In general, on the global scene there is a climate of renewed confidence, although some elements of uncertainty remain, mainly linked to geopolitical tensions that affect various areas of the globe, and to developments in economic policies.

In Europe, in contrast, the greatest risks are due to the definition of the new balance between the European Union and the United Kingdom following the Brexit.

On the growth front, the Euro area also recorded a good progress, and GDP estimates for 2017 have recently been revised upwards.

Price movements were limited, with an underlying inflation that in December 2017 remained below 1% in some European countries, including Italy, France and Spain.

In the last part of the year the Euro moderately appreciated against the main world currencies, such as the US dollar, the Japanese yen and the British pound.

The Italian economy was no exception and likewise recorded GDP growth: according to estimates based on data available at the date of writing our report, GDP is expected to grow by more than 1% for 2017. The progress of production activities is supported by favourable global economic conditions and by sustained domestic and foreign demand. As a result, business confidence was high in all the main sectors of activity.
Consistent with this scenario, household consumption also showed appreciable growth.

The capital markets

In the reporting year, various elements affected the financial markets.
Long-term interest rates remained low throughout the first half of 2017, fuelling expectations for a rise that did not actually materialize, except for the small adjustment by the Federal Reserve which, in the December, raised the target fed funds interest rate range by 25 basis points.
On the other hand, the EU monetary policy remained firmly anchored to its low rates stance. The MRO, i.e. the interest rate on the main Eurosystem refinancing operations is at 0%, the historical minimum since March 2016, and the ECB has confirmed it is determined to keep rates at these levels for a prolonged period of time until inflation is back to around 2%.
To weigh on the performance of financial markets, however, there were also factors of a less technical nature, related with the new MIFID II and IFRS9 regulations. Both come into force in January 2018, although in different areas, and share the objective of increasing market transparency and protecting investor security. The operators' adjustment to the new rules and the uncertainties related to the impact of these changes slowed down capital markets' activities and kept share prices volatility low.
In any case, in the last part of the year, the spreads between yields on 10-year government bonds and the corresponding German securities declined in many EU countries, such as Italy, Spain, Belgium and Portugal .

The banking system in Italy

Banks continued to carry out their operations in a constantly changing environment, both from a regulatory standpoint and in terms of technological innovations.
The improvement in credit quality continued, driven by the consolidation of the economic recovery, and the impact of impaired loans on total loans decreased, both gross and net of value adjustments.
We provide below some of the data taken from the monthly report published by the Italian Banking Association in January 2018.

Loans to households and businesses grew by 2.3% on an annual basis, confirming the positive overall trend in total loans outstanding.

Improvements in the mortgage market were also confirmed. The total amount of outstanding mortgages held by households in November 2017 recorded a positive change of 3.4% compared to the same period of the previous year, when there were already signs of improvement.

In terms of credit quality, in November 2017 net non-performing loans amounted to € 66.3 billion; a sharp decrease compared to the figure in December 2016 (€ 86.8 billion). NPL decreased by more than € 22.5 billion compared to the maximum level reached in November 2015 (€ 88.8 billion).

The ratio of net non-performing loans to total loans also fell significantly to 3.74% in November 2017 (it was 4.89% at the end of 2016).

Total funding was essentially unchanged compared to last year. However, the divergent performance of customer deposits, which grew 3.6% year-on-year, compared to funding through bonds, which confirmed a marked decrease (-15.2%), was noteworthy.

The average rates on loans and funding remained low and slightly declined; likewise declining was the spread between the average rate on loans and the average rate on deposits for households and non-financial companies which on average stood at 1.84 percentage points in 2017 (from 1.98 of 2016).

The situation in Campania

In our region, the general economic scenario for the period under review was moderately positive, consistent with the national trend.

Confidence continued to cautiously improve, supported by positive signals from production activities.

An analysis of the various sectors shows a downward trend in production in the construction sector, while non-financial services companies reported an increase in turnover. More specifically, all tourism-related activities in Campania grew in the reporting period. On the other hand, companies in the food sector showed a downward trend.

The figure for the number of companies operating in the region was positive, increasing by 1.2% in the first nine months of the year compared to the same period of 2016.

The labour market was somewhat more vibrant than in the previous years, especially in the tourist-commercial services sectors, with recourse mostly to fixed-term contracts.

With regard to the credit system, interest rates remained low on both loans to businesses and households.

As a result, the amounts disbursed continued to grow, especially with regard to loans to consumer households. Consumer credit and home purchase loans in the first half of 2017 were up 4.1% year-on-year.

(Sources: **Bank of Italy:** Economic Bulletin no. 1, January 2018; Regional economies no. 39 November 2017; **ABI**: monthly report January 2018)

Banca Promos core operations

Dear Shareholders, the general economic and financial scenario described in the previous pages showed some signs of easing. This was also reflected in some respects on the annual accounts that we are submitting to you for approval.

In the year just ended, your Bank recorded good progress in trading volumes, which grew by 20% compared to the end of 2016, standing at just below € 13 billion. This confirmed the strong market positioning of our Bank, as further demonstrated by the opening of 68 new counterparty accounts in 2017, with entities from 23 different countries. As evidence of the constant and profitable commercial action carried out by our staff, in addition to countries with historically active capital markets (UK, USA, France, Italy), they also included emerging regions such as Egypt, Poland, Slovakia.

Customer deposits performed well, increasing by 7%. This was also attributable to the restructuring of the commercial network, still under way. Encouraged by economic data and the consequent improvement in credit quality, the Bank gave new impetus to commercial activities with retail customers, and, among the various measures undertaken, it implemented a substantial reorganization of the branches, with inclusion in the workforce of a new commercial area manager and optimization of branch personnel and of personnel in credit-related operational areas. Although these initiatives were only launched in the last quarter of 2017, they have already achieved appreciable results in terms of funding, while prospects for loan growth are concentrated on 2018.

The good level of trading volumes and deposits was not accompanied by a similar improvement in either interest or brokerage margins, which were about 10% lower than last year, mainly due to the low level of interest rates which did not allow for a proportionate development of margins.
Furthermore, during the year the bank had to incur some extraordinary costs that had an adverse impact on the final result.
They relate to the conclusion of some disputes undertaken in previous years, which in some cases had an unfavourable outcome for the bank. For further details, reference

should be made to the Notes. In addition, an important extraordinary financial transaction failed to be finalized, with consequent loss of expected revenues.

Nevertheless, Corporate Finance activities continued, and during the year a new mini-bond was issued, listed on the Vienna Stock Exchange, and activities were started to assist new potential issuers.

In this respect, Banca Promos has been gaining growing visibility and is now recognized in the banking system as one of the few operators in Southern Italy with a continuous presence on the market.

From an operational standpoint, we experienced positive developments in different areas of activity.

We provide below some operating indicators and their trend compared to the previous year:

- the number of current accounts increased by 7.25%;
- deposit accounts increased by 43.33%;
- the number of ATMs installed increased by 16.67%;
- credit cards in issue increased by 19.11% and debit cards by 8.47%;
- progress also continued in the leasing sector, both in terms of volumes (+37.21% compared to 2016) and in terms of transactions completed (+24.71%). The average amount per transaction also increased.

Therefore, the Financial Statements reported a loss of € 476,123.

The greater focus of the Bank on the retail segment naturally also reflected in the development of activities designed to promote new business opportunities for customers, including by entering into partnership agreements.

In June, we began collaborating with the Fondo Sanitario Città del Sole, an entity registered in the Register of Health Funds at the Ministry of Health, which offers protection solutions different from those of the National Health Service, while also pursuing social activities as its operating surpluses are used to provide free services to poorer population groups.

The agreement with Banca del Mezzogiorno-MedioCredito Centrale was also defined, which aims to support access to credit for eligible entities, through collaboration with leading local banks that have in-depth knowledge of companies in the area and their financing needs. The agreement aims to facilitate access to credit for small and medium-sized enterprises.

The Bank also joined the Guarantee Fund for first home mortgages set up at the Ministry of Economy and Finance (Law no. 147 of 27 December 2013), with the aim of facilitating

households' access to credit for the purchase, or to increase the energy efficiency, of their homes.
The Fund issues first demand guarantees, up to a maximum of 50% of the principal amount on mortgages or mortgage portfolios related to the purchase and to renovations and energy efficiency measures of buildings used as main residence.

At the same time, the staff training plan was strengthened. In addition to the usual training courses designed to strengthen knowledge of internal procedures and rules and to disseminate the ongoing information system updates, the Bank organized a programme of classroom courses involving various operational and managerial departments and covering various types of topics.
Overall, 264 hours of training were delivered.

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 **(table 1)**, positive for € 4,834 thousand, decreased (-17%) by € 968 thousand, mainly due to the reduction in credit exposures to banks.

Tab 1 Net interbank position

Items (€/000)	31/12/2017	% incid.	31/12/2016	% incid.	Absolute changes	% change
Receivables from banks	**9,898**		**10,972**		**(1,074)**	**(9.8)**
A) Demand deposits at banks	11	0.1	11	0.1	-	-
B) Time deposit for the Mandatory Reserve	224	2.3	188	1.7	36	19.1
C) Current accounts held with other banks	9,663	97.6	10,773	98.2	(1.110)	(10.3)
Payables to banks	**5,064**		**5,170**		**(106)**	**(2.1)**
A) Demand deposits from banks	64	1.3	170	3.3	(106)	(62.4)
C) BI loan	5,000	98.7	5,000	96.7	-	-
Net interbank position	**4,834**		**5,802**		**(968)**	**(16.7)**

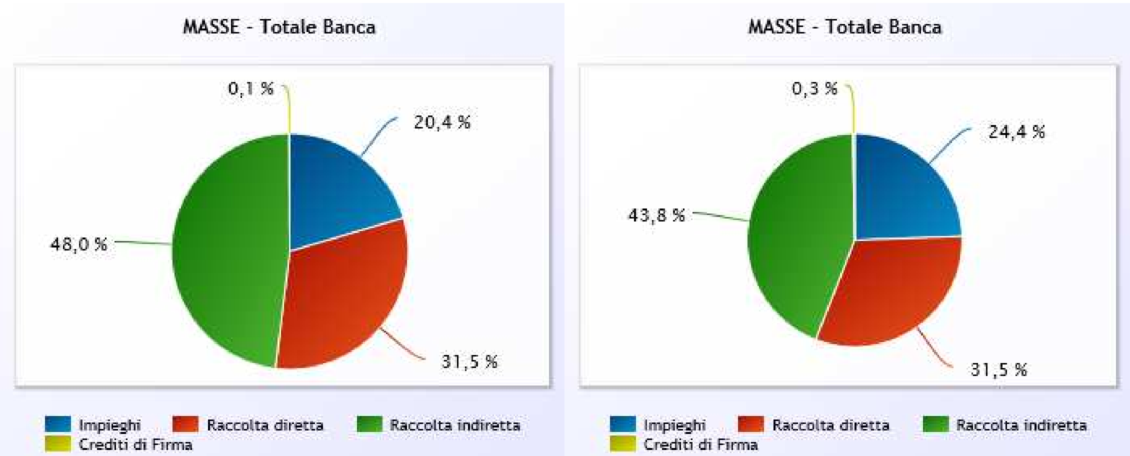
Financial assets available for sale

Financial assets available for sale as at 31 December 2017 amounted to € 1 million and consisted of shares of Banca Regionale di Sviluppo S.p.A. subscribed by the Bank in 2016.
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.

Loans to customers

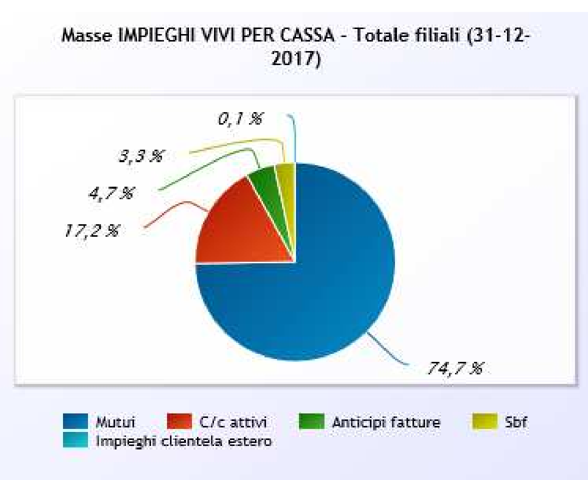
At 31 December 2017 loans to customers amounted to € 26,988 thousand, net of adjustments made as part of credit risk monitoring, showing a decrease of 7% compared to 2016. In general, the drop recorded is essentially attributable to the Mortgage segment, down by € 1,893 thousand.
Based on an analysis of evidence received from Management Control, outstanding cash loans - accounting for approximately 20% 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)** . The breakdown of the item remained substantially unchanged compared to the previous FY.

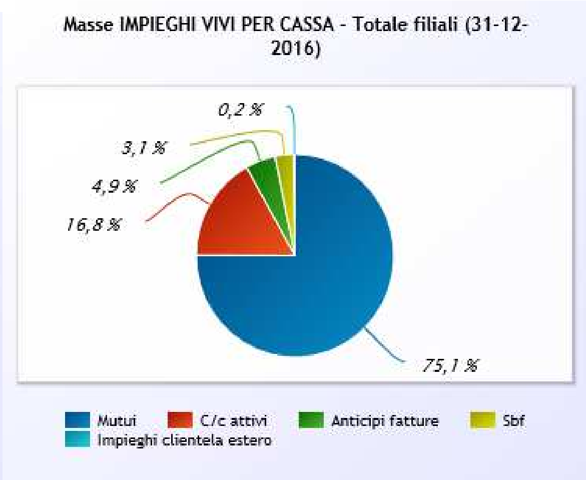
Table 1 Volume of loans and funding managed by the Bank



2017 data 2016 data

Table 2 Breakdown of outstanding cash loans



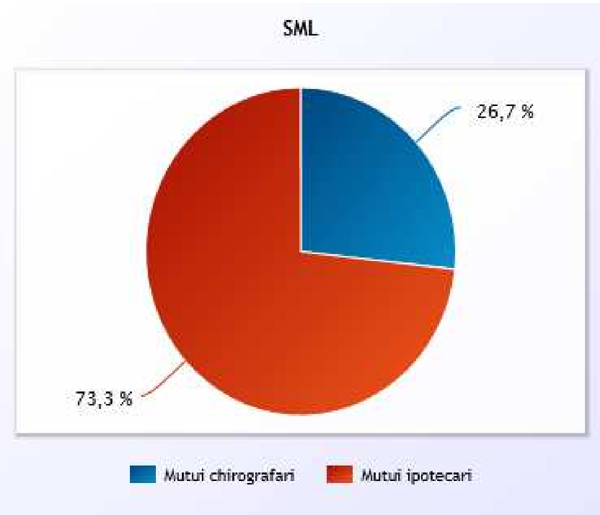


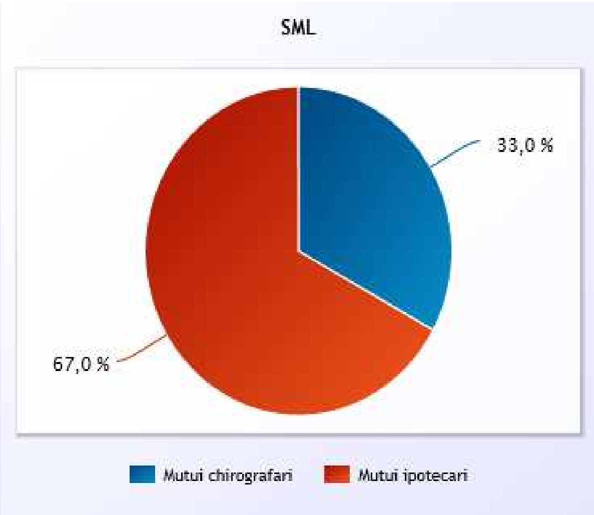
2017 data

2016 data

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 a slight increase (**Table 2**) .
With regard to the loan sector, accounting for 75% of the credit portfolio, mortgage loans prevailed, accounting for 73% slightly up from the figure recorded in 2016 (67%); the remainder, 27%, consisted of unsecured loans, as shown in (**Table 3**).

Table 3 Classification of loans by nature



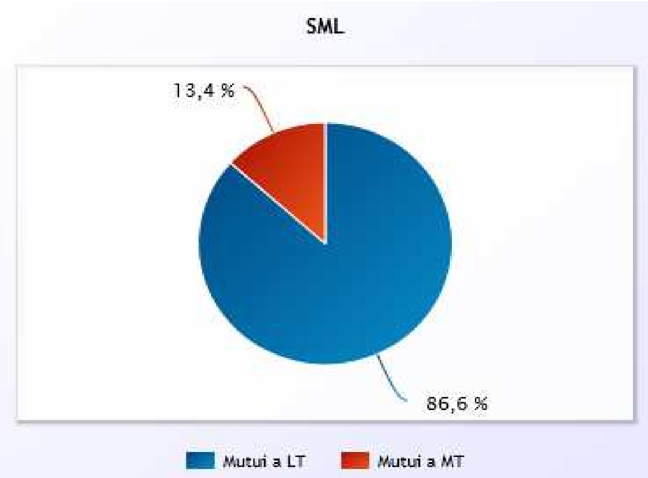


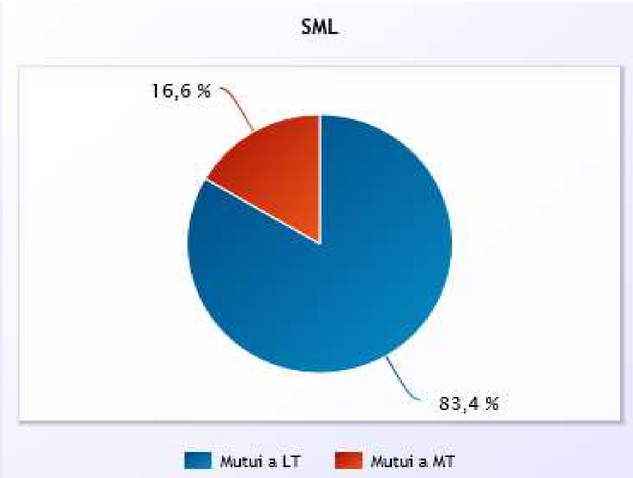
2017 data

2016 data

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 86.6% of the total.

Table 4 Classification of loans by maturity

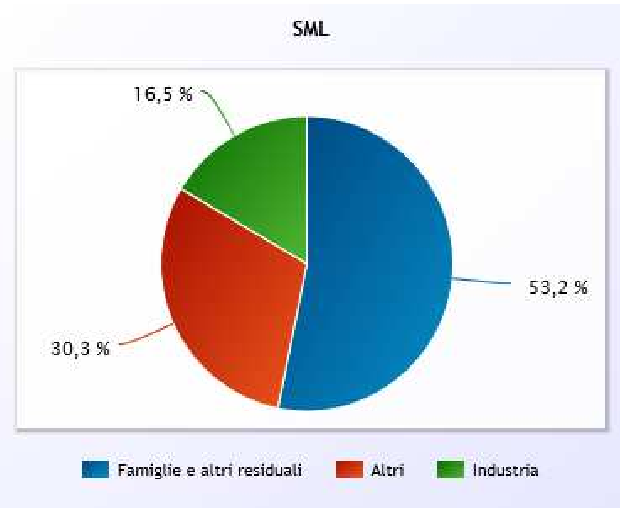


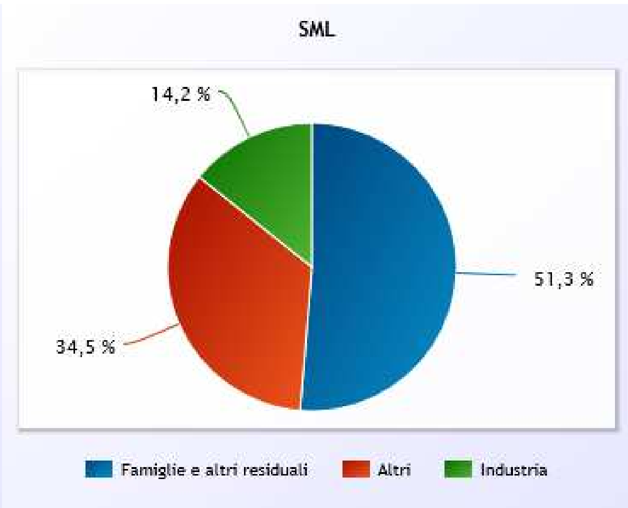


2017 data
2016 data

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

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





2017 data
2016 data

Key:

Industry : this figure includes exposures that, based on ATECO classification, refer to counterparties engaged in the "manufacturing" (food, textile, beverage, leather goods and similar industries, etc.), "constructions" and "supply of electricity, gas, steam and air" sectors.

Others : this figure includes exposures that, based on ATECO classification, refer to counterparties engaged in "wholesale and retail trade", "transport and storage", "real estate activities", "professional, scientific and technical activities", "health" and social care", etc.

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.

At 31 December 2017, the Bank recorded a decrease in loans to customers both gross and net of adjustments compared to the same period of 2016.

The percentage of net impaired loans out of total loans granted (*NPE Ratio*) stood at 10.5% in December 2017, improving compared to the 12.9% recorded in 2016.

Specifically, at 31 December 2017, impaired loans net of value adjustments (**Table 1**) totalled € 2,842 thousand, a decrease of -24% compared to December 2016 (€ 3,738 thousand).

Tab. 1. Credit quality: breakdown

	31/12/2017					31/12/2016						
Items (€/000)	**Gross exposure**	**Adjustments**	**Net exposure**	**% coverage**	**% incid.**	**Gross exposure**	**Adjustments**	**Net exposure**	**% coverage**	**% incid.**	**Absolute changes**	**% change**
Non-performing loans	3,126	1,687	1,439	54.0	5.3	3,115	1,696	1,419	54.4	4.9	20	1.4
Unlikely to pay	1,256	286	970	22.8	3.6	2,001	271	1,730	13.5	6.0	(760)	(43.9)
Past due/overdrawn loans	583	150	433	25.7	1.6	672	83	589	12.4	2.0	(156)	(26.5)
Impaired assets	**4,965**	**2,123**	**2,842**	**42.8**	**10.5**	**5,788**	**2,050**	**3,738**	**35.4**	**12.9**	**(896)**	**(24.0)**
Performing loans	24,298	152	24,146	0.6	89.5	25,420	174	25,246	0.7	87.1	(1,100)	(4.4)
Loans to customers	**29,263**	**2,275**	**26,988**	**7.8**		**31,208**	**2,224**	**28,984**	**7.1**		**(1,996)**	**(6.9)**

The coverage ratio for impaired loans significantly improved compared to the previous year, from 35.4% at the end of 2016 to 42.8% at the end of the year.

Specifically:

- net non-performing loans at 31 December 2017 accounted for 5% of total loans, essentially in line with the performance of the previous year. At 31 December 2017, the coverage ratio was 54%;
- the "unlikely to pay", down (-44%) from the previous year, accounted for approximately 4% of total loans; this contraction is mainly attributable to one significant position being reclassified as performing loan. The coverage ratio stood at 23% at 31 December 2017;
- net overdue/overdrawn loans, down around €160 thousand on the previous year, accounted for 2% approx. of total loans. At 31 December 2017, the coverage ratio was 26%. It should be noted that this aggregate includes both positions that are written-down on a case-by-case basis and positions that, similarly to the write-down applied to performing loans, are written-down on a flat-rate basis, by applying a write-down percentage, which at December 2017 was 9.83%.

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 0.65%.

At 31 December 2017, the cost of credit was 0.39%.

Deposits

Payables to banks, amounting to €5,064 thousand, and securities in issue, amounting to €5,161 thousand, declined by 2% and 5% respectively over the previous year; conversely, payables to customers increased by 9% to reach €39,127 thousand.

Interbank funding mainly consists of refinancing operations with the European Central Bank, which as at 31 December 2017 totalled €5,000,000.

Based on an analysis of evidence received from Management Control, overall funding - accounting for approximately 80% (against 75% of 2016) of the total volume of loans and funding managed by the Bank at the reporting date – increased by € 15 million (+16%), from € 94.3 million in 2016 to € 109 million at the end of 2017. This performance was also favourably influenced by the reorganization of the commercial network implemented by the Bank in 2017, and still under way, which is intended to expand commercial operations with retail customers.

Indirect funding accounted for 60% of total funding, the remainder (40%) consisting of direct funding.

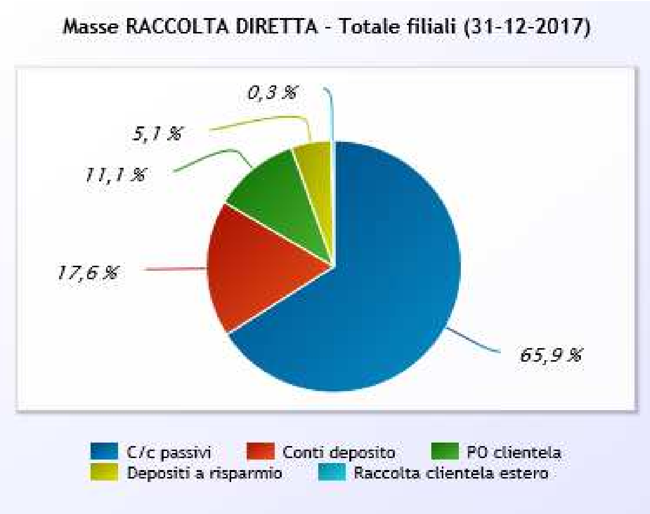
Table 1 shows the yearly data regarding the trend in total funding of the Bank.

Table 1 Overall funding performance

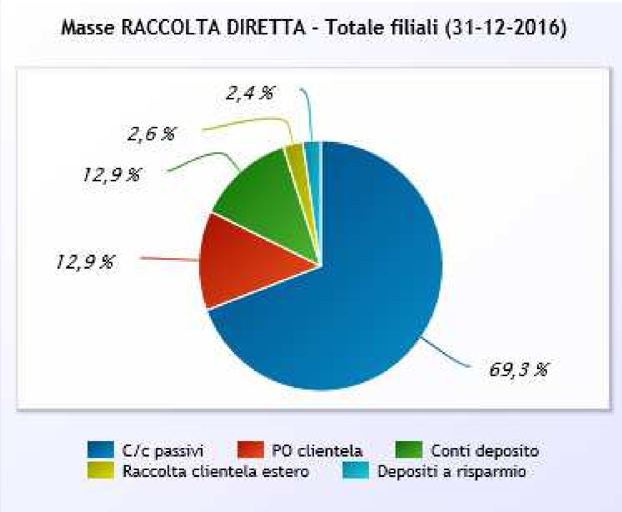
Items (€/000)	31/12/2017	% incid.	31/12/2016	% incid.	Absolute changes	% change
SICAV and funds	2,846	4.3	611	1.1	2,235	-
Managed:	63,153	95.7	54,236	98.9	8,917	16.4
- Shares	35,610	54.0	33,427	60.9	2,183	6.5
- Bonds	27,543	41.7	20,809	37.9	6,734	32.4
Indirect deposits	**65,999**	**60.4**	**54,847**	**58.0**	**11,152**	**20.3**
Current accounts	28,557	65.9	27,328	69.3	1,229	4.5
Time deposits	7,631	17.6	5,077	12.9	2,554	50.3
Savings accounts	2,200	5.1	934	2.4	1,266	-
Bonds issued to clients	4,790	11.1	5,090	12.9	(300)	(5.9)
Funding from foreign customers	140	0.3	1,028	2.6	(888)	(86.4)
Direct deposits	**43,318**	**39.6**	**39,457**	**41.8**	**3,861**	**9.8**
Total deposits	**109,317**		**94,304**		**15.013**	**15,9**

In term of the various types of direct funding used by the Bank, the management data show (**Table 2**) a significant incidence of customer current accounts (66%) compared to other forms of funding, confirming the data of the previous year. For a breakdown of direct funding see the tables.

Table 2 Breakdown Direct funding



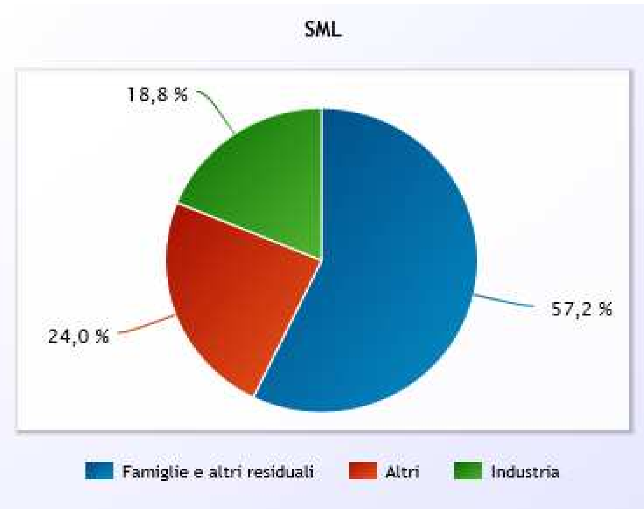
2017 data



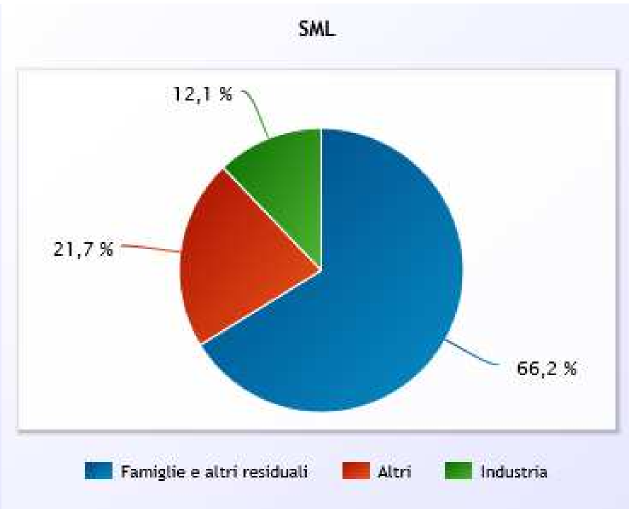
2016 data

Customer current accounts, which account 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)



2017 data



2016 data

As in the previous year, indirect funding at 31 December 2017 was essentially made up of assets under management, comprising 54% of shares and 42% of bonds. Conversely, the additional component of indirect funding, consisting of "Funds and Sicavs", recorded a significant increase, as it almost quadrupled with respect to the previous figure (from € 611 thousand at the end of 2016 to € 2,846 thousand at the end of 2017).

Tangible assets

Property, plant and equipment, amounting to € 5,822 thousand, recorded a 4% drop due to the depreciation charge for the year.

Intangible fixed assets

Intangible assets amounted to € 91 thousand, down 25% 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 € 17,781 thousand, up 28% (+€3.9 million) on the previous year. In general, the increase recorded reflects greater investments in the bank's trading book that also benefit from the increase in total funding.

At year-end, the bank's trading book comprised 33 bonds for a total nominal amount of € 17,505,870.5, up 27% compared to 31/12/2016. The securities were almost entirely from Italian issuers (88.2%) and the residual yield to maturity at the calculation date was 1.23% with a Modified Duration of 1.02 years. The net result from trading activities was a capital loss of € 75,145, totally offset by interest income for € 368 thousand.
The composition of the portfolio is characterized by a persistent prevalence of bonds of national financial, banking and insurance issuers (whose share falls from 68% to 63%) and Italian public debt securities (the share of which goes from 20% to 21.3%). The share of industrial and corporate issuers was 15.42%; the Mini-bonds of national issuers accounted for 7.9% of the total portfolio.
Market risk at 31 December 2017, corresponding to the maximum potential loss with a 99% confidence interval, estimated through the VaR-Monte Carlo, was 152,807.53 (0.89%) over one month and 258,585.22 (1.5%) over three months.

The portfolio's resilience under exceptional and sudden stress, evaluated against a positive/negative change in market rates of 100 Bps (on the swap curve) would equal € -157,033.31 (-0.91%) in the presence of a rise in rates, while a contraction in rates would result in a portfolio capital gain of € 162,342.28 (+0.94%).
With reference to the current performance and future outlook, the asset portfolio was marked by the persistency of short 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 € 13.9 million from € 14.3 million in 2016, due to the combined effect of the loss for the year (€ -476 thousand) and retained earnings that reflected the loss recorded in 2016 of € 228 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 2017.

Own Funds and capital ratios

Own Funds, risk-weighted assets and capital ratios as at 31 December 2017 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 (CRR) of 26 June 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.

At 31 December 2017, the Own Funds amounted to € 13,636 thousand, compared to weighted average assets of € 47,743 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 ratio at 31/12/2017 was 28.56%, more than four times the minimum set by SREP (6.40%).

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

Own Funds and capital ratios (thousands of Euro)	31/12/2017	31/12/2016
Minimum requirement		
Common Equity Tier 1 (CET1) net of regulatory adjustments	13,636	14,203
Additional Tier 1 (AT1) net of regulatory adjustments	-	-
TIER 1 CAPITAL (TIER 1)	**13,636**	**14,203**
Tier 2 (T2) net of regulatory adjustments	-	-
TOTAL OWN FUNDS	**13,636**	**14,203**
Risk-weighted assets		
Credit and counterparty risks	24,470	27,150
Market risks	14,680	10,513
Operating risks	8,593	9,050
RISK-WEIGHTED ASSETS	**47,743**	**46,713**
% solvency ratio		
Common Equity ratio	28.56%	30.40%
Tier 1 ratio	28.56%	30.40%
Total capital ratio	28.56%	30.40%

The sizable 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 € 9,816 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, 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.

A table is provided below showing the additional capital requirements for your bank as defined following the *Supervisory Review and Evaluation Process* (SREP), i.e. the review and prudential assessment process implemented by the Bank of Italy on Italian banks in compliance with the European prudential legislation.

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)	6.40%	8.15%	10.45%
BANCA PROMOS INDICATOR AT 31/12/2017	28.56%	28.56%	28.56%
SURPLUS	22.16%	20.41%	18.11%

As regards the leverage ratio, which reflects the quantitative assessment of exposure to the risk of excessive leverage, in 2017 the "fully loaded" leverage ratio was 20.18%. Note that on 23/11/2016 the European Commission published a proposal to amend EU Regulation 575/2013 which, among the various changes, provides for the introduction in art. 92 CRR, paragraph 1, of point d) which establishes a leverage ratio of 3%.

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 394% at the end of 2017, was steadily higher than the 80% minimum threshold for 2017.

For a complete quantitative information on the Bank's assets, please see the information provided in the Explanatory Notes - Part F.

Income statement items

In FY year 2017 the Bank reported a loss of € 476 thousand compared to a loss of € 228 thousand in FY 2016.

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	31/12/2017	31/12/2016	Absolute changes	% change
Net interest	1,089	1,183	(94)	(7.9)
Dividends and investment income from equity investments carried at equity	-	-	-	-
Net commissions	162	20	142	-
Income from trading activities (*)	2,892	3,235	(343)	(10.6)
Other operating income (expenses)	179	190	(11)	(5.8)
Net operating income	**4,322**	**4,628**	**(306)**	**(6.6)**
Personnel costs	(2,711)	(2,575)	136	5.3
Administrative expenses	(1,661)	(1,519)	142	9.3
Amortization and depreciation of intangible and tangible fixed assets	(322)	(338)	(16)	(4.7)
Operating charges	**(4,694)**	**(4,432)**	**262**	**5.9**
Result from operations	**(372)**	**196**	**(568)**	**-**
Net allocations to provisions for liabilities and charges	-	3	(3)	-
Net adjustments to receivables	(115)	(520)	(405)	(77.9)
Net adjustments to other assets	-	-	-	-
Profits (losses) on financial assets held to maturity and on other investments	(9)	-	9	-
Current result before taxes	**(496)**	**(321)**	**175**	**54.5**
Income taxes on current operations	20	93	(73)	(78.5)
Business combination charges (after tax)	-	-	-	-
Adjustments to goodwill (net of tax effects)	-	-	-	-
Profit (Loss) of disposal groups (net of taxes)	-	-	-	-
Net result	**(476)**	**(228)**	**248**	**-**

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

Comparison of the economic performance on a yearly basis shows a negative operating profit of € 372 thousand compared to an operating profit of € 196 thousand in the prior year. The *performance* recorded at year-end 2017 was affected by both the contraction in net operating income (-7%, € 306 thousand), mainly due to the decline in income from trading activities that contracted by € 343 thousand, and the increase in operating costs (+ 6%, €262 thousand) as a combined effect of the increase in personnel and administrative expenses, due essentially to the payment incurred by the Bank in the fourth quarter of 2017 following the settlement of pending disputes, which is discussed in detail in Part C of the Explanatory Notes.

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

In line with the above, the quarterly trend shows an increase in the costs incurred for personnel and administrative expenses in the last quarter of the reporting period. On the other hand, the performance of trading activities, unlike the trend recorded in 2016, was weaker in the first quarter of the year and recovered in the subsequent quarters.

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

	2017				2016			
Items	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
Net interest	264	256	265	304	292	302	322	267
Dividends and investment income (losses) from equity investments carried at equity	-	-	-	-	-	-	-	-
Net commissions	132	48	(38)	20	132	(81)	(47)	16
Income from trading activities (*)	664	771	799	658	510	901	1,043	781
Other operating income (expenses)	59	31	82	7	125	34	24	7
Net operating income	**1,119**	**1,106**	**1,108**	**989**	**1,059**	**1,156**	**1,342**	**1,071**
Personnel costs	(766)	(673)	(670)	(602)	(649)	(661)	(630)	(635)
Administrative expenses	(580)	(378)	(409)	(294)	(498)	(375)	(356)	(290)
Amortization and depreciation of intangible and tangible fixed assets	(79)	(79)	(82)	(82)	(20)	(105)	(106)	(107)
Operating charges	**(1,425)**	**(1,130)**	**(1,161)**	**(978)**	**(1,167)**	**(1,141)**	**(1,092)**	**(1,032)**
Result from operations	**(306)**	**(24)**	**(53)**	**11**	**(108)**	**15**	**250**	**39**
Net allocations to provisions for liabilities and charges	-	-	-	-	12	(9)	-	-
Net adjustments to receivables	(93)	3	(18)	(7)	(279)	(2)	(202)	(37)
Net adjustments to other assets	-	-	-	-	-	-	-	-
Profits (losses) on financial assets held to maturity and on other investments	(9)	-	-	-	-	-	-	-
Current result before taxes	**(408)**	**(21)**	**(71)**	**4**	**(375)**	**4**	**48**	**2**
Income taxes on current operations	20	(20)	20	-	128	(13)	(22)	-
Business combination charges (after tax)	-		-	-	-		-	-
Adjustments to goodwill (net of tax effects)	-	-	-	-	-	-	-	-
Profit (Loss) of disposal groups (net of taxes)	-	-	-	-	-	-	-	-
Net result	**(388)**	**(41)**	**(51)**	**4**	**(247)**	**(9)**	**26**	**2**

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

Net interest

Net interest income, which accounts for about 25% of net operating income, amounted to €1,089 thousand at 31 December 2017, down 8% compared to the same period in 2016.

Generally speaking, monetary policy remains accommodating, which is necessary to guarantee stable prices, and exercises downward pressure on the interest margin (down € 94 thousand), also affected by the rather flat yield curve.

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

Breakdown of Item 10 Income Statement Interest income	31/12/2017	31/12/2016	Absolute changes	% change
Loans to customers	**958**	**1,248**	**(290)**	**(23.2)**
Current accounts	276	356	(80)	(22.5)
Subject to collection	24	36	(12)	(33.3)
Advance on invoices	48	55	(7)	(12.7)
Mortgage loans	608	798	(190)	(23.8)
Foreign loans	2	3	(1)	(33.3)
Loans to banks	**-**	**2**	**(2)**	(100.0)
Bank current accounts	-	2	(2)	(100.0)
Demand deposits with banks	-	-	-	-
Loans to foreign banks	-	-	-	-
Securities	**368**	**302**	**66**	**21.9**
Total Loans	**1,326**	**1,552**	**(226)**	**(14.6)**

Breakdown of Item 20 Income Statement Interest expense	31/12/2017	31/12/2016	Absolute changes	% change
Funding from customers	**162**	**302**	**(140)**	**(46.4)**
Funding other than securities	**73**	**158**	**(85)**	**(53.8)**
Current accounts	4	45	(41)	(91.1)
Time deposits	64	107	(43)	(40.2)
Savings accounts	5	6	(1)	(16.7)
Total funding through securities	**89**	**144**	**(55)**	**(38.2)**
Certificates of deposit	**-**	-	-	-
Bonds	89	144	(55)	(38.2)
Banks	**76**	**67**	**9**	**(13.4)**
Bank current accounts	60	48	12	25.0
Central Banks	3	4	(1)	(25.0)
Bonds issued to banks and other institutions	13	15	(2)	(13.3)
Total funding	**238**	**369**	**(131)**	**(35.5)**

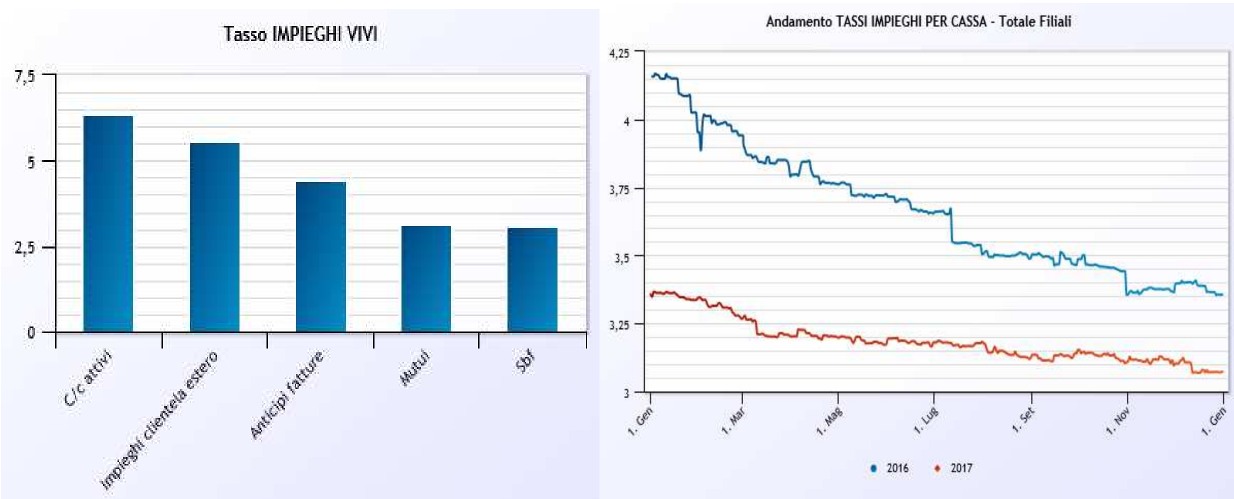
Net interest from customers	**886**	**1,090**	**(204)**	**(18.7)**
Net interest from banks	**(63)**	**(50)**	**(13)**	**26.0**
Net interest on securities	**266**	**143**	**123**	**86.0**
Total Item 30 Income Statement Interest margin	**1,089**	**1,183**	**(94)**	**(7.9)**

The analysis of the net macro-aggregates comprised in the item shows (**Table 1**) a decline in interest income from customers, which accounted for around 81% of the interest income – reflecting a reduction in the volume of loans to customers and a generalized decline in average rates. However, as regards interest expense on funding from customers, the actions taken by the management – in 2017 – were efficient for the Bank; as a result, interest expense recorded a sharp drop compared to the prior year.

With regard to item 30 of the Income Statement, Net Interest Income, the decrease in interest income from customers was balanced by the increase in income on securities, reflecting the increase in financial instruments held for trading and recognized as assets in the Balance Sheet. The figure relating to the Banks remained substantially unchanged, up by €12 thousand.

Management data at 31 December 2017, compared to the same period in 2016, showed a decline in average volumes (€ 2,513 thousand) on the loans side, together with a decline in the average lending rate (from 3.358 at 31 December 2016 to 3.073 in December 2017, **Table 2**).

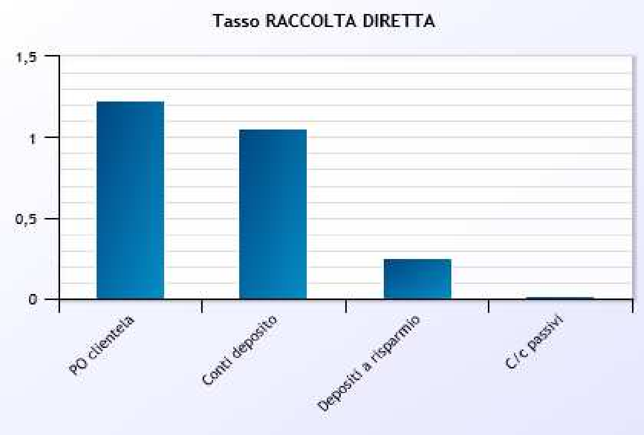
Table 2 Trend in rates on outstanding loans (average values)



Types of loan	TML al 31 dicembre 2017
Current Account Overdrafts	6,251
Loans to foreign customers	5,311
Advance on invoices	4,101
Subject to collection	3,006
Mortgage loans	2,786

Funding from customers showed an increase in average volumes of € 3,861 thousand and a decline in the average rate applied (from 0.358 at 31 December 2016 to 0.344 at December 2017, **Table 3**).

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



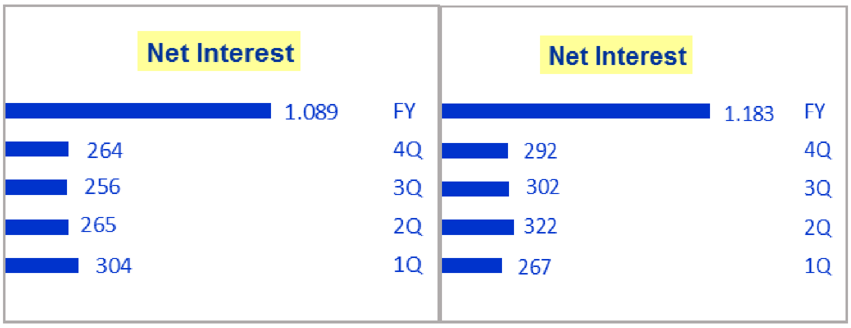
Type of funding	Average gross rate at 31 December 2017
Bonds issued to customers	1.225
Time deposits	1.055
Savings accounts	0.250
Current accounts	0.016

The total differential between outstanding loans and direct funding decreased by about 26 bps, from 3.365 at the end of 2016 to 3.110 at the end of 2017 (**Table 4**).

Table 4 Trend in rate differential

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

Table 5 Quarterly trend of net Interest income



2017 data 2016 data

Net fees and commissions

Net fees and commissions at 31 December 2017 showed a positive result of € 162 thousand compared to € 20 thousand in the previous comparison period.

The increase in commission margin was mainly due to the reduction recorded in commission costs, down by approximately €104 thousand as at 31 December 2017.

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

Breakdown of Item 40 Income Statement Commission income	31/12/2017	31/12/2016	Absolute changes	% change
Trading of financial instruments and currencies	-	1	(1)	(100.0)
Placement	81	6	75	-
Receipt and transmission of orders	9	9	-	-
Distribution of third-party products	113	75	38	50.7
Collection and payment services	230	242	(12)	(5.0)
Current accounts management	348	368	(20)	(5.4)
Guarantees	3	14	(11)	(78.6)
Financial consultancy services	135	170	(35)	(20.6)
Custody and management of securities	19	17	2	11.8
Other	13	11	2	18.2
Total	**951**	**913**	**38**	**4.2**

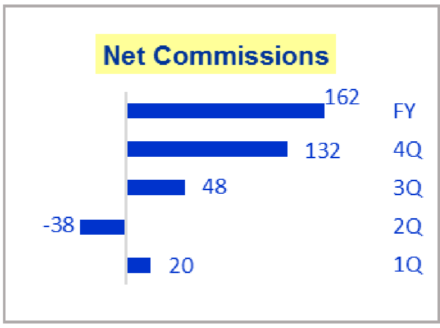
Breakdown of Item 50 Income Statement Commissions expense	31/12/2017	31/12/2016	Absolute changes	% change
Trading of financial instruments and currencies	584	713	(129)	(18.1)
Custody and management of securities	27	31	(4)	(12.9)
Collection and payment services	31	33	(2)	(6.1)
Other services	147	116	31	26.7
Total	**789**	**893**	**(104)**	**(11.6)**

Total Item 60 Income Statement Net commissions	**162**	**20**	**142**	**-**

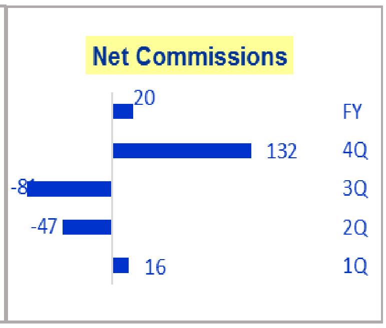
The analysis of the items comprised in net commission income, summarized in (**Table 1**), shows an increase in commission income (up 4%) both on commissions deriving from placement, and on commissions deriving from the distribution of third-party products to customers following the expansion of the range of products and services offered by the Bank (mutual funds, leases, etc.), which provide evidence of the Bank's constant and continuous development of banking activities to meet its customers' new needs.

The quarterly trend of item 60 of the Income Statement, presented in **(Table 2)**, shows a substantially positive trend, except in the second quarter, with an especially good performance in the last quarter of 2017, which reflected both income from the *Corporate Finance* area, which saw the issue of a new minibond, and to commission income from placement, which benefited from the mentioned strengthening of the sales network.

Table 2 Quarterly trend of net commission income



2017 data



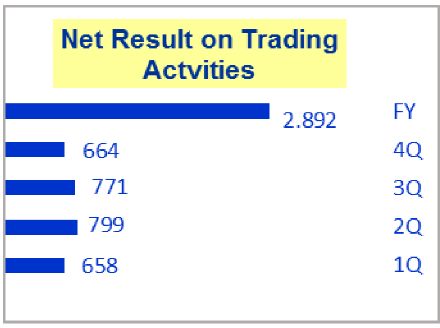
2016 data

Net income on trading activity

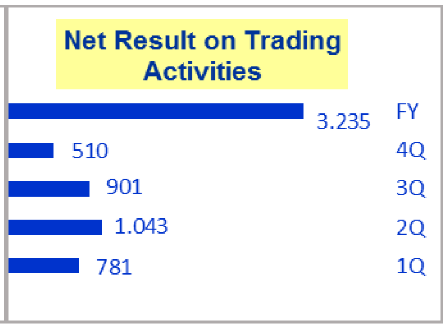
The net income on trading activity equalled around € 2,899 thousand, down (-10%) of € 349 thousand compared to the figure of 2016.

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



2017 data



2016 data

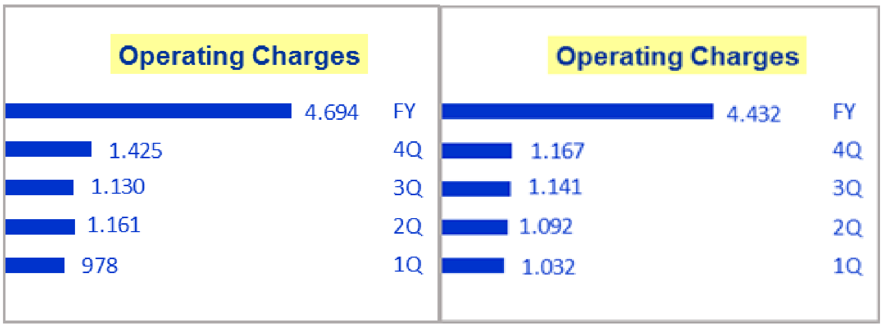
Operating costs

Operating costs at 31 December 2017 were € 4,694 thousand, up (+6%, € 262 thousand) compared to the previous comparison period.

For details on the individual items see the Notes in Part C.

The quarterly trend of the examined item is illustrated in (**tab.1**). Specifically, the increase in the item recorded especially in the last quarter of 2017 was attributable to the already commented lawsuits for which a settlement was reached at year-end.

Table 1 Quarterly trend of Operating Expenses



2017 data 2016 data

Net impairment losses on loans and receivables

Net impairment losses on loans and receivables, amounting to € 115 thousand, were down 78% compared to the figure recorded last year (€ 520 thousand). Although not proportionally, the decrease recorded in item 130 of the Income Statement can be attributed, in general, to the reduction in the stock of loans and, especially, to the reduction of the gross NPE Ratio reported at year-end.

With respect to performing loans, portfolio adjustments for the generic risk on such loans (generic provision) went from € 174 thousand at 31 December 2016 to € 152 thousand at the end of 2017, which resulted in a positive effect on the Income Statement of € 22 thousand.

In keeping with the past few years, since the Bank does not have its own historical series, for the purpose of making adjustments to performing loans it adopted a criterion based on the experience of a basket of banks selected from those whose characteristics are closest to Banca Promos, such as quantitative, qualitative and geographical characteristics.

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 (0.65% vs. the figure of the previous year, 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 9.83%. These measures, together with the increase in non-performing exposures, of course contributed to the negative impact on the income statement.

Profit (loss) for the year

At 31 December 2017, the loss from current operations before tax amounted to € 496 thousand. The trend in taxes, which in the year generated an income item of € 20 thousand, brought down the net loss to € 476 thousand.

Cash Flow Statement

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 € 2,367,304 Cash and cash equivalents were sufficient to meet funding requirements.

Regulatory developments in the banking sector

In addition, abundant regulatory production at European and national level continued in 2017. Among the new relevant regulations for the banking sector, we mention those that required intense adjustment activities in view of their entry into force in 2018.

IFRS 9

With EU Regulation 2016/2067, the European Parliament ratified accounting standard IFRS9, aimed at replacing IAS 39, the international accounting standard that governs the classification and measurement of financial instruments in the financial statements. The revision of the standard concerned both the classification of instruments and the model used to calculate impairment. Under the new standard, the assessment of expected losses is based on a model characterized by a prospective view, capable of immediately detecting the losses expected over the course of a loan's life.

In this regard, the Bank carried out an impact analysis regarding the process of adjustment to IFRS9, which was submitted to the Supervisory Board; from a more strictly operational standpoint, preparatory activities were undertaken for the correct recording of financial assets in the financial statements. For more details, see comments in Part A - Accounting Policies of the Explanatory Notes where a specific section has been provided.

IFRS 15

The IFRS 15 accounting standard – Revenue from contracts with customers – has been approved with publication of Regulation no. 1905/2016 effective from 1 January 2018. The new standard will replace the standards in force for revenue recognition, i.e. IAS 18 (Revenues) and IAS 11 (Contract work), as well as the related interpretations (Ifric 13 - Customer loyalty programmes, Ifric 15 - Agreements for the construction of real estate, Ifric 18 - Transfers of assets from customers, Sic 31 - Barter transactions involving advertising services) and will introduce a new and unique model to account for profits.

The IFRS 15 standard is therefore part of the "Second wave" of international accounting standards, which are introducing significant changes to the financial statements of banks and financial institutions. The changes with respect to the rules previously in force can be summarized as follows:

- introduction, in a single accounting standard, of a "common framework" for revenue recognition with regard to both the sale of goods and the provision of services;
- the adoption of a "step" approach to revenue recognition;
- a mechanism, which can be defined as *"unbundling",* in the allocation of the total transaction price to each of the obligations (sale of goods and/or provision of services) under a transfer contract.

For more details, see comments in Part A - Accounting Policies of the Explanatory Notes where a specific section has been provided.

MIFID II

Directive 2014/65/EU ("MiFID II") and EU Regulation no. 600/2014 ("MiFIR") update the European regulatory framework for financial instrument markets, with the aim of ensuring higher market efficiency and transparency, while increasing the level of investor protection. Furthermore, on 28 December 2017, by resolution no. 20249/2017 Consob issued the "Regulation containing implementing rules for legislative decree no. 58 of 24 February 1998 relating to the markets", which implemented, for the part relating to financial markets, the regulatory changes introduced by the European regulation on the provision of investment services and markets for financial instruments, as defined by MiFID II Directive (2014/65/UE) and the MiFIR Regulation (600/2014).

This wide and complex set of provisions is based on the fundamental principle of transparency and fairness, and establishes for intermediaries the duty to act in the best interests of the client and to provide adequate information to investors.

These regulatory updates affect all investment firms and all European markets and, with specific regard to your Bank, they concern both operations with institutional investors and the investment services provided to retail customers.

As a result, organizational, business and IT adjustments were required.

A new investment services contract was defined for retail customers as well as new pre-contractual disclosures. Considering the information obligations towards investors the bank has to comply with, such disclosure is of considerable importance and includes a large body of documents, some of which have been newly introduced.

All this required preliminary analysis of the legislation and of the impacts on our operating structure, and subsequently the preparation of new documents and the revision of existing ones. Specifically:

- The *Strategy for order execution and transmission* and the *Policy for identifying, preventing and managing conflicts of interest* were updated;
- the *Policy for the recognition and management of incentives* and the *Due diligence procedure* have been drafted;
- a new Contract for the *Provision of investment services and for the custody and administration of securities* has been adopted;
- a new profiling questionnaire has been defined for retail and corporate customers that meets the requirements set forth by the Mifid II directive, which further underlines the “Know your client" importance as a basis for proper due diligence. The new guidelines issued by ESMA require that more extensive and detailed information be collected especially in terms of capacity to withstand losses and risk tolerance.

Moreover, for the more technical aspects, the proprietary information systems were updated to correctly manage the new operating rules which, among the various requirements, provide for greater transparency with the public and customers regarding transactions executed on OTC markets compared to MIFID I rules. For investment companies operating OTC, an obligation has been introduced to disclose, through an authorized party (Approved Publication Agreement - APA), information on the volume, price and time at which transactions were executed.

FOURTH AML DIRECTIVE

By Legislative Decree No. 90 of 25 May 2017 concerning the "Implementation of Directive (EU) 2015/849 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing and amending Directives 2005/60/EC and 2006/70/EC and implementation of Regulation (EU) no. 2015/847 on information accompanying transfers of funds and repealing Regulation (EC) no. 1781/2006 ", the 4th European Anti Money Laundering Directive was implemented in Italy.

Although the implementing regulations on the matter are valid until 31 March 2018, certain implementations were necessary, for example, with regard to the prohibition on the issue and transfer of bearer savings deposits and, above all, with regard to Customer Due Diligence, i.e. the KYC - Know Your Customer process that emphasizes the centrality of an in-depth knowledge of customers in the fight against money laundering and terrorism.

More specifically, the KYC Questionnaire was revised, by adapting the information required to the new regulatory provisions concerning, for example, the more extended concept of politically exposed person, for whom the nationality constraint no longer applies, and the increased number of offices to also include representatives of local administrations such as mayors or councillors.

CIT

Of relevance were also the preparatory activities for the introduction of the new electronic processing of checks, namely the Check Image Truncation (CIT) procedure, introduced by Decree Law 70/2011 which, after several postponements, will enter into force in the first half of 2018.

The initiatives in this area involved several operational aspects: the outsourcer updated its information systems; the bank signed specific agreements to ensure the functioning of the entire process (from image preservation to activation of the electronic process to protest checks); the bank's staff was involved in specific training activities; the internal organizational units undertook informative actions addressed to customers with regard to the forthcoming changes.

Further significant legislative and regulatory measures enacted include:

- the guidelines on non-performing loans ("NPL - Non-Performing Loans") published by the ECB - European Central Bank, released in March 2017, which indicated measures, processes and best practices to be used in the treatment of NPL by banks ;
- Directive (EU) 2017/2399 of the European Parliament and of the Council of 12 December 2017, amending Directive 2014/59 / EU ("BRRD - Bank Recovery and Resolution Directive") for the treatment of unsecured debt securities in the hierarchy of claims in case of insolvency;
- Commission Implementing Regulation (EU) 2017/1443 of 29 June 2017 which, among other things, aligns financial reporting ("Finrep") with the new IFRS 9 international standard on the accounting for financial instruments.
- Legislative Decree n. 218 of 15 December 2017 which implements Directive (EU) 2015/2366 on payment services in the internal market (PSD2).

Lastly, as part of the usual auditing activities, *the Credit Regulation, the Finance Regulation and the Cash Management Regulation* were updated.

We also updated the *Business Continuity Management Process* and the related *Business Continuity Plan* designed to reduce the risk of operational failure to an acceptable level. The update was necessary to adapt the documents to internal organizational changes and to the plan prepared by the provider of outsourced IT services.

In compliance with Supervisory provisions, the *Recovery plan* was also prepared in June, a document that presents the strategic, organizational and operational guidelines to be adopted in response to a potential deterioration in the bank's situation in order to restore its capital, financial and earnings situation.
Lastly, in accordance with the rules in force, as every year 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.

The continuous regulatory changes and the constant commitment to improve existing operating solutions, has led to the implementation of numerous IT systems and contractual documentation optimization measures made available by the external provider. Some of the main adjustment activities involving the bank's internal structures are described below:

- in September, the migration to the new operating module for the processing of tax payments on behalf of customers (*Deleghe Fiscali*) was carried out, with the introduction of a series of functions enabling, for example, fully automated processing and set-up for the optical reading of tax payment orders.
- in October, the migration of a new module for the management of credit transfers and standing orders was implemented, in response of the need to adapt to changed regulations the payment sector (SEPA, PSD2).
- Lastly, during the year the contractual documentation for current account, virtual banking, savings deposits and debit cards services were amended in response to regulatory and operational developments.

In line with the strategic guidelines for the period, the Bank continued to develop in-house software tools and applications to support certain operating areas. For example, among the activities in which the internal IT Office was engaged during the year the following can be mentioned:

- development of FIX Server, gateway for interfacing with market platforms with FIX network protocol (Financial Information eXchange) for the exchange of information regarding transactions on electronic markets;
- APA Gateway development, server for sending *post trade transparency* reports in compliance with the MIFID II directive;
- improvement and integration of systems for automatic reporting to internal and administrative bodies.

The Bank's support to cultural and social initiatives continued in 2017, with a more structured approach than in previous years.

Once again, your Bank replaced Christmas gifts by making a donation to the Comunità di Sant'Egidio NGO, which specifically consisted in "A Christmas Lunch", initiative through which the Comunità di Sant'Egidio offers a "family" Christmas lunch to homeless people living on the street, or in caring facilities or in prison, who are supported by the NGO throughout the year.
In addition, the Bank participated as a sponsor in the sporting initiative *"Campionato regionale assoluto della Campania di Tennis 2017"* (2017 Regional Tennis Championship of the Campania Region) organized by CUS Napoli, a Sports Promotion Agency recognized by CONI and active in the region for over 70 years.

Alongside the mentioned initiatives, the Bank made its now traditional contribution to the IPE Advanced Training School.
This year, this contribution also involved the Project Work initiative in collaboration with IPE, consisting in a corporate credit analysis of companies issuing debt securities, negotiated between institutional counterparties on regulated financial markets and OTC.
The study, conducted by three IPE students under the guidance of a bank employee, focused on three European companies, operating in various sectors (chemical, food and commercial services) issuers of moderately speculative debt securities (BB rating), the objective being to assess the investment in bonds.
The reports prepared were then made available to some institutional investors, collecting positive feedback, such as to induce management to consider undertaking this activity on a systematic basis.

Workforce statistical information

At 31 December 2017, the bank had 44 employees, showing a decrease compared to 2016.
The analysis of other statistical information on the staff, schematically summarized in the tables below, shows a basically balanced breakdown between men and women (50% male, 50% 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 40 years.
In terms of breakdown by operating areas, over half of the employees, 61%, were employed in the Commercial Area (branches and finance area), while 9% are IT technicians working in 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 01/01/2017	Engagement/ Transformation	Resignation/ retirement/ termination Transformation	Balances as at 31/12/2017
Permanent contracts	**42**	**1**	**2**	**41**
of which:				
Senior Managers	1	-	-	1
Middle managers	5	1	-	6
White-collar staff	34	-	2	32
Blue-collar staff	2	-	-	2
Temporary contracts	**3**	**5**	**5**	**3**
of which:				
White-collar staff	3	5	5	3
Blue-collar staff	-	-	-	-
TOTAL	**45**	**6**	**7**	**44**

Breakdown	Senior Managers	Middle managers	White-collar staff	Blue-collar staff	Total
Men	**1**	**2**	**18**	**1**	**22**
Women	**-**	**4**	**17**	**1**	**22**
Average age	55	51	40	44	40
Average length of service	1	13	9	10	9
Permanent contracts	1	6	32	2	41
Temporary contracts	-	-	3	-	3
Apprenticeship contracts	-	-	-	-	-
Education - University Degree	1	6	25	-	32
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 all the transactions 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

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 2017 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 assessed all the Assets reported in the financial statements in order to identify any impairment.

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, uncertainty is 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.

Other information

Dear Shareholders, Additional information is provided below regarding your bank's activities. At the close of FY 2017:

- 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 Board established pursuant to Legislative Decree 231 carried out its activity in accordance with the annual plan prepared by the body itself;

Internal Audit System

Controls are performed on overall company processes, as required by Supervisory provisions, which as a whole constitute the internal control system to which the Bank attributes strategic relevance; in this respect, the Bank steadily works to reinforce a culture of active control across the bank's organization and not only in the control functions.

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 asset value 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.

Processes are subject to multiple controls, according to coordinated audit plans and based on a three- level approach, namely:

- first level controls, i.e. line controls performed by the individual operating units;

- second-level controls, which include:
  - anti-money laundering controls, carried out by a specific organizational unit that verifies the regulatory and operational compliance of the anti-money laundering process i.e. the system for managing money-laundering risk;
  - compliance checks, performed by the Compliance department and aimed at verifying compliance of the Bank's processes by comparing internal regulations with corresponding external provisions and by comparing the activities actually carried out with respect to those envisaged by the aforementioned internal provisions;
  - controls on the risks to which the Bank is exposed, carried out by Risk Management to ensure such risks are detected, measured and assessed according to supervisory provisions, also verifying compliance with the limits set for each individual risk (Risk appetite framework) .
- third-level controls, which include the internal audit activity pertaining to the Internal Audit unit, a separate control unit that verifies the adequacy and effectiveness of first and second level controls and, therefore, of the internal control system as a whole.

Audit activities performed

During the year the following control activities were carried out by second and third level control functions.

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 audit activities were performed both in normal conditions and in stress situations.

In addition, the Risk Management function oversees the preparation of the ICAAP Structured Report ("Internal Capital Adequacy Assessment Process"), ensuring that the methods implemented for measuring, evaluating and managing the Bank's exposure to risks are in accordance with the legislation in force. Details regarding the preparation of the mentioned report as at 31 December 2017 are shown in the relevant paragraph "ICAAP 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, CAI. 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.

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, 5 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. In addition, an inspection was carried out at the service company to which cash management has been outsourced and an assessment of the new internal control structure of the Bank was performed to assess its compliance with the law and its operational effectiveness. Finally, an audit was carried out on the depositor's aggregated position flow (Single Customer View-SCV) to verify its compliance with the legislation in force and a control activity was performed on the self-certification process regarding the Bank's compliance with the Customer Security Program (CSP) created by Swift.

The checks carried out revealed no significant irregularities in the areas subject to control and confirmed the substantial 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* (including counterparty)
- *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
Risk estimate requires a number of preliminary tasks: first, an analysis of each risk is performed to define those factors in business operations, "Typical Events", which, since they may cause losses, pose 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 assessment 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 2017, 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, 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 by the bank (i.e. Pillar III).

The document provides information about 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.

Once approved by the Shareholders' Meeting, the public disclosure document required by the third pillar supervisory regulations will be published on the company's website (www.bancapromos.it) together with the financial statements for FY2017.

Events subsequent to 31 December 2017

As mentioned above, at the end of 2017 the Bank embarked on a process aimed at strengthening its presence in the retail customer segment. Development initiatives in this area continued during the first few months of 2018 with further expansion of the sales network and new commercial agreements concerning both corporate and retail customers. These included, for example, collaboration agreements with a company specialized in foreign exchange risk management and with a leading operator in salary-backed loans.

Business outlook

Dear Shareholders, the general picture we observe at the beginning of this new year does not significantly differ from that of the previous one. The international scenario continues to be affected by an uncertain geopolitical climate, which with the additional crisis that recently broke out in Europe, between Russia and the United Kingdom, while the economic indicators continue to improve.

In 2018, the Bank will continue to pursue its efforts to improve profitability and go back in the black, pursuing activities to develop loans and funding, strengthen corporate finance operations and recover trading margins.

Proposal to approve the Financial Statements

Dear Shareholders, given the foregoing, we believe that the financial statements submitted to your examination are clearly drafted and present a true and fair view of the financial, equity and earnings situation of the Bank.

We therefore ask you to approve the Financial Statements for the year ended 31 December 2017 as prepared by the Board of Directors, together with the attached reports of the Independent Auditors, Deloitte & Touche SpA, and the Statutory Auditors.

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 Board of Statutory Auditors' Report and the Independent Auditors' Report, is called upon to resolve on the carry forward of the resulting loss amounting to € 476,123.

Acknowledgements

To conclude the presentation of the data for the financial year 2017, the 37th year of activity of Banca Promos, we wish to renew our thanks to our shareholders who year after year have shown interest and trust and have supported our Bank.

We also thank all members of the Board of Statutory Auditors for their ongoing professional and expert contribution.

Special praise also goes to the Bank's personnel, who day after day have performed their work in a dutiful and responsible manner: they are the greatest strength of our bank.

Lastly, we express our heartfelt thanks to the Supervisory Bodies and to the Independent Auditors who have always been helpful and attentive to the Bank and its specific needs.

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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 2017

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 31/12/2017, 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 31/12/2017, 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 2017.

The result for the year showed a loss of € 476,123, broken down as follows

Balance Sheet

Breakdown	FY 2017	FY 2016	Difference
TOTAL ASSETS	67,205,562	64,314,591	2,890,971
TOTAL LIABILITIES	67,205,562	64,314,591	2,890,971
- Shareholders' equity	13,861,714	14,335,214	473,500-
- Severance indemnity	1,094,808	1,009,867	84,941

Breakdown		FY 2017	FY 2016	Difference
-	Payables	52,234,040	48,954,510	3,279,530
-	Provision for liabilities and charges	15,000	15,000	-

Income Statement

Breakdown	FY 2017	FY 2016	Difference
INTEREST MARGIN	1,088,595	1,182,731	-94,136
NET COMMISSIONS	162,223	19,624	142,599
BROKERAGE MARGIN	4,134,021	4,437,831	-303,810
Net result of financial operations	4,018,985	3,918,187	100,798
OPERATING COSTS	(4,515,226)	(4,239,408)	275,818
PRE-TAX RESULT	(496,241)	(321,218)	175,023
INCOME TAXES FOR THE YEAR	20,118	92,951	-72,833
PROFIT (LOSS) FOR THE YEAR	(4769,123)	(228,267)	247,856

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:

- the criteria used for drafting the financial statements closed at 31/12/2017 do not differ from those used for the previous year's financial statements.
- 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, 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.

- In view of the above, the Supervisory Body considers that the results for the financial year are largely in line with the forecasts and forward-looking assessments set out by the Governing Body.

Financial Statements Disclosure

On the basis of an in-depth analysis of the financial statements as at 31/12/2017, 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.

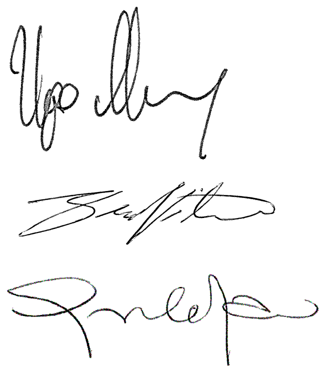
- We also verified compliance with the law in relation to the preparation of the Directors' Report.

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

Observations and proposals regarding the approval of the financial statements

In its report of 10 April 2018, the auditing company Deloitte & Touche SpA expressed a favourable opinion on the draft financial statements closed on 31/12/2017. Considering the points highlighted and taking account of the information received from the company, the Meeting may approve the financial statements closed at 31/12/2017, as formulated by the Governing Body.

THE BOARD OF STATUTORY AUDITORS



Financial Statements

at 31 December 2017

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”

Balance Sheet – Assets

(Amounts in Euros)

	Assets	2017	2016
10.	Cash and cash equivalents	3,238,734	871,430
20.	Financial Assets held for trading	17,781,256	13,899,720
30.	Financial assets carried at fair value	-	-
40.	Financial assets available for sale	1,000,000	1,006,731
50.	Financial assets held to maturity	-	-
60.	Receivables from banks	9,897,721	10,972,028
70.	Loans to customers	26,987,820	28,983,933
80.	Hedging derivatives	-	-
90.	Adjustment to financial assets subject to macro-hedging (+/-)	-	-
100.	Equity Investments	-	-
110.	Tangible assets	5,822,332	6,073,261
120.	Intangible fixed assets of which:	91,029	121,127
	- goodwill	-	-
130.	Tax assets	823,613	824,238
	a) current	344,766	342,329
	b) prepaid	478,847	481,909
	of which as per Law no. 214/2011	217,135	237,102
140.	Non-current assets and disposal groups	-	-
150.	Other assets	1,563,057	1,562,123
	Total assets	**67,205,562**	**64,314,591**

Balance Sheet - Liabilities

(Amounts in Euros)

	Liabilities and shareholders' equity	2017	2016
10.	Payables to banks	5,063,633	5,169,553
20.	Payables to customers	39,127,115	35,888,993
30.	Outstanding securities	5,160,887	5,418,545
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	877,460	913,887
	a) current	-	-
	b) deferred	877,460	913,887
90.	Liabilities related to discontinuing operations	-	-
100.	Other liabilities	2,004,945	1,563,532
110.	Employee severance indemnity	1,094,808	1,009,867
120.	Provisions for liabilities and charges:	15,000	15,000
	a) retirement and similar obligations	-	-
	b) other provisions	15,000	15,000
130.	Valuation reserves	-148,877	-151,500
140.	Redeemable shares	-	-
150.	Capital instruments	-	-
160.	Reserves	5,675,802	5,904,069
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 (+/-)	-476,123	-228,267
	Total liabilities and shareholders' equity	**67,205,562**	**64,314,591**

Income Statement

(Amounts in Euros)

	Items	2017	2016
10.	Interest and similar income	1,326,399	1,551,966
20.	Interest and similar expenses	(237,804)	(369,235)
30.	**Interest margin**	**1,088,595**	**1,182,731**
40.	Commission income	950,799	912,523
50.	Commissions expense	(788,576)	(892,899)
60.	**Net fees and commissions**	**162,223**	**19,624**
70.	Dividends and similar income	3	3
80.	Net income on trading activity	2,898,688	3,247,213
90.	Net income on hedging activity	-	-
100.	Profits (losses) on disposal or repurchase of:	(15,488)	(11,740)
	a) receivables	-	-
	b) financial assets available for sale	(8,926)	-
	c) financial assets held to maturity	-	-
	d) financial liabilities	(6,562)	(11,740)
110.	Net result of financial assets/liabilities carried at fair value	-	-
120.	**Brokerage margin**	**4,134,021**	**4,437,831**
130.	Net adjustments/write-backs for impairment of:	(115,036)	(519,644)
	a) receivables	(115,036)	(519,644)
	b) financial assets available for sale	-	-
	c) financial assets held to maturity	-	-
	d) other financial transactions	-	-
140.	**Net result of financial operations**	**4,018,985**	**3,918,187**
150.	Administrative expenses:	(4,372,547)	(4,094,630)
	a) staff expenses	(2,711,674)	(2,575,205)
	b) other administrative expenses	(1,660,873)	(1,519,425)
160.	Net allocations to provisions for liabilities and charges	-	3,016
170.	Net adjustments to/write-backs on tangible assets	(284,067)	(295,784)
180.	Net adjustments to/write-backs on intangible assets	(37,967)	(42,438)
190.	Other operating expenses/income	179,355	190,428
200.	**Operating costs**	**(4,515,226)**	**(4,239,408)**
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**	**(496,241)**	**(321,218)**
260.	Income taxes for the year on current operations	20,118	92,951
270.	**Profit (loss) of current operations, after taxes**	**(476,123)**	**(228,267)**
280.	Profit (Loss) of disposal groups, after taxes	-	-
290.	**Profit (loss) for the year**	**(476,123)**	**(228,267)**

Statement of Comprehensive Income

(Amounts in Euros)

	Items	2017	2016
10.	**Profit (loss) for the year**	**(476,123)**	**(228,267)**
	Other income items – after taxes – not reversed to income statement		
20.	Tangible assets	-	-
30.	Intangible fixed assets	-	-
40.	Defined-benefit plans	1,157	(30,087)
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	(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**	**2,623**	**(31,553)**
140.	**Comprehensive income (Item 10+130)**	**(473,500)**	**(259,820)**

Statement of Changes in Shareholders' Equity at 31.12.2017

(Amounts in Euros)

	At 31/12/2016	Change in opening balances	At 01/01/2017	Allocation of result from previous FY		Changes for the year								Shareholders' equity at 31/12/2017
						Changes in reserves	Operations on shareholders' equity						Comprehensive income, FY 2017	
				Reserves	Dividends and other allocations		Issue of new shares	Treasury shares purchased	Dividend extraordinary payment	Change in capital instruments	Derivatives on treasury shares	*Stock options*		
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	5,904,069	-	5,904,069	-228,267		-	-	-	-					**5,675,802**
b) other	-	-	-	-		-	-		-		-	-		**-**
Valuation reserves	-151,500	-	-151,500			-							2,623	**-148,877**
Capital instruments	-		-							-				**-**
Treasury shares	-		-				-	-						**-**
Profit (loss) for the year	-228,267	-	-228,267	228,267	-								-476,123	**-476,123**
Shareholders' Equity	14,335,214	-	14,335,214	-	-	-	-	-	-	-	-	-	-473,500	**13,861,714**

Statement of Changes in Shareholders' 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		Changes for the year								Shareholders' equity at 31/12/2016
							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 - 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**

Cash Flow Statement

Indirect method
(Amounts in Euros)

A. OPERATIONS	Amount	
	2017	2016
1. Operations	**145,714**	**725,006**
- operating result (+/-)	-476,123	-228,267
- capital gains/losses on financial assets held for trading and on financial assets/liabilities carried at fair value (-/+)	75,145	64,902
- capital gains/losses on hedging activities (-/+)	-	-
- net adjustments/write-backs for impairment (+/-)	115,036	519,644
- net adjustments to/write-backs on tangible and intangible fixed assets (+/-)	322,034	338,222
- net allocations to provisions for liabilities and charges and other costs/revenue (+/-)	129,929	126,014
- outstanding taxes and tax credits (+/-)	-20,118	-92,951
- net adjustments to/write-backs of disposal groups net of tax effects (+/-)	-	-
- other adjustments (+/-)	-189	-2,558
2. Liquidity generated/absorbed by financial assets	**-999,146**	**3,386,865**
- financial assets held for trading	-3,956,681	-827,635
- financial assets carried at fair value	-	-
- financial assets available for sale	4,536	-1,008,197
- receivables from banks: On demand	1,074,307	1,358,594
- receivables from banks: Other receivables	-	-
- loans to customers	1,881,077	4,045,767
- other assets	-2,385	-181,664
3. Liquidity generated/absorbed by financial liabilities	**3,262,192**	**-4,022,855**
- payables to banks: On demand	-105,920	-2,205,833
- payables to banks: other payables	-	-
- trade payables	3,238,122	2,173,405
- outstanding securities	-257,658	-2,988,377
- financial liabilities held for trading	-	-
- financial liabilities carried at fair value	-	-
- other liabilities	387,648	-1,002,050
Net liquidity generated/absorbed by operations	**2,408,760**	**89,016**
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	**-41,456**	**-33,015**
- purchase of equity investments	-	-
- purchase of financial assets held to maturity	-	-
- purchase of tangible assets	-33,587	-27,925
- purchase of intangible assets	-7,869	-5,090

- purchase of business units	-	-
Net liquidity generated/absorbed by investments	**-41,456**	**-33,015**
C. BORROWING ACTIVITIES		
- issue/purchase of treasury shares	-	-
- issue/purchase of capital instruments	-	-
- allocation of dividends and other aims	-	-
Net liquidity generated/absorbed by borrowing activities	**-**	**-**
NET LIQUIDITY GENERATED/ABSORBED IN THE FINANCIAL YEAR	**2,367,304**	**56,001**

Key: (+) generated (-) absorbed

RECONCILIATION

Items	Amount	
	2017	**2016**
Opening cash and cash equivalents	**871,430**	**815,429**
Net total liquidity generated/absorbed during the financial year	**2,367,304**	**56,001**
Cash and cash equivalents: effect of changes in exchange rates	**-**	**-**
Closing cash and cash equivalents	**3,238,734**	**871,430**

In line with the amendment to IAS 7, introduced by Regulation 1990 of 6 November 2017, with first time adoption required as of 1 January 2017, we provide below the information required by paragraph 44 B in order to measure the movements in liabilities arising from financing activities, relating to both changes deriving from cash flows or non-cash changes.

A. operations - 3. Liquidity generated/absorbed by financial liabilities	**Amount**
a) change due to cash flows from financing activities	**2,874,544**
b) change due to control lost/acquired in subsidiaries or other companies	**-**
c) change in fair value	**-**
d) other changes	387,648
Liquidity generated/absorbed by financial liabilities	**3,262,192**

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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 2017, 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[1], 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 2017.

International accounting standards approved at 31/12/2017 and in force since 2017

(EU) Approval Regulation	Topic	Effective date
1989/2017	Amendments to IAS 12 - Taxes	01/01/2017 First subsequent FY beginning on or after 01/01/2017
1990/2017	Amendments to IAS 7 – Cash Flow Statement	01/01/2017 First FY beginning on or after 01/02/2017

With reference to statutory accounting rules that are mandatory as of 2017, they mainly consist of amendments to existing accounting standards - endorsed by the European Commission in 2017 - which are not significant for the Bank's Financial Statements. Specifically, Regulation 1989/2017 provides some clarifications on accounting for deferred tax assets related to debt instruments measured at fair value; on the other hand, Regulation 1990/2017 introduces some changes to improve disclosures to users of financial statements with regard to liabilities arising from financing activities.

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.

[1] Please note that on 22 December 2017, Banca d'Italia issued the fifth update to Circular no. 262. The update, consisting in an integral review of the Circular, shall be applied starting from the financial statements closed or outstanding at 31 December 2018.

International accounting standards approved at 31/12/2017 and in force after 31/12/2017

(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
1986/2017	IFRS 16 Leases	01/01/2019 First FY beginning on or after 01/01/2019
1987/2017	Amendments to IFRS 15 – Revenue from Contracts with Customers	01/01/2018 First FY beginning on or after 01/01/2018
1988/2017	Amendments to IFRS 4 Insurance Contracts	01/01/2018 First FY beginning on or after 01/01/2018

Given the importance of the new accounting standards approved by the European Commission in 2016 and 2017, further details are provided below.

IFRS 9 Financial instruments

In relation to the requirements of IAS 8 paragraph 30 and 31, this section provides information on the implementation of accounting standard IFRS 9 - Financial instruments.

The new IFRS 9 accounting standard, issued by the IASB in July 2014 and approved by the European Commission through Regulation no. 2067/2016, will replace - as of 1 January 2018 - IAS 39, which 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.

Pursuant to IFRS 9, the classification and measurement of financial instruments must be based, on the one hand, on the characteristics of their contractual cash flows and, on the other hand, on the business model underlying the holding of these assets.

Pursuant to IFRS 9 financial assets can be classified - according to the two above mentioned drivers - into three categories, replacing the current four accounting categories:

- Financial assets measured at amortised cost,
- Financial assets measured at fair value through other comprehensive income (for debt instruments, the reserve is transferred to the income statement if the instrument is sold) and, lastly,
- Financial assets carried at fair value impacting the income statement

Financial assets can be measured in the first 2 categories and be carried at amortized cost or at fair value through shareholders' equity only if it is proven that they generate cash flows corresponding solely to payment of principal and interest" ("SPPI test). Equity instruments are always entered into the third category and carried 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" financial assets carried at fair value impacting comprehensive income).

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 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 instruments recognized at amortized cost and at fair value and entered as shareholders' 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 the pertinent situation. IFRS 9 requires 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).

Introduction of the new impairment rules entails:

- the allocation of performing financial assets to different levels of credit risk («staging») which are associated with different value adjustments based on expected losses over the next 12 months ("Stage 1"), or "lifetime" for the entire residual maturity of the instrument ("Stage 2"), based on the significant increase in credit risk («SICR») determined by comparing the Probability of Default on the date of initial recognition and on the reporting date;
- the allocation of impaired financial assets to "Stage 3", again with value adjustments based on expected "lifetime" losses;
- the inclusion in the calculation of Expected Credit Losses ("ECL") of forward-looking information linked, inter alia, to developments in the macroeconomic scenario.

Lastly, with reference to hedge accounting, the new model for hedges – excluding the so-called macro-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.

Considering the impacts of the novelties introduced by IFRS 9, both on organizational and reporting activities, starting from FY 2016 the Bank launched a special in-depth analysis of the various areas affected by the new standard, to define its qualitative and quantitative impacts and identify and implement the IT and organizational actions required to ensure consistent, comprehensive and effective adoption within the Bank.

During the year, the working group formed by managers of the concerned departments focused their activities on the classification and measurement of financial instruments by defining the underlying business models, on the analysis of portfolios for the application of the "SPPI test" and on the definition of staging and impairment rules.

Currently, the activities carried out by the aforementioned working group are dedicated to monitoring First Time Adoption (FTA) activities and the implementation of the latest application and organizational measures to ensure consistent application of the new rules after initial adoption.

With specific regard to the new provisions on the classification and measurement of financial assets envisaged by IFRS 9, activities mainly focused on:

1) a detailed examination of the financial instruments in the portfolio to identify any financial assets with cash flow characteristics that do not allow for classification at amortised cost and which must therefore be measured at fair value through profit or loss.

   With regard to the objective characteristics of financial instruments, financial assets are tested using the Solely Payment Principal Interest Test (SPPI Test), as well as through the "Benchmark Test" when there are clauses involving the "modified time value of money",

   As regards the SPPI test on financial assets, the method to be used was defined and, at the same time, the composition of existing securities and credit portfolios was analysed to identify the correct classification at the upon FTA of the new standard. The SPPI Test is conducted through a "decision tree" questionnaire which, based on the answers given, provides feedback on the possible classification of the financial asset in the Hold to Collect category and consequent valuation at amortised cost. The Benchmark Test, for all financial assets with contractual clauses requiring such test, provides for substantially automatic procedures, through an updatable grid that provides the result in each possible case of inconsistency / discrepancy between the period of re-pricing of the contractual rate and its payment period.

   Based on the analyses carried out on the credit portfolio only marginal cases were detected which, by virtue of specific contractual clauses or the nature of the loan, led to failure of the SPPI test.

   None of the debt securities failed the test.

   Therefore, the impact of the fair value measurement of financial instruments that, having failed the Solely Payment Principal Interest Test, must be measured at fair value is absolutely irrelevant.

2) the definition of the business model the Bank intends use in managing the financial assets recorded in the financial statements: the analysis and recording of the various methods used to manage financial instruments in order to generate cash flows were completed and the business models for managing financial assets were defined.

   For the Hold to Collect business model, the Bank defined the criteria and thresholds that identify sales that are admitted due to their being frequent but not significant, at an individual and aggregate level, or infrequent although of a significant amount; the Bank also defined the parameters for identifying sales, regardless of their amount and frequency, consistent with the business model in question due to their being attributable to an increase in counterparty credit risk. Based on the analyses carried out, the securities portfolios currently classified at amortised cost generally show limited trading activity, in keeping with a Hold to Collect business model.

In general, the Bank's current credit management approach, both with retail and corporate counterparties, essentially pertains to a Hold to Collect business model.

With regard to securities, the following is specified:

- debt securities: the Bank mainly holds securities according to the management logic of the "Other-Trading" business model, with consequent measurement at fair value through profit or loss. Upon FTA, given the underlying business model at the date of the first application of IFRS 9, certain reclassifications were made that concerned part of the securities portfolio previously classified as financial assets held for trading. In this regard, no significant impacts were detected of the change in classification criteria of the aforementioned financial instruments.

- equity securities: the Bank exclusively holds equity securities acquired for non-trading purposes; for these securities, currently classified as Assets available for sale, the adoption of a Hold to Collect and Sell business model was defined and the option of classification at fair value through comprehensive income was exercised upon FTA (without recycling to the income statement).

As regards impairment, the most interpretative aspects of the standard, identified during the activities carried out by the working group, with respect to the methods for calculating the impairment of financial assets (loans or securities) associated with the “Hold to Collect” business model (and therefore classified as financial assets measured at amortised cost,) or the “Hold to Collect and Sell” business model (and measured at fair value through comprehensive income), refer to:

- the "stage allocation" of financial instruments according to the parameters chosen for determining the significant increase in credit risk; and
- the inclusion of forward looking scenarios in the determination of the Expected Credit Loss (ECL).

For the purpose of allocating exposures in the various stages upon FTA of the standard, performing exposures are classified in stages 1 and 2 while non-performing exposures are allocated to stage 3. With regard to the latter exposures, the Bank adopted the definition set forth in Circular no. 262/2005 of the Bank of Italy, i.e. they correspond to the sum of: impaired past due exposures, unlikely to pay and non-performing loans as defined by current supervisory provisions. Having said that, it is specified that the Bank's stage allocation model, applied on an individual basis, for the purpose of measuring the significant increase in credit risk from the date of initial recognition of the financial instrument to the measurement date, makes use of both qualitative and quantitative criteria. In summary, a financial instrument is reclassified from stage 1 to stage 2 when one of the following variables occurs:

- change - compared to initial recognition - of the probability of default (PD) qualifying, based on defined parameters, as a significant increase in credit risk (SICR); this is a "relative" criterion and is the main driver underlying the allocation of a financial asset in the various stages envisaged by the standard; the SICR assessment is made individually based on the PD measures assigned to the counterparty;

- there is a past due exposure that - without prejudice to the identified significance thresholds - has been such for at least 30 days. In other words, in this case the credit risk of the exposure is presumed to be "significantly increased" and, therefore, the asset is classified in stage 2;

- there are "forbearance" measures that entail the classification of the exposure among those for which credit risk is "significantly increased" compared to initial recognition (stage 2).

With regard to the estimate of the Expected Credit Loss and the inclusion of forward-looking scenarios, IFRS 9 prescribes, with regard to financial assets that are not impaired at the time of purchase (or origin), that recognition of expected credit adjustments be determined based on one of the following methods:

- assets classified as stage 1: by determining it in proportion with the amount of the credit loss expected in the next 12 months (expected loss resulting from default events on the financial asset that are deemed possible within 12 months from the reporting date). This method must be applied when, at the reporting date, credit risk is not significantly increased compared to initial recognition or is considered to be low ("Low Credit Risk Exemption"); or,

- assets classified as stage 2 or 3: by determining it in proportion with the amount of the credit loss expected during the lifetime of the instrument (expected loss resulting from default events on the financial asset that are deemed possible during the lifetime of the financial asset). This method must be applied if, with reference to the individual exposure, a significant increase in credit risk has been found after initial recognition.

IT and organizational impacts

The implementation of the changes introduced by the new standard required significant adjustments to the technological infrastructure in use; to this end, Phoenix Informatica Bancaria system was analysed and the applications and procedures to be adjusted were identified, as well as the changes to be made through a modular approach according to action priority, in order to ensure compliance with the new standard. Therefore, the measures, which are currently being finalized, concerned both the implementation of the necessary functions on already existing applications and the integration of new applications.

Similar analyses and actions are in progress for the adjustment of accounting applications, including to support the public disclosures required by the new FINREP formats and the Fifth update of Bank of Italy circular 262 in force from 1 January 2018.

In addition to IT measures, organizational measures are being defined in relation to the revision of existing operational processes, the design and implementation of new processes and the corresponding control activities, the redefinition of skills within the various operational and administrative units concerned.

With regard to impairment, planned adjustments are aimed at ensuring an increasingly effective and integrated implementation of on-going credit risk monitoring methods, in order to facilitate preventive measures that can prevent individual exposures from falling into stage 2 and to timely recognize value adjustments that are consistent and timely based on actual credit risk.

Impacts upon first adoption

Based on the foregoing, the expected impacts on the Bank's shareholders' equity as at 1 January 2018 upon first application of IFRS 9 were estimated. These effects, in terms of both the amount and the composition of shareholders' equity, essentially arise from the obligation to recalculate the value adjustments on financial assets in the portfolio (both performing and impaired) by using the "expected credit losses" model in replacement of the previous "incurred credit losses" model. Specifically, the increase / decrease in value adjustments is attributable to:

- the classification in stage 2 of a portion of the portfolio with consequent "lifetime" adjustment offsetting the lower adjustments on exposures classified in Stage 1;
- the application of adjustments also to portfolios previously not subject to impairment (loans to banks, government bonds, guarantees received).

Only marginal impacts are expected from the required reclassification of some financial assets in the portfolio according to the combined result of the two classification drivers envisaged by the standard: the business model, based on which the instruments are managed, and the contractual characteristics of the related cash flows (SPPI test).

On the basis of the analyses carried out and the ongoing implementations, it is estimated that the impacts in question, to be recognized upon first-time adoption of the new standard as contra-entry to shareholders' equity, shall not in any way be critical for the company’s solvency profile, taking into account that the Bank has exercised the regulatory option allowing for dilution over a 5 year period, of the impact, both static and recognized upon FTA, and dynamic, only recognized on performing exposures on each reporting date, linked to the application of the new impairment model.

IFRS 15 – Revenue from Contracts with Customers

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 changes with respect to the rules previously in force can be summarized as follows:

- introduction, in a single accounting standard, of a "common framework" for revenue recognition with regard to both the sale of goods and the provision of services;
- the adoption of a "step" approach to revenue recognition;
- a mechanism, which can be defined as "unbundling", in the allocation of the total transaction price to each of the obligations (sale of goods and/or provision of services) covered by a transfer contract.

Generally speaking, the main steps for the recognition of revenue under the new model are:

- identification of the contract (or contracts) with customers: IFRS 15 applies to every contract that has been finalized with a customer and meets specific criteria. In certain specific cases, IFRS 15 requires an entity to combine/aggregate multiple contracts and to account for them as a single contract;

- identification of the contract performance obligations: a contract reflects the commitments to transfer goods or services to a customer. If these goods or services are "distinct", these promises qualify as "performance obligations" and are accounted for separately;
- determination of the transaction price: the price of the transaction is the amount of consideration to which the entity deems to be entitled in exchange for transferring the promised goods or services to the customer. The price set in the transaction may be a fixed amount, but may sometimes include variable components or non-cash components;
- allocation of the price to the contract performance obligations: the entity allocates the price of the transaction among the various "performance obligations" on the basis of the stand-alone selling prices of each distinct contractual good or service. If a stand-alone selling price is not observable, the entity must estimate it. The new standard identifies when an entity must allocate a discount or a variable component to one or more, but not all, the "performance obligations" (or to the different goods or services) under the contract;
- revenue recognition criteria when the entity satisfies each performance obligation: the entity recognizes the revenue when it satisfies a "performance obligation" by transferring an asset or by providing service, as envisaged in the contract, to a customer (that is, when the customer obtains control of that good or service). The amount of revenue to be recognized is the amount that had been allocated to the "performance obligation" the entity has satisfied. A "performance obligation" can be satisfied at a specific time (typically when goods are transferred) or during a period of time (typically when services are provided). When "performance obligations" are satisfied during a period, an entity recognizes revenues during the reference period, by selecting an appropriate method to measure the progress made compared to the complete satisfaction of the "performance obligation".

In addition, Regulation 1987/2017 was approved in 2017 - applicable from 1 January 2018 - which amended IFRS 15, Clarifications to IFRS 15 - Revenue from Contracts with Customers; the amendments are essentially to clarify some aspects of the new standard and to provide some operating simplifications to help in the transition phase.

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.

No significant effects are expected further to the adoption of these changes on the Bank’s financial statements.

IFRS 16 Leases

On 13 January 2016, the IASB issued the standard IFRS 16 – *Leases,* intended to replace standard IAS 17 – *Leases*, as well as IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases—Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

The new standard provides a new definition of *lease* and introduces a criterion based on the right of use of an asset to distinguish leasing contracts from services contracts, identifying the following as discriminating factors: the identification of the asset, the right to replace it, the right to obtain, in substance, all the economic benefits deriving from the use of the asset and the right to govern the use of the underlying asset.

The standard establishes a single accounting model for recognising and measuring leasing contracts for the lessee, which requires the object under lease, including operating lease, to be posted to the assets, offset by a financial liability, and also offers the opportunity not to recognise leases of low-value assets or leases of 12 months or less. The Standard does not comprise significant amendments regarding lessors.

The standard applies from 1 January 2019, though earlier application is permitted only for those Companies which already applied IFRS 15 - *Revenue from Contracts with Customers*.

No significant effects are expected further to the adoption of these changes on the Bank’s financial statements.

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 31/12/2017

Interpretation/Standard	**Title**	**Issued on**
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*	08/12/2016
IFRS 17	*Insurance Contracts*	18/05/2017
IFRIC 23	*Uncertainty over Income Tax Treatments*	07/06/2017
Interpretation/Standard	**Amendments**	**Issued on**
IFRS 2	*Classification and Measurement of Share-based payment Transactions*	20/06/2016
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
IFRS 9	*Prepayment Features with Negative Compensation*	18/10/2017
IAS 28	*Long-term Interest in Associates and Joint Ventures*	18/10/2017
IFRS 3	*Business Combination*	12/12/2017
IFRS 11	*Joint Arrangement*	12/12/2017
IAS 12	*Income Taxes*	12/12/2017
IAS 23	*Borrowing Costs*	12/12/2017

Amendments to IFRS 2 accounting standard - Share-Based Payment

- On 20 June 2016 the IASB issued the document "*Classification and measurement of share-based payment transactions (Amendments to IFRS 2)*" containing some amendments to IFRS 2.

  The amendments provide for some clarifications concerning the recording of the effects of *vesting conditions* in the presence of *cash-settled share-based payments*, the classification of *share-based payments* characterised by *net settlement* and the recording of the amendments to the terms and conditions of a *share-based payment, changing its classification from cash-settled* to *equity-settled*. The amendments apply from 1 January 2018.

No significant effects are expected further to the adoption of these changes on the Bank's financial statements.

- On 8 December 2016, the IASB published the document "Annual Improvements to IFRSs: 2014-2016 Cycle", which implements the amendments to certain standards as part of the annual improvement process. The main changes include:

- IFRS 1 *First-Time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters*. The amendment to this standard is applicable, at the latest, from the FYs beginning from 1 January 2018, and regards the deletion of a number of short-term exemptions contemplated in paragraphs E3-E7 of Appendix E of IFRS 1, since it is considered that said exemptions are no longer beneficial.
- IAS 28 *Investments in Associates and Joint Ventures – Measuring investees at fair value through profit or loss: an investment-by-investment choice or a consistent policy choice*. The amendment clarifies that the option for a venture capital organization or other such entity (for example a mutual fund or similar) to measure investments in associates and joint ventures at fair value through profit or loss (rather than the equity method) applies for each individual investment upon initial recognition. The amendment applies from 1 January 2018.
- IFRS 12 *Disclosure of Interests in Other Entities – Clarification of the scope of the Standard*. The amendment clarifies the scope of application of IFRS 12, specifying that the disclosure required by the standard, with the exception of that provided for in paragraphs B10-B16, applies to all those interests classified as held for sale, held for distribution to shareholders or as discontinued operations in accordance with IFRS 5. This amendment is applicable from 1 January 2017. Nevertheless, having not yet been endorsed by the European Union, it was not adopted at 31 December 2017.

No significant effects are expected further to the adoption of these changes on the Bank's financial statements.

- On 8 December 2016, the IASB issued the document "*Foreign Currency Transactions and Advance Consideration (IFRIC Interpretation 22)*". The aim of the interpretation is to provide guidelines for transactions conducted in foreign currency where non-monetary advances or deposits have been recognised in the financial statements in advance of the recognition of the related asset, expense or income. This document provides indications on how an entity should determine the date of a transaction, and consequently the spot exchange rate to be used for reporting foreign currency transactions when payment is made or received in advance.

  The interpretation clarifies that the transaction date is the earlier between:

a) the date on which the full or partial advance consideration paid is entered in the financial statements of the entity; and

b) the date on which the asset, cost or revenue (or part thereof) is entered in the financial statements (with consequent reversal of the full or partial advance consideration received).

  If there are numerous payments or amounts collected in advance, a transaction date must be identified for each one. IFRIC 22 applies from 1 January 2018.

No significant effects are expected further to the adoption of these changes on the Bank's financial statements.

- On 08 December 2016 the IASB issued the document "*Transfers of Investment Property (Amendments to IAS 40)*" containing some amendments to IAS 40. These changes clarify transfers of property to or from investment property. Specifically, an entity must transfer property into, or out of, investment property when there has been an evident change in the use of the property. This change must be attributable to a specific event, and must not be limited to a change in the intentions of the Management of the entity. These amendments apply from 1 January 2018.

No significant effects are expected further to the adoption of these changes on the Bank's financial statements.

- On 7 June 2017, the IASB issued the interpretation document IFRIC 23 – Uncertainty over Income Tax Treatments. The document tackles the issue of uncertainty over income tax treatments.

  The document establishes that uncertainties regarding the determination of tax liabilities or assets may be shown in the financial statements only if it is likely that the entity will pay or collect the amount in question. In addition, the document does not contain any new disclosure obligations, but it emphasises that the entity must establish whether it will be necessary to provide information on the considerations made by the management regarding the uncertainty concerning the recording of taxes, in accordance with the provisions of IAS 1.

  The new interpretation shall be applicable as from 1 January 2019, though earlier application is permitted.

No significant effects are expected further to the adoption of these changes on the Bank's financial statements.

- On 12 October 2017, the IASB published an amendment to IFRS 9 "Prepayment feature with negative compensation" on the classification of financial instruments with specific prepayment clauses. Specifically, following the amendment in question, debt instruments that include prepayment clauses providing for a reasonable compensation for the early repayment which can be either paid and received can pass the SPPI Test. The amendment is obligatorily applicable from 1 January 2018, though facultative earlier application is permitted. If the entity makes use of the option to early adopt this amendment it shall give disclosure in the financial statements. Naturally, for European entities the amendment in question can be applied only at the end of the endorsement process.

No significant effects are expected further to the adoption of these changes on the Bank's financial statements.

- On 12 October 2017, the IASB issued the document "Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)". This document clarifies the need to apply IFRS 9, including the requisites linked to impairment, to other long-term interest in associates or joint ventures for which the net equity method is not applied. The amendment shall be applicable as from 1 January 2019, though earlier application is permitted.

No significant effects are expected further to the adoption of these changes on the Bank's financial statements.

- On 12 December 2017, the IASB issued the document "Annual Improvements to IFRSs 2015-2017 Cycle", which implements the amendments to certain standards as part of the annual improvement process. The main changes include:

- IFRS 3 *Business Combinations* and IFRS 11 *Joint Arrangements:* this amendment clarifies that when an entity obtains control of a business that is a joint operation, it must remeasure previously held interests in that business. This process is not provided for when joint control is obtained.
- IAS 12 *Income Taxes*: the amendment clarifies that all the tax consequences of dividends (including payments on financial instruments classed as equity) must be recognised consistently with the transactions that generated those profits (profit or loss, OCI or equity).
- IAS 23 *Borrowing costs*: the amendment clarifies that borrowings that remain outstanding even after the related qualifying asset is ready for use or sale should be calculated as part of the borrowing costs.

  The amendments shall be applicable as from 1 January 2019, though earlier application is permitted.

No significant effects are expected further to the adoption of these changes on the Bank's financial statements.

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 – the Notes and the pertinent comparative information. 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.

The Report on Operations and the Explanatory Notes provide the information required by international accounting standards, the Laws, the Bank of Italy and the National Commission for Companies and the Stock Exchange (Consob) in addition to such supplementary information as is deemed appropriate to provide a complete representation of financial statement data, although not specifically required by law.

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 Shareholders' Equity and the Cash Flow Statement are drawn up in euros, while the figures shown in the Explanatory Notes are expressed in thousands of euros. Unless otherwise specified, the figures shown in the Report on Operations 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.

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 impaired loans and in general, on other financial assets for which the Bank uses estimation processes that by their nature, are subject to risks and uncertainties;
- the determination of fair value of financial instruments to be used for reporting purposes, especially for those not listed on 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.

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 2017 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. If, in the cases envisaged by the accounting standards, recognition takes place as a result of reclassification from Financial assets held to maturity or, due to unusual events, from Financial assets held for trading, the carrying value is the fair value at the time of transfer.

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. 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 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. Gli immobili detenuti a scopo di investimento sono valutati con il metodo del *fair value.*

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 ".

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	2017			2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Financial assets held for trading	11,809	5,972	-	10,096	3,804	-
2. Financial assets carried at fair value	-	-	-	-	-	-
3. Financial assets available for sale	-	-	1,000	-	-	1,007
4. Hedging derivatives	-	-	-	-	-	-
5. Property, plant and equipment	-	-	-	-	-	-
6. Intangible fixed assets	-	-	-	-	-	-
Total	**11,809**	**5,972**	**1,000**	**10,096**	**3,804**	**1,007**
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) (€/000)

	Financial assets held for trading	Financial assets carried at fair value	Financial assets available for sale	Hedging derivatives	Property, plant and equipment	Intangible assets
1. Opening balance			**1,007**			
2. Increases						
2.1. Purchases						
2.2. Profits entered to:						
2.2.1 Income statement						
- of which capital gains						
2.2.2 Net equity	X	X				
2.3. Transfers from other levels						
2.4. Other increases						
3. Decreases			**7**			
3.1. Sales						
3.2. Refunds						
3.3 Losses entered to:						
3.3.1 Income statement			7			
- of which capital losses						
3.3.2 Net equity	X	X				
3.4. Transfers to other levels						
3.5. Other decreases						
4. Final inventories			**1,000**			

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)

	2017			
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	9,898	-	9,898	-
3. Loans to customers	26,988	-	-	28,675
4. Tangible assets held as investment	-	-	-	-
5. Non-current assets and disposal groups	-	-	-	-
Total	**36,886**	**-**	**9,898**	**28,675**
1. Payables to banks	5,064	-	5,064	-
2. Payables to customers	39,127	-	-	39,127
3. Outstanding securities	5,161	-	5,278	-
4. Liabilities related to discontinuing operations	-	-	-	-
Total	**49,352**	**-**	**10,342**	**39,127**

	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**

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 2017	Total 2016
a) Cash	700	790
b) Sight deposits with Central Banks	2,539	81
Total	**3,239**	**871**

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 2017			Total 2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A On-balance sheet assets						
1. Debt securities	11,809	5,972	-	10,096	3,804	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	11,809	5,972	-	10,096	3,804	-
2. Equity shares	-	-	-	-	-	-
3. UCIT units	-	-	-	-	-	-
4. Loans	-	-	-	-	-	-
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total A	**11,809**	**5,972**	**-**	**10,096**	**3,804**	**-**
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)	**11,809**	**5,972**	**-**	**10,096**	**3,804**	**-**

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

Items/Values	Total 2017	Total 2016
A. ON-BALANCE SHEET ASSETS		
1. Debt securities	**17,781**	**13,900**
a) Governments and Central Banks	3,784	2,727
b) Other public entities	-	-
c) Banks	9,628	9,132
d) Other issuers	4,369	2,041
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	**17,781**	**13,900**
B. DERIVATIVE INSTRUMENTS		
a) Banks	-	-
b) Customers	-	-
Total B	**-**	**-**
Total (A+B)	**17,781**	**13,900**

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 2017			Total 2016		
	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	-	-	1,000	-	-	1,007
2.1 Carried at fair value	-	-	-	-	-	7
2.2 Carried at cost	-	-	1,000			1,000
3. UCIT units	-	-	-	-	-	-
4. Loans	-	-	-	-	-	-
Total	**-**	**-**	**1,000**	**-**	**-**	**1,007**

The reduction of the item "2.Equity securities" is attributable to the sale of the Voluntary Scheme (SV) of the Interbank Deposit Protection Fund (FITD). In this regard, it should be noted that this sale, which took place in December 2017, led to the recognition of total losses of approximately € 7 thousand.
The component relating to item 2.2 "Equity Securities measured at cost" of Level 3 includes, for € 1 million, the shares of Banca Regionale di Sviluppo S.p.A. subscribed in the previous year. 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		
	-	**-**
Total		
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 2017	Total 2016
1. Debt securities	**-**	**-**
a) Governments and Central Banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other issuers	-	-
2. Equity shares	**1,000**	**1,007**
a) Banks	1,000	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	**1,000**	**1,007**

4.3 Financial assets available for sale subject to micro-hedging

At 31 December 2017 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 2017				Total 2016			
	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	**9,898**	**-**	**9,898**	**-**	**10,972**	**-**	**10,972**	**-**
1. Loans								
1.1 Current accounts and demand deposits	9,674	X	9,674	X	10,784	X	10,784	X
1.2. Term deposits	224	X	224	X	188	X	188	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	**9,898**	**-**	**9,898**	**-**	**10,972**	**-**	**10,972**	**-**

Key
BV = book value

Receivables from banks showed a decrease of € 1,074 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 2017 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 Payables to banks subject to micro-hedging

The Bank held no receivables from banks subject to micro-hedging at 31 December 2017.

6.3 Finance lease

At 31 December 2017, 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 2017					
	Book value			Fair value		
	Non-impaired	Impaired		L1	L2	L3
		Purchased	Other			
Loans	**24,146**	**-**	**2,842**			
1. Current accounts	3,846	-	652	X	X	X
2. Reverse repurchase agreements	-	-	-	X	X	X
3. Mortgage loans	16,993	-	2,120	X	X	X
4. Credit cards, personal loans and CQ loans	403	-	31	X	X	X
5. Finance lease	-	-	-	X	X	X
6. Factoring	-	-	-	X	X	X
7. Other loans	2,904	-	39	X	X	X
Debt securities	**-**	**-**	**-**			
8. Structured securities	-	-	-	X	X	X
9. Other debt securities	-	-	-	X	X	X
Total	**24,146**	**-**	**2,842**	**-**	**-**	**28,675**

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**

At 31 December 2017, loans to customers recorded a decline of € 1,996 thousand mainly due to "Mortgage loans" for € 1,893 thousand.

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 0.65%.

The same procedure was used to determine the write-down percentage rate to be applied to past due/overdrawn loans, amounting to 9.83%.

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 2017			Total 2016		
	Non-impaired	Impaired		Non-impaired	Impaired	
		Purchased	Other		Purchased	Other
Advances on invoices subject to collection	2,065	-		2,240	-	6
Trade discount	-	-	39	-	-	31
Deposits at Organismi di compensazione e garanzia (Clearing Bodies)	813	-	-	519	-	-
Security deposits	26	-	-	26	-	-
Other loans to businesses	-	-	-	-	-	-
Total	**2,904**	**-**	**39**	**2,785**	**-**	**37**

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

Transaction type/Values	Total 2017			Total 2016		
	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:	**24,146**	**-**	**2,842**	**25,246**	**-**	**3,738**
a) Governments	-	-	-	-	-	-
b) Other public entities	-	-	-	-	-	-
c) Other entities	24,146	-	2,842	25,246	-	3,738
- non-financial institutions	12,633	-	1,826	13,520	-	1,963
- financial institutions	1,020	-	2	740	-	3
- insurance companies	-	-	-	-	-	-
- other	10,493	-	1,014	10,986	-	1,772
Total	**24,146**	**-**	**2,842**	**25,246**	**-**	**3,738**

7.3 Loans to customers subject to micro-hedging

The Bank held no loans to customers subject to micro-hedging at 31 December 2017.

7.4 Finance lease

At 31 December 2017, 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 2017	Total 2016
1. Own assets	**5,822**	**6,073**
a) land	-	-
b) buildings	5,655	5,880
c) furniture	99	137
d) electronic systems	32	31
e) other	36	25
2. Assets acquired on finance lease	**-**	**-**
a) land	-	-
b) buildings	-	-
c) furniture	-	-
d) electronic systems	-	-
e) other	-	-
Total	**5,822**	**6,073**

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

There were no tangible assets held as investment at 31 December 2017.

11.3 Operating assets: breakdown of revalued assets

There were no revalued operating assets at 31 December 2017.

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 2017.

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

	Land	Buildings	Fixtures	Electronic systems	Other	Total
A. Gross opening balances	**-**	**8,318**	**586**	**396**	**298**	**9,598**
A.1 Net total impairments	-	2,438	449	365	273	3,525
A.2 Net opening balance	**-**	**5,880**	**137**	**31**	**25**	**6,073**
B. Increases:	**-**	**-**	**-**	**13**	**20**	**33**
B.1 Purchases	-	-	-	13	20	33
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**	**38**	**12**	**9**	**284**
C.1 Sales	-	-	-	-	-	-
C.2 Depreciation	-	225	38	12	9	284
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	**-**	**5,655**	**99**	**32**	**36**	**5,822**
D.1 Net total impairments	-	2,663	487	377	282	3,809
D.2 Gross closing balance	**-**	**8,318**	**586**	**409**	**318**	**9,631**
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 2017.

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

There were no tangible assets held as investment at 31 December 2017.

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

At 31 December 2017 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 2017		Total 2016	
	Definite life	Indefinite life	Definite life	Indefinite life
A.1 Goodwill	X	-	X	-
A.2 Other intangible assets	**91**	**-**	**121**	**-**
A.2.1 Assets carried at cost:	91	-	121	-
a) Internally generated intangible assets	-	-	-	-
b) Other assets	91	-	121	-
A.2.2 Assets carried at fair value:	-	-	-	-
a) Internally generated intangible assets	-	-	-	-
b) Other assets	-	-	-	-
Total	**91**	**-**	**121**	**-**

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 balances	**-**	**-**	**-**	**643**	**-**	**643**
A.1 Net total impairments	-	-	-	522	-	**522**
A.2 Net opening balance	**-**	**-**	**-**	**121**	**-**	**121**
B. Increases	**-**	**-**	**-**	**8**	**-**	**8**
B.1 Purchases	-	-	-	8	-	**8**
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	**-**	**-**	**-**	**38**	**-**	**38**
C.1 Sales	-	-	-	-	-	**-**
C.2 Adjustments	-	-	-	38	-	**38**
- Amortisation	X	-	-	38	-	**38**
- 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 balances	**-**	**-**	**-**	**91**	**-**	**91**
D.1 Net total adjustments	-	-	-	560	-	**560**
E Gross final balances	**-**	**-**	**-**	**651**	**-**	**651**
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 2017, 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.

In compliance with IAS 12 - as of 31 December 2017, the Bank did not recognize deferred tax assets in relation to tax losses for the year.
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 income statement
(€/000)

	IRES	IRAP	TOTAL
Non-deducted provisions for liabilities and charges	4		4
Adjustments to receivables and losses	193	24	217
Other items	258	-	258
Total	**455**	**24**	**479**

Contra entry to shareholders' equity
(€/000)

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

13.2 Deferred tax liabilities: breakdown

contra entry to income statement
(€/000)

	IRES	IRAP	TOTAL
Deducted off-balance sheet provisions	-	-	-
Land and buildings	-	-	-
Capital gains taxed according to equal instalments	726	151	877
Other items	-	-	-
Total	**726**	**151**	**877**

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 income statement)
(€/000)

	Total 2017	Total 2016
1. Opening balance	**482**	**423**
2. Increases	**258**	**240**
2.1 Prepaid taxes recorded for the year	258	240
a) related to previous FYs	-	-
b) due to changes in accounting criteria	-	-
c) write-backs	-	-
d) other	258	240
2.2 New taxes or increase in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**260**	**181**
3.1 Prepaid taxes derecognised for the year	256	172
a) reversals	256	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:	4	9
a) amounts reclassified as tax credits pursuant to Law no. 214/2011	4	9
b) other	-	-
4. Closing balance	**479**	**482**

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

	Total 2017	Total 2016
1. Opening balance	**237**	**250**
2. Increases	**-**	**-**
3. Decreases	**20**	**12**
3.1 Reversals	16	4
3.2 Amounts reclassified as tax credits	4	9
a) resulting from losses for the period	4	9
b) resulting from tax losses	-	-
3.3 Other decreases	-	-
4. Closing balance	**217**	**237**

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

	Total 2017	Total 2016
1. Opening balance	**914**	**950**
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	**37**	**36**
3.1 Deferred taxes derecognised for the year	37	36
a) reversals	37	36
b) due to changes in accounting criteria	-	-
c) other	-	-
3.2 Reductions in tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	**877**	**914**

The decrease recorded during the year 2017 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 2017	Total 2016
1. Opening balance	**1**	**-**
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	**1**	**-**
3.1 Prepaid taxes derecognised for the year	1	-
a) reversals	1	-
b) write-downs due to impossibility of recovery	-	-
c) due to changes in accounting criteria	-	-
d) other	-	-
3.2 Reductions in tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	**-**	**1**

The decreased item refers to the tax effect cancelled and calculated in the previous FY 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 2017, 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 (-)	-	-21	-	**-21**
Advances paid (+)	-	21	-	**21**
Other tax credits (+)	23	-	-	**23**
Withholding taxes paid (+)	15	-	-	**15**
Tax credits as per Law no. 214/2011 (+)	143	-	-	**143**
Debit balance of item 80 a) of liabilities	**-**	**-**	**-**	**-**
Credit balance of item 130 a) of assets	**158**	**-**	**23**	**181**
Tax credits that cannot be offset: principal	164	-	-	**164**
Tax credits that cannot be offset: interest	-	-	-	**-**
Balance of tax credits that cannot be offset	**164**	**-**	**-**	**164**
Credit balance of item 130 a) of assets	**322**	**-**	**23**	**345**

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 2017	Total 2016
Items in progress	257	208
Credit transfers being charged	475	562
Miscellaneous tax items	476	459
Deferred income	26	49
Other minor items	329	284
Total	**1,563**	**1,562**

The "Items in progress" reflect temporary transactions, which primarily refer to items processed in the last days of the year 2017, with contra entry in the subsequent year.
The sub-item "Other tax items" mainly includes stamp duty advances for € 308 thousand and tax advances on assets under administration for € 57 thousand.
"Other minor items" essentially include loans to customers for invoices issued for € 264 thousand.

Liabilities

Section 1 – Payables to banks – Item 10

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

Transaction type/Values	Total 2017	Total 2016
1. Payables to central banks	**5,000**	**5,000**
2. Payables to banks	**64**	**170**
2.1 Current accounts and demand deposits	64	170
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	**5,064**	**5,170**
***Fair value* – level 1**	**-**	**-**
***Fair value* – level 2**	**5,064**	**5,170**
***Fair value* – level 3**	**-**	**-**
Total fair value	**5,064**	**5,170**

Item “1.Payables to central banks” includes the amount payable to the European Central Bank for loans outstanding at 31 December 2017 in relation to a loan granted by the ECB against securities given as collateral by the Bank.
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 2017, the Bank held no subordinated payables.

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

At 31 December 2017, the Bank held no structured payables.

1.4 Payables to banks subject to micro-hedging

At 31 December 2017 the Bank held no payables subject to micro-hedging.

1.5 Finance lease payables

At 31 December 2017, 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 2017	Total 2016
1. Current accounts and unrestricted deposits	31,478	29,899
2. Term deposits	7,649	5,990
3. Loans	-	-
3.1 Repurchase agreements	-	-
3.2 Other	-	-
4. Payables for commitments to repurchase own equity instruments	-	-
5. Other payables	-	-
Total	**39,127**	**35,889**
Fair value – level 1	-	-
Fair value – level 2	-	-
Fair value – level 3	**39,127**	**35,889**
Total fair value	**39,127**	**35,889**

The item Payables to Customers showed an overall increase of € 3,238 thousand due both to the increase in sub-item 1, “Current accounts and unrestricted deposits” and to the increase in “Term Deposits”.

Sub-item “2.Term deposits” at 31 December 2017 included time deposits for € 632 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 2017, the Bank held no subordinated payables.

2.3 Breakdown of item 20 “Payables to customers”: structured payables

At 31 December 2017, the Bank held no structured payables.

2.4 Payables to customers subject to micro-hedging

At 31 December 2017 the Bank held no payables subject to micro-hedging.

2.5 Finance lease payables

At 31 December 2017, 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 2017			
	Book value	Fair value		
		Level 1	Level 2	Level 3
A. Securities				
1. bonds	5,161	-	5,278	-
1.1 structured	-	-	-	-
1.2 other	5,161	-	5,278	-
2. other securities	-	-	-	-
2.1 structured	-	-	-	-
2.2 other	-	-	-	-
Total	**5,161**	**-**	**5,278**	**-**

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**	**-**

The Fair Value of the two bonds issued by the Bank, considered in chronological order of issue, amounted to € 602 thousand and € 4,676 thousand respectively at 31 December 2017.
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 2017, and the expected credit spreads for banks rated BBB (Senior).

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

At 31 December 2017, the Bank held no subordinated securities.

3.3 Outstanding securities subject to micro-hedging

At 31 December 2017 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 2017	Total 2016
Portfolio credited subject to collection and after collection	70	99
Credit transfers settled through clearing house	1,000	477
Sums payable to the Inland Revenue on behalf of clients/staff	453	479
Trade payables	226	253
Payables to other entities	42	103
Accrued liabilities and deferred income	1	3
Personnel costs	116	98
Amounts payable to customers	95	51
Other payables to third parties	2	1
Total	**2,005**	**1,564**

Section 11 – Staff severance indemnity - Item 110

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

	Total 2017	Total 2016
A. Opening balances	**1,010**	**952**
B. Increases	**131**	**167**
B.1 Allocation for the year	130	126
B.2 Other changes	1	41
C. Decreases	**46**	**109**
C.1 Indemnities disbursed	44	98
C.2 Other changes	2	11
D. Closing balances	**1,095**	**1,010**
Total	**1,095**	**1,010**

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

- € 116,987 as service cost;
- € 12,942 as interest cost.

"Other changes" in sub-items B.2 and C.2 include actuarial losses (€ 1,064) and actuarial gains (€ 2,221) 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 2017	Total 2016
Opening provision	**899**	**874**
Increases	128	123
Decreases	44	98
Closing provision	**983**	**899**

The provision for the staff severance indemnity governed by art. 2120 of the Italian Civil Code, accrued as at 31 December 2017, amounted to € 983 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 2017 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 (1.30%) 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 2017.

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 31/12/2017
Turnover rate +1%	1,086,897,96
Turnover rate -1%	1,103,735,12
Inflation rate +0,25%	1,115,490,96
Inflation rate -0,25%	1,074,712,74
Discounting rate +0,25%	1,068,726,55
Discounting rate -0,25%	1,121,976,72

Service Cost and Duration

Service Cost 2018	118,683,69
Plan duration	13.5

Estimated future disbursements

Years	Expected disbursements
1	98,801,30
2	88,444,49
3	90,888,67
4	92,688,76
5	93,909,24

Section 12 – Provisions for liabilities and charges – Item 120

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

Items/Values	Total 2017	Total 2016
1 Company retirement funds	-	-
2. Other provisions for liabilities and charges	15	15
2.1 legal disputes	-	-
2.2 staff expenses	-	-
2.3 other	15	15
Total	**15**	**15**

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 2017, 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:

- with reference to the writ of summons issued upon application of a client seeking to obtain the declaration of invalidity and unlawfulness of certain financial transactions entered into with the Bank in the three-year period 2010-2013, the formal interrogation of the plaintiff took place at the hearing on 26.05.2017; this was the only formal interrogation ordered by the Judge of the Court of Naples following the request, filed by the other party, for revocation of the order upholding the Bank's request for admission of evidence.
  The Court then set the hearing on 30.06.2017 for the examination of the request for revocation and subsequent acts. At the end of the hearing, the Court reserved the decision; the Court then decided on the reserved issues, and adjourned the proceedings for clarification of the final statements at the hearing on 18.05.2018.

- with reference to the writ of summons issued upon application of a client, notified on 21 December 2016, aimed at the reimbursement of a cloned check and at the payment of the associated damages, the Court of Naples granted the deadlines pursuant to art. 183 of the Code of Civil Procedure for the production of evidence and postponed the case for the admission of evidence to the hearing of 04.12.2018.

- On 17 November 2017, the Bank was sued by a client who brought an action to ascertain the Bank's liability in the financial brokerage activity carried out on behalf of the plaintiff. The hearing pursuant to art. 183 of the Italian Code of Civil Procedure was set on 3 April 2018 before the Court of Naples.

- On 11 January 2018, the Bank was notified an application brought by a former employee pursuant to art. of Law 92/2012 challenging the dismissal for just cause notified in July 2017. The plaintiff is seeking reinstatement in her job and the payment of compensation for an amount equal to all the wages accrued since the date of dismissal until reinstatement based on the last de facto overall remuneration or, without prejudice to reinstatement, pursuant to art. 1 paragraph 42 of Law 92/2012, the payment of an indemnity of up to a maximum of twelve month pay. The Judge of the Court of Naples - Labour Section set the first hearing for discussion on 28.02.2018 following which the case was adjourned for the hearing of the parties on 19 April 2018.

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

	Retirement funds	Other provisions	**Total**
A. Opening balances	**-**	**15**	**15**
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	**-**	**-**	**-**
C.1 Use for the year	-	-	-
C.2 Changes due to discount rate adjustments	-	-	-
C.3 Other changes	-	-	-
D. Closing balances	-	**15**	**15**

12.3 Defined-benefit company retirement funds

At 31 December 2017 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 2017 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 1 January 2017	42	23	4	69
Number of shareholders: in	-	-	-	-
Number of shareholders: out	-	-	-	-
Number of shareholders at 31 December 2017	42	23	4	**69**

14.4 Profit reserves: other information

In keeping with the requirements of IAS 1, paragraph 79.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 31/12/2017	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	-149		-149	A,C	-
FTA provision	115	115		A,C	-
Use of previous FYs	4,138		4,138	A,B,C	-759
Total	**14,338**	**10,349**	**3,989**		**-759**

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 2017, 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 2017	Amount 2016
1) Financial guarantees granted	93	91
a) Banks	86	84
b) Customers	7	7
2) Commercial guarantees granted	88	358
a) Banks	-	-
b) Customers	88	358
3) Irrevocable commitments to grant finance	744	589
a) Banks	13	-
i) certain use	13	-
ii) uncertain use	-	-
b) Customers	731	589
i) certain use	-	-
ii) uncertain use	731	589
4) Commitments underlying credit derivatives: protection sales	-	-
5) Assets pledged as security for third party commitments	-	-
6) Other commitments	-	-
Total	**925**	**1.038**

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

Portfolios	Amount 2017	Amount 2016
1. Financial Assets held for trading	9,167	11,203
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	814	519
7. Tangible assets	-	-

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 2017 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	34,542
1. securities issued by the bank drafting the financial statements	5,090
2. other securities	29,452
c) third-party securities in custody with third parties	35,406
c) own securities in custody with third parties	25,186
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 2017 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 2017 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 2017 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 2017	Total 2016
Financial Assets held for trading	368	-	-	368	302
2. Financial assets available for sale	-	-	-	-	-
3. Financial assets held to maturity	-	-	-	-	-
4. Receivables from banks	-	-	-	-	2
5. Loans to customers	-	958	-	958	1.248
6. Financial assets carried at fair value	-	-	-	-	-
7. Hedging derivatives	X	X	-	-	-
8. Other assets	X	X	-	-	-
Total	**368**	**958**	**-**	**1,326**	**1,552**

1.2 Interest and similar income: hedging differentials

At 31 December 2017 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 2017	Total 2016
Interest and similar income on financial assets in foreign currency	**14**	**16**

1.3.2 Interest income on finance lease transactions

At 31 December 2017 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 2017	Total 2016
1. Payables to central banks	(3)	X	-	(3)	(4)
2. Payables to banks	(60)	X	-	(60)	(48)
3. Payables to customers	(73)	X	-	(73)	(158)
4. Outstanding securities	X	(102)	-	(102)	(159)
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	**(136)**	**(102)**	**-**	**(238)**	**(369)**

1.5 Interest expense and similar charges: hedging differentials

At 31 December 2017 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 2017 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 2017 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 2017	Total 2016
a) guarantees granted	3	14
b) credit derivatives	-	-
c) management, brokerage and consultancy services:	357	278
1. trading of financial instruments	-	-
2. trading of foreign currencies	-	1
3. asset management	-	-
3.1. individual	-	-
3.2. collective	-	-
4. custody and management of securities	19	17
5. custodian bank	-	-
6. placement of securities	81	6
7. receipt and transmission of orders	9	9
8. consultancy services	135	170
8.1. in investments	-	-
8.2. in financial structure	135	170
9. distribution of third-party services	113	75
9.1. asset management	-	-
9.1.1. individual	-	-
9.1.2. collective	-	-
9.2. insurance products	-	-
9.3. other products	113	75
d) collection and payment services	230	242
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	348	368
j) other services	13	11
Total	**951**	**913**

2.2 Fees and commissions receivable: distribution channels of products and services
(€/000)

Channels/Values	Total 2017	Total 2016
a) at own branches:	**1**	**-**
1. asset management	-	-
2. placement of securities	1	-
3. third-party products and services	-	-
b) external offer:	**193**	**81**
1. asset management	-	-
2. placement of securities	80	6
3. third-party products and services	113	75
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 2017	Total 2016
a) guarantees received	-	-
b) credit derivatives	-	-
c) management and brokerage services:	(611)	(744)
1. trading of financial instruments	(584)	(713)
2. trading of foreign currencies	-	-
3. asset management:	-	-
3.1. own assets	-	-
3.2. delegated by third parties	-	-
4. custody and management of securities	(27)	(31)
5. placement of financial instruments	-	-
6. external placement of financial instruments, products and services	-	-
d) collection and payment services	(31)	(33)
e) other services	(147)	(116)
Total	**(789)**	**(893)**

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	**16**	**3,431**	**(91)**	**(457)**	**2,899**
1.1 Debt securities	16	3,431	(91)	(457)	**2,899**
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	**-**
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	**16**	**3,431**	**(91)**	**(457)**	**2,899**

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 € 16 thousand, and capital losses amounting to € 91 thousand on securities in the portfolio as at 31 December 2017.

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 2017			Total 2016		
	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	-	(9)	(9)	-	-	-
3.3 UCIT units	-	-	-	-	-	-
3.4 Loans	-	-	-	-	-	-
4. Financial assets held to maturity	-	-	-	-	-	-
Total assets	-	**(9)**	**(9)**	**-**	**-**	**-**
Financial liabilities						
1. Payables to banks	-	-	-	-	-	-
2. Payables to customers	-	-	-	-	-	-
3. Outstanding securities	-	(6)	(6)	-	(12)	(12)
Total liabilities	-	**(6)**	**(6)**	**-**	**(12)**	**(12)**

Losses related to equity shares, for € 9thousand are due to the transfer of the Voluntary Scheme of the FITD - Interbank Deposit Protection Fund.
Concerning financial liabilities, 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 2017	Total 2016
	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	-	(336)	(39)	134	92	-	34	**(115)**	**(520)**
Purchased impaired loans	-	-	X	-	-		X	-	-
- Loans	-	-	X	-	-	-	X	-	-
- Debt securities	-	-	-	-	-	-	-	-	-
Other receivables		(336)	(39)	134	92	-	34	**(115)**	**(520)**
- Loans	-	(336)	(39)	134	92	-	34	**(115)**	**(520)**
- Debt securities	-	-	-	-	-	-	-	-	-
C. **Total**	-	**(336)**	**(39)**	**134**	**92**	**-**	**34**	**(115)**	**(520)**

8.2 Net adjustments for impairment of financial assets available for sale: breakdown

At 31 December 2017 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 2017 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 2017 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 2017	Total 2016
1) Employees	(2,277)	(2,196)
a) wages and salaries	(1,571)	(1,606)
b) social security charges	(403)	(412)
c) employee severance pay	(173)	-
d) social security charges	-	-
e) allowance to employee severance indemnity	(130)	(126)
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	(47)	(52)
2) Other employed personnel	(4)	-
3) Directors and Auditors	(384)	(379)
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	**(2,712)**	**(2,575)**

Sub-item c) severance indemnities includes sums paid by the Bank as settlement to two former employees, following a dispute that arose in 2016 and termination of employment during the year.

Sub-item e) provision for staff severance indemnity - consists of:

- € 116,987 as service cost;
- € 12,942 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

	2017	2016
Employees:	**43**	**43**
a) Managers	1	1
b) Middle managers	5	5
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 2017 there were no defined-benefit company retirement funds.

9.4 Other benefits in favour of employees
(€/000)

	Total 2017	Total 2016
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)	(23)
Sundry staff expenses: costs for luncheon vouchers	(13)	(14)
Sundry staff expenses: reimbursement for mileage and expenses on submitting an expense account	(11)	(15)
Sundry staff expenses: other benefits	-	-
Other benefits in favour of employees	**(47)**	**(52)**

9.5 Other administrative expenses: breakdown
(€/000)

	Total 2017	Total 2016
Administrative expenses	***(1.455)***	***(1.326)***
General expenses	**(970)**	**(941)**
Expenses for electronic services	(769)	(740)
Postal and telephone expenses	(74)	(82)
Stationery and printed material	(21)	(24)
Membership and similar fees	(86)	(72)
Finance leases and rentals	(20)	(23)
Real estate expenses	**(210)**	**(181)**
Lease payable and condominium expenses	(67)	(67)
Energy costs	(48)	(46)
Cleaning of premises	(3)	(3)
Security and surveillance expenses	(22)	(19)
Maintenance and repairs	(70)	(46)
Professional and insurance expenses	**(241)**	**(174)**
Fees for professional services	(89)	(34)
Auditing fees	(47)	(47)
Legal and sundry consultancy	(83)	(69)
Insurance	(22)	(24)
indirect staff costs	**-**	**-**
Transport and travels	-	-
Other administrative expenses - Other	**(5)**	**(6)**
Miscellaneous	(5)	(6)
Promotional and advertising expenses	**(29)**	**(24)**
Advertising and entertainment	(29)	(24)
Direct and indirect taxes	***(206)***	***(193)***
Other	(206)	(193)
Total administrative expenses	**(1,661)**	**(1,519)**

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 36 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 2017	Total 2016
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**
B0.1 Changes due to discount rate adjustments	-	-	-	**-**	**-**
B.2 Other decreases	-	-	-	**-**	**3**
Total	**-**	**-**	**-**	**-**	**3**

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	(284)	-	-	(284)
- Functional assets	(284)	-	-	(284)
- For investment	-	-	-	-
A.2 Acquired on finance lease	-	-	-	-
- Functional assets	-	-	-	-
- For investment	-	-	-	-
Total	**(284)**	**-**	**-**	**(284)**

Depreciation on tangible fixed assets amounted to € 284 thousand and includes depreciation on the properties, recognised on the basis of their useful life.

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	(38)	-	-	(38)
- Internally generated	-	-	-	-
- Other	(38)	-	-	(38)
A.2 Acquired on finance lease	-	-	-	-
Total	**(38)**	**-**	**-**	**(38)**

Section 13 – Other operating income and expenses – Item 190

13.1 Other operating expenses: breakdown
(€/000)

Income item/Values	**Total 2017**	**Total 2016**
Non-recurring gains/losses that cannot be classified into a specific item	(85)	(17)
Other expenses	(10)	(24)
Total	**(95)**	**(41)**

The item "Non-existent assets and non-recurring losses not attributable to a specific item" includes the sum paid by the bank totalling € 71 thousand, following the closing of arbitration proceedings that arose between the Bank and the previous IT outsourcer.

13.2 Other operating income: breakdown
(€/000)

Income item/Values	**Total 2017**	**Total 2016**
Non-recurring gains/losses that cannot be classified into a specific item	58	41
Recovery of expenses	213	190
Other operating income	3	-
Total	**274**	**231**

The item "Recovery of expenses" mainly 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 2017	Total 2016
1. Current taxes (-)	(21)	(11)
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 (+)	7	9
4. Change in prepaid taxes (+/-)	(2)	59
5. Change in deferred taxes (+/-)	36	36
6. Taxes for the year (-) (-1+/-2+3+3 bis +/-4+/-5)	20	93

18.2 Reconciliation of notional and actual tax burden
(€/000)

Pre-tax profit (item 250 CE)	**(496)**
Notional tax burden (2017: 27.5%)	**(136)**
Taxes on increases	49
Taxes on decreases	(19)
Actual IRES tax	**-**
IRAP	**(21)**

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 2017 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 2017 the Bank owned no ordinary shares with diluted capital earnings.

21.2 Other information

Earnings per share for 2017 amounted to € -0.06, 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**	**(476)**
	Other income items not reversed to income statement			
20.	Tangible assets	-	-	-
30.	Intangible fixed assets	-	-	-
40.	Defined-benefit plans	1	-	1
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	-	-	-
	b) reversal to income statement	-	-	-
	- adjustments due to impairment	-	-	-
	- profits/losses on disposal	-	-	-
	c) other changes	2	(1)	1
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**	**3**	**(1)**	**2**
140.	**Comprehensive income (Item 10+130)**	**3**	**(1)**	**(474)**

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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 2017 loans are broken down as follows:

- a major component (70.82%) is represented by loans, 73.3% 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 (16.66%);
- a residual part is represented by advances on invoices subject to collection (7.65%), through which companies are ensured immediate availability of cash against their trade receivables not yet due, by personal loans (1.60%), by security deposits (3.11%) and by trade discounts (0.14%).

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 audit 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.

The IT application adopted by the Bank enables it to periodically extrapolate, among others, all performing relationships for which there is an indication of anomalous performance, including for example, being reported as doubtful in the system, the presence of past due and overdrawn amounts, qualifying as forborne, etc. Therefore, through constant monitoring of the reports provided by the application it is possible to promptly deal with anomalies in the credit relationship and take appropriate measures for the loans in question.

Credit exposures, as mentioned, are also monitored using the information provided by the Central Credit Register.

All fiduciary positions are also subject to periodic review, which is carried out for each individual counterparty/group of connected customers by the departments in charge based on credit limit.

More specifically, as at 31 December 2017, high-risk performing loans (with a PD greater than or equal to 10.024) amounted to € 4,904 thousand. Performing positions with high credit risk also comprised forborne loans for € 1,341 thousand, loans reported as doubtful for € 312 thousand and past due and overdrawn loans for € 1,897 thousand.

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.

For the purposes of determining the recoverable value of impaired loans, the Bank has defined the valuation process within the aforementioned Credit Regulation, based on expected cash flows, expected recovery times and the estimated realizable value of the guarantees, if any, the modification of which may entail a change in recoverable value; this calculation is based on the information available as at the valuation date.

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. With reference to the risks associated with the use of estimates and assumptions in measuring the impairment losses on loans, reference should be made to the Notes, part A, section 4 paragraph "Use of estimates and assumptions in the preparation of the financial statements" .

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 classified as 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 1.60% of total loans;
- the presence of "unlikely to pay" loans to customers, accounting for 3.59% of total loans;
- the presence of non-performing loans to customers, accounting for 5.33% 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	-	-	-	-	9,898	9,898
4. Loans to customers	1,439	970	433	1,897	22,249	26,988
5. Financial assets carried at fair value	-	-	-	-	-	-
6. Discontinuing operations	-	-	-	-	-	-
Total 2017	**1,439**	**970**	**433**	**1,897**	**32,147**	**36,886**
Total 2016	**1,419**	**1,730**	**589**	**1,340**	**34,878**	**39,956**

At 31 December 2017, the portfolio of loans to customers included forborne exposures :

- 812 thousand included in the unlikely to pay category;
- 47 thousand included in the impaired overdue exposures;
- 1,341 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	1,857	6	34	-	**1,897**

A.1.2 Breakdown of exposures by portfolio and credit quality (gross and net values) (€/000)

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	-	-	-	9,898	-	9,898	9,898
4. Loans to customers	4,965	2,123	2,842	24,298	152	24,146	26,988
5. Financial assets carried at fair value	-	-	-	X	X	-	-
6. Discontinuing operations	-	-	-	-	-	-	-
Total 2017	**4,965**	**2,123**	**2,842**	**34,196**	**152**	**34,044**	**36,886**
Total 2016	**5,788**	**2,050**	**3,738**	**36,392**	**174**	**36,218**	**39,956**

Portfolio/Quality	Assets of manifest poor credit quality		Other assets
	Accrued capital losses	Exposure	Net exposure
1. Financial assets held for trading	-	-	17,781
2. Hedging derivatives	-	-	-
Total 2017	**-**	**-**	**17,781**
Total 2016	**-**	**-**	**13,900**

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 months to 1 year	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	19,526	X	-	19,526
- of which: Forborne exposures	X	X	X	X	-	X	-	-
TOTAL A	**-**	**-**	**-**	**-**	**19,526**	**-**	**-**	**19,526**
B. OFF-BALANCE SHEET EXPOSURES								
a) Impaired	-	-	-	-	X	-	X	-
b) Non-impaired	X	X	X	X	86	X	-	86
TOTAL B	**-**	**-**	**-**	**-**	**86**	**-**	**-**	**86**
TOTAL A+B	**-**	**-**	**-**	**-**	**19,612**	**-**	**-**	**19,612**

The item includes the amount of loans and advances to banks for € 9,898 thousand and the total amount of debt securities issued by banks for € 9,628 thousand.

A.1.4 On-balance sheet exposures with banks: dynamics of gross impaired exposures

At 31 December 2017 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 2017 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 2017 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	-	-	-	3,126	X	1,687	X	1,439
- of which: Forborne exposures	-	-	-	-	X	-	X	-
b) Unlikely to pay	954	1	8	293	X	286	X	970
- of which: Forborne exposures	838	-	8	178	X	212	X	812
c) Impaired overdue exposures	7	257	93	226	X	150	X	433
- of which: Forborne exposures	-	-	6	84	X	43	X	47
d) Non-impaired overdue exposures	X	X	X	X	1,909	X	12	1,897
- of which: Forborne exposures	X	X	X	X	344	X	2	342
e) Other non-impaired exposures	X	X	X	X	30,542	X	140	30,402
- of which: Forborne exposures	X	X	X	X	1,006	X	7	999
TOTAL A	**961**	**258**	**101**	**3,645**	**32,451**	**2,123**	**152**	**35.141**
B. OFF-BALANCE SHEET EXPOSURES								
a) Impaired	6	-	-	-	X	-	X	6
b) Non-impaired	X	X	X	X	833	X	-	833
TOTAL B	**6**	**-**	**-**	**-**	**833**	**-**	**-**	**839**
TOTAL A+B	**967**	**258**	**101**	**3,645**	**33,284**	**2,123**	**152**	**35,980**

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	**3,115**	**2,001**	**672**
- of which: exposures disposed of (not derecognised)	-	-	-
B. Increases	**65**	**222**	**413**
B.1 transfers from performing exposures	-	-	324
B.2 transfers from other categories of impaired exposures	8	199	-
B.3 other increases	57	23	89
C. Decreases	**-54**	**-967**	**-502**
C.1 transfers into performing exposures	-	-551	-338
C.2 write-offs	-12	-	-
C.3 repayments	-39	-121	-76
C.4 revenue from disposals	-	-	-
C.5 losses on disposals	-	-	-
C.6 transfers to other categories of impaired exposures	-	-190	-17
C.7 other decreases	-3	-105	-71
D. Closing gross exposure	**3,126**	**1,256**	**583**
- of which: exposures disposed of (not derecognised)	-	-	-

A.1.7bis On-balance sheet exposures with clients: changes in gross forborne exposures broken down by credit quality
(€/000)

Transactions/Quality	Forborne exposures: impaired	Forborne exposures: non-impaired
A. Opening gross exposure	**1,100**	**311**
- of which: exposures disposed of (not derecognised)	-	-
B. Increases	**208**	**1.189**
B.1 transfers from performing exposures other than forborne exposures	-	1.161
B.2 transfers from performing forborne exposures	-	X
B.3 transfers from impaired forborne exposures	X	-
B.4 other increases	208	28
C. Decreases	**-194**	**-150**
C.1 transfers into performing exposures other than forborne exposures	X	-
C.2 transfers into performing forborne exposures	-	-
C.3 transfers into impaired forborne exposures	X	X
C.4 write-offs	-	-
C.5 repayments	-91	-111
C.6 revenue from disposals	-	-
C.7 losses on disposals	-	-
C.8 other decreases	-103	-39
D. Closing gross exposure	**1,114**	**1.350**
- 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	**1.696**	**-**	**271**	**129**	**83**	**17**
- of which: exposures disposed of (not derecognised)	-	-	-	-	-	-
B. Increases	**122**	**-**	**300**	**165**	**198**	**42**
B.1 Adjustments	74	-	135	88	127	32
B.2 losses on disposals	-	-	-	-	-	-
B.3 transfers from other categories of impaired exposures	2	-	30	30	-	-
B.4 other increases	46	-	135	47	71	10
C. Decreases	**-131**	**-**	**-285**	**-82**	**-131**	**-16**
C.1 write-backs for valuations	-71	-	-121	-35	-34	-6
C.2. write-backs for repayments	-39	-	-53	-36	-48	-9
C.3 profits on disposals	-	-	-	-	-	-
C.4 write-offs	-12	-	-	-	-	-
C.5 transfers to other categories of impaired exposures	-	-	-29	-	-3	-
C.6 other decreases	-9	-	-82	-11	-46	-1
D. Closing overall adjustments	**1,687**	**-**	**286**	**212**	**150**	**43**
- 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	**-**	**513**	**6,598**	**5,895**	**1,826**	**1,910**	**37,925**	**54,667**
B. Derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B.1 Financial derivatives	-	-	-	-	-	-	-	**-**
B.2 Credit derivatives	-	-	-	-	-	-	-	**-**
C. Guarantees granted	**-**	**-**	**-**	**-**	**-**	**-**	**180**	**180**
D Commitments to grant finance	**-**	**-**	**-**	**-**	**-**	**-**	**744**	**744**
E. Other	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**-**	**513**	**6,598**	**5,895**	**1,826**	**1,910**	**38,849**	**55,591**

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)
		Properties		Securities	Other secured guarantees	Credit derivatives					Credit commitments				
						Credit linked notes	Other derivatives								
		Mortgages	Finance lease				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:	**23,346**	**14,816**	**-**	**-**	**522**	**-**	**-**	**-**	**-**	**-**	**-**	**409**	**-**	**6,358**	**22,105**
1.1 wholly secured	21,354	14,352	-	-	293	-	-	-	-	-	-	409	-	6,300	**21,354**
- of which impaired	1,896	688	-	-	-	-	-	-	-	-	-	101	-	1,107	**1,896**
1.2 partially secured	1,992	464	-	-	229	-	-	-	-	-	-	-	-	58	**751**
- of which impaired	463	366	-	-	-	-	-	-	-	-	-	-	-	-	**366**
2. "Off-balance sheet" secured cash exposures:	**349**	**-**	**-**	**-**	**45**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**279**	**324**
2.1 wholly secured	292	-	-	-	14	-	-	-	-	-	-	-	-	279	**293**
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
2.2 partially secured	57	-	-	-	31	-	-	-	-	-	-	-	-	-	**31**
- 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 Esposizioni scadute	-	-	X	-	-	X
of which: Forborne exposures	-	-	X	-	-	X
A.4 Esposizioni non deteriorate	3,784	X	-	-	X	-
of which: Forborne exposures	-	X	-	-	X	-
Total A	**3,784**	**-**	**-**	**-**	**-**	**-**
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) 31/12/2017	**3,784**	**-**	**-**	**-**	**-**	**-**
Total (A+B) 31.12.2016	**2,727**	**-**	**-**	**-**	**-**	**-**

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	2	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	2,207	X	1	-	X	-
of which: Forborne exposures	-	X	-	-	X	-
Total A	**2,209**	**2**	**1**	**-**	**-**	**-**
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	13	X	-	-	X	-
Total B	**13**	**-**	**-**	**-**	**-**	**-**
Total (A+B) 31/12/2017	**2,222**	**2**	**1**	**-**	**-**	**-**
Total (A+B) 31.12.2016	**1,075**	**2**	**2**	**-**	**-**	**-**

B.1 Distribution of on- and off-balance sheet exposures with clients by sector (book values) – Part 3 (migliaia di euro)

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	595	1.301	X	843	384	X
of which: Forborne exposures	-	-	X	-	-	X
A.2 Unlikely to pay	955	271	X	15	15	X
of which: Forborne exposures	797	197	X	15	15	X
A.3 Overdue exposures	277	74	X	156	76	X
of which: Forborne exposures	41	13	X	6	30	X
A.4 Non-impaired exposures	15,816	X	83	10,492	X	68
of which: Forborne exposures	308	X	2	1,033	X	7
Total A	**17,642**	**1,646**	**83**	**11,506**	**475**	**68**
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	516	X	-	304	X	-
Total B	**522**	**-**	**-**	**304**	**-**	**-**
Total (A+B) 31/12/2017	**18,164**	**1,646**	**83**	**11,810**	**475**	**68**
Total (A+B) 31/12/2016	**17,765**	**1,534**	**95**	**13,136**	**514**	**77**

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	1,439	1,687	-	-
A.2 Unlikely to pay	970	286	-	-
A.3 Impaired overdue exposures	415	145	18	5
A.4 Non-impaired exposures	30,202	152	2,097	-
Total A	**33,026**	**2,270**	**2,115**	**5**
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	833	-	-	-
Total B	**839**	**-**	**-**	**-**
Total (A+B) 31/12/2017	**33,865**	**2,271**	**2,115**	**5**
Total (A+B) 31/12/2016	**34,362**	**2,223**	**342**	**1**

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) 31/12/2017	**-**	**-**	**-**	**-**	**-**	**-**
Total (A+B) 31/12/2016	**-**	**-**	**-**	**-**	**-**	**-**

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	16,140	-	3,386	-
Total A	**16,140**	**-**	**3,386**	**-**
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	86	-	-	-
Total B	**86**	**-**	**-**	**-**
Total (A+B) 31/12/2017	**16,226**	**-**	**3,386**	**-**
Total (A+B) 31/12/2016	**17,141**	**-**	**3,047**	**-**

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) 31/12/2017	**-**	**-**	**-**	**-**	**-**	**-**
Total (A+B) 31/12/2016	**-**	**-**	**-**	**-**	**-**	**-**

B.4 Large exposures (€/000)	**Total 2017**	**Total 2016**
a) Amount (book value)	22,748	18,958
b) Amount (weighted value)	16,261	14,966
c) Number	8	6

At 31/12/2017 there were risk positions representing a major risk for a nominal value of € 22,748 thousand.
These positions include:

- € 3,948 thousand for exposures to the Italian Government (Italian government securities which for supervisory purposes are included in the trading book);
- € 2,539 thousand vis-à-vis Central Banks;
- € 6,423 thousand for securities issued by Italian banks which for supervisory purposes are included in the trading book;
- €9,838 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 € 16,261 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 40% of securities with a rating falling into the so-called "investment grade" category, from A3 to Baa3 (Moody's); for around 54% 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	**-**	**4,893**	**4,690**	**509**	**7,299**	**98**	**-**	**154**
1.1 Debt securities	-	4,893	4,690	509	7,299	98	-	154
- with option of early redemption	-	294	-	-	621	98	-	-
- other	-	4,599	4,690	509	6,678	-	-	154
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	∆ Brokerage margin	∆ Operating result	∆ Shareholders' equity
+100 bps	-3.80%	32.98%	-1.13%
- 100 *bps*	3.93%	-34.10%	1.17%

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.
In particular, the 20th update of circular 285/2013 of 21 November 2017 implemented ABE guidelines on the management of interest rate risk in the banking book. With reference to the measurement of interest rate risk from the interest income or expected profits perspective, the bank is making the necessary adjustments in order to make use of adequate instruments that comply with regulations.
Thus, this methodology assesses the impact of a hypothetical change in interest rates on the exposure to interest rate risk of the banking book.
Specifically, the application of the aforementioned simplified method is based on the following logical steps.

1. Defining the banking book: consisting of all assets and liabilities not included in the regulatory trading portfolio.
2. Determination of the "relevant currencies", i.e. currencies whose weight measured as a share of total assets or liabilities in the banking book is greater than 5%. Each relevant currency defines an aggregated position. Currencies whose weight is less than 5% are aggregated among them.
3. Classification of assets and liabilities in time brackets: 14 time brackets have been defined. Fixed rate assets and liabilities are classified according to their residual life, those with a floating rate based on the interest rate renegotiation date. Except for specific classification rules for certain assets and liabilities, assets and liabilities are included in the due date schedule according to the criteria set forth in Circular 272 "Manual for completing the Accounts Matrix". Non-performing, unlikely to pay and impaired past-due and/or overdrawn positions must be recorded in the relevant residual life classes based of the expected recovery of underlying cash flows as

measured by the bank for the purpose of the latest available financial statement valuations: in this respect, it should be noted that for any impaired exposures subject to forbearance measures (forborne non-performing), reference is made to the cash flows and maturity dates agreed upon renegotiation / refinancing of the position. Likewise, forborne performing exposures are allocated to the time brackets on the basis of the new agreed conditions (relating to the amounts, at the re-pricing dates for variable rate exposures and at the new maturities for fixed rate exposures). Non-performing exposures for which cash flow recovery forecasts are not available are allocated to the different time brackets on a proportional basis, using as allocation basis the distribution in the various residual life brackets of the recovery forecasts of other impaired positions (with the same type of deterioration).

4. Weighting of the net exposures of each bracket: in each bracket assets and liabilities are offset, obtaining a net position. The net position of each bracket is multiplied by the corresponding weighting factor. The weighting factors by bracket are calculated as the product of an approximation of the modified duration of the bracket and a hypothetical change in rates. For downward scenarios, negative rates of interest are excluded.

5. Sum of the net weighted exposures of the various brackets: the net weighted exposure of the individual aggregates approximates the change in present value of the items denominated in the currency of the aggregate in the event the assumed rate shock materializes.

6. Aggregation in the various currencies: the positive exposures relating to the individual "significant currencies" and the aggregate of the non-relevant currencies" are added together. The value thus obtained is the change in value.

By the aforementioned update to Circular no. 285/2013, the Bank of Italy has introduced, as part of the aforementioned simplified method for measuring internal capital for interest rate risk of the banking book, the option to exclude from the method, option contracts in favour of the bank, if embedded in other financial statement items (for example, floor clauses in floating-rate assets or cap clauses in floating-rate liabilities). In this regard, banks have been asked to ensure that these options are treated consistently within the same ICAAP process and, as a rule, consistently over time, and to provide information in the ICAAP process report on the selected treatment and on any changes compared to the prior year.

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.

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	**16,459**	**15,402**	**564**	**674**	**3,746**	**41**	**-**	**-**
1.1 Debt securities	-	-	-	-	-	-	-	-
- with option of early redemption	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Loans to banks	9,674	224	-	-	-	-	-	-
1.3 Loans to customers	6,785	15,178	564	674	3,746	41	-	-
- current accounts	3,852	10	2	61	573	-	-	-
- other loans	2,933	15,168	562	613	3,173	41	-	-
- with option of early redemption	-	-	-	-	-	-	-	-
- other	2,933	15,168	562	613	3,173	41	-	-
2. On-balance sheet liabilities	**38,577**	**5,106**	**-**	**212**	**5,457**	**-**	**-**	**-**
2.1 Trade payables	38,513	106	-	212	296	-	-	-
- current accounts	29,280	-	-	-	-	-	-	-
- other payables	9,233	106	-	212	296	-	-	-
- with option of early redemption	-	-	-	-	-	-	-	-
- other	9,233	106	-	212	296	-	-	-
2.2 Payables to banks	64	5,000	-	-	-	-	-	-
- current accounts	64	-	-	-	-	-	-	-
- other payables	-	5,000	-	-	-	-	-	-
2.3 Debt securities	-	-	-	-	5,161	-	-	-
- with option of early redemption	-	-	-	-	-	-	-	-
- other	-	-	-	-	5,161	-	-	-
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	0.48%	-1.09%	-2.70%
- 100 *bps*	-0.44%	1.01%	0.40%

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 2011-2017 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 2017 was 0.53%. This value is considerably lower than the 20% limit value set by the Bank of Italy.

	31/12/2017 (€/000)
Capital requirement with respect to interest rate risk under ordinary conditions	73
Own funds	13,636
Risk Index (20% threshold)	0.53%

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 2017 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	**493**	**28**	**-**	**-**	**-**	**-**
A.1 Debt securities	-	-	-	-	-	-
A.2 Equity shares	-	-	-	-	-	-
A.3 Loans to banks	492	28	-	-	-	-
A.4 Loans to customers	1	-	-	-	-	-
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	**-**	**-**	**-**	**-**	**-**	**-**
C. Financial liabilities	**140**	**-**	**-**	**-**	**-**	**-**
C.1 Payables to banks	-	-	-	-	-	-
C.2 Trade payables	140	-	-	-	-	-
C0.3 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	**493**	**28**	**-**	**-**	**-**	**-**
Total liabilities	**140**	**-**	**-**	**-**	**-**	**-**
Imbalance (+/-)	**353**	**28**	**-**	**-**	**-**	**-**

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.

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 (asset 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	**13,305**	**86**	**656**	**1,348**	**2,743**	**4,199**	**2,910**	**20,081**	**10,018**	**374**
A.1 Government securities	-	-	-	-	-	2,011	6	600	1,000	150
A.2 Other debt securities	-	-	6	1,109	732	686	155	9,456	2,000	-
A.3 UCIT units	-	-	-	-	-	-	-	-	-	-
A.4 Loans	13,305	86	650	239	2,011	1,498	2,749	10,025	7,018	224
- Banks	9,674	-	-	-	-	-	-	-	-	224
- Customers	3,631	86	650	239	2,011	1,498	2,749	10,025	7,018	-
On-balance sheet liabilities	**31,654**	**101**	**30**	**-**	**8,010**	**3,187**	**1,092**	**5,519**	**-**	**-**
B.1 Deposits and current accounts	31,637	101	30	-	2,905	3,158	845	3	-	-
- Banks	748	-	-	-	-	-	-	-	-	-
- Customers	30,889	101	30	-	2,905	3,158	845	3	-	-
B.2 Debt securities	-	-	-	-	-	29	35	5,220	-	-
B.3 Other liabilities	17	-	-	-	5,105	-	212	296	-	-
“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 2017, 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 31/12/2017, 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 31/12/2017 was 394.17%, which is significantly higher than the 70% minimum requirement laid down by law for 2017, i.e. 80%.
Similarly, the results of the additional stress test on the "LCR" regulatory indicator, also performed monthly, showed a stressed value of this indicator of 386.45%, which is considerably higher than the 70% minimum requirement laid down by law for 2017, i.e. 80%.
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.
As regards the concentration of funding sources, as at 31 December 2017, funding from the first 10 counterparties accounted for 34% of total bank funding.
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 31/12/2017:

- 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; the hearing for the appeal filed by Kaupthing was held on 11 January 2018. The Supreme Court upheld the decision of the District Court by definitively rejecting the request for revocation. The sentence is therefore final and Kaupthing cannot appeal the case any further.

- with reference to the writ of summons issued upon application of a client seeking to obtain the declaration of invalidity and unlawfulness of certain financial transactions entered into with the Bank in the three-year period 2010-2013, the formal interrogation of the plaintiff took place at the hearing on 26.05.2017; this was the only formal interrogation ordered by the Judge of the Court of Naples following the request, filed by the other party, for revocation of the order upholding the Bank's request for admission of evidence.
  The Court then set the hearing on 30.06.2017 for the examination of the request for revocation and subsequent acts. At the end of the hearing, the Court reserved the decision; the Court then decided on the reserved issues, and adjourned the proceedings for clarification of the final statements at the hearing on 18.05.2018. 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 for this contingent liability, since the financial outlay is unlikely and the amount cannot be reliably estimated.

- 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;

- with reference to the writ of summons issued upon application of a client, notified on 21 December 2016, aimed at the reimbursement of a cloned check and at the payment of the associated damages, the Court of Naples granted the deadlines pursuant to art. 183 of the Code of Civil Procedure for the production of evidence and postponed the case for the admission of evidence to the hearing of 04.12.2018. 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 for this contingent liability, since the financial outlay is unlikely and the amount cannot be reliably estimated.

- On 17 November 2017, the Bank was sued by a client who brought an action to ascertain the Bank's liability in the financial brokerage activity carried out on behalf of the plaintiff. The hearing pursuant to art. 183 of the Italian Code of Civil Procedure was set on 3 April 2018 before the Court of Naples. 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 for this contingent liability, since the financial outlay is unlikely and the amount cannot be reliably estimated.

- On 11 January 2018, the Bank was notified an application brought by a former employee pursuant to art. of Law 92/2012 challenging the dismissal for just cause notified in July 2017. The plaintiff is seeking reinstatement in her job and the payment of compensation for an amount equal to all the wages accrued since the date of dismissal until reinstatement based on the last de facto overall remuneration or, without prejudice to reinstatement, pursuant to art. 1 paragraph 42 of Law 92/2012, the payment of an indemnity of up to a maximum of twelve month pay. The Judge of the Court of Naples - Labour Section set the first hearing for discussion on 28.02.2018 following which the case was adjourned for the hearing of the parties on 19 April 2018. 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 for this contingent liability, since the financial outlay is unlikely and the amount cannot be reliably estimated.

Quantitative information

In order to calculate its capital requirement, the Bank adopts the Basic Indicator Approach provided for by the legislation. At 31 December 2017 the capital requirement was € 687 thousand (€ 724 thousand at 31 December 2016).

In 2017 there were no events resulting in operating losses.

Part F – Information on Equity

Section 1 – Corporate equity

A. Qualitative information

As of 31 December 2017, the Company's equity, consisting of the share capital and the reserves of any type, amounted to Euro 13,862 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.
Moreover, during 2017 the Bank - in line with the statutory provisions (Directive 2014/59/EU *"Bank Recovery and Resolution Directive – BRRD"* implemented in Italy on 16 November 2015 with legislative decrees 180 and 181), with the International practices and with the *Risk Appetite Framework* adopted – prepared a *Recovery Plan.*

B. Quantitative Information

B.1 Corporate equity: breakdown
(€/000)

Items/Values	Amount 2017	Amount 2016
1. Share Capital	7,740	7,740
2. Share premium account	1,071	1,071
3. Reserves	5,676	5,904
- profit reserve	5,676	5,904
a) legal reserve	802	802
b) statutory reserve	-	-
c) treasury share reserve	-	-
d) other	4,874	5,102
- other	-	-
4. Capital instruments	-	-
5. (Treasury shares)	-	-
6. Valuation reserves:	-149	-152
- 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	-149	-150
- Shares of valuation reserves for subsidiaries carried at equity	-	-
- Special revaluation regulations	-	-
7. Profit (loss) for the year	-476	-228
Total	**13,862**	**14,335**

B.2 Valuation reserves of financial assets available for sale: breakdown
(€/000)

Assets/values	Total 2017		Total 2016	
	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**	**-**	**-**
2. Positive changes	-	**2**	-	-
2.1 Fair value increases	-	-	-	-
2.2 Reversal of negative reserves to the income statement - due to impairment - due to disposal	-	- 2	-	-
2.3 Other changes	-	-	-	-
3. Negative changes	-	-	-	-
3.1 Fair value decreases	-	-	-	-
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	-	**-**	-	-

B.4 Valuation reserves relating to defined-benefit pension plans: year-on-year changes
(€/000)

	Amount 2017
1. Opening amount	**-150**
2. Positive changes	**1**
2.1 Actuarial gains relating to defined-benefit pension plans	-
2.2 Other changes	1
2.3 Business combinations	-
3. Negative changes	**-**
3.1 Actuarial losses relating to defined-benefit pension plans	-
3.2 Other changes	-
3.3 Business combinations	-
4. Closing inventories	**-149**

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 own funds are calculated as the algebraic sum of a series of positive and negative elements, the eligibility of which is admitted - with or without limitations - in relation to their "asset quality". The amount of these elements excludes any tax charges. The positive components of own funds must be fully available to the Bank, which must be able to use them without restrictions to cover the risks to which the intermediary is exposed.

The Bank's own funds at 31 December 2017 amounted to € 13,636 thousand.

1. Common Equity Tier 1 - CET 1

The "Common Equity Tier 1 - CET1 before application of prudential filters", totalling € 13,862 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 (€ 4,204 thousand including the loss for the period), and other reserves (€ 194 thousand). The item also includes the valuation reserve relating to employee severance indemnities (negative by € 149 thousand) determined in accordance with IAS 19.
The Bank did not hold any innovative capital instruments at the reporting date.
At 31 December 2017, the "Common Equity Tier 1 - CET1 net of the positive/negative effects of the application of prudential filters (€ 19,000), of the items to be deducted (€ 331 thousand) and of the transitional arrangements (€ 124 thousand) amounted to € 13,636 thousand.

2. Additional Tier 1 - AT1

At 31 December 2017, there were no items of "Additional Tier 1- AT1" capital.

3. Tier 2 capital - T2

At 31 December 2017, there were no items of "Tier 2- T2" capital.
Accordingly, the total amount of Own Funds - equivalent to the CET1 item - amounted to € 13,636 thousand.

B. Quantitative information

(€/000)

	Total 2017	Total 2016
A. Common Equity Tier 1 - CET 1 prior to first-time application of prudential filters	**13,862**	**14,335**
of which CET1 instruments subject to transitional provisions	-	-
B. CET1 prudential filters (+/-)	(19)	(15)
C. CET1 before items to be deducted and the effects of the transitional arrangements (A+/- B)	**13,843**	**14,320**
D. Elements to be deducted from CET 1	**(331)**	**(267)**
E. Transitional arrangements - Impact on CET1 (+/-)	**124**	**150**
F. Total Common Equity Tier 1 - CET 1 (C - D +/- E)	**13,636**	**14,203**
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 – AT1 (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)	**13,636**	**14,203**

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, 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.
In this sense, the minimum requirements for the reporting of Own Funds at 31 December 2017, as per notice of Banca d'Italia of 20 April 2017, are as follows:

- 6.40% for the CET1 ratio - which is the ratio of the Common Equity Tier 1 to total risk-weighted assets - inclusive of 1.25% by way of Capital Conservation Buffer; this ratio is binding to the extent of 5.15%;
- 8.15% for the Tier 1 ratio - which is the ratio of the Tier 1 capital to total risk-weighted assets - inclusive of 1.25% by way of Capital Conservation Buffer; this ratio is binding to the extent of 6.90%;
- 10.45% for the Total Capital Ratio - which is the ratio of total own funds to total risk-weighted assets - inclusive of 1.25% by way of Capital Conservation Buffer; this ratio is binding to the extent of 9.20%;

As can be seen from the table below, both the Tier 1 Capital Ratio and the Total Capital Ratio amount to 28.56%.
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 € 9,816 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	
	2017	**2016**	**2017**	**2016**
A. RISK ASSETS				
A.1 Credit and counterparty risk	**54,567**	**54,494**	**24,470**	**27,150**
1. Standardised method	54,567	54,494	24,470	27,150
2. Internal-rating based method	-	-	-	-
2.1 Base	-	-	-	-
2.2 Advanced	-	-	-	-
3. Securitisations	-	-	-	-
B. PRUDENTIAL CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			**1,958**	**2,172**
B.2 Risk of credit valuation adjustment			**-**	**-**
B.3 Settlement risk			**-**	**-**
B.4 Market risk			**1,174**	**841**
1. Standard method			1,174	841
2. Internal models			-	-
3. Concentration risk			-	-
B.5 Operational risk			**687**	**724**
1. Base method			687	724
2. Standardised method			-	-
3. Advanced method			-	-
B.6 Other elements of the calculation			**-**	**-**
B.7 Total prudential requirements			**3,819**	**3,737**
C. RISK ASSETS AND REGULATORY COEFFICIENTS				
C.1 Risk-weighted assets			47,743	46,713
C.2 Common Equity Tier 1 /Risk-weighted assets (CET1 capital ratio)			28.56%	30.40%
C.3 Tier 1 /Risk-weighted assets (Tier 1 capital ratio)			28.56%	30.40%
C.4 Total own funds /Risk-weighted assets (Total capital ratio)			28.56%	30.40%

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 2017 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	31.12.2017
- Salaries and other short-term benefits	340
- Post-employment benefits (social security, insurances, etc.)	3

(€/000)

Overall remuneration paid to Auditors	31.12.2017
- Salaries and other short-term benefits	38
- Post-employment benefits (social security, insurances, etc.)	3

(€/000)

Overall remuneration paid to Managers	31.12.2017
- Salaries and other short-term benefits	76
- 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	4	281	-	-	-	-
Auditors	-	8	-	-	-	-
Family members	-	97	-	-	-	-
Other related parties	-	28	-	-	-	-
Total	**4**	**414**	**-**	**-**	**-**	**-**

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

Audit and non-audit fees pursuant to article 249 duodecies of Consob Regulation no.11971

The contractually agreed fees for FY2017 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 20th update - the information is published on the Bank's website at the following link www.bancapromos.it/it/documenti.

IAS/IFRS ratified by the European Commission at 31 December 2017

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, 475/2012, 1254/2012, 1255/2012, 301/2013, 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, 1990/2017
IAS 8 Accounting standards, 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(*), 1989/2017
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 – Separate Financial Statements	1126/2008, 1274/2008, 69/2009, 70/2009, 494/2009, 1254/2012, 1174/2013, 2441/2015

IAS 28 – Investments in associates or joint ventures	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, 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(*), 1988/2017 (*)
IFRS 5 Non-current Assets Held for Sale and Discontinued Operations	1126/2008, 1274/2008, 70/2009, 494/2009, 1142/2009, 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(*)
IFRS 15 – Revenue from Contracts with Customers	1905/2016(*), 1987/2017 (*)
IFRS 16 Leases	1986/2017 (**)
SIC 7 Introduction of the Euro	1126/2008, 1274/2008, 494/2009
SIC 10 Government Assistance – No Specific Relation to Operating Activities	1126/2008, 1274/2008
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 Service Concession Agreements disclosures	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(*)
IFRIC 13 – Customer Loyalty Programmes	1262/2008, 149/2011, 1255/2012, 1905/2016(*)
IFRIC 14 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	1263/2008, 1274/2008, 633/2010, 475/2012
IFRIC 15 Agreements for Construction of Real Estate	636/2009, 1905/2016(*)
IFRIC 16 Hedges of a Net Investment in a Foreign Operation	460/2009, 243/2010, 1254/2012, 2067/2016(*)
IFRIC 17 – Distribution of non-cash assets to owners	1142/2009, 1254/2012, 1255/2012
IFRIC 18 – Transfers of assets from customers	1164/2009, 1905/2016(*)
IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments	662/2010, 1255/2012, 2067/2016(*)
IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine	1255/2012
IFRIC 21 Levies	634/2014

(*) The Entities apply the provisions of these Regulations as from 1 January 2018.

(**) The Entities apply the provisions of these Regulations as from 1 January 2019.