BALANCE SHEET

ASSETS (in EUR)

	Asset items	31-12-2016	31-12-2015
10.	Cash and cash equivalents	13,468,376	13,573,937
20.	Financial assets held for trading	393,894	108,510
30.	Financial assets measured at fair value	9,175,240	-
40.	Available-for-sale financial assets	1,257,014,059	1,141,088,523
60.	Loans and receivables with banks	212,025,678	135,020,810
70.	Loans and receivables with customers	2,762,450,205	2,780,430,973
100.	Equity investments	1,121,248	1,375,248
110.	Tangible assets	27,693,760	27,432,906
120.	Intangible assets	10,087,516	10,413,957
	of which: goodwill	8,458,447	8,458,447
130.	Tax assets	69,586,768	67,833,206
	a) current	7,421,251	6,055,136
	b) prepaid	62,165,517	61,778,070
	b1) of which as per Italian Law No. 214/2011	53,554,496	54,248,442
150.	Other assets	42,418,442	41,101,338
	Total assets	**4,405,435,186**	**4,218,379,408**

LIABILITIES AND SHAREHOLDERS' EQUITY (in EUR)

	Liabilities and shareholders' equity items	31/12/2016	31/12/2015
10.	Due to banks	795,650,246	621,160,228
20.	Due to customers	2,406,793,297	2,159,345,043
30.	Securities issued	746,948,598	965,560,717
40.	Financial liabilities held for trading	269,013	50,800
80.	Tax liabilities	3,592,664	2,978,920
	a) current	898,221	877,216
	b) deferred	2,694,443	2,101,704
100.	Other liabilities	55,552,247	70,012,330
110.	Post-employment benefits	5,347,800	5,165,314
120.	Provisions for risks and charges	2,161,643	1,882,734
	b) other provisions	2,161,643	1,882,734
130.	Valuation reserves	(4,459,878)	(3,750,897)
160.	Reserves	57,764,870	53,972,240
170.	Share premium reserve	230,298,585	235,405,236
180.	Share capital	106,550,481	107,390,481
190.	Own shares (-)	(5,182,258)	(8,855,573)
200.	Profit (Loss) for the year (+/-)	4,147,878	8,061,835
	Total liabilities and shareholders' equity	**4,405,435,186**	**4,218,379,408**

INCOME STATEMENT (in EUR)

Items		31/12/2016	31/12/2015
10.	Interest income and similar revenues	86,767,483	108,968,327
20.	Interest expense and similar charges	(37,101,211)	(54,257,070)
30.	**Net interest income**	**49,666,272**	**54,711,257**
40.	Fee and commission income	30,678,023	30,179,887
50.	Fee and commission expense	(3,329,728)	(3,400,854)
60.	**Net fee and commission income**	**27,348,295**	**26,779,033**
70.	Dividends and similar income	3,398,777	1,415,397
80.	Net profit (loss) from trading activities	519,688	541,189
100.	Profit (Loss) on sale or repurchase of:	8,058,305	36,920,693
	a) loans and receivables	(97,175)	(1,065,620)
	b) available-for-sale financial assets	8,767,883	38,570,070
	d) financial liabilities	(612,403)	(583,757)
110.	Profits (Losses) on financial assets and liabilities measured at fair value	175,240	-
120.	**Net interest and other banking income**	**89,166,577**	**120,367,569**
130.	Net impairment losses on:	(38,997,664)	(49,259,857)
	a) loans and receivables	(36,186,787)	(46,178,385)
	b) available-for-sale financial assets	(2,733,454)	(2,989,195)
	d) other financial transactions	(77,423)	(92,277)
140.	**Net profit (loss) from financial operations**	**50,168,913**	**71,107,712**
150.	Administrative expenses:	(71,420,555)	(69,903,437)
	a) labour costs	(34,489,444)	(34,295,103)
	b) other administrative expenses	(36,931,111)	(35,608,334)
160.	Net allocations to provisions for risks and charges	(735,465)	(928,168)
170.	Depreciation and net impairment losses on tangible assets	(1,501,215)	(1,590,129)
180.	Amortisation and net impairment losses on intangible assets	(842,903)	(766,693)
190.	Other operating income/expense	29,498,198	13,183,925
200.	**Operating costs**	**(45,001,940)**	**(60,004,502)**
210.	Net gains (losses) on equity investments	(384,000)	(129,760)
240.	Net gains (losses) on sales of investments	24,789	11,728
250.	**Profit (Loss) from operations gross of taxation**	**4,807,762**	**10,985,178**
260.	Income taxes for the year on current operations	(659,884)	(2,923,343)
270.	**Profit (Loss) from operations net of taxation**	**4,147,878**	**8,061,835**
290.	**Profit (loss) for the year**	**4,147,878**	**8,061,835**

STATEMENT OF COMPREHENSIVE INCOME

	Items	31/12/2016	31/12/2015
10.	**Profit (loss) for the year**	**4,147,878**	**8,061,835**
	Other income components net of taxation without reversal to income statement	**(128,697)**	**216,683**
40.	Defined benefit plans	(128,697)	216,683
	Other income components net of taxation with reversal to income statement	**(580,284)**	**(6,676,826)**
100.	Available-for-sale financial assets	(580,284)	(6,676,826)
130.	**Total other income components net of taxation**	**(708,981)**	**(6,460,143)**
140.	**Comprehensive income (Item 10+130)**	**3,438,897**	**1,601,692**

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

Items	Balances as at 31 December 2015	Change in opening balances	Balances as at 1 January 2016	Allocation of previous year result		Changes during the year								Shareholders' equity as at 31 December 2016
				Reserves	Dividends and other allocations	Change in reserves	Transactions on shareholders' equity						2016 comprehensive income	
							Issue of new shares	Purchase of own shares	Extraordinary dividend distribution	Change in capital instruments	Derivatives on own shares	Stock options		
Share capital:	107,390,481	-	107,390,481	-	-	-	(840,000)	-	-	-	-	-	-	106,550,481
a) ordinary shares	107,390,481	-	107,390,481	-	-	-	(840,000)	-	-	-	-	-	-	106,550,481
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premium reserve	235,405,236	-	235,405,236	-	-		(5,106,651)	-	-	-	-	-	-	230,298,585
Reserves:	53,972,240	-	53,972,240	3,792,630	-	-	-	-	-	-	-	-	-	57,764,870
a) income-related	57,064,332	-	57,064,332	3,792,630	-	-	-	-	-	-	-	-	-	60,856,962
b) other	(3,092,092)	-	(3,092,092)	-	-	-	-	-	-	-	-	-	-	(3,092,092)
Valuation reserves	(3,750,897)	-	(3,750,897)	-	-	-	-	-	-	-	-	-	(708,981)	(4,459,878)
Capital instruments	-	-	-	-	-		-	-	-	-	-	-	-	-
Own shares	(8,855,573)	-	(8,855,573)	-	-	-	6,721,396	(3,048,081	-	-	-	-	-	(5,182,258)
Profit (Loss) for the year	8,061,835	-	8,061,835	(3,792,630)	(4,269,205)	-	-	-	-	-	-	-	4,147,878	4,147,878
Shareholders' equity	392,223,322	-	392,223,322	-	(4,269,205)	-	774,745	(3,048,081	-	-	-	-	3,438,897	389,119,678

The cancellation of 280 thousand shares is represented in the capital and share premium rows with a negative sign in the column issue of new shares. The share premium row, in addition to the cancellation of Euro 4,200 thousand, also includes the capital loss recognised on sales of Euro 907 thousand. The own shares row includes both sales and cancelled shares.

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

Items	Balances as at 31 December 2014	Change in opening balances	Balances as at 1 January 2015	Allocation of previous year result		Changes during the year								Shareholders' equity as at 31 December 2015
							Transactions on shareholders' equity							
				Reserves	Dividends and other allocations	Change in reserves	Issue of new shares	Purchase of own shares	Extraordinary dividend distribution	Change in capital instruments	Derivatives on own shares	Stock options	2015 comprehensive income	
Share capital:	107,390,481	-	107,390,481	-	-	-	-	-	-	-	-	-	-	107,390,481
a) ordinary shares	107,390,481	-	107,390,481	-	-	-	-	-	-	-	-	-	-	107,390,481
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premium reserve	235,405,236	-	235,405,236	-	-	-	-	-	-	-	-	-	-	235,405,236
Reserves:	47,060,415	-	47,060,415	6,911,505	-	320	-	-	-	-	-	-	-	53,972,240
a) income-related	50,152,507	-	50,152,507	6,911,505	-	320	-	-	-	-	-	-	-	57,064,332
b) other	(3,092,092)	-	(3,092,092)	-	-	-	-	-	-	-	-	-	-	(3,092,092)
Valuation reserves	2,709,246	-	2,709,246	-	-	-	-	-	-	-	-	-	(6,460,143)	(3,750,897)
Capital instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Own shares	(7,392,904)	-	(7,392,904)	-	-	-	-	(1,462,669)	-	-	-	-	-	(8,855,573)
Profit (Loss) for the	14,006,894	-	14,006,894	(6,911,505)	(7,095,389)	-	-	-	-	-	-	-	8,061,835	8,061,835
Shareholders' equity	**399,179,368**	**-**	**399,179,368**	**-**	**(7,095,389)**	**320**	**-**	**(1.462.669)**	**-**	**-**	**-**	**-**	**1,601,692**	**392,223,322**

CASH FLOW STATEMENT

Indirect method	Amount	
	31/12/2016	31/12/2015
A. OPERATING ACTIVITIES		
1. Cash flow from operating activities	**53,085,864**	**75,677,087**
-profit (loss) for the year (+/-)	4,147,878	8,061,835
- net impairment losses (+/-)	43,585,994	52,894,493
- depreciation/amortisation and net impairment losses on tangible and intangible	2,344,118	2,356,822
- net allocations to provisions for risks and charges and other costs/revenues (+/-	735,465	928,168
-unpaid taxes (+)	659,884	2,923,343
- other adjustments (+/-)	1,612,525	8,512,426
2. Cash flow generated/used by financial assets	**(123,305,063)**	**110,543,253**
- financial assets held for trading	(285,384)	72,086
- financial assets measured at fair value	(9,175,240)	-
- available-for-sale financial assets	(116,729,498)	28,123,362
- loans and receivables with banks: on demand	11,765,104	(9,257,908)
- loans and receivables with banks: other receivables	15,761,794	(17,489,120)
- loans and receivables with customers	(21,576,192)	128,417,125
- other assets	(3,065,647)	(19,322,292)
3. Cash flow generated/used by financial liabilities	**130,596,301**	**(175,820,539)**
- due to banks: on demand	39,253,115	(31,099,730)
- due to banks: other	81,760,851	(1,927,431)
- due to customers	246,749,414	124,965,253
- securities issued	(223,222,472)	(259,408,755)
- financial liabilities held for trading	218,213	(163,937)
- other liabilities	(14,162,820)	(8,185,939)
Cash flow from (used in) operating activities	**60,377,102**	**10,399,801**
B. INVESTING ACTIVITIES		
2. Cash flow used in	**(53,940,122)**	**(1,780,796)**
- purchases of equity investments	(130,000)	(129,760)
- purchases of tangible assets	(1,762,069)	(1,185,851)
- purchases of intangible assets	(516,462)	(465,185)
- purchases of business segments	(51,531,591)	-
Cash flow from (used in) investing activities	**(53,940,122)**	**(1,780,796)**
C. FINANCING ACTIVITIES		
- issues/purchases of own shares	(2,273,336)	(1,462,669)
- dividend distribution and other purposes	(4,269,205)	(7,095,389)
Cash flow from (used in) financing activities	**(6,542,541)**	**(8,558,058)**
CASH FLOW GENERATED/USED DURING THE YEAR	**(105,561)**	**60,947**
KEY (+) generated (-) used		
RECONCILIATION	**31/12/2016**	**31/12/2015**
Financial statement items		
Cash and cash equivalents at the beginning of the year	**13,573,937**	**13,512,990**
Total cash flow generated/used during the year	**(105,561)**	**60,947**
Cash and cash equivalents: effect of change in exchange rates	**-**	**-**
Cash and cash equivalents at the end of the year	**13,468,376**	**13,573,937**

EXPLANATORY NOTES

Part A - Accounting policies

A.1 - General section

Section 1 – Statement of compliance with International Financial Reporting Standards

The Financial Statements for the year ended 31 December 2016 were drawn up in accordance with the international accounting standards issued by the International Accounting Standards Board (IASB) and approved on the date of preparation of these financial statements, illustrated in the following point A.2; they were also drawn up in accordance with the related interpretations of the International Financial Reporting Interpretation Committee (IFRIC) and Circular No. 262 of 22 December 2005 of the Bank of Italy, updated as at 15 December 2015, issued on the basis of the authorisation contained in Italian Legislative Decree No. 38/2005, which acknowledged in Italy EU Regulation No. 1606/2002 regarding international accounting standards.

Circular No. 262 contains the formats of the financial statements, the guidelines and the contents of the explanatory notes.
Reference was also made to the "framework for the preparation and presentation of financial statements" (known as IAS framework).
The derogation laid down by Article 5.1 of Italian Legislative Decree No. 38/2005 was not used.

Section 2 – Basis of presentation

The financial statements comprise the Balance Sheet, Income Statement, Statement of Comprehensive Income, Statement of changes in equity, Statement of cash flows and the Explanatory notes and are also accompanied by a Directors' report on operations.
As per Article 5 of Italian Legislative Decree No. 38/2005, the financial statements are drawn up using the Euro as the reporting currency. The amounts reported in the Financial Statements are expressed in Euro, while the figures in the Explanatory Notes are in thousands of Euro.
The financial statements and the Explanatory notes show the comparative figures as at 31 December 2015 in addition to the amounts for the reporting period.

The basis of presentation laid down by IAS 1 and used for preparing these annual financial statements involved:

1) Going concern: the financial statements were prepared with a view to the Bank continuing its business activities for the foreseeable future, therefore assets, liabilities and “off-balance sheet” transactions were valued in accordance with the operational features.
   The possible foreseeable future taken into consideration is that which emerges from all the available information used for preparing the strategic plan. Furthermore, in relation to the activities carries out, taking account of all the risks that are analysed and illustrated in other parts of the financial statements, the Bank believes that it falls within the sphere of application of IAS 1 according to which when pre-existing profitable activities and easy access to financial resources exist, the requirement of the company as a going concern is appropriate without carrying out detailed analysis.
   When assessing the business as a going concern, the references to IAS 1 contained in the joint “Bank of Italy/Consob/ISVAP No. 2 dated 6 February 2009” were used.

2) Accrual-basis accounting: costs and revenues and costs are recognised, irrespective of the time of their monetary settlement, in an accrual basis and on matching principals.

3) Financial statement presentation consistency: the presentation and classification of the items are maintained from one year to the next for the purpose of ensuring the comparability of the information unless a change is requested by an International Accounting Standard or by an Interpretation or it is clear that another presentation or classification is more appropriate in terms of relevancy and reliability for the representation of the information. When the presentation or classification of the financial statement items is changed, the comparative amounts are reclassified, where possible, also indicating the nature and the reasons for the classification.

4) Significance and aggregation: each significant class of similar items is stated separately in the financial statements. Items dissimilar in nature or with regard to intended use are presented separately unless they are insignificant.

5) Substance over form: transactions and other events are recognised and stated in compliance with their economic substance and reality and not only according to their legal form.

6) Offsetting: assets, liabilities, costs and revenues are not offset unless this is required or permitted by an International Accounting Standard or by an interpretation or it is expressly envisaged by the financial statement reporting format for banks.

7) Comparative information: the comparative information is provided for the previous period for all the figures stated in the financial statements except when an International Accounting Standard or Interpretation allows otherwise. The commentary and descriptive information is also included when this is significant for an improved comprehension of the related annual financial statements.

Estimates and valuations

The preparation of the financial statements requires the use of estimates and valuations that may have a significant impact on the values recorded in the balance sheet and income statement.
The use of valuations and assumptions is more commonly required for:
- quantifying the impairment of financial assets, loans and receivables, tangible and intangible assets;

- determining the fair value of financial instruments to be used for disclosure purposes and the use of valuation models for determining fair value of financial instruments not listed on active markets;
- assessing the reasonableness of the amount of goodwill and of other intangible assets;
- quantifying employees' provisions and provisions for risks and charges;
- the actuarial and financial assumptions used to determine liabilities associated with defined benefit plans for employees;
- the estimates and assumptions made with regard to the recoverability of deferred tax assets.

Reasonable estimates and assumptions are formulated by using all the internal and external information available and past experience.

The adjustment of an estimate further to changes in the circumstances on which it was based or further to new information or additional experience, is applied prospectively and therefore generates an impact on the income statement for the year in which the change takes place and, possibly, on that relating to future years.

The valuation process is particularly complex in consideration of the current macro-economic and market scenario, characterised by unusual levels of volatility that can be found on all the financial balances decisive for the purposes of the valuation and consequent difficulty in the formulation of performance forecasts, including short-term, relating to financial parameters that significantly affect the estimated values.

Section 3 - Events after the reporting date

During the period of time between the reporting date of these financial statements and their approval by the Board of Directors on 8 March 2017, no events took place which led to an adjustment of the figures approved at that time nor were there any significant events that would require a supplement to the disclosure provided.

Section 4 – Other aspects

Audit

The financial statements are subject to audit, pursuant to Italian Legislative Decree No. 58/98, by BDO Italia S.p.A., in accordance with the appointment granted for the 2011-2019 period to this company with the shareholders' resolution on 9 April 2011. The audit report is published in full, as per Article 135 septies of Italian Legislative Decree No. 58/98.

Accounting standards/interpretations approved and applicable on a mandatory basis as from 2016

The Regulations approved by the European Commission during 2016 or in previous years, whose application will be mandatory as from 2016, and amending or supplementing the international accounting standards, are listed below:

• no. 28/2015 of 17/12/2014 - which introduces Annual Improvements cycle 2010-2012 – IFRS 2 "Share-based payments"- IFRS 3 "Business combinations" - IFRS 8 "Operating segments" - IAS 16 "Properties, Plants and machinery" - IAS 38 "Intangible assets" and IAS 24 "Related Party Disclosures"
• no. 29/2015 of 17/12/2014 - IAS 19 "Employee benefits"

It clarifies the treatment of the contributions paid by the employees to defined benefit plans, according to whether the amount of the contributions depends or not on the number of years of service
• no. 2113 of 23/11/2015 – IAS 16 “Properties, plant and machinery” and IAS 41 “Agriculture”
• no. 2173 of 24/11/2015 – IFRS 11 “Joint Arrangements”
The amendments to IFRS 11 establish the accounting principles for the purchase of a “Joint Operation”, which represents a company activity (business), pursuant to IFRS 3
• no. 2231 of 2/12/2015 – IAS 16 “Properties, plant and machinery”, IAS 38 “Intangible assets”
Clarifies the acceptable methods of depreciation and amortisation based on revenues, or based on a plan that depreciates/amortises the tangible/intangible assets based on revenues generated by their use, in that these revenues reflect factors other than just consumption of the economic benefits of the asset
• no. 2343 of 15/12/2015 - “2012 - 2014” annual improvements cycle - IFRS 5 “Non-current assets held for sale and discontinued operations”, IFRS 7 “Financial instruments: disclosures”, IAS 19 “Employee benefits” and IAS 34 “Interim financial reporting”
The amendments introduced represent a number of clarifications aimed at sorting out some inconsistencies or specifications of the method-related nature.
• no. 2406 of 18/12/2015 – IAS 1 “Presentation of financial statements”
The amendment, entitled “Disclosure initiative”, has the objective of improving the efficacy of the financial statement disclosure, encouraging the use of the professional opinion in the determination of the disclosure to be provided, in terms of materiality and method of aggregation.
• no. 2441 of 18/12/2015 – IAS 27 “Separate financial statements”
The possibility of applying the equity method is introduced, described in IAS 28 “Investments in associates and joint ventures”, for the purposes of recognising the investment in subsidiaries/joint ventures/associates in the separate financial statements, in addition to the current options of cost or fair value
• no. 1703 of 23/9/2016 - IFRS 10 "Consolidated financial statements", IFRS 12 "Disclosure of interests in other entities", IAS 28 "Investments in associates and joint ventures”.

Accounting standards/interpretations approved and applicable on a mandatory basis as from 2016

• no. 1905 of 29/10/2016 - IFRS 15 “Revenue from contracts with customers”, IFRIC 18 “Transfers of assets from customers” and SIC 31 “Revenue — Barter transactions involving advertising services”
• no. 2067/2016 of 22/11/2016 - IFRS 9 ”Financial instruments” effective on a mandatory basis as from 1 January 2018.
By means of this publication, the process for the reform of IAS 39, which was divided up into the three stages of “*Classification and Measurement*”, “*Impairment*” and “*General Hedge Accounting*” was completed.

The main provisions contained therein are briefly summarised below as for the impact on the banking activity.

Recognition and derecognition
With reference to the initial recognition and derecognition of financial assets and liabilities, IFRS 9 substantially confirmed the approach defined by IAS 39.

Classification and measurement
IFRS 9 provides the following criteria for determining the classification of financial assets:

a) **the business model followed to manage financial assets**;

b) the characteristics of contractual cash flows of financial assets.

Depending on the different characteristics, the standard envisages three categories of classification and measurement:

- **Amortised Cost – AC;**
- **Fair value through other comprehensive income – FVOCI;**
- **Fair value through profit or loss – FVPL.**

Financial assets held for the purpose of collecting contractual cash flows are classified and measured in the amortised cost category. This model includes non-infrequent or non-significant sales. Disposals against increases in credit risk are not significant. However, if sales are frequent and of significant amount, it is necessary to assess whether these assets are consistent with the classification rules.

The FVOCI category includes financial assets:

- **whose contractual cash flows are exclusively represented by the payment of principal and interest**
- **held for the purpose of collecting contractual cash flows and the flows arising from the sale of assets. This business model allows a more significant sale than the AC portfolio.**

  Interest income, exchange gains and losses, impairment losses of financial assets recorded in the FVOCI portfolio and related reversals of impairment losses are recognised in the income statement, other changes in fair value are recognised as other comprehensive income (OCI) components. At the time of sale (or any reclassification to other categories resulting from the change in the business model) the cumulative gains and losses recognised in OCI are reclassified to the income statement.

  For equity securities, during initial recognition, the irrevocable option for their recognition in the FVOCI portfolio can be exercised. In this case, all changes in fair value will be recognised in OCI with no possibility of reclassification to the income statement (either for impairment or for subsequent sale). Dividends are recognised in the income statement.

Impairment

IFRS9 envisages a model characterised by a forward looking approach that requires the immediate recognition of losses on loan and receivables even if only envisaged, contrary to IAS 39 that requires for their recognition the examination of past events and current conditions.

The impairment model defined by IFRS9, unique for different financial instruments, requires for the estimate of losses on loans and receivables to be made on the basis of supportable information, available without unreasonable effort or expense that include historical, current and future figures (forward looking approach). The objective of this new approach is to ensure a more immediate recognition of the losses with respect to the "incurred loss" model envisaged by IAS 39, on the basis of which the losses must be recognised if objective evidence of losses in value are noted after the initial recognition of the asset.

In detail, the model envisaged that the exposures must be classified in three separate "stages":

- stage 1: financial assets to be measured by calculating the expected loss over a 12-month time horizon. These are performing assets with low credit risk or not significantly increased with respect to the date of initial recognition;

- stage 2: financial assets to be measured on the basis of the expected loss over their residual life. These are performing assets that have suffered a significant impairment with respect to initial recognition;

- stage 3: non-performing financial assets.

Statement of comprehensive income

The statement of comprehensive income, drawn up in light of the amendments to IAS 1, includes the revenue and cost items which, as required or allowed by the IAS/IFRS, are not recognised in the income statement but booked to shareholders' equity.
The “Comprehensive income” expresses the change that the equity has undergone in a financial year deriving from both the business transactions that usually give rise to the profit/loss for the year and from other transactions (e.g. valuations) booked to shareholders' equity on the basis of a specific accounting principle.

Comparability

The financial statements show the comparative figures as at 31 December 2015 in addition to the amounts for the reporting period.

A.2 - Section relating to the main financial statement items

1. - Financial assets and liabilities held for trading and Financial assets and liabilities measured at fair value

Definition of Financial assets and liabilities held for trading

A financial asset or liability is classified as held for trading (known as Fair Value Through Profit or Loss – FVPL), and recognised in item “20 Financial assets held for trading” or item “40 Financial liabilities held for trading”, if:

- **it is acquired or held mainly in order to be sold or repurchased in the short term;**
- **it is part of a portfolio of identified financial instruments that are managed jointly and whose recent and actual strategy for obtaining a profit in the short term is substantiated by accounting records;**
- **it is a derivative (except for a derivative that is designated as an effective hedging instrument – see specific paragraph below). A derivative contract is a financial instrument whose value is linked to the performance of an interest rate, the listed price of a financial instrument, the price of a commodity, the exchange rate of a foreign currency, a price or rate index or other indices; it requires an initial net investment with respect to that which would be required by other types of contracts and is settled on maturity.**

An "embedded derivative financial instrument" is the component of a (combined) hybrid instrument that also includes a non-derivative host contract, with the effect that some of the cash flows of the combined instrument vary in a manner similar to those of the stand-alone derivative. The embedded derivative is separated from the host contract and recognised as a stand-alone derivative if and only if:

- **The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;**
- **a separate instrument with the same conditions as the embedded derivative would meet the definition of a derivative;**
- **The (combined) hybrid instrument is not recorded among financial assets and liabilities held for trading.**

Definition of Financial assets and liabilities measured at fair value

A financial asset and liability at initial recognition is recognised under item 30 "Financial assets designated at fair value" or item 50 "Financial liabilities measured at fair value" and designated at fair value through profit or loss on initial recognition only when:

a) this is a hybrid contract containing one or more embedded derivatives, and the embedded derivative significantly changes the cash flows that would otherwise be expected from the contract;

b) designation at fair value through profit and loss provides more reliable disclosure, in that:

- **it eliminates or considerably reduces the inconsistency in measurement or recognition, which would otherwise be caused by measuring assets or liabilities or recognising the associated gains and losses on different bases;**

or

- **a group of financial assets, financial liabilities or both is managed, and its performance is measured at fair value according to a documented risk management or investment strategy, and the relevant reporting is provided internally to executives with strategic responsibilities based on this approach.**

Recognition criteria

The financial instruments “Financial assets and liabilities held for trading and Financial assets and liabilities measured at fair value” are recognised, respectively, on the settlement date if debt securities or equities; or on the subscription date, if derivative contracts.

The initial recognition value is equal to the cost deemed as the fair value of the instrument, without considering any transaction costs or income directly attributable to these instruments.

On the basis of IFRS 13 (Fair Value Measurement), effective as from 1 January 2013, the fair value is the "price that would be received for the sale of an asset or that would be paid for the transfer of a liability in a regular transaction between market operators on the measurement date", without considering the transaction costs and revenues relating to said instrument.

Measurement criteria

The trading book is measured at fair value. The determination of the fair value of the assets and liabilities of a trading book is based on prices struck on active markets or on internal measurement models generally used in financial practice as described more in detail in Part A.4 “Fair value disclosure” of the Explanatory Notes.

If the fair value of a financial asset becomes negative, this asset is recognised as a financial liability.

Derecognition criteria

The derecognition of the financial assets and liabilities held for trading or measured at fair value takes place when the contractual rights on the cash flow of the assets in question expire or when further to disposal essentially all the risks and benefits relating to these financial assets or liabilities are transferred.

Recognition criteria for income components

The result of the disposal/redemption or measurement of financial assets or liabilities held for trading is recognised in profit or loss in item “80 Net profit (loss) from trading activities”.

The result of the disposal/redemption or measurement of financial assets or liabilities measured at fair value is recognised in profit or loss in item “110 Profits (Losses) on financial assets and liabilities measured at fair value”.

2 - Available-for-sale financial assets

Recognition criteria

Initial recognition takes place as of the date of settlement for securities and the date of disbursement for loans and receivables. At the time of initial recognition, these assets are recorded at fair value, inclusive of the transaction costs or income directly attributable to said instrument. Without prejudice to the exceptions envisaged by IAS 39, transfers from the available-for-sale portfolio to other portfolios and vice versa are not possible.

Classification criteria

Available-for-sale financial assets include the non-derivative financial assets that are designated as available for sale or that are not classified as loans or receivables, investments held until maturity or financial assets at fair value through profit and loss. This item also includes the equity investments not managed for trading purposes and that do not qualify as establishing control or joint control over or association with the companies and the movable and real estate UCIT units.

Measurement criteria

Subsequent to the date of initial recognition, available-for-sale assets are measured at fair value with recognition in the income statement of the value corresponding to the amortised cost.
The determination of the fair value of the securities is based on prices struck on active markets or on internal measurement models generally used in financial practice, as better specified in the chapter on fair value.
The profits and the losses deriving from fair value measurements but that are not realised, are booked to a specific equity reserve, net of the related tax effect, until the moment that the financial asset is sold or written down.
If an available-for-sale financial asset undergoes a permanent loss in value (impairment), the cumulative loss further to the previous fair value measurements booked to shareholders' equity is stated in the income statement item “Net impairment losses on available-for-sale financial assets”.
Checking of the existence of impairment losses on the basis of objective evidence (impairment test) is carried out at the end of each reporting period or at the time of preparation of the interim statements.
For example, this circumstance applies in the event of:

- the disappearance of an active market relating to the financial asset in question as a result of the financial difficulties of said issuer. However, the disappearance of an active market due to the fact that the instruments of the company are no longer publicly traded is not evidence of the fair value reduction;
- occurrences that indicate an appreciable decrease in the future cash flows of the issuer (the general conditions of the local and national reference economy in which the issuer operates fall within this category).

Additionally, for an investment in an equity instrument, there is objective evidence of an impairment loss in correspondence with the following additional negative events:

- significant changes with a negative impact in the technological, economic or legislative environment in which the issuer operates, such as to indicate that the investment in the same cannot be recovered;
- a prolonged and significant decrease in the fair value below the purchase cost.

The Bank uses different thresholds depending on the fair value hierarchy to which the instrument belongs (for the definition of fair value hierarchy adopted by the Bank, see section "A.4 Information on fair value"):

- **in case of shares and funds classified as level 1 of the FV hierarchy, objective evidence of impairment is recorded if the fair value is 40% lower than the initial recognition value (significance) or if the fair value does not record a value higher than the book value continuously for more than 18 months;**
- **in case of shares and funds classified as level 2 and 3 of the FV hierarchy, objective evidence of impairment is recorded if the fair value is 30% lower than the initial recognition value (significance) or if the fair value does not record a value higher than the book value continuously for more than 18 months;**
- **In case of bonds and government securities, whatever the hierarchy, the objective evidence of impairment is recorded when there is insolvency in the payment of principals and interests, there are significant delays in the payment of the principal/interest or there is a granting of moratoria and at the same time renegotiations at rates lower than those paid by the market.**

With regard to the instruments listed on active markets, the Bank therefore believes that the fair value changes can be determined by economic conditions of the market such as to permit the use of higher thresholds with respect to those for the financial instruments not listed on markets.

Derecognition criteria

The derecognition of the available-for-sale financial assets takes place when the contractual rights on the cash flows of the assets in question expire and when, further to disposal, essentially all the risks and benefits relating to the same financial asset are transferred.

Recognition criteria for income components

If an available-for-sale financial asset is sold, the profits or losses up to that moment that are not realised and booked to shareholders' equity, are transferred to the item "Profit/loss on sale of available-for-sale financial assets" in the income statement.

Impairment losses on investments in debt instruments are recognised with an offset in the income statement only if this impairment may be objectively correlated to an event that takes place after the loss due to impairment has been booked to the income statement, within the limit of the value of the amortised cost that the financial assets would have had in the absence of previous adjustments.

Impairment losses on investments in equities, which can be correlated to an event that has taken place after the impairment loss has been booked to the income statement, must be recognised as an offset in shareholders' equity.

3. - Held-to-maturity financial assets

Definition

Non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity, are defined as Held to maturity (HTM). Exceptions:

(a) those held for trading and those designated at the time of initial recognition at fair value recognised in the income statement (par.1);

(b) those designated as available for sale (par. 2);

(c) those that meet the definition of receivables and loans (par. 4).

When preparing the financial statements or interim financial statements, the intention and ability to hold the financial asset to maturity are assessed.
These activities are recognised in the item “50. Held-to-maturity financial assets”.

Recognition criteria

Held-to-maturity financial assets are initially recognised when and only when the company becomes a party to the contractual clauses of the instrument, i.e. at the time of settlement, at a value equal to the cost, including any directly attributable costs and income. If the recognition of the assets in this category derives from the reclassification from the sector “Available-for-sale financial assets” or, only in rare circumstances if the asset is no longer held in order to be sold or repurchased in the short term, from “Financial assets held for trading”, the fair value of the asset, recognised at the time of transfer, is considered as the new measure of the amortised cost of the asset itself.

Measurement criteria

Held-to-maturity financial assets are measured at amortised cost by using the effective interest rate method. The resulting value is recorded in the income statement under item 10 “Interest income and similar revenues”.
When preparing the financial statements or interim reports, impairment tests are carried out to check if there is objective evidence that the asset is impaired. In case of impairment losses, the difference between the book value of the asset and the current value of estimated future financial flows, discounted at the original effective interest rate, is recognised in the income statement in item “130 Net impairment losses on c) held-to-maturity financial assets”. Any reversals of impairment losses are recorded in the income statement item if the reasons for the previous impairment losses cease to exist.
The fair value of held-to-maturity financial assets is determined for information purposes or in case of effective hedges for exchange rate risk and credit risk (in relation to the hedged risk) and it is estimated as described more in detail in Part A.4 “Fair value disclosure” of the Explanatory Notes.

Derecognition criteria

Held-to-maturity financial assets are derecognised when the contractual rights to the cash flows deriving from the financial assets expire or when the financial asset is sold together with the substantial transfer of all the related risks and benefits deriving from the ownership of the asset itself.

Recognition criteria for income components

The result of the disposal or redemption of held-to-maturity financial assets is recorded in the income statement under item "100 Profit (Loss) on sale or repurchase of c) held-to-maturity financial assets”.

4 - Loans and receivables

Loans and receivables are recognised under “60 Loans and receivables with banks” and “70 Loans and receivables with customers”.

Recognition criteria

Initial recognition takes place as of the date of disbursement on the basis of the related fair value that corresponds to the amount disbursed, to customers and banks, inclusive of costs and income directly attributable to it and that can be determined as from the origin, irrespective of the moment they were settled. All the charges that are repayable by the debtor or that are attributable to internal costs of an administrative nature are not included in the initial recognition value. In cases where the net recognition value of the loan/receivable is lower than the related fair value, due to the lower interest rate applied with respect to the market rate or that normally applied to loans with similar features, the initial recognition is made for an amount equal to the discounting back of the future cash flows at a market rate and the difference between the fair value thus determined and the amounts disbursed is booked directly to the income statement in the interest item.
This item, according to the pertaining breakdown by type, includes the loans subject to securitisation transactions for which the IAS 39 requirements for the derecognition from the financial statements do not exist.

Classification criteria

Loans and receivables include the amounts disbursed to customers and banks, both directly and via acquisition from third parties, which entail fixed or determinable payments, which are not listed on an active market and which are not classified at inception under “Available-for-sale financial assets”. Amounts receivable for repurchase agreements are also included in this item.

Measurement criteria

Subsequent to initial recognition, loans and receivables are measured at “amortised cost”, equal to the initial recognition cost, decreased / increased by the capital repayments, impairment losses / reversals of impairment losses and amortisation - calculated using the effective interest rate method - of the difference between the amounts disbursed and that which can be repaid on maturity, attributable typically to the costs / income booked directly to the individual loan/receivable. The effective interest rate is identified by calculating the rate that makes the current value of the future flows of the loan/receivable, in terms of capital and interest, equal to the amount disbursed inclusive of the costs / income attributable to the loan/receivable.
The amortised cost method is not used for loans/receivables whose brief duration suggests that the effect of application of the discounting back is negligible. These loans and receivables are valued at historical cost and the costs / income referring to it are assigned to the income statement in a linear manner over the contractual duration of the same. A similar approach is adopted for loans and receivables without a definite maturity or subject to revocation.
The loan/receivable book is subject to periodic measurement at least at each reporting date or interim statement, so as to identify and establish any objective impairment losses.
This circumstance applies when it is envisaged that the bank is not able to collect the amount due, on the basis of the original contractual conditions or rather, for example, in the presence of:

- significant financial difficulties of the issuer or the debtor;
- violation of the contract, such as breach or non-payment of the interest or the principal;
- granting to the beneficiary of a concession/facility that the bank has taken into consideration mainly for economic or legal reasons relating to its financial difficulties and that otherwise it would not have granted;
- probability that the debtor may be subject to bankruptcy/insolvency proceedings or other financial reorganisations.
- the disappearance of an active market of the security as a result of the financial difficulties of the issuer;

-other evidence pointing to an objective reduction of the issuer's ability to generate future cash flows sufficient to meet its contractual commitments.

The “non-performing” category includes all the loans and receivables for which objective evidence of impairment exists (non-performing, probable defaults and positions past due by more than 90 days, as more clearly identified in part E, section 1 - Credit risk, 2.4 - Impaired financial assets, in these explanatory notes), measured by the difference between the book value and the current value of the estimated future cash flows, discounted at the original effective interest rate of the relation. The cash flows envisaged take into account the expected recovery timescales, the estimated realisable value of any guarantees, as well as the costs which it is deemed will be incurred for the recovery of the exposure. The valuation is analytical in type. The impairment must be possible to quantify in a reliable manner and be correlated to actual and not merely expected events.
The exposures whose anomalous situation is attributable to profiles pertaining to country risk are excluded.
Loans and receivables for default interest accrued on impaired assets (non-performing positions) are recorded, and therefore impaired, to the extent that there is no certainty with regard to their effective collection.

Performing loans and receivables are measured collectively, dividing them up into standardised risk classes, establishing the Estimated Loss (EL) on the basis of the Probability of Default (PD) produced by the Credit Rating System model and the estimate of the loss in the event of breach (Loss Given Default – LGD) taken from the historical-statistical analysis of the trend of non-performing and substandard loans. The estimated loss takes account of the impairment of the loans as from the reporting date, but whose entity is still not known at the time of measurement, for the purpose of taking the measurement model from the notion of estimate loss to the notion of latent loss.
This method was adopted since it is convergent with the measurement criteria envisaged by the New Basel Agreement on capital requirements (Basel 2).
In the presence of loans and receivables with non-residents, their value is adjusted on a collective basis in relation to the difficulties in servicing the debt by their countries of origin.

Derecognition criteria

The full or partial derecognition of the loan or receivable is recorded respectively when it is considered definitively unrecoverable, subject to bankruptcy proceedings or on any event after all the debt collection procedures have been completed.

Recognition criteria for income components

The effects deriving from the analytical and collective measurements are booked to the income statement.
The original value of the loan or receivable is reinstated if the reasons for the impairment made cease to exist, recording the effects in the income statement.
The amount of losses due to full or partial derecognition of a loan or receivable is recorded in the income statement net of the impairment previously made.
Recoveries of amounts previously impaired are booked to reduce the item “Net impairment losses on loans and receivables”.

5 - Hedging transactions

Risk hedging transactions are aimed at neutralising potential losses on exchange and interest rates. The hedges can be divided up into the following categories:

• hedging of the fair value of a specific asset or liability, which has the aim of maintaining the current value of a financial asset/liability in the presence of interest rate changes;

• hedging of the future cash flows attributable to a specific asset or liability, which has the aim of maintaining the cash flow of a financial asset/liability in the presence of interest rate changes;

• hedging of the effects of an investment in foreign currency.

Recognition criteria

Financial hedging derivatives are initially recognised and subsequently measured at fair value and classified in asset item 80 and liability item 60 "Hedging derivatives".

A relation qualifies as hedging if all the following conditions are satisfied:

• at the start of the hedge, there is a designation and formal documentation of the hedge accounting, the nature of the risk hedged and the risk objectives pursued;

• the definition of the criteria for determining the efficacy of the hedge;

• the expected hedge is highly effective and can be reliably measured and the measurement is carried out on an on-going basis.

Measurement criteria

The determination of the fair value of the derivative instruments is based on prices taken from regulated markets or provided by qualified operators on models for the measurement of the options or on models discounting back future cash flows. A hedge is considered highly effective if, both at the start and during its life, the change in the fair value or the cash flows of the element hedged are almost completely offset by the change in the fair value or the cash flows of the hedging derivative, or rather the effective results remain within an interval between 80% and 125%.

Transactions are no longer considered hedging if:

• the hedge made via the derivative ceases or is no longer highly effective;

• the derivative expires, is sold, terminated or exercised;

• the element hedged is sold, expires or is reimbursed;

• the hedging definition is revoked.

The ineffective part of the hedge is provided by the difference between the change in the fair value of the hedging instrument and the change in the fair value of the hedged element.

For the purposes of determining the efficacy of the hedge, both forecast and retrospective tests are carried out, at least at the end of each reporting period.

Derecognition criteria

The recognition in the financial statements of hedging transactions is interrupted when the efficacy requirements are no longer observed, when they are revoked, when the hedging instrument or the instrument hedged expires, is discharged or sold.

Recognition criteria for income components

The fair value change of the hedged instrument, in effective fair value hedges, is recorded in the income statement item "90 Net hedging income (expense)". The fair value changes of the hedged element,

attributable to the hedged risk with the derivative instrument, are recorded in the income statement to offset the change in the book value of the hedged element.
If the hedge no longer satisfies the criteria for being recorded as such or the derivative is terminated, also due to the insolvency of the counterpart, the difference between the book value of the hedged element at the time the hedge ceases and that which would have been its book value if the hedge had never existed, in the event of interest-bearing financial instruments, is amortised in the income statement, over the residual life of the original hedge; in the event of non-interest bearing financial instruments, this difference is recorded directly in the income statement.

6 - Equity Investments

Recognition criteria
Equity investments are stated in the financial statements at purchase value.

Classification criteria
The item includes the equity investments in subsidiaries, associates and jointly controlled entities (joint ventures) or subject to significant influence of the Bank.

Measurement criteria
Equity investments are carried at cost.
If evidence exists that the value of an equity investment may have undergone a reduction, steps are taken to estimate the recoverable amount of said investment, including the final disposal value of the investment and/or other measurement elements, which are compared with the book value of the equity investment. If this is lower, the difference is booked to the income statement under the item “Net gains (losses) on equity investments”.

If the reasons for the impairment cease to exist further to an event that has taken place after the recognition of the drop in value, reversals of impairment losses are booked to the income statement, in the same item indicated above, up to the extent of the previous impairment.

Derecognition criteria
Equity investments are derecognised when the contractual rights to the corresponding cash flows deriving from the assets expire or when the equity investments are sold substantially transferring all related risks and benefits.

Recognition criteria for income components
In compliance with IAS 18, dividends are recognised when the right of the shareholders to receive the payment is established and, therefore, after the date of adoption of the resolution by the shareholders’ meeting of the company in which the shareholdings are held.

7 - Tangible assets

Recognition criteria

Tangible assets whose cost is reliably determined and from which it is probable future economic benefits will derive, are recognised in the financial statements.
Tangible assets are initially recognised at purchase cost, inclusive of accessory charges incurred for the purchase and putting the asset into operation.
For the first-time adoption of IAS/IFRS, the exemption provided by IFRS 1, Article 16, was taken advantage of by opting for the measurement of buildings at fair value, as a substitute for cost, as at 1 January 2005.
The cost model was adopted for the measurement of buildings subsequent to that date.
Extraordinary maintenance costs that increase the value of assets are allocated to the assets to which they refer. Ordinary maintenance costs are recognised directly in the income statement.
Assets acquired under financial leases are recorded in accordance with the provisions of IAS 17, which envisages the recording of the asset under the balance sheet assets, offsetting the amounts due to the lessor, and the calculation of the depreciation over the estimated useful life of the asset. The lease payments are booked to reduce the debt for principal and in the income statement under interest expense for the financial component.
Leasehold improvement and expenses incurred as a result of a lease agreement on third party assets that are expected to provide future benefits, are recorded in item “150 Other assets” when they are not autonomously identifiable or separable.

Classification criteria

Tangible assets include real estate properties, land, installations, furniture and furnishings, and other office equipment. These are assets instrumental for the supply of services.
The value of the land pertaining to the property units owned is recorded separately from the building, in that fixed asset with an indefinite useful life. Therefore, lands are not depreciated, whereas buildings with a limited life are depreciated.

Measurement criteria

Subsequent to initial recognition, tangible assets are measured at cost net of depreciation and any impairment losses.
The depreciation is calculated systematically on a straight-line basis by means of technical-economic rates representative of the residual possibility of use of the assets. Land is an exception, not subject to depreciation given the impossibility of determining its useful life, and in consideration of the fact that the related value is not usually destined to drop in relation to the passage of time.
At the end of each reporting period or interim period, if there is any indication that the asset may have been impaired, a comparison is made between the book value of the asset and its recoverable amount, equal to the fair value, net of any sales costs, and the related value in use of the asset, understood as the current value of the future flows originated by the asset, whichever is the lower. Potential impairments are recognised in the income statement.

Derecognition criteria

A tangible fixed asset is eliminated from the balance sheet at the time of disposal or when the asset is permanently withdrawn from use and no future economic benefits are expected from its disposal.

Recognition criteria for income components

Impairments are recognised in the income statement under item “170 Depreciation and net impairment losses on tangible assets”.
The depreciation of leasehold improvements to and expenses for third party assets takes place on the basis of the contractual duration, a minimum of 5 years, in relation to the physical deterioration and the residual possible useful life. This is recorded in the income statement under item “190 Other operating income/expense”.

8 - Intangible assets

Intangible assets comprise software for long-term use, intangible assets linked to the enhancement of relations with customers (core deposits) and goodwill.

Recognition and classification criteria

Intangible assets represented by software and user licences owned by the Bank are recognised in the financial statements only if they comply with the requirements that they are independently identifiable and distinct, that it is probable that future economic benefits will be realised, and that the cost itself can be measured reliably.

The core deposits were recognised in the consolidated financial statements at the time of the acquisition of Credito Veronese and, at the time of the incorporation, recorded in the 2012 financial statements using the same criteria. They were originally recognised by means of the discounting back of the flows representative of the profit margins over a period that expresses the residual duration, contractual or estimated, of the relations at the time of merger.

The goodwill is represented by the difference, when positive, between the purchase cost incurred and the value in use, as from the purchase date, of the assets and the balance sheet elements acquired within the sphere of a company merger.

Measurement criteria

Intangible assets represented by software and user licences are recorded in the financial statements at cost net of amortisation and impairment losses. The amortisation is calculated systematically on a straight-line basis by means of technical-economic rates representative of the residual possibility of use of the assets. At the end of each reporting period, the residual life is measured to check the adequacy.

Intangible assets represented by core deposits are amortised on a straight-line basis over eight years, a period that approximates the period of greater significance of the expected economic benefits, as from 30 April 2011, date of acquisition of control over Credito Veronese.
Goodwill is not amortised in consideration of its indefinite useful life, but it is subject to checking of the adequacy of the recognition value (impairment test) at least once a year, generally at the time of preparation of the annual financial statements and in any event on occurrence of events that suggest that the asset has been impaired. Any goodwill impairment, even if in subsequent years the reasons they were made cease to exist, cannot be reinstated.

Derecognition criteria

An intangible fixed asset is eliminated from the balance sheet at the time of disposal or when its use permanently ceases.

Recognition criteria for income components

Impairment losses are recognised in the income statement under item “180 Amortisation and net impairment losses on intangible assets”.

Negative goodwill

When in a business combination the net fair value of the acquired identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the purchaser:
(a) reviews the identification and measurement of identifiable assets, liabilities and contingent liabilities of the acquiree and the determination of the cost of the combine;
(b) recognises immediately in the income statement any residual excess after the new measurement.

9 – Current and deferred taxation

The items “tax assets” and “tax liabilities” in the Balance Sheet contain tax receivables and payables.
Current taxes for the year are determined by applying the tax rates and current legislation; they are recorded as liabilities, net of advances paid, to the extent that they have not been paid. They include those not yet paid relating to previous years.

They are recognised as assets in the event that the amount paid, by way of advance or withholdings made, is in excess with respect to the amount due and to the extent that the receivables are recoverable in subsequent years.

Prepaid and deferred taxes are determined on the basis of the *balance sheet liability method*, taking into account the timing differences (deductible or taxable) between the book value of an asset or liability and its value recognised for tax purposes.
The recognition of “prepaid tax assets” is carried out if their recoverable value is deemed probable. They involve a future reduction of the taxable base, in the presence of an advance tax paid with respect to the economic - statutory pertinence.

“Deferred tax liabilities” are recognised in all the cases where it is probable that the related liability will arise. They represent a future increase in the taxable base, determining a deferral of the taxation with respect to the economic - statutory pertinence.
Deferred taxes have not been provided for with regard to reserves subject to deferred taxation, since no distributions are envisaged with regard to these reserves.
The provision for income taxes is determined on the basis of a prudential forecast of the current tax liability, deferred and prepaid.

Tax assets and liabilities, as a rule, are recognised as an offsetting item in the income statement, except in the case that they derive from transactions whose effects are attributed to shareholders' equity, in which case they concern the calculation of the specific valuation reserves.

10 - Provisions for risks and charges

Provisions for risks and charges concern specific costs and liabilities whose existence is certain or likely, but whose amount or timing is not yet known at the end of the reporting period. The allowance to provisions for risks and charges is made exclusively when:
- an actual obligation exists (legal or implicit) being the result of a past event;
- it is probable that the fulfilment of this obligation will involve payment;
- a reliable estimate can be made of the amount of the obligation.

The amount of the allowance is represented by the current value of the liabilities that it is supposed will be incurred for discharging the obligation. Whenever the time factor is significant, provisions are discounted using current market rates. The effect of discounting is recognised in the income statement, as is the increase in provisions as a result of the passing of time.

11 - Post-employment benefits

On the basis of the international accounting standards, post-employment benefits are considered to be “a benefit subsequent to the employment relationship” of a defined-benefit type, whose value is determined by means of actuarial methods. Consequently, the year end measurement of the item in question is carried out on the basis of the method of the benefits accrued using the unit credit method envisaged (Projected Unit Credit Method). This method envisages the discounting back of the projection of the future outlays on the basis of historical, statistical and probabilistic analyses and the adoption of suitable demographic technical bases. This makes it possible to calculate the post-employment benefits accrued at a given date in an actuarial sense, distributing the liability over all the years of estimated residual permanence of the existing workers, and no longer as a liability to be settled in the event the company ceases its activities at the end of the reporting period, as envisaged by Italian legislation.
The measurement of post-employment benefits of employees is carried out by an independent actuary in compliance with the method indicated above.

Further to Italian Law No. 296 of 27 December 2007, the portions of indemnity accrued up until 31 December 2006 remain with the company, while those accrued after are assigned to supplement pension funds or the INPS treasury fund, at the choice of the employee. No actuarial calculations have been made on these amounts, which take on the form of a defined-contribution plan, since the Bank’s obligation vis-à-vis the employee ceases with the payment of the accrued portions.

The actuarial gains and losses, which arise due to changes or adjustment of the previous cases formulated, including the effects of changes in the discount rate, lead to a re-measurement of the post-employment benefits liability. They are booked to shareholders' equity under the valuation reserve “Actuarial gains/loss on defined-benefit pension plans” and their booking to the income statement is no longer allowed.

Italian Law No. 190/2014 (2015 Stability Law) introduced the possibility for the workers to directly perceive the portion of post-employment benefits accrued in the month in their pay packet; in this case, the booking of the cost to the income statement takes place directly in the month of disbursement.

12 - Liabilities and securities issued

The item represents the various forms of funding established by the Bank: due to banks, due to customers, bonds and certificates of deposits issued by the Bank.

Recognition criteria

The recognition of these financial liabilities takes place at the time of receipt of the deposits taken or the issue of the debt securities. Recognition is at fair value, generally equal to the value received, or the issue price, adjusted by any directly attributable initial charges or income.

Measurement criteria

After initial recognition, financial liabilities are measured at amortised cost using the effective interest rate method if the duration is more than 12 months, as an offsetting item to the income statement.
Financial liabilities lacking repayment plans are measured at cost.
The fair value of the hedging instruments is determined by discounting back the cash flow with the risk free curve. Debt instruments linked to share-based instruments, foreign currency, credit instruments or indices are considered to be structured. The embedded derivative is separated from the host contract and represents a stand-alone derivative if the criteria for the separation are observed. In this latter case, the host contract is recorded at amortised cost.

Derecognition criteria

Payables and securities issued are cancelled from the financial statements when they expire, are discharged or sold.
Securities issued by the Bank are stated net of any repurchases. The re-allocation of own securities previously re-purchased is recorded as a new issue at sale value.

13 - Other information

Other assets

Item “150 other assets” includes the assets not attributable to the other balance sheet asset items. It also comprises the expenses for leasehold improvements, essentially involving the costs for renovating rented property; the related amortisation is recorded in the item “Other operating income and expense”.

Purchases and sales of financial assets

Purchases and sales of financial assets are recognised as of the settlement date.

Repurchase agreements and security lending transactions

Repurchase agreement transactions that envisage the obligation for the transferee to resell/repurchase forward the assets covered by the transaction (for example, securities) and security lending transactions in which the guarantee is represented by cash that falls under the complete disposition of the bearer, are treated as repos. Therefore, the amounts received and disbursed are recorded in the financial statements as payables and receivables. In detail, the afore-mentioned funding repurchase agreements and security lending transactions are stated in the financial statements as payables for the forward amount received, while those involving lending are stated as receivables for the spot amounts.

These transactions do not lead to changes in the securities portfolio. Accordingly, the cost of the funding and the income from lending, represented by the coupon accrued on said securities and the differential between the spot price and the forward price, are stated on an accruals basis in the income statement items relating to interest.

Foreign currency assets and liabilities

Foreign currency assets and liabilities are recognised at the time of settlement of the related transactions.
Transactions denominated in foreign currency are recorded, at initial recognition, in the reporting currency by applying the exchange rate ruling on the transaction date.
At the end of each reporting period, the foreign currency items are measured as follows:
• monetary items are converted using the exchange rate at the end of the reporting period;
• non-monetary items carried at their historical cost are converted at the exchange rate in effect at the transaction date;
• non-monetary items valued at fair value are converted using the exchange rates at the end of the reporting period.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition or in previous financial statements are recognised in the income statement relating the period in which they arise. When a gain or loss from a non-monetary item is carried at shareholders' equity, the relevant exchange rate difference is also carried at equity. Conversely, when a gain or loss is recognised in the income statement, the associated exchange rate difference is also recognised in the income statement.

Own shares

Shares issued and repurchased are recorded as a direct reduction of shareholders' equity. No profit or loss resulting from the purchase, sale, issue or cancellation of said instruments is recorded in the income statement. Any amount paid or received for said instruments is recorded directly under shareholders' equity.
Gains and losses arising from their subsequent sale are recognised as changes in shareholders' equity, under the item "Share premium reserve".

Securitisations

All the existing securitisation transactions were carried out after 1 January 2004.
The loans sold are not derecognised from the financial statements if a substantial amount of risks and benefits is still retained, although formally they have been sold without recourse to a special purpose entity. This may occur, for example, when the bank subscribes tranches of Junior notes or similar exposures, as in this case it shall bear the risk of the initial losses, and likewise it shall benefit from the return on the transaction.
Similar representation criteria, based on the prevalence of substance over form, are applied in recognising accruals.

Recognition criteria for income components

Besides the matters illustrated in the basis of presentation, revenues are recognised when they are received or, on any event, when it is likely that future benefits will be received and these benefits can be reliably quantified. In detail:
- interest on due from customers and banks is classified under interest income and similar revenues deriving from loans and receivables with banks and customers and is recognised on an accruals basis.

Default interest is recognised on an accruals basis and written down for the portion that is deemed as non-recoverable;
- dividends are recognised in the income statement when received or when, on the basis of IAS 39, section 55, the right to payment arises;
- commission and interest received or paid relating to financial instruments are recognised on an accruals basis.

The costs are recognised when they are incurred, following the criterion of correlation between costs and revenues that derive directly and jointly from the same transactions or events. Costs directly attributable to the assets valued at amortised cost and that can be determined from the beginning, regardless of the moment when they are paid, flow to the income statement by applying the effective interest rate. Costs that cannot be linked to revenues are immediately charged to the income statement.

Impairment losses are recognised in the income statement in the financial year in which they are recognised.

Impacts deriving from the adoption of IFRS 9 "Financial instruments"

IAS 8 "Accounting policies, changes in accounting estimates and errors" envisages that significant disclosure be provided so as to assess the possible impacts on the financial statements deriving from first time application of the new accounting standards. Owing to the extent of the changes envisaged by IFRS 9 that has been disclosed earlier, as from the 2015 financial year, the Bank worked together with its outsourcer for the necessary project activities aimed at identifying the main areas of impact and defining the reference method framework for the classification, measurement and impairment of the financial assets. The analyses performed so far have highlighted the loans area as that of greatest impact; the new impairment model in fact envisages the need to measure the expected loss, not only for impaired assets, but also for the performing assets in relation to which a significant impairment has taken place with respect to the date of granting.

These impacts do not limit themselves to a probable increase in the cost of credit, necessarily linked to the changeover from an "incurred" model to and "expected" model, but also refer to the adjustments necessary in terms of procedures and processes, organisational and IT, aimed at permitting the classification and monitoring of the loans between the various stages, as well as the need to create robust estimation models of the default probability over a timescale aligned to the residual duration of the loans, capable - on the one hand - of maximising the synergies with the existing models and - on the other hand - also incorporating "forward-looking" factors.

Other impacts are envisaged for available-for-sale financial assets, for which a classification is required consistent with the business model of each portfolio and the calculation of a credit risk also on assets represented by securities.

A.3 - Disclosure on transfers between financial asset portfolios

The Bank has not carried out, either in the current or in the previous financial year, reclassifications of the portfolio of financial assets from categories measured at fair value to the categories carried at amortised cost based on the possibilities introduced by EC Regulation no. 1004/2008 of the European Commission.

It allows in "rare circumstances" to transfer financial instruments allocated in the trading book to other portfolios with a different measurement method. This circumstance came about during 2008, year in which, due to the crisis that had hit the international markets, since market prices no longer adequately expressed the fair value of financial instruments, they had lost significance and ran the risk of distorting the representation of these instruments in the financial statements of companies applying IAS/IFRS, causing abnormal fluctuations in the income statement and in equity.

A.3.1 Reclassified financial assets: book value, fair value and effects on comprehensive income

As at 31 December 2016, there are no previously reclassified securities.

A.3.2 Reclassified financial assets: effects on comprehensive income before transfer

A.3.3 Transfer of financial assets held for trading

A.3.4 Effective interest rate and cash flows expected from reclassified assets

The tables have not been drawn up since during 2016 there were no reclassifications of financial assets.

A.4 - Information on fair value

In December 2012, the European Commission approved, by means of EU Regulation No. 1255/2012, the new IFRS 13 standard “Fair Value Measurement”, in force as from 1 January 2013.
IFRS 13 defines fair value as: "the price that would be received for the sale of an asset or that would be paid for the transfer of a liability in a regular transaction between market operators on the measurement date”.

In determining the fair value, IFRS 13 provides a hierarchy of techniques to determine this value in order to maximise the criteria of reliability and verifiability (IFRS 13 par. 72).
The concept of Fair Value Hierarchy (hereinafter also "FVH") provides for the classification of the fair value measurement based on three different levels (Level 1, Level 2 and Level 3) in descending order of observability of the inputs used to estimate the fair value.

FVH provides for the following levels:
1. Quoted prices taken from active markets (Level 1): the fair value derives from quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date (IFRS 13 par. 76).
An active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis (IFRS 13 Appendix A).

2. Measurement methods based on observable market parameters (Level 2): the fair value is determined from inputs that are observable for the asset or liability, either directly or indirectly. (IFRS 13 par. 81).
Level 2 inputs include (IFRS 13 par. 82):
- quoted prices in active markets for identical assets or liabilities;
- 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, for example: interest rates, yield curves, volatility etc.);
- input from or corroborated by observable market data.

3. Measurement methods based on unobservable market parameters (Level 3): the fair value is a level 3 if the inputs used in the valuation techniques of the fair value are unobservable on the market (IFRS 13 par. 86).
When using level 3 inputs, it must be considered that the aim of the measurement is to determine an exit price (transfer price) to the market participant holding the financial instrument. Level 3 inputs must reflect the assumptions of the Bank, on market participant assumptions, in attributing a price to the instrument (IFRS 13 par. 87).
Level 3 inputs are developed based on the best information available on the basis of inside information to the Bank.

As a result, the information inside the Bank must be correct if there are evidences, without excessive costs or efforts, that the market participants will use different assumptions (IFRS 13 par. 89).
The Fair Value Hierarchy gives the highest priority to the use of Level 1 inputs and the lowest priority to Level 3 inputs (IFRS 13 par. 72). In general, if the inputs used to measure fair value are categorised into different levels of the fair value hierarchy, the fair value measurement is categorised in its entirety in the level of the lowest level input that is significant to the entire measurement, as described in IFRS 13 par. 73.
A fair value measurement, developed using the technique of the present value, could be classified in level 2 or 3 depending on the significant inputs for the entire measurement and the level of these inputs (IFRS 13 par. 74).
The assessment as to the significance of the input, which determines the classification in level 2 rather than level 3, requires the expression of a judgment by the evaluator, which takes into account specific factors of the asset or liability.

For the financial instruments measured at fair value in the financial statements, the Board of Directors of Banca Valsabbina, with the collaboration of external professionals, approved a "Fair Value Policy" that gives the highest priority to quoted prices in active markets and the lowest priority to the use of unobservable inputs, in that they are more discretionary, in line with the fair value hierarchy shown above.
More specifically, this policy defines:
- the rules for identifying the market data, the selection/hierarchy of information sources and price configurations required for enhancing the financial instruments on active markets and classifies at level 1 of the fair value hierarchy (“Mark to Market Policy”);
- the valuation techniques and the related input parameters in all cases where it is not possible to adopt the Mark to Market Policy ("Mark to Model Policy" for level 2 or 3 of the hierarchy).

Mark to Market Policy

To determine fair value, the Bank uses information based on market data, any time it is available, obtained from independent sources, in that considered to be the best evidence of fair value. In this case, the fair value is the market price of the same measured instrument, meaning without changes in or re-composition of the instrument itself, which can be taken from the listings expressed by an active market (and classified in level 1 of the fair value hierarchy). A market is considered active when the transactions occur with sufficient frequency and volume to provide useful information for determining the price on an ongoing basis (IFRS 13 Appendix A).

The following are generally considered active markets:

- regulated securities and derivative markets, with the exception of the Luxembourg stock market;
- certain OTC electronic trading networks, when given circumstances are in place based on the presence of a certain number of contributors with executable offers, characterised by bid-ask spreads – i.e., the difference between the price a seller is offering for a security (ask price) and the price a buyer is willing to pay (bid price) – falling within a given tolerance threshold;
- the secondary market for UCIT units, expressed by the official NAV (Net Asset Value), based on which the issuing asset management company guarantees to settle the units in a short time. In particular, these are open-end harmonised UCIT funds, characterised by type of investment and high levels of transparency and liquidity

Mark to Model Policy

When the Mark to Market Policy is not applicable, because there are no prices directly observable on active markets, it is necessary to use valuation techniques that maximise the use of information available on the market, based on the following measurement approaches: recent transactions, transactions in similar instruments, methods of asset valuation, discounting of future cash flows.

In detail:

- debt securities are measured by discounting expected cash flows, suitably adjusted to account for issuer risk;
- unlisted equity securities are measured by referring to direct transactions of the same security or similar securities observed over a suitable time frame as compared to the valuation date, using the comparably company market multiples method, and subordinately using financial, income and equity valuation methods;
- investments in UCITs, other than those harmonised open-end, are measured on the basis of the NAVs made available by the fund administrator or by the management company. These investments usually include private equity funds, real estate funds and hedge funds.

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

In the absence of prices listed on active markets, the financial instruments must be classified in levels 2 or 3.

Classification in level 2 rather the Level 3 is determined on the basis of the possibility to observe on the market significant inputs used for the purpose of determining the fair value. A financial instrument must be fully classified in a single level; therefore, if the inputs used to measure fair value are categorised into different levels, the fair value measurement is categorised in its entirety in the level of the lowest level input if it is significant to the entire measurement.

If the weight of the unobservable data is prevalent with respect to the overall measurement, the level assigned is "3".

Fair value determined using Level 2 inputs

The following types of investments are normally considered level 2:

- unlisted equity securities on active markets, measured:
    - by means of the multiple valuation techniques, referring to a selected sample of comparable companies with respect to the subject-matter of valuation;
    - based on the prices of recent transactions;
    - assuming price indications provided by the issuer counterpart possibly adjusted to take into account the counterpart and/or liquidity risk (for example: the price resolved by the Board of Directors/Shareholders' meeting for the shares of unlisted industrial co-operative banks, the value of the holding communicated by the management company for closed-end funds reserved for institutional investors, the redemption value determined in compliance with the issue regulations for insurance agreements);
- debt securities, not listed on active markets, for which the inputs, including the credit spreads, are taken from market sources (for example, interest rates or yield curves observable at commonly quoted intervals, implicit volatility and credit spreads);
- funds characterised by significant levels of transparency and liquidity, measured on the basis of NAVs provided by the management company/fund administrator, published on a weekly and/or monthly basis.

Fair value determined on the basis of level 3 input

The following financial instruments are generally considered Level 3:

- hedge funds characterised by significant levels of illiquidity and for which it is believed that the valuation process of the fund significantly requires a number of assumptions and estimates. The fair value measurement is carried based on the NAV, adjusted if necessary to account for the fund's diminished liquidity, i.e., the time span between the date of the request for redemption and that of the actual redemption, as well as for possible commissions for exiting from the investment;
- real estate funds measured based on the latest available NAV;
- illiquid share-based securities for which no recent transactions are observable or comparable, usually measured on the basis of the equity model;
- illiquid equity securities not traded on an active market, in relation to which the fair value cannot be determined to a reliable extent according to the most common methods (in the first place, the discounted cash flow analysis) stated at cost, adjusted to take account of any significant decreases in value;
- debt securities characterised by complex financial structures for which sources not publicly available are generally used; these are non-binding prices and also not corroborated by market evidence;
- debt securities issued by entities in financial distress for which the management must use its judgement in defining the "recovery rate", since there is no significant prices observable on the market.

A.4.2 Processes and sensitivity of measurements

The measurement methods indicated above are periodically implemented to take into account the change in the observable elements (e.g. rates, market prices) and any significant change in the credit and market risk of the financial assets measured that requires a change to the measurement technique.

A.4.3 Fair value level

The Bank classifies the measurements at fair value of the financial assets and liabilities on the basis of a level hierarchy that reflects the significance of the inputs used in the measurements, whose criteria has been stated previously.

A.4.4 Other information

As part of the financial assets and liabilities, the IAS standards also include loans and receivables with banks and customers and liabilities with banks and customers or represented by securities.
With regard to on-demand / upon revocation deposits and loans, an immediate maturity of the contractual obligations is undertaken coinciding with the end of the reporting period, and therefore their fair value is approximate to the book value. Likewise, the book value is adopted for short-term loans.
With regard to medium/long-term loans to customers, the fair value is obtained by means of valuation techniques, discounting back the residual contractual flows to the current interest rates, appropriately adjusted to take into account the creditworthiness of the individual borrowers (represented by the probability of default and by the estimated loss in the event of default).

With regard to medium/long-term debt, represented by securities and for which application of the fair value options was opted for, the fair value is determined discounting back the residual contractual flows using the “zero coupon” rate curve obtained, via the bootstrapping method, from the curve of the market rates.
With regard to medium/long-term debt represented by securities valued at amortised cost and subject to hedging for the rate risk, the book value is adjusted due to the hedging of the fair value attributable to the risk hedged discounting back the related flows.
With regard to derivative contracts traded on regulated markets, the market price on the last listing day of the period is adopted as fair value.
With regard to over the counter derivative contracts: the market value as of the reference date is adopted as fair value, determined according to the following methods in relation to the type of contract:

- for contracts on interest rates: the market value is represented by the so-called “replacement cost”, determined by means of the discounting back of the differences, to the envisaged settlement dates, between the flows calculated at the contract rates and the estimated flows calculated at market rates, objectively determined, current at year end by equal residual maturity;
- for option contracts on securities and other instruments: the market value is determined making reference to recognised pricing models (e.g. Black & Scholes).

Impaired assets

The definition of the financial assets in the various risk categories is that envisaged in the current Supervisory reports and the internal provisions, which fix the rules for the transfer of the loans and receivables within the sphere of the various risk categories.
Reference is made to the recognition, classification, measurement and derecognition criteria previously indicated for each financial statement item as well as to Part E, section 1 - Credit risk, 2.4 - Impaired financial assets in these explanatory notes.

With regard to impaired assets, the book value is deemed to be an approximation of the fair value.

Method for determining the amortised cost

The “amortised cost” of a financial asset or liability is equal to the initial recognition cost, decreased / increased by the capital repayments, impairment losses / reversals of impairment losses and the amortisation - calculated using the effective interest rate method - of the difference between the amounts disbursed and that which can be repaid on maturity, attributable typically to the costs / income booked directly to the individual loan/receivable.

The effective interest rate is the rate that equalises the current value of a financial asset or liability to the contractual flows, for principal and interest, of the future payments or those received up until maturity or on the subsequent rate recalculation date.
With regard to fixed rate instruments or those at fixed rate for temporary periods (e.g. step up bonds), the future cash flows are determined in the basis of the interest rate known during the life of the instrument.
With regard to floating rate financial assets or liabilities, the determination of the future cash flows is carried out on the basis of the last known rate. As of each price review date, steps are taken to recalculate the repayment plan and the effective rate of return on the entire useful life of the financial instrument, in other words until the maturity date.
The amortised cost is applied for loans and receivables, for financial assets held until maturity, for those available for sale, for payables and securities issued.
The financial assets and liabilities traded under market conditions are initially recognised at their fair value, which normally corresponds with the amount paid or disbursed inclusive of the transaction costs and the directly bookable commission.
Transaction costs are considered to be the internal marginal costs and income attributable at the time of initial recognition of the instrument, not rechargeable to the customer.
These accessory components, which must be attributable to the individual assets or liability, affect the effective return and make the effective interest rate different from the contractual interest rate.
Therefore, the costs and income referable without distinction to several transactions and the correlated components that may be subject to recognition during the life of the financial instrument are excluded.
Furthermore, the costs that the Bank will have to incur irrespective of the transactions, such as administrative, stationery and communication costs, are not considered in the calculation.

Methods for determining impairment losses on financial assets.

Reference is made to the impairment formalities indicated previously for each financial statement item.
With reference to available-for-sale assets, the process for the recognition of any impairments envisages the checking of the presence of impairment indicators and the determination of any impairment.

Quantitative information

A.4.5 Fair value level

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

Financial assets/liabilities at fair value	Total 31/12/2016			Total 31/12/2015		
	L 1	L 2	L 3	L 1	L 2	L 3
1. Financial assets held for trading	-	392	2	1	105	2
2. Financial assets measured at fair value	-	-	9,175	-	-	-
3. Available-for-sale financial assets	1,194,173	9,522	49,661	1,097,660	10,859	28,912
4. Hedging derivatives	-	-	-	-	-	-
5. Tangible assets	-	-	-	-	-	-
6. Intangible assets	-	-	-	-	-	-
Total	**1,194,173**	**9,914**	**58,838**	**1,097,661**	**10,964**	**28,914**

1. Financial liabilities held for trading	-	269	-	-	51	-
2. Financial liabilities measured at fair value	-	-	-	-	-	-
3. Hedging derivatives	-	-	-	-	-	-
Total	**-**	**269**	**-**	**-**	**51**	**-**

Key:

L1= Level 1 L2= Level 2 L3= Level 3

Shares issued by financial intermediaries of Euro 9,522 thousand are classified in FV Level 2 of the "Available-for-sale financial assets", valued according to the price determined by the shareholders' meeting of the issuer, the price taken from the last significant transactions or using a price taken from similar securities.

Securities classified in FV level 2 consist of:

- Arca S.g.r., valued for a total of Euro 7,862 thousand by using the price taken from similar securities listed on the Italian Stock Exchange;
- Banca Popolare di Cividale of Euro 1,656 thousand, valued by using the price determined by the shareholders' meeting of the issuer and corresponding to the last exchanges carried out;
- Banca Popolare di Vicenza, residual equivalent value Euro 4 thousand according to the price established in the last share capital increase.

FV Level 3 of the AFS portfolio of an amount of Euro 49,661 thousand, includes the securities listed (with changes) in the next table of part A.4.5.2 and that concern:

- units of mutual funds of Euro 38,422 thousand on the basis of price indications provided by the issuer counterpart. Based on the impairment test, some capital losses were recognised in the income statement, as listed in the Section 8.2 of Part C (income statement);
  The other changes in the UCIT units classified in level 3 are in any event described in the table which follows;
- shares of Euro 9,699 thousand, corresponding to the valuation of the holding in Ubi Leasing (valuation on the basis of the shareholders' equity as at 30 September 2016, with impairment booked to the income statement), to the equity investment in the Bank of Italy acquired during the financial year totalling Euro 7,500 thousand (0.10%) and to the payment in the voluntary scheme by F.I.T.D. for the capital increase of Cassa di Risparmio di Cesena;
- debt securities of Euro 1,540 thousand.

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

	Financial assets held for trading	Financial assets measured at fair value	Available-for-sale financial assets	Hedging derivatives	Tangible assets	Intangible assets
1. Opening balances	**2**	**-**	**28,912**	**-**	**-**	**-**
2. Increases	**329**	**9,175**	**22,715**	-	-	-
2.1 Purchases	328	9,000	22,710	-	-	-
2.2 Gains recognised in:	-	175	-	-	-	-
2.2.1 Income statement	-	175	-	-	-	-
- of which: Capital gains	-	175	-	-	-	-
2.2.2 Shareholders' equity	-	-	-	-	-	-
2.3 Transfers from other levels	-	-	-	-	-	-

2.4 Other increases	1	-	5	-	-	-
3. Decreases	**329**	**-**	**1,966**	-	-	-
3.1 Sales	327	-	-	-	-	-
3.2 Redemptions	-	-	-	-	-	-
3.3 Losses recognised in:	-	-	1,966	-	-	-
3.3.1 Income statement	-	-	680	-	-	-
- of which Capital losses	-	-	-	-	-	-
3.3.2 Shareholders' equity	-	-	1,286	-	-	-
3.4 Transfers to other levels	-	-	-	-	-	-
3.5 Other decreases	2	-	-	-	-	-
4. Closing balances	**2**	**9,175**	**49,661**	-	-	-

Breakdown of financial assets measured at fair value on a recurring basis (Level 3) – AFS portfolio												
	Bonds	Shares			Mutual funds							
	MULTISELLER 01/36	UBI LEASING	BANK OF ITALY	F.I.T.D. VOLUNTARY SCHEME - CARICESENA	FONDO ATLANTE	LEOPARDI - real estate property fund	ASSET BANCARI I	ASSET BANCARI IV	ASSET BANCARI V	ASSET BANCARI VI	FININT FENICE	TOTAL
1. Opening balances	**-**	**1,974**	**-**	**-**	**-**	**624**	**965**	**5,872**	**1,027**	**11,350**	**7,100**	**28,912**
2. Increases	1,540	-	7,500	550	4,057	-	-	2,068	-	-	7,000	**22,715**
2.1 Purchases	1,535	-	7,500	550	4,057	-	-	2,068	-	-	7,000	**22,710**
2.2 Gains recognised in:	-	-	-	-	-	-	-	-	-	-	-	**-**
2.2.1 Income statement	-	-	-	-	-	-	-	-	-	-	-	**-**
- of which: Capital gains	-	-	-	-	-	-	-	-	-	-	-	**-**
2.2.2 Shareholders’ equity	-	-	-	-	-	-	-	-	-	-	-	**-**
2.3 Transfers from other levels	-	-	-	-	-	-	-	-	-	-	-	**-**
2.4 Other increases	5	-	-	-	-	-	-	-	-	-	-	**5**
3. Decreases	**-**	**190**	**-**	**135**	**959**	**140**	**25**	**288**	**64**	**134**	**31**	**1,966**
3.1 Sales	-	-	-	-	-	-	-	-	-	-	-	**-**
3.2 Redemptions	-	-	-	-	-	-	-	-	-	-	-	**-**
3.3 Losses recognised in:	-	190	-	135	959	140	25	288	64	134	31	**1,966**
3.3.1 Income statement	-	190	-	-	-	140	25	288	37	-	-	**680**
- of which Capital losses	-	-	-	-	-	-	-	-	-	-	-	**-**
3.3.2 Shareholders’ equity	-	-	-	135	959	-	-	-	27	134	31	**1,286**
3.4 Transfers to other levels	-	-	-	-	-	-	-	-	-	-	-	**-**
3.5 Other decreases	-	-	-	-	-	-	-	-	-	-	-	**-**
4. Closing balances	**1,540**	**1,784**	**7,500**	**415**	**3,098**	**484**	**940**	**7,652**	**963**	**11,216**	**14,069**	**49,661**

The change in "financial assets held for trading" is not significant and therefore presents a more or less nil balance.
During the financial year, insurance policies totalled Euro 9 million, entered in item 30. Financial assets measured at fair value; these policies were valued at 31 December 2016 according to the information provided by issuers.

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

The Bank did not issue financial liabilities at fair value.

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

Assets/liabilities not measured at fair value or measured at fair value on a non-recurring basis	31/12/2016				31/12/2015			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Held-to-maturity financial assets	-	-	-	-	-	-	-	-
2. Loans and receivables with banks	212,026	-	-	212,026	135,021	-	-	135,021
3. Loans and receivables with customers	2,762,450	5,845	-	2,848,951	2,780,431	-	-	2,925,203
4. Investment property	-	-	-	-	-	-	-	-
5. Non-current assets held for sale and disposal groups	-	-	-	-	-	-	-	-
Total	**2,974,476**	**5,845**	**-**	**3,060,977**	**2,915,452**	**-**	**-**	**3,060,224**
		-	-					
1. Due to banks	795,650	-	-	795,689	621,160	-	-	621,160
2. Due to customers	2,406,793	-	-	2,406,793	2,159,345	-	-	2,159,345
3. Securities issued	746,949	-	-	745,089	965,561	-	-	961,875
4. Liabilities associated with assets held for sale and discontinued operations	-	-	-	-	-	-	-	-
Total	**3,949,392**	**-**	**-**	**3,947,571**	**3,746,066**	**-**	**-**	**3,742,380**

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

This section is not drawn up since there were no transactions of this type.

Part B - Information on the Balance Sheet

Assets

Section 1 - Cash and cash equivalents - Item 10

The balances of currencies in legal tender and demand deposits with the Bank of Italy are reported in this section.

1.1 Cash and cash equivalents: breakdown

Items/Amounts	Total 31/12/2016	Total 31/12/2015
a) Cash	13,468	13,574
b) Demand deposits with Central Banks	-	-
Total	**13,468**	**13,574**

The item "Cash" includes the balances of coins and banknotes at the branch accounts, cash point machines and the centralised account. Foreign banknotes amount to Euro 367 thousand. At year end, there were no demand deposits with the Bank of Italy. The Compulsory Reserve is recorded in item "60 Loans and receivables with banks".

Section 2 - Financial assets held for trading - Item 20

All the financial assets (debt securities, equities, UCIT units, derivatives) used for trading with the aim of generating profits from the change in the related prices or using the related liquidity over the short-term, are classified in this item.

2.1 Financial assets held for trading: breakdown by type

Items/Amounts	Total 31/12/2016			Total 31/12/2015		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	-	-	-	-	-	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	-	-	-	-	-	-
2. Equity securities	-	-	2	2	-	2
3. UCIT units	-	-	-	-	-	-
4. Loans	-	-	-	-	-	-
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total A	**-**	**-**	**2**	**2**	**-**	**2**
B Derivative instruments						
1. Financial derivatives	-	392	-	-	105	-
1.1 trading	-	392	-	-	105	-
1.2 related to the fair value option	-	-	-	-	-	-
1.3 other	-	-	-	-	-	-
2. Credit derivatives	-	-	-	-	-	-
2.1 trading	-	-	-	-	-	-
2.2 related to the fair value option	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
Total B	**-**	**392**	**-**	**-**	**105**	**-**
Total (A+B)	**-**	**392**	**2**	**2**	**105**	**2**

"Derivative instrument" financial assets for trading are made up of:

- with regard to level 2, Euro 372 thousand in foreign currency forward transactions, whose value is offset by the liability item 40 “Financial liabilities held for trading”. The book amount (intrinsic value) is the expression of a notional value of the transactions equating to Euro 7,631 thousand;
- again with regard to level 2, Euro 20 thousand being the intrinsic value referring to hedges of foreign currency transactions carried out by the Bank, with a notional value of Euro 2,308 thousand.

The term “level”, in the heading of the various columns, represents the different method of measurement of the financial assets with the use for level 1 of market values, for level 2 of different external sources either direct (prices) or indirect (derived from prices), and for level 3 of internal measurements or the cost.

Complete disclosure on the fair value level is provided at the end of the accounting standards: “Fair value disclosure”.

2.2 Financial assets held for trading: breakdown by debtor/issuer

Items/Amounts	Total 31/12/2016	Total 31/12/2015
A. On-balance sheet assets		
1. Debt securities	**-**	**-**
a) Governments and Central Banks	-	-
b) Other public bodies	-	-
c) Banks	-	-
d) Other issuers	-	-
2. Equity securities	**2**	**4**
a) Banks	-	2
b) Other issuers:	2	2
- insurance companies	-	-
- financial companies	-	-
- non-financial companies	2	2
- others	-	-
3. UCIT units	**-**	**-**
4. Loans	**-**	**-**
a) Governments and Central Banks	-	-
b) Other public bodies	-	-
c) Banks	-	-
d) Other parties	-	-
Total A	**2**	**4**
B. Derivative instruments		
a) Banks - *fair value*	326	93
b) Customers - *fair value*	66	12
Total B	**392**	**105**
Total (A+B)	**394**	**109**

Section 3 - Financial assets measured at fair value - Item 30

This section is intended to recognise financial assets designated at fair value with the valuation results recorded in the income statement (item 110) on the basis of the right acknowledged by IAS 39 (known as “fair value option”).

3.1 Financial liabilities measured at fair value: breakdown by type

Items/Amounts	Total 31/12/2016			Total 31/12/2015		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	-	-	-	-	-	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	-	-	-	-	-	-
2. Equity securities	-	-	-	-	-	-
3. UCIT units	-	-	-	-	-	-
4. Loans	-	-	9,175	-	-	-
4.1 Structured	-	-	-	-	-	-
4.2 Other	-	-	9,175	-	-	-
Total	-	-	**9,175**	-	-	-
Cost	-	-	**9,000**	-	-	-

3.2 Financial assets measured at fair value: breakdown by debtor/issuer

Items/Amounts	Total 31/12/2016	Total 31/12/2015
1. Debt securities	**-**	**-**
a) Governments and Central Banks	-	-
b) Other public bodies	-	-
c) Banks	-	-
d) Other issuers	-	-
2. Equity securities		
a) Banks	-	-
b) Other issuers:	-	-
- insurance companies	-	-
- financial companies	-	-
- non-financial companies	-	-
- others	-	-
3. UCIT units	**-**	**-**
4. Loans	**9,175**	-
a) Governments and Central Banks	-	-
b) Other public bodies	-	-

c) Banks	-	-
d) Other parties	-	-
Total	**9,175**	**-**

Section 4 - Available-for-sale financial assets - Item 40

Available-for-sale financial assets (debt securities, equities, units of mutual investment funds - UCIT - etc.), valued at year end using the fair value offset by shareholders' equity valuation reserves, are classified in this item.

4.1 Available-for-sale financial assets: breakdown by type

Items/Amounts	Total 31/12/2016			Total 31/12/2015		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	**1,024,831**	**-**	**1,540**	**905,849**	**-**	**-**
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	1,024,831	-	1,540	905,849	-	-
2. Equity securities	**108**	**9,522**	**13,357**	**146**	**10,859**	**5,632**
2.1 Measured at fair value	108	9,522	9,699	146	10,859	1,974
2.2 Measured at cost	-	-	3,658	-	-	3,658
3. UCIT units	**169,234**		**38,422**	**191,665**	**-**	**26,938**
4. Loans	**-**	**-**	**-**	**-**	**-**	**-**
Total	**1,194,173**	**9,522**	**53,319**	**1,097,660**	**10,859**	**32,570**

The portfolio of available-for-sale financial assets includes:

- government securities and bonds (banking book) not intended for trading;
- units of mutual investment funds (UCIT);
- equity securities including the interests held for long-term investment, a list of which is included in the report on operations.

FV level 3 includes Euro 3,658 thousand in unlisted shares maintained at cost, in the absence of manifestations of risk that require a different measurement.

The term “level”, in the heading of the various columns, represents the different method of measurement of the financial assets with the use for level 1 of market values, for level 2 of different external sources either direct (prices) or indirect (derived from prices), and for level 3 of internal measurements or the cost.

Complete disclosure on the fair value level is provided at the end of the accounting standards: “Fair value disclosure”.

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

Items/Amounts	Total 31/12/2016	Total 31/12/2015
1. Debt securities	**1,026,371**	**905,849**
a) Governments and Central Banks	1,019,880	905,849
b) Other public bodies	-	-
c) Banks	-	-
d) Other issuers	6,491	-
2. Equity securities	**22,987**	**16,637**
a) Banks	9,576	3,607
b) Other issuers	13,411	13,030
- insurance companies	-	-
- financial companies	9,673	9,254
- non-financial companies	3,738	3,776
- others	-	-
3. UCIT units	**207,656**	**218,603**
4. Loans	-	**-**
a) Governments and Central Banks	-	-
b) Other public bodies	-	-
c) Banks	-	-
d) Other parties	-	-
Total	**1,257,014**	**1,141,089**

With regard to the distribution of the financial assets by economic sector the issuers belong to, the classification criteria envisaged by the Bank of Italy have been used.

Table “4.3 Available-for-sale assets: subject to micro hedging” is not drawn up since no micro hedges have been made.

Section 5 - Held-to-maturity financial assets - Item 50

This section is not drawn up because the Bank does not hold any financial assets classified as thus.

Section 6 - Loans and receivables with banks - Item 60

This item includes the unlisted financial assets due from banks, classified in the “loans/receivables” book including the deposit with the Bank of Italy for the Compulsory Reserve.

6.1 Loans and receivables with banks: breakdown by type

Type of transaction/Amounts	Total 31/12/2016				Total 31/12/2015			
	BV	FV Level 1	FV Level 2	FV Level 3	BV	FV Level 1	FV Level 2	FV Level 3
A. Loans and Receivables with Central Banks	**23,647**	**-**	**-**	**-**	**23,442**	**-**	**-**	**-**
1. Time deposits	-	-	-	-	-	-	-	-
2. Compulsory reserve	23,647	-	-	-	23,442	-	-	-
3. Repurchase agreements	-	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-	-
B. Loans and receivables with banks	**188,379**	**-**	**-**	**-**	**111,579**	**-**	**-**	**-**
1. Loans	143,070	-	-	-	75,068	-	-	-
1.1 Current accounts and demand deposits	5,008	-	-	-	16,942	-	-	-
1.2. Time deposits	15,698	-	-	-	51,891	-	-	-
1.3. Other loans:	122,364	-	-	-	6,235	-	-	-
- Reverse repurchase agreements	-	-	-	-	-	-	-	-
- Finance leases	-	-	-	-	-	-	-	-
- Other	122,364	-	-	-	6,235	-	-	-
2. Debt securities	45,309	-	-	-	36,511	-	-	-
2.1 Structured securities	-	-	-	-	-	-	-	-
2.2 Other debt securities	45,309	-	-	-	36,511	-	-	-
Total	**212,026**	**-**	**-**	**212,026**	**135,021**	**-**	**-**	**135,021**

The balances recorded in this item have not been subject to impairment because they are deemed to be fully recoverable considering the duration of the investment and the quality of the counterparts.

Just the balance of the Compulsory reserve, amounting to Euro 23,647 thousand, is recorded under loans and receivables with Central banks.

The aggregate of loans and receivables with banks is made up as follows:

- current accounts and demand deposits, held with both Italian and foreign banks, of amounts in Euro totalling Euro 2,734 thousand and amounts in currency of Euro 2,274 thousand;
- time deposits, held with Italian banks of Euro 12,850 thousand and foreign of Euro 2,848 thousand;
- other loans of Euro 122,364 thousand. This aggregate also includes Euro 104,692 thousand relating to the advance payment to Hypo Alpe Adria Bank S.p.A. for the purchase of mortgage loans, purchase finalised in 2017;
- debt securities, issued by banking counterparts of Euro 45,309 thousand.

The tables “6.2 Loans and Receivables with banks: subject to micro hedge” and “6.3 Financial leases” are not drawn up due to the absence of such transactions.

Section 7 - Loans and receivables with customers - Item 70

This section includes unlisted financial assets due from customers classified in the “loans/receivables” book.

7.1 Loans and receivables with customers: breakdown by type

Type of transaction/Amounts	Total 31/12/2016						Total 31/12/2015					
	Book value			Fair value			Book value			Fair value		
	Performing	Impaired		L1	L2	L3	Performing	Impaired		L1	L2	L3
		Purchased	Other					Purchased	Other			
Loans	**2,369,343**	**-**	**378,683**	**-**	**-**	**-**	**2,391,804**	**-**	**388,627**	**-**	**-**	**-**
1. Current accounts	409,795	-	80,751	-	-	-	459,295	-	84,312	-	-	-
2. Reverse repurchase agreements	-	-	-	-	-	-	-	-	-	-	-	-
3. Mortgages	1,570,100		289,518	-	-	-	1,604,258	-	294,982	-	-	-
4. Credit cards, personal loans and salary-backed loans	874	-	432	-	-	-	3,529	-	547	-	-	-
5. Financial leases	-	-	-	-	-	-	-	-	-	-	-	-
6. Factoring	-	-	-	-	-	-	-	-	-	-	-	-
7. Other loans	388,574	-	7,982	-	-	-	324,722	-	8,786	-	-	-
Debt securities	**14,424**	-	-	-	-	-	-	-	-	-	-	-
8. Structured securities	-	-	-	-	-	-	-	-	-	-	-	-
9. Other debt securities	14,424	-	-	-	-	-	-	-	-	-	-	-
Total	**2,383,767**	**-**	**378,683**	**5,845**	**-**	**2,848,951**	**2,391,804**	**-**	**388,627**	**-**	**-**	**2,925,203**

Loans and receivables with customers are stated net of impairment.

Financial statement regulations envisage that loans and receivables with customers are stated in separate columns with distinction between performing and impaired, on the basis of their technical form; no impaired loans were purchased, not even in the past.

The impaired loans include non-performing, probable defaults restructured and past due impaired loans, as more fully illustrated in part E of these Explanatory Notes: Section 1- Credit risk.

The Fair Value column measures the exposures on the basis of the rates applied to the individual transactions and the duration of the loans, discounted back on the basis of the existing market rate curve.

Other loans include treasury operations with central counterparts of Euro 63 million.

The greater value assigned to loans and receivables from the merged Credito Veronese, originally of Euro 5,612 thousand, amounts as at 31 December 2016 to Euro 2,010 thousand, after amortisation for the year of Euro 663 thousand (charged to the decrease in interest income.

7.2 Loans and receivables with customers: breakdown by borrower/issuer

Type of transaction/Amounts	Total 31/12/2016			Total 31/12/2015		
	Performing	Impaired		Performing	Impaired	
			Other			Other
1. Debt securities:	**14,424**	**-**	**-**	**-**	**-**	**-**
a) Governments	-	-	-	-	-	-
b) Other public bodies	-	-	-	-	-	-
c) Other issuers	14,424	-	-	-	-	-
- non-financial companies	5,872	-	-	-	-	-
- financial companies	8,552	-	-	-	-	-
- insurance companies	-	-	-	-	-	-
- others	-	-	-	-	-	-
2. Loans to:	**2,369,343**	**-**	**378,683**	**2,391,804**	**-**	**388,627**
a) Governments	-	-	-	1	-	-
b) Other public bodies	19,307	-	-	20,611	-	-
c) Other parties	2,350,036	-	378,683	2,371,192	-	388,627
- non-financial companies	1,487,106	-	295,151	1,590,315	-	312,055
- financial companies	241,132	-	5,967	160,467	-	5,984
- insurance companies	-	-	-	-	-	-
- others	621,798	-	77,565	620,410	-	70,588
Total	**2,383,767**	**-**	**378,683**	**2,391,804**	**-**	**388,627**

The distribution of loans and receivables by debtor/issuer is obtained using the classification criteria envisaged by the Bank of Italy.

The tables “7.3 Loans and receivables with customers: subject to micro hedge” and “7.4 Financial leases” are not drawn up due to the absence of such transactions.

Section 8 - Hedging derivatives – Item 80

This section is not drawn up because as at 31 December 2016 the Bank did not have any transactions of this type, as in the previous year.

Section 9 - Value adjustment to financial assets subject to macro-hedging - Item 90

This section is not drawn up because the Bank does not hold any financial assets classified as thus.

Section 10 – Equity investments - Item 100

This section includes the equity investments in subsidiary companies, jointly controlled companies and equity investments in companies subject to significant influence.

10.1 Equity investments: information on investment relationships

Company name	Registered office	Operating office	% equity investment	% voting rights available
A. Fully-controlled companies				
1. Valsabbina Real Estate S.R.L.	Brescia	Brescia	100.00%	-
B. Jointly-controlled companies	-	-	-	-
C. Companies subject to significant influence	-	-	-	-
1. Polis Fondi Immobiliare di Banche popolari SGR p.A.	Milan	Milan	9.80%	-

10.2 Significant equity investments: book value, fair value and dividends received

Company name	Book value	Fair value	Dividends received
A. Fully-controlled companies			
1. Valsabbina Real Estate S.R.L.	107	-	-
B. Jointly-controlled companies	-	-	-
C. Companies subject to significant influence	-	-	-
Total	**107**	**-**	**-**

Valsabbina Real Estate is fully owned; the consolidated financial statements are not drawn up due to the scant significance and relevance of the balances of the subsidiary with respect to those of the parent company, in application of the "Framework for the Preparation and Presentation of financial statements", which represents the conceptual model underlying the IAS standards.
The financial statement total of the subsidiary (Euro 4,734 thousand) is lower than the limits envisaged by the Supervisory instructions for the consolidated indications (financial statement assets less than Euro 10 million).
The reporting formats of the Company are enclosed with the financial statements of the Bank.

10.3 Significant equity investments: accounting information

Company name	Cash and cash equivalents	Financial assets	Non-financial assets	Financial liabilities	Non-financial liabilities	Total revenues	Net interest income	Depreciation/amortisation and net impairment losses on tangible and intangible assets	Profit (Loss) from operations gross of taxation	Profit (Loss) from operations net of taxation	Profit (loss) from discontinued operations net of taxation	Profit (loss) for the year (1)	Other income components net of taxation (2)	Comprehensive income (3) = (1) + (2)
A. Fully-controlled companies	-	-	**4,734**	**4,567**	**57**	**195**	-	-	**(155)**	**(127)**	-	**(127)**	-	**(127)**
1. Valsabbina Real Estate s.r.l.	-	-	4,734	4,567	57	195	-	-	(155)	(127)	-	(127)	-	(127)
B. Jointly-controlled companies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
C. Companies subject to significant influence	-	-	-	-	-	-	-	-	-	-	-	-	-	-

The figures indicated in the table are related to the financial statements as at 31 December 2016; the shareholders' equity of the subsidiary, inclusive of the profit (loss) for the year, amounts to Euro 110 thousand.

10.4 Non-significant equity investments: accounting information

Company name	Book value of equity investments	Total assets	Total liabilities	Total revenues	Profit (Loss) from operations net of taxation	Profit (loss) from discontinued operations net of taxation	Profit (loss) for the year (1)	Other income components net of taxation (2)	Comprehensive income (3) = (1) + (2)
A. Fully-controlled companies	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B. Jointly-controlled companies	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
C. Companies subject to significant influence	**1,014**	**10,193**	**10,193**	**3,996**	**(1,677)**	**-**	**(1,677)**	**564**	**(1,113)**

The figures shown refer to the financial statements as at 31 December 2015.

The row of Companies subject to significant influence includes the equity investment held by the Bank in the company Polis S.G.R.; the equity investment was acquired during 2013 (50,960 Polis Fondi Immobiliare S.G.R. shares, equal to 9.80% of the share capital), for Euro 1,205 thousand with the principal aim of taking part in the management of the closed-end real estate funds that have been assigned properties by the subsidiary Valsabbina Real Estate.
By virtue of the shareholders’ agreements, the holding has been classified under equity investments subject to significant influence.

10.5 Equity investments: annual changes

ITEMS	Total 31/12/2016	Total 31/12/2015
	1,375	**1,375**
B. Increases	**130**	**130**
B.1 Purchases	-	-
B.2 Reversals of impairment losses	-	-
B.3 Revaluations	-	-
B. 4 Other changes	130	130
C. Decreases	**384**	**130**
C.1 Sales	-	-
C.2 Impairment losses	384	130
C.3 Other changes	-	-
D. Closing balances	**1,121**	**1,375**
E. Total revaluations	-	-
F. Total impairment losses	**384**	**130**

During the year, Banca Valsabbina paid over to the investee company Real Estate Euro 130 thousand to cover losses; at the same time, it took steps to write down the investment of Euro 193 thousand recorded in the financial statements.

The value of the equity investment in Polis S.G.R. was adjusted by Euro 191 thousand (offset by item 210 of the income statement) by acknowledging the decrease in equity in the 2015 financial year.

10.6 Commitments referred to equity investments in jointly controlled companies

There are no equity investments in jointly controlled companies.

10.7 Commitments referred to equity investments in companies subject to significant influence

As things stand, there are no commitments with Polis S.g.r.

10.8 Significant restrictions

There are no cases of significant restrictions as indicated in section 22 b) and c) of IFRS 12.

10.9 Other information

A credit facility of Euro 15 million was made available to Valsabbina Real Estate; this facility was used at year end by Euro 4,567 thousand, for possible transactions falling within the cases for which the company was established.

49 properties have been acquired since its formation for an overall total of Euro 16.6 million; as at 31 December 2016, properties remained for an equivalent value of Euro 3,346.

Section 11 – Tangible assets - Item 110

This item includes the tangible assets (properties, plant, machinery, furniture and other tangible assets used in operations) owned or acquired under finance lease.

11.1 Tangible assets used in operations: breakdown of assets measured at cost

Asset/Amounts	Total 31/12/2016	Total 31/12/2015
1 Owned assets	**27,694**	**26,955**
a) land	2,219	2,111
b) buildings	23,038	22,902
c) furniture	492	420
d) electronic systems	492	532
e) other	1,453	990
2 Acquired under finance lease	**-**	**478**
a) land	-	108
b) buildings	-	370
c) furniture	-	-
d) electronic systems	-	-
e) other	-	-
Total	**27,694**	**27,433**

Owned properties have been used almost entirely during the year for banking activities. A real estate leasing expired during the financial year and the option to purchase was exercised.

11.2 Investment property: breakdown of assets measured at cost
11.3 Tangible assets used in operations: breakdown of revalued assets
11.4 Investment property: breakdown of assets measured at fair value

There are no assets held for investment purposes and revalued assets used in operations.

11.5 Tangible assets used in operations: changes during the year

Items	Land	Buildings	Furniture	Electronic systems	Other	Total
A. Gross opening balances	**2,219**	**29,395**	**7,306**	**5,976**	**8,829**	**53,725**
A.1 Net total impairment	-	6,123	6,886	5,444	7,839	26,292
A.2 Net opening balances	**2,219**	**23,272**	**420**	**532**	**990**	**27,433**
B. Increases	**-**	**594**	**236**	**142**	**984**	**1,956**
B.1 Purchases	-	594	229	142	843	1,808
B.2 Capitalised improvement expenditure	-	-	-	-	-	-
B.3 Reversals of impairment losses	-	-	-	-	-	-
B.4 Positive fair value changes recognised in:	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
B.5 Exchange rate gains	-	-	-	-	-	-
B.6 Transfers from investment property	-	-	-	-	-	-
B.7 Other changes	-	-	7	-	141	148
C. Decreases	**-**	**828**	**164**	**182**	**521**	**1,695**
C.1 Sales	-	-	-	-	57	57
C.2 Depreciations	-	696	164	177	464	1,501
C.3 Impairment losses recognised in:	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.4 Negative fair value changes recognised in:	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.5 Exchange rate losses	-	-	-	-	-	-
C.6 Transfers to:	-	-	-	-	-	-
a) investment property	-	-	-	-	-	-
b) assets held for sale and discontinued operations	-	-	-	-	-	-
C.7 Other changes	-	132	-	5	-	137
D. Net closing balances	**2,219**	**23,038**	**492**	**492**	**1,453**	**27,694**
D.1 Net total impairment	-	6,818	6,951	5,613	8,022	27,404
D.2 Gross closing balances	**2,219**	**29,856**	**7,443**	**6,105**	**9,475**	**55,098**
E. Measured at cost	-	-	-	-	-	-

The item tangible fixed assets amounts to Euro 27,694 thousand, with an increase of Euro 261 thousand with respect to the previous year, as the imbalance between purchases of Euro 1,808 thousand, depreciations of Euro 1,501 thousand, net disposals of Euro 57 thousand and other changes increasing all in all by Euro 11 thousand.

The increases registered on the buildings essentially concerned work carried out for the extension of the offices at the Brescia premises.

The purchases recorded in the table columns called “furniture, electronic system and other assets” concern the purchase of furniture, plant, electronic machines for the office, alarm systems and other minor categories, both for the head offices and the branches.

The depreciation has been calculated on all the tangible assets, with the exclusion of land, in relation to the estimated useful life of the same as indicated below:
Properties 33 - 50 years
Furniture and furnishing 7 years
Vehicles 4 years
Armoured counters 5 years
Electronic systems 4 years
Sundry machinery and equipment 5 years

In the event of the purchase of properties, without indication in the deed of the separate value pertaining to the underlying land, steps are taken to assign this category 20% of the initial cost and the remaining 80% to the item property.

11.6 Investment property: annual changes

There are no assets held for investment purposes and therefore steps have not been taken to draw up the related tables.

Section 12 – Intangible assets - Item 120

This section comprises the intangible assets as defined by IAS 38.

12.1 Intangible assets: breakdown by type of asset

Asset/Amounts		Total 31/12/2016		Total 31/12/2015	
		Definite duration	Indefinite duration	Definite duration	Indefinite duration
A.1	**Goodwill**	**-**	**8,458**	**-**	**8,458**
A.2	**Other intangible assets**	**1,629**	**-**	**1,956**	**-**
A.2.1	Assets measured at cost:	1,629	-	1,956	-
	a) internally generated intangible assets	-	-	-	-
	b) other assets	1,629	-	1,956	-
A.2.2	Assets measured at fair value:	-	-	-	-
	a) internally generated intangible assets	-	-	-	-
	b) other assets	-	-	-	-
	Total	**1,629**	**8,458**	**1,956**	**8,458**

Intangible assets with a definite duration include:

- Euro 629 thousand relating to the costs incurred for the purchase of EDP programmes inclusive of those supplied with specific invoicing by our outsourcer; these costs are each year on the basis of the useful life, as a rule 3 years. All the classes of intangible assets are measured at cost;
- Euro 1,000 thousand relating to intangible assets linked to the relationship with the customer and identified as "Core Deposits" emerging from the incorporation of Credito Veronese. This item was recorded on a consistent basis with that valorised in the consolidated financial statements as at 31 December 2011 and relates to the additional value acknowledged to the "stable deposits" of the merged company. IFRS 3 in fact envisages that the acquisition of a "Business Combination" (such as the acquisition of Credito Veronese represents) must be recorded using the purchase method and that the price paid must be allocated to the assets acquired and the liabilities undertaken measured at their respective fair values. Amortisation over 96 years is envisaged. The initial amount was Euro 3,428 thousand, the portion pertaining to the 2016 income statement comes to Euro 428 thousand.

Intangible assets with an indefinite duration comprise:

- -Euro 6,476 thousand for the goodwill relating to the acquisition of Credito Veronese;
- -Euro 1,982 thousand for the residual goodwill, recorded for Euro 4,220 thousand with the incorporation of Cassa Rurale di Storo in 2000, less the amortisation of Euro 2,238 made between 2000 and 2004.

On the basis of the IAS international accounting standards, annual systematic amortisation is no longer applied, but it is necessary at least once a year to check whether the goodwill assigned to a specific CGU (Cash Generating Unit) has suffered an impairment loss (impairment test). Pursuant to IAS 36, an asset has undergone impairment when its book value exceeds its recoverable amount understood as the higher between its fair value less selling costs and its value in use.

The identification of the CGUs to which the goodwill must be allocated, must be consistent with the strategic vision of the company, and thus with the internally recognised territorial areas. Since each geographic area constitutes a CGU, its overall assessment represents the most appropriate approach for checking goodwill, albeit the CGUs consist of a broader set of branches compared to those originally acquired, i.e. compared to those to which a goodwill was allocated initially.
The general rule established by par. 72 IAS 36 (consistency of the CGU identification criterion) may be waived if the change in the CGU definition criterion is justified by the reorganisation plan that intervened on the management model. In this context, the rule of par. 87 of IAS 36 is effective (reorganisation of the IT system) and reads “If an entity reorganises the structure of its IT system in such a way as to change the composition of one or more cash generating units to which the goodwill has been allocated, the goodwill must be reallocated to the units concerned. The management, control, planning and reporting system of the Bank refers to a CGU observed as a whole”.
Finally, consider that goodwill represents the premium paid for entry and development in the reference area and that the CGUs include exchanges of resources and contracts with customers. This, on the one hand, indicates the re-arrangement of all the original structure acquired and, on the other, the transfer of know-how to the benefit of the entire Bank.
The process of implementing the network with the branches acquired by the incorporation of Cassa Rurale di Storo and Credito Veronese, as well as the normal territorial expansion process, resulted in homogeneous areas characterised by a perimeter other than the one identifiable at the time of initial acquisition.
The seven branches from Credito Veronese are now part of a larger area called “Verona Area” (ten branches), whereas the four operating units integrated with the acquisition of Cassa Rurale di Storo are part of the Valsabbia Area, consisting of fourteen branches. Moreover, the Verona Area will be re-examined after the completion of the accounting process of the Business Combination with the former business unit acquired from Hypo Alpe Adria Bank S.p.A. (transaction described in part G of these Explanatory notes).

Therefore, the impairment test was carried out for the Verona CGU (in support of the goodwill recorded during the Credito Veronese transaction) and for the Valsabbia CGU (in support of the goodwill recorded with the incorporation of Cassa Rurale di Storo) with the support of a specialised external company.

The accounting standard suggest to write down goodwill when the net book value of the CGU is greater than the recoverable amount, where, in the definition of the recoverable amount, it was deemed to show preference for the estimate of the value in use with respect to the fair value. Due to its characteristics, the value in use is an evaluation method that is well suited to the characteristics of the banking sector, as well as being aligned with the practice that has developed in this field. Furthermore, the need to calculate both the value in use and the fair value ceases when one of the two is higher than the book value of the asset, given that this condition excludes that the same has undergone a permanent impairment loss.

The value in use of the CGU was established by discounting back the forecast cash flows, which in the case of banking concerns correspond to the values of capital available after the capitalisation requirements laid down by sector regulations (Excess Capital Method or Dividend Discount Method - DDM) have been met.

The development of the DDM envisages the estimate of the projections of the available cash flows, the discounting back rate and the long-term growth rate (g).
The cash flows available for the 2017-2021 period were estimated on the basis of the economic and financial projections prepared by the Management.
The discount rate was estimated as equal to the cost of the capital on the basis of the Capital Asset Pricing Model (CAPM) from which a rate of 8.73% emerges. The model expresses a linear relationship, under conditions of balance of the markets, between the return of an investment and its systematic risk. The return on an investment is calculated as the sum of the risk free rate and the premium for the risk assigned to it according to the following formula:
$Ke = rf + \beta \times (rm - rf)$ where:

- rf is the return of an asset with no risk (free risk rate);
- β is the volatility index of the investment;
- (rm - rf) is the premium for the risk.

The parameters used were:

- Risk free rate: 1.78% (average value of the returns on 10-year Government securities. The average value of the returns in a period of observation corresponding to three months)
- Beta: 1.26% average of the betas surveyed by Thomson Reuters for a sample of listed Italian banks
- Premium at risk: 5.50% estimate of the market premium provided by the difference between the return of a diversified portfolio made up of all the risk investments available on the market and the return of a security lacking risk.

The growth rate (g) was assumed to be 1.5%, on the basis of the expected rate of inflation and in line with practice in this field with regard to the parameters used for the impairment test of goodwill.
For the purpose of checking the measurement of the change in the values obtained with respect to the parameter used, subsequent sensitivity analyses were carried out, including an analysis developed considering changes in the "Ke" discount rate and the medium/long-term growth rate "g" of ±25 bps.

The Verona CGU has an accounting goodwill of Euro 6.5 million and Core Deposits (recorded in intangible assets) of Euro 0.7 million net of the tax effect; both assets were subject to impairment test, although core deposits were regularly amortised.
The estimated value in use was Euro 34.1 million compared to an operating capital - minimum shareholders' equity requirement - of Euro 23.7 million; the theoretical goodwill amounted to Euro 10.4 million, higher than the Euro 7.2 million of the book value of the intangible assets recorded
The sensitivity analysis provided a range of estimates of the value of the goodwill attributable to the CGU ranging from Euro 8.6 million to Euro 12.4 million; therefore, also varying the parameters used, it is indicated that the book value of the intangible assets is confirmed.

The Valsabbia CGU has an accounting goodwill of Euro 2 million; this goodwill is residual compared to the initial one of Euro 4.2 million, partially amortised.
The estimated value in use was for this Area Euro 44.7 million compared to an operating capital - minimum shareholders' equity requirement - of Euro 23.5 million, to which corresponds a goodwill of Euro 21.2 million, higher than the book value of the recorded intangible assets.
The sensitivity analysis provided a range of estimates of the value of the goodwill attributable to the CGU ranging from Euro 18.9 million to Euro 23.8 million; therefore, also varying the parameters used, it is indicated that the book value of the intangible assets is confirmed.

On the basis of the results of the analysis carried out, amounts representing impairment losses on intangible assets with an indefinite duration were not booked to the income statement.

12.2 Intangible assets: annual changes

Items		Goodwill	Other intangible assets: internally generated		Other intangible assets: other		Total
			Def.	Indef.	Def.	Indef.	
A.	**Gross opening balances**	**8,458**	-	**-**	**4,106**	-	**12,564**
A.1	Net total impairment	-	-	-	2,150	-	2,150
A.2	**Net opening balances**	**8,458**	-	**-**	**1,956**	-	**10,414**
B.	**Increases**	**-**	**-**	**-**	**516**	**-**	**516**
B.1	Purchases	-	-	-	516	**-**	516
B.2	Increases in internally generated intangible assets	-	-	-	-	-	-
B.3	Reversals of impairment losses	-	-	-	-	-	-
B.4	Positive fair value changes	-	-	-	-	-	-
	- to shareholders' equity	-	-	-	-	-	-
	- to income statement	-	-	-	-	-	-
B.5	Exchange rate gains	-	-	-	-	-	-
B.6	Other changes	-	-	-	-	-	-
C.	**Decreases**	-	-	**-**	**843**	-	**843**
C.1	Sales	-	-	-	-	-	-
C.2.	Impairment losses	-	-	-	843	-	843
	- Amortisation	-	-	-	843	-	843
	- Impairment	-	-	-	-	-	-
	+ shareholders’ equity	-	-	-	-	-	-
	+ income statement	-	-	-	-	-	-
C.3	Negative fair value changes	-	-	-	-	-	-
	- to shareholders' equity	-	-	-	-	-	-
	- to income statement	-	-	-	-	-	-
C.4)	Transfers to non-current assets held for sale and discontinued operations	-	-	-	-	-	-
C.5	Exchange rate losses	-	-	-	-	-	-
C.6	Other changes	-	-	-	-	-	-
D.	**Net closing balances**	**8,458**	-	**-**	**1,629**	-	**10,087**
D.1	Total net impairment losses	-	-	-	2,813	-	2,813
E.	**Gross closing balances**	**8,458**	-	**-**	**4,442**	-	**12,900**
F.	Measured at cost	-	-	-	-	-	-

Key Def: with definite duration Indef: with indefinite duration

12.3 Other information

With regard to intangible fixed assets (IAS 38, sections 122 and 124), it is hereby specified that:
- there are no intangible assets pledged as collateral for the Bank's liabilities;
- there are no commitments to purchase intangible assets;
- there are no intangible assets acquired under financial or operating lease agreement or via government concession;
- there are no revalued intangible assets recorded at fair value.

Section 13 – Tax assets and tax liabilities

This section includes the tax assets (current and prepaid) and tax liabilities (current and deferred), without offsetting between the prepaid tax assets and deferred tax liabilities, stated respectively in items 130 of the assets and 80 of the liabilities.

Asset item 130 and Liability item 80

Prepaid taxes are recorded on the basis of the probability of their future recovery.
The rates used for the recognition of the prepaid and deferred taxes are 27.50% for IRES (company earnings' tax) and 5.57% for IRAP (regional business tax), rates in force for 2016; the 2016 stability law (Italian Leg. Decree 147/2015) envisages that, as from 1 January 2017 the ordinary IRES rate will decrease to 24%, but at the same time an additional IRES of 3.50% will be introduced for banks and financial institutions. Therefore, the prepaid taxes that will be recovered as from that date must be calculated always at the IRES rate of 27.50%.

Italian law 190 of 23 December 2014 (2015 Stability Law) envisaged the deductibility of costs of permanent personnel from taxable IRAP (regional production tax) of companies as from the 2015 financial year.

IRES on 5% of any capital gains and IRAP according to the normal rate are reckoned on the shares subject to participation exemption, on the basis of current legislation.

Current assets, totalling Euro 7,421 thousand, refer to the excess advance payments in 2015 and to withholding taxes with regard to the IRES due.

The calculation of Ires and Irap relating to 2016, due to the tax deduction of ACE (Aiuto alla Crescita Economica, Aid to economic growth) and to the recovery of prepaid taxes calculated in the past on impairment losses on loans and receivables, shows a tax loss that based on Italian Law No. 214/2011 is convertible into tax credit after filing the income tax declaration for 2016. The relevant amount was posted to prepaid taxes of Euro 1.8 million.

The positive change in current taxes of Euro 87 thousand together with the negative effect of the prepaid taxes recognised and cancelled during the financial year of Euro 437 thousand and the negative effect of deferred taxes of Euro 310 thousand, are recorded in the income statement item "260 income taxes for the year from continuing operations" of Euro 660 thousand.

The Bank has entered into a tax consolidation agreement for IRES purposes with the subsidiary Valsabbina Real Estate.

13.1 Deferred tax assets: breakdown

Items	Total 31/12/2016		Total 31/12/2015	
	Law No.	Other	Law No.	Other
Through the income statement:				
Impairment of loans and receivables deductible	46,753	-	49,206	-
- from previous years	46,753	-	45,330	-
- from current year	-	-	3,876	-
Exemption of goodwill and other elements from incorporation	2,026	-	2,105	-
Exemption of goodwill from consolidation	2,937	-	2,937	-
Tax losses	1,838	-	-	-
Allowance to provision for risks and charges	-	715	-	623
Provision for guarantees given	-	632	-	575
Financial assets	-	194	-	177
Administrative expenses	-	1,085	-	994
Total through the income statement	**53,554**	**2,626**	**54,248**	**2,369**
Through shareholders' equity:				
AFS securities	**-**	**5,663**	**-**	**4,903**
- bonds	-	3,038	-	1,987
- shares	-	45	-	1
- mutual funds	-	2,580	-	2,915
Actuarial effect on employee benefits	**-**	**323**	**-**	**258**
Total through shareholders' equity	**-**	**5,986**	**-**	**5,161**
Total	**53,554**	**8,612**	**54,248**	**7,530**

Prepaid taxes "as per Italian law No. 214/2011" are those recorded in relation to the impairment of loans and receivables not yet deducted and the value of the goodwill and other intangible assets whose negative components are deductible in subsequent tax periods. In the event of the recording of a statutory or tax loss, they permit transformation into a tax credit that can be used immediately, with benefits, including supervisory.
On the basis of Stability Law No. 147/2013, in the same circumstances, the same possibility has been extended to the IRAP, in the presence of financial statements closing with a loss or a negative net production value (IRAP declaration with a loss).
Italian Decree Law No. 83/2015 envisaged that, as from 1 January 2016, impairment losses on loans and receivables with customers recorded in the financial statements will become fully deductible during the year in which they are recognised, instead of deductible over five financial years as introduced by Italian Law No. 147/2013 and that residual receivables concerning impairment of receivables accrued before the coming into force of the full deductibility in the year of recognition are deducted as from 2016 and until 2025 with a measure varying from 5% to 12% of the taxable base.

The amounts of the taxes "as per Italian Law No. 214/2011" come to Euro 53,554 thousand and are made up as follows:

- Euro 46,753 thousand for taxes relating to residual impairment losses of receivables of previous years: Euro 16,947 thousand formed until 2012, Euro 26,169 thousand in 2013/2014 and Euro 3,637 thousand in 2015. These taxes will be recovered, to a variable extent depending on the year, between 2016 and 2025, as envisaged by Italian Decree Law No. 83/2015;
- Euro 2,026 thousand derive from the exemption of the elements resulting from the incorporation of Credito Veronese of which Euro 1,666 thousand concerns the goodwill originating from the financial

statements as at 31 December 2012, as envisaged by Article 186 of the ITCA (with regard to this case, taxes for 1/18th were recovered in 2015, for Euro 119 thousand) and Euro 360 thousand refer to "other elements from incorporation" and in other words to the Core Deposits and the Loans/Receivables Fair Value, for which a temporary misalignment of one year exists between the time of booking to the financial statements and the year of recovery for tax purposes;
- Euro 2,937 thousand in relation to the misalignment for tax purposes of the goodwill and the other intangible assets recorded autonomously in the 2011 consolidated financial statements as envisaged by Article 23 of Italian Decree Law No. 98/2011 and Article 20 of Italian Decree Law No. 201/2011. By means of the amendments made by Italian Law No. 228 dated 24 December 2012, the recovery in 10 annual portions will take place by the end of 2020;
- for Euro 1,838 thousand to Ires tax losses (Euro 1,500 thousand) and Irap (Euro 338 thousand) which will be converted into tax credits.

Prepaid taxes through shareholders' equity amount to Euro 5,986 thousand; of this, Euro 5,663 thousand refers to the capital losses booked to the negative valuation reserves (the amount derives from the application of the rate envisaged on total gross negative reserves for Euro 17,127 thousand), and Euro 323 thousand refers to the actuarial differences registered on post-employment benefits.

13.2 Deferred tax liabilities: breakdown

Items	Total 31/12/2016	Total 31/12/2015
Through the income statement:		
- on sundry capital gains	2	4
- on valuation of properties at revalued cost	60	60
- on accumulated depreciation of land	181	181
- on default interest	375	300
- on amortisation of goodwill	515	480
- on dividends still to be collected	19	-
- on payments to the F.I.T.D. Voluntary Scheme	182	-
Total through the income statement	**1,334**	**1,025**
Through shareholders' equity:		
Available-for-sale financial assets		
- bonds	358	302
- shares	758	681
- mutual funds	244	94
Total through shareholders' equity	**1,360**	**1,077**
Total	**2,694**	**2,102**

The amount of deferred taxes with an offsetting entry in the income statement increased compared to the previous financial year; this change is mainly justified by the recognition of deferred taxes with regard to the payment of the Voluntary Scheme held by the F.I.T.D., contribution for which, on the basis of Article 1 paragraphs 987 and 988 Italian Law no. 208 of 28 December 2015, full tax deductibility is envisaged in the year of disbursement independently from the type of accounting entry (currently the payment is represented in the assets of the balance sheet as an equity instrument).

Deferred taxes with an offsetting entry in shareholders' equity amount to Euro 1,360 thousand and relate to the positive reserves from valuation of available-for-sale securities totalling Euro 7,805 thousand gross.
Deferred tax liabilities on monetary revaluation reserves subject to deferred taxation have not been recognised, since it is deemed that the possibility that the taxation pre-requisite will apply (distribution of the same) is very remote.

13.3 Changes in prepaid taxes (through the income statement)

	Total 31/12/2016	Total 31/12/2015
1. Opening balance	**56,617**	**52,329**
2. Increases	**3,612**	**5,878**
2.1 Prepaid taxes recognised in the financial year	3,612	5,878
a) relating to previous financial years	33	351
b) due to changes in accounting policies	-	-
c) reversals of impairment losses	-	-
d) other	3,579	5,527
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**4,049**	**1,590**
3.1 Prepaid taxes cancelled during the financial year	4,049	1,590
a) reversals	4,049	1,590
b) impairment losses due to non-recoverability	-	-
c) changes in accounting policies	-	-
d) other	-	-
3.2 Reductions in tax rates	-	-
3.3 Other decreases:	-	-
a) conversion into tax assets set forth in Italian Law 214/2011	-	-
b) other	-	-
4. Closing balance	**56,180**	**56,617**

The change in deferred taxes is mainly due to the reversal of the part concerning impairment losses on loans and receivables booked in previous financial years (Euro 2,453 thousand, in accordance with Italian Decree Law No. 83/2015) and to the recognition of prepaid taxation relating to tax losses.

13.3.1 Changes in prepaid taxes set forth in Italian Law 214/2011 (through the income statement)

	Total 31/12/2016	Total 31/12/2015
1. Opening balance	**54,248**	**50,496**
2. Increases	**2,206**	**4,196**
3. Decreases	**2,900**	**444**
3.1 Reversals	2,900	444
3.2 Transformations into tax credits	-	-
a) deriving from losses for the year	-	-
a) deriving from tax losses	-	-
3.3 Other decreases	-	-
4. Closing balance	**53,554**	**54,248**

13.4 Changes in deferred taxes (through the income statement)

	Total 31/12/2016	Total 31/12/2015
1. Opening balance	**1,025**	**897**
2. Increases	**311**	**176**
2.1 Deferred taxes recognised in the financial year	311	176
a) relating to previous financial years	-	-
b) due to changes in accounting policies	-	-
c) other	311	176
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**2**	**48**
3.1 Deferred taxes cancelled during the financial year	2	48
a) reversals	2	2
b) due to changes in accounting policies	-	-
c) other	-	46
3.2 Reductions in tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	**1,334**	**1,025**

13.5 Changes in prepaid taxes (through shareholders' equity)

Items		Total 31/12/2016	Total 31/12/2015
1.	**Opening balance**	**5,161**	**732**
2.	**Increases**	**4,141**	**4,868**
2.1	Prepaid taxes recognised in the financial year	4,141	4,868
	a) relating to previous financial years	-	-
	b) due to changes in accounting policies	-	-
	c) other	4,141	4,868
2.2	New taxes or increases in tax rates	-	-
2.3	Other increases	-	-
3.	**Decreases**	**3,316**	**439**
3.1	Prepaid taxes cancelled during the financial year	3,297	371
	a) reversals	2,993	252
	b) impairment losses due to non-recoverability	-	-
	c) due to changes in accounting policies	-	-
	d) other	304	119
3.2	Reduction in tax rates	-	-
3.	Other decreases	19	68

3			
4.	**Closing balance**	**5,986**	**5,161**

13.6 Changes in deferred taxes (through shareholders' equity)

	Items	Total 31/12/2016	Total 31/12/2015
1.	**Opening balance**	**1,077**	**924**
2.	**Increases**	**537**	**963**
2.1	Prepaid taxes recognised in the financial year	537	963
	a) relating to previous financial years	-	-
	b) due to changes in accounting policies	-	-
	c) other	537	963
2.2	New taxes or increases in tax rates	-	-
2.3	Other increases	-	-
3.	**Decreases**	**254**	**810**
3.1	Prepaid taxes cancelled during the financial year	245	808
	a) reversals	153	801
	b) due to changes in accounting policies	-	-
	c) other	92	7
3.2	Reduction in tax rates	-	-
3.3	Other decreases	9	2
4.	**Closing balance**	**1,360**	**1,077**

Section 14 - Non-current assets held for sale and disposal groups and associated liabilities - Item 140 under assets and item 90 under liabilities

At the end of the reporting period, there are no non-current assets and liabilities held for sale and discontinued operations.

Section 15 – Other assets – Item 150

15.1 Other assets: breakdown

Items	Total 31/12/2016	Total 31/12/2015
Credits for direct taxes relating to previous financial years and accrued interest	1,184	1,184
Withholdings	905	1,903
Amounts due from tax authorities for advances paid	13,097	14,760
Current account cheques and foreign currency drawn on banks and third parties	16	14
Guarantee deposits on behalf of the Bank	37	37
Securities transactions pending final allocation	62	112
Cheques being processed	4,484	4,811
Sundry utilities to be debited/SDD/Other items	16,759	11,937

Cheques returned unpaid	17	87
Credit cards and Cashline card withdrawals	415	404
Credit transfers and debits to be made	3,613	4,471
Prepaid expenses	746	752
Costs for leasehold improvements	1,083	629
Total	**42,418**	**41,101**

The amounts due from tax authorities for advances paid refer to the advances paid for stamp duty, for substitute tax on mortgage loans and on capital gain.

Liabilities and shareholders' equity

Section 1 - Due to banks - Item 10

1.1 Due to banks: breakdown by type

Type of transaction/Amounts	Total 31/12/2016	Total 31/12/2015
1. Due to central banks	**510,000**	**460,333**
2. Due to banks	**285,650**	**160,827**
2.1 Current accounts and demand deposits	27,063	-
2.2 Time deposits	-	-
2.3 Loans	205,426	160,827
2.3.1 Repurchase agreements	190,405	160,827
2.3.2 Other	15,021	-
2.4 Payables for commitments to repurchase own equity instruments	-	-
2.5 Other payables	53,161	-
	795,650	**621,160**
	-	-
	-	-
	795,689	**621,160**
	795,689	**621,160**

Deposits with Central Banks are made up of the following loans taken out with the ECB for the total nominal amount of Euro 510 million:

- Loan transaction taken out on 27 January 2016 and maturity date 26 January 2017, Euro 50 million;
- Loan transaction taken out on 28 January 2016 and maturity date 04 January 2017, Euro 60 million;
- TLTRO II loan taken out on 29 June 2016 and maturity date 24 June 2020, Euro 250 million;
- TLTRO II loan taken out on 28 June 2016 and maturity date 16 June 2020, Euro 150 million.

As at 31 December 2016, there were also three repurchase agreements taken out with leading banks, with a maximum maturity in January 2017.

For the purchase of the business unit from Hypo Alpe Adria Bank S.p.A. - transaction better described in part G of these Explanatory notes - advances of Euro 53.2 million were received in December.

The book value also includes the interest accrued.

The following tables are not prepared: 1.2 Breakdown of item 10 “Due to banks: subordinate debt” structured debt”, 1.3 Breakdown of item 10 “Due to banks": structured debts”, 1.4 "Deposits from banks subject to micro-hedging” and 1.5 "Finance lease payables”, in that these types of transactions are not present.

Section 2 - Due to customers - Item 20

2.1 Due to customers: breakdown by type

Type of transaction/Amounts	Total 31/12/2016	Total 31/12/2015
1. Current accounts and demand deposits	**1,907,844**	**1,943,675**
2. Time deposits	**188,431**	**214,775**
3. Loans	**309,979**	**127**
3.1 Repurchase agreements	-	-
3.2 Other	309,979	127
4. Payables for commitments to repurchase own equity instruments	**-**	**-**
5. Other payables	**539**	**768**
Total	**2,406,793**	**2,159,345**
Fair value - level 1	**-**	**-**
Fair value - level 2	**-**	**-**
Fair value - level 3	**2,406,793**	**2,159,345**
Total fair value	**2,406,793**	**2,159,345**

The current accounts and demand deposits comprise:

	Total 31/12/2016	Total 31/12/2015
Euro current accounts	1,862,734	1,886,303
Savings deposits	35,813	38,058
Foreign currency current accounts	9,297	19,314
	1,907,844	**1,943,675**

Time deposits are restricted deposits with a maximum maturity of 60 months.
The item “Loans: other” includes amounts due to Cassa di Compensazione e Garanzia for loans obtained on the NewMic Collateralised interbank market, maximum maturity in January 2017)
The following tables are not prepared: 2.2 Breakdown of item 20 “Due to customers: subordinate debts”, 2.3 Breakdown of item 20 “Due to customers": structured debts” and 2.4 "Due to customers: payables subject to micro hedging”, in that these types of transactions are not present.

2.5 Payables for financial leases

As at 31 December 2016, there are no finance lease payables.

Section 3 – Securities issued - Item 30

3.1 Securities issued: breakdown by type

Type of security/Amounts	Total 31/12/2016				Total 31/12/2015			
	Book value	Fair value			Book value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Securities								
1. Bonds	705,795	-	-	703,935	953,836	-	-	950,150
1.1 structured	-	-	-	-	-	-	-	-
1.2 other	705,795	-	-	703,935	953,836	-	-	950,150
2. Other securities	41,154	-	-	41,154	11,725	-	-	11,725
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	41,154	-	-	41,154	11,725	-	-	11,725
Total	**746,949**	**-**	**-**	**745,089**	**965,561**	**-**	**-**	**961,875**

The bonds outstanding are inclusive of the current accrued coupon and are net of the bonds repurchased, which on the basis of the IAS accounting standards must be eliminated; the recognition criteria used for the book value is that of amortised cost.

They include subordinated bonds for a book value of Euro 69,587 thousand (Euro 68,597 thousand in nominal value).

The bonds issued by the Bank are not listed but a valuation, useful for trading, is carried out by an external provider; the value stated in the FV level 3 column has been obtained by means of the discounting back of the flows on the basis of the average rate of a basket of triple B bank bonds.

Medium/long-term certificates of deposit are recorded under other securities.

3.2 Breakdown of Item 30 “Securities issued": subordinated securities

Items	Book value	
	Total 31/12/2016	Total 31/12/2015
Subordinated securities issued and in issue	69,587	84,711
Total	**69,587**	**84,711**

Subordinated bonds include the following securities:

-IT0004982481 issued on 30 December 2013 of Euro 25 million, fixed rate of 4.50% and maturity 30 December 2019, with repayment of 20% per annum as from 30 December 2015, nominal residual value Euro 7,292 thousand net of repayments and repurchases;

-IT0004987456 issued on 3 February 2014 of Euro 35 million, fixed rate of 4.50% and maturity 3 February 2021, with repayment of 20% per annum as from 3 February 2017, nominal residual value Euro 2,316 thousand net of repurchases;

-IT0005014706 issued on 2 May 2014 of Euro 25,432 thousand, fixed rate of 4.00% and maturity 2 May 2022, with repayment of 20% per annum as from 2 May 2018, nominal residual value Euro 9,229 thousand net of repurchases;

-IT0005085250 issued on 10 February 2015 of Euro 35 million, fixed rate of 4.50% and maturity 10 February 2021, nominal residual value Euro 34,760 thousand net of repurchases;

-IT0005204257 issued on 15 July 2016 of Euro 15 million, fixed rate of 4.00% and maturity 15 July 2022, nominal residual values equal to the issued amount.

3.3 Securities issued: securities subject to micro hedging

This table is not drawn up since these types of transactions are not present.

Section 4 - Financial liabilities held for trading - Item 40

4.1 Financial liabilities held for trading: breakdown by type

Type of transaction/Amounts	Total 31/12/2016					Total 31/12/2015				
	NV	FV			FV *	NV	FV			FV *
		L1	L2	L3			L1	L2	L3	
A. On-balance sheet liabilities										
1. Due to banks	-	-	-	-	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-	-	-	-	-
3. Debt securities	-	-	-	-	-	-	-	-	-	-
3.1 Bonds	-	-	-	-	-	-	-	-	-	-
3.1.1 Structured	-	-	-	-	-	-	-	-	-	-
3.1.2 Other bonds	-	-	-	-	-	-	-	-	-	-
3.2 Other securities	-	-	-	-	-	-	-	-	-	-
3.2.1 Structured	-	-	-	-	-	-	-	-	-	-
3.2.2 Other	-	-	-	-	-	-	-	-	-	-
Total A	-	-	-	-	-	-	-	-	-	-
B. Derivative instruments										
1. Financial derivatives	-	-	269	-	-	-	-	51	-	-
1.1 Trading	-	-	269	-	-	-	-	51	-	-
1.2 Related to the fair value option	-	-	-	-	-	-	-	-	-	-
1.3 Other	-	-	-	-	-	-	-	-	-	-
2. Credit derivatives	-	-	-	-	-	-	-	-	-	-
2.1 Trading	-	-	-	-	-	-	-	-	-	-
2.2 Related to the fair value option	-	-	-	-	-	-	-	-	-	-
2.3 Other	-	-	-	-	-	-	-	-	-	-

Total B	-	-	**269**	-	-	-	-	**51**	-	-
Total (A+B)	-	-	**269**	-	-	-	-	**51**	-	-

Key

FV = fair value	NV = nominal or notional value	L1 = level 1	L2 = level 2	L3 = level 3

FV* = fair value calculated by excluding changes in value due to the change in creditworthiness

The amount of Euro 269 thousand (level 2) comprises:

- Euro 266 thousand in foreign currency forward transactions, whose value is offset by asset item 20 “Financial assets held for trading”. The book amount (intrinsic value) is the expression of a notional value of the transactions equating to Euro 7,192 thousand;
- Euro 3 thousand being the intrinsic value referring to hedges of foreign currency transactions carried out by the Bank, with a notional value of Euro 846 thousand.

In the absence of transactions, the following tables are not drawn up: 4.2 Breakdown of item 40 “Financial liabilities held for trading: subordinated liabilities, 4.3 Breakdown of item 40 “Financial liabilities held for trading”: structured debts, and 4.4 On-statement of final positions liabilities (excluding "uncovered short positions") held for trading: annual changes.

Section 5 - Financial liabilities measured at fair value - Item 50

The Bank does not have any financial liabilities designated at fair value with the valuation results recorded in the income statement on the basis of the right acknowledged by the IAS standards. Therefore, the following tables are not drawn up:

5.1 Financial liabilities measured at fair value: breakdown by type,

5.2 Breakdown of item 50 “Financial liabilities measured at fair value: subordinated liabilities.

Section 6 - Hedging derivatives - Item 60

As at 31 December 2016 and 31 December 2015 the bank did not have any hedging derivatives outstanding. The following tables are not drawn up:

6.1 Hedging derivatives: breakdown by type of hedge and by hierarchical levels,

6.2 Hedging derivatives: breakdown by hedged portfolios and by type of hedging.

Section 7 - Adjustment to financial assets subject to macro-hedging - Item 70

The Bank has not established any liability subject to macro hedging from the interest rate risk. The related tables 7.1 and 7.2 are not drawn up.

Section 8 - Tax liabilities - Item 80

The breakdown as well as the changes in liabilities for current and deferred taxes are illustrated in part B - Asset Section 13 of these explanatory notes.

With reference to the tax situation of the Bank, it is hereby specified that the years up to 2011 have been settled for tax purposes.

Section 9 - Liabilities associated with assets held for sale and discontinued operations - Item 90

At the end of the reporting period, there were no liabilities associated with assets held for sale and discontinued operations.

Section 10 - Other liabilities - Item 100

10.1 Other liabilities: breakdown

Items	Total 31/12/2016	Total 31/12/2015
Tax withholdings and contributions relating to staff	2,321	2,177
Amounts to be paid to staff and related contributions	3,306	3,704
Taxes to be paid to the tax authorities	1,585	1,802
Taxes to be paid to the tax authorities on behalf of third parties	2,393	2,972
Dividends not yet collected	1	1
Credit transfers to be carried out	15,561	10,592
Credit cards and Cashline card withdrawals	152	450
Companies being formed due to payment of the share capital	67	181
Amount paid for withdrawal of bills and cheques and payment by advice collections	1,306	860
Currency spreads on portfolio transactions	14,882	37,496
Provision for guarantees and commitments	2,298	2,091

Due to suppliers	4,995	3,937
Deferred income and provisions	363	430
Charity Fund	71	90
Other items	6,251	3,229
Total	**55,552**	**70,012**

The "amounts to be paid to staff, inclusive of related contributions" also include the productivity bonuses to be paid to staff in the following year.

"Currency spreads on portfolio transactions" represent the imbalance between the "debit adjustments" and the "credit adjustments" of the portfolio subject to due reserve and after collection, whose breakdown is indicated in the specific table Other information in part B of these explanatory notes.

"Other items" includes the payable of Euro 2,760 thousand to the Fondo Nazionale di Risoluzione (National Resolution Fund) for the extraordinary contributions called-up in December concerning the rescue of the four banks of Central Italy subject to the measure of resolution.

Section 11 - Post-employment benefits - Item 110

11.1 Post-employment benefits: annual changes

Items	Total 31/12/2016	Total 31/12/2015
A. Opening balances	**5,165**	**5,962**
B. Increases	**1,700**	**1,482**
B.1 Provision in the year	1,507	1,478
B.2 Other changes	193	4
C. Decreases	**1,517**	**2,279**
C.1 Benefits paid	90	573
C.2 Other changes	1,427	1,706
D. Closing balances	**5,348**	**5,165**
TOTAL	**5,348**	**5,165**

"Increases" of the row provisions include the costs attributable to the revaluation of the provision in the company, in so far as it concerns the Treasury Fund and the Supplementary Funds, as well as the cost relating to post-employment benefits paid directly in the payroll. With regard to other decreases, the main items are represented by the amounts paid to the Treasury Funds and the Supplementary Funds as well as the IAS actuarial changes (which have an impact on the shareholders' equity reserves).

11.2 Other information

The balance of post-employment benefits as at 31 December 2016 calculated on the basis of Italian legislation amounts to Euro 4,941 thousand, Euro 407 thousand lower than the book value; in 2015, the same came to

Euro 4,964 thousand, Euro 201 thousand less with respect to the book value. The difference is due to the different financial parameters used (discount rate of 1.31% compared to 2.03% in 2015; annual increase rate of post-employment benefits lower than in 2015), which led to an actuarial loss of Euro 192 thousand, compared to an actuarial gain of Euro 324 thousand in 2015.

IAS 19 "Employee benefits" enforces the recognition of the actuarial changes offset by shareholders' equity and the recognition in the income statement is no longer allowed.
The actuary carried out the calculation on the basis of the following financial assumptions:

- annual discount rate of 1.31% (determined, on a consistent basis with section 83 of IAS 19, with reference to the average returns curve that derives from the IBOXX Eurozone Corporates AA index with a duration of 10+ struck on 31 December 2016, rate considered as the best expression of returns of businesses of primary standing),
- annual rate of inflation 1.50%,
- annual Post-employment benefit rate 2.625%.

The actuarial change is illustrated in part "D - Comprehensive income”.

Section 12 - Provisions for risks and charges - Item 120

12.1 Provisions for risks and charges - provisions

Items/Amounts	Total 31/12/2016	Total 31/12/2015
1. Company pension funds	-	-
2. Other provisions for risks and charges	**2,162**	**1,883**
2.1 legal disputes	2,115	1,838
2.2 labour costs	-	-
2.3 other	47	45
Total	**2,162**	**1,883**

12.2 Provisions for risks and charges: annual changes

Items	Pension funds	Other funds	Total
A. Opening balances	-	**1,883**	**1,883**
B. Increases	-	**821**	**821**
B.1 Provision in the year	-	821	821
B.2 Changes due to the passing of time	-	-	-
B.3 Changes due to discount rate fluctuations	-	-	-
B.4 Other changes	-	-	-
C. Decreases	-	**542**	**542**
C.1 Uses in the year	-	456	456
C.2 Changes due to discount rate fluctuations	-	-	-
C.3 Other changes	-	86	86
D. Closing balances	-	**2,162**	**2,162**

12.3 Defined benefit company pension funds

The Bank has no funds of this kind recorded in the financial statements.

12.4 Provisions for risks and charges - other provisions

The provision for legal disputes includes the amounts set aside for disputes relating to revocatory action on non-performing positions or those already written off or for other disputes that arise during the performance of the ordinary activities. The Bank makes provisions for such reasons when, in agreement with its legal advisors, it believes it probable that it will have to make a payment and the amounts of the same can be reasonably estimated.

Section 13 - Redeemable shares - Item 140

The Bank has not issued any redeemable shares. The related tables are not drawn up.

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

14.1 "Share capital" and "Own shares: breakdown

The fully paid-in and subscribed share capital is made up of 35,516,827 shares with a par value of Euro 3.00 each for a total of Euro 106,550 thousand.

14.2 Share capital - Number of shares: annual changes

Items/Types	Ordinary	Other
A. Shares at the beginning of the year	**35,796,827**	**-**
- fully paid-up	35,796,827	-
- not fully paid-up	-	-
A.1 Own shares (-)	491,787	-
A.2 Outstanding shares: opening balances	**35,305,040**	**-**
B. Increases	**135,200**	**-**
B.1 New issues	-	-
- against payment:	-	-
- business combinations	-	-
- conversion of bonds	-	-
- exercise of warrants	-	-
- other	-	-
- free:	-	-
- in favour of employees	-	-
- in favour of directors	-	-
- other	-	-
B. 2 Sales of own shares	135,200	-
B.3 Other changes	-	-
C. Decreases	**657,188**	-
C.1. Cancellation	280,000	-
C. 2 Purchase of own shares	377,188	-
C.3 Disposal of companies	-	-
C.4 Other changes	-	-
D. Outstanding shares: closing balances	**35,063,052**	**-**
D.1 Own shares (+)	453,775	-
D.2 Shares at the end of the year	35,516,827	-
- fully paid-up	35,516,827	-

- not fully paid-up	-	-

In March 2016, by resolution of the BoD, 280,000 shares in the bank's portfolio were cancelled; at the same time, Shareholders' equity decreased by Euro 5,040 thousand, of which Euro 840 thousand refer to the share capital.

14.3 Share capital - Other information.

The following revaluation reserves have been transferred over time to the share capital:
- Italian Law No. 576 dated 2 December 1975 for Euro 88 thousand, reserve from monetary revaluation;
- Italian Law No.72 dated 19 March 1983 for Euro 2,067 thousand, reserve from monetary revaluation;
- Italian Law No.413 dated 30 December 1991 for Euro 1,375 thousand, reserve from monetary revaluation;
- Italian Legislative Decree No. 38 dated 28 February 2005 (application of the IAS principles in Italy) for Euro 7,955 thousand.

14.4 Income-related reserves: other information

The reserves as per liability item 160 amount to Euro 57,765 thousand; Euro 60,857 thousand refers to provisions of income, while the “other” reserves includes the negative reserves from the merger of Credito Veronese of Euro 3,092 thousand.

Additional information relating to their changes can be found in the statement of changes in shareholders' equity and in part F of these explanatory notes.

Pursuant to Article 2427.7 bis of the Italian Civil Code, the composition of Shareholders' equity, according to the origin and the degree of availability and distributable nature of the various items, is as follows:

Items	Amount	Possibility of use	Portion available	Tax restrictio	Uses made in the last three accounting periods	
					to cover losses	for other reasons
A) SHARE CAPITAL						
- Share capital (1)	106,550		90,531	16,019	no use	no use
B) CAPITAL RESERVES						
- Share premium reserve (2)	230,299	ABC	230,299	-	no use	no use
C) INCOME-RELATED RESERVES						
- Legal reserve (3)	23,780	B		-	no use	no use
- Extraordinary reserve	24,301	ABC	24,301	-	no use	no use
- Reserve for purchase of own shares	12,014	ABC	6,832	-	no use	no use
- Other reserves	762	ABC	762	-	no use	no use
D) OTHER RESERVES						
- Merger differences	(3,092)			-	no use	no use
- IAS valuation reserves (5)	(4,460)	AB		-	no use	no use
E) OWN SHARES						
- Own shares	(5,182)					
TOTAL	**384,972**					
- 2016 profit for the year	4,148					
TOTAL EQUITY	**389,120**					

Key:

A: for increase in portion; B: to cover losses; C: for distribution to Shareholders

Note:

1) In the event of distribution, the share capital is subject to a tax restriction equal to the booking of monetary revaluation reserves of Euro 11,485 thousand as specified in point 14.3 plus Euro 4,534 equal to the difference between the amount tax sheltered in 2013 of the additional values acknowledged to the properties for Euro 5,398 thousand and the substitute tax of 16% for Euro 864 thousand.
2) On the basis of Article 2431 of the Italian Civil Code, the “share premium reserve” can be fully distributed since the legal reserve is higher than one fifth of the share capital, equal to Euro 21,310 thousand.
3) On the basis of Article 24 of the Banking Consolidation Act, Italian Legislative Decree No. 385 dated 1 September 1993, industrial co-operative banks must allocate at least ten percent of the annual net profits to the legal reserve.
4) The reserve is available for the surplus with respect to the amount of own shares in the portfolio, which amounted to Euro 5,182 thousand as at 31 December 2016.
5) The reserve is restricted in accordance with Article 6 of Italian Legislative Decree No. 38/2005 (introduction of the IAS accounting standards) and in any event negative.

14.5 Equity instruments: breakdown and annual changes

The Bank has not issued the equity instruments indicated in section 80.A and 136.A of IAS 1.

14.6 - Other information

The Board of Directors proposes the payment of a dividend equal to Euro 0.06 per share, amounting in total to Euro 2,131 thousand.

Other information

1. Guarantees given and commitments

Transactions	Amount 31/12/2016	Amount 31/12/2015
1) Financial guarantees given	**9,383**	**12,163**
a) Banks	1,778	-
b) Customers	7,605	12,163
2) Commercial guarantees given	**82,204**	**94,638**
a) Banks	378	191
b) Customers	81,826	94,447
3) Irrevocable commitments to grant finance	**42,975**	**33,540**
a) Banks	130	-
i) certain to be called on	130	-
ii) not certain to be called on	-	-
b) Customers	42,845	33,540
i) certain to be called on	109	-
ii) not certain to be called on	42,736	33,540
4) Commitments underlying credit derivatives: protection sales	-	-
5) Assets pledged as guarantee for third-party commitments	-	-
6) Other commitments	-	-
Total	**134,562**	**140,341**

2. Assets pledged as guarantee for the Bank's liabilities and commitments

Portfolios	Amount 31/12/2016	Amount 31/12/2015
1. Financial assets held for trading	-	-
2. Financial assets measured at fair value	-	-
3. Available-for-sale financial assets	1,123,464	702,371
4. Held-to-maturity financial assets	-	-
5. Loans and receivables with banks	-	30,051
6. Loans and receivables with customers	-	-
7. Tangible assets	-	-

The above amounts refer to owned securities granted to third parties as collateral; each amount refers to the specific portfolio used.

3. Information on operating leases

The Bank does not carry out finance lease transactions.

4. Management and trading on behalf of third parties

	Amount
1. Execution of orders on behalf of customers	
a) Purchases	-
1. settled	-
2. unsettled	-
b) Sales	-
1. settled	-
2. unsettled	-
2. Portfolio management	**-**
a) individual	-
b) collective	-
3. Custody and administration of securities	**3,660,330**
a) A) third party securities held on deposit: when acting as custodian bank (excluding portfolio management)	2
1. securities issued by the reporting bank	-
2. other securities	2
b) other third-party securities held on deposit (excluding portfolio management): others	1,572,135
1. securities issued by the reporting bank	786,128
2. other securities	786,007
c) third-party securities deposited with third parties	1,377,042
d) portfolio securities deposited with third parties	2,088,193
4. Other transactions	-

5. Receivables collected on behalf of third parties: credit and debit adjustments

The table provides a breakdown of the differences deriving from the elimination of the asset items relating to the portfolio received subject to due reserve and after collection with those of the liabilities relating to transferors with settlement date subsequent to the end of the reporting period. According to the Supervisory instructions, in the annual financial statements the “other assets” or the “other liabilities” will have to contain, according to the value of the sign, only the imbalance of the items relating to the portfolio, indicating the individual components in the Explanatory notes.
The imbalance between the sum of the “debit adjustments” represented by the asset items for bank collection order, bills of exchange, direct debits, etc. accepted subject to due reserve and after collection by customers and banks and the sum of the “credit adjustments” represented by the liability items of the transferors, is equal to Euro 14,882 thousand and is recorded in the financial statement liability item 100 “other liabilities”.
Points a.1 and b.1 include the amount of the items, with settlement date in 2017, flowing to the current accounts of the correspondent banks already during 2016 and related to remittances of bills for collection. These items have been reversed from the individual pertinent accounts and booked to the original portfolio items (bills received on collection from banks or rather bills sent for collection to banks).

ITEMS	Total 31/12/2016	Total 31/12/2015
a) “debit” adjustments	489,183	483,916
1. Current accounts	4,193	6,280
2. Portfolio	479,578	474,144
3. Cash	669	986
4. Other accounts	4,743	2,506
b) “credit” adjustments	504,065	521,412
1. Current accounts	12,665	10,148
2. Transferors’ bills and documents	486,084	508,700
3. Other accounts	5,316	2,564
Currency spreads on portfolio transactions	**14,882**	**37,496**

Part C - information on the income statement

Section 1 - Interest - Items 10 and 20

This section comprises the interest income and expense, the similar income and charges relating, respectively, to financial assets held for trading, available-for-sale financial assets, financial assets held until maturity, loans, receivables, financial assets measured at fair value (asset items 10, 20, 30, 40, 50, 60 and 70) and to payables, securities issued, financial liabilities held for trading, financial liabilities measured at fair value (liability items 10, 20, 30, 40, and 50), as well as any interest accrued during the year on other transactions.
The interest income and expense also includes the differentials or margins, positive or negative, accrued until the end of the reporting period or expired or closed by the reference date relating to the derivative contracts.

1.1 Interest income and similar revenues: breakdown

Items/Technical forms		Debt securities	Loans	Other transactions	Total 31/12/2016	Total 31/12/2015
1.	Financial assets held for trading	-	-	-	-	-
2.	Available-for-sale financial assets	3,685	-	-	3,685	9,615
3.	Held-to-maturity financial assets	386	-	-	386	-
4.	Loans and receivables with banks	655	528	-	1,183	895
5.	Loans and receivables with customers	164	81,345	-	81,509	98,404
6.	Financial assets measured at fair value	-	-	-	-	-
7.	Hedging derivatives	-	-	4	4	-
8.	Other assets	-	-	-	-	54
	Total	**4,890**	**81,873**	**4**	**86,767**	**108,968**

The sub-item 4 “Loans and receivables with banks” includes:

Interest income on loans and receivables with banks due to:	Total 31/12/2016	Total 31/12/2015
- deposit tied to compulsory reserve	1	9
- current accounts for services rendered	3	6
- deposits	523	113
- debt securities	656	767
Total	**1,183**	**895**

The sub-item 5 “Loans and receivables with customers” includes:

Interest income on loans and receivables with customers due to:	Total 31/12/2016	Total 31/12/2015
- current accounts	29,428	37,138
- mortgage and personal loans	29,055	34,578
- import - export advances	1,669	2,214

- other credit transactions	19,538	22,637
- default interest	1,656	1,837
- securities recorded in loans and receivables with customers	163	-
Total	**81,509**	**98,404**

During the financial year, default interest of Euro 546 thousand accrued on non-performing positions, fully written down; item 10 comprises only the default interest collected of Euro 692 thousand.

With regard to the other performing and impaired positions other than non-performing, default interest was recorded in the income statement for a total of Euro 964 thousand.

With regard to the positions that were impaired as at 31 December 2016, interest was recorded in the income statement other than default interest, accrued throughout the year to the following extent:

- Past due Euro 1,233 thousand
- Probable defaults euro 5,153 thousand

1.3 Interest income and similar revenues: other information

1.3.1 Interest income on foreign currency financial assets

Items/Amounts	Total 31/12/2016	Total 31/12/2015
Total	682	782

1.4 Interest expense and similar charges: breakdown

	Items/Technical forms	Payables	Securities	Other transactions	Total 31/12/2016	Total 31/12/2015
1.	Due to central banks	(144)	-	-	(144)	(419)
2.	Due to banks	(82)	-	-	(82)	(6)
3.	Due to customers	(11,456)	-	-	(11,456)	(15,910)
4.	Securities issued	-	(25,418)	-	(25,418)	(37,901)
5.	Financial liabilities held for trading	-	-	-	-	-
6.	Financial liabilities measured at fair value	-	-	-	-	-
7.	Other liabilities and provisions	-	-	(1)	(1)	(21)
8.	Hedging derivatives	-	-	-	-	-
	Total	**(11,682)**	**(25,418)**	**(1)**	**(37,101)**	**(54,257)**

The sub-item 2 “Due to banks”, “Payables” column includes:

Interest expense for due to banks:	Total 31/12/2016	Total 31/12/2015
- current accounts	(1)	-
- foreign currency deposits	(2)	-
- loans received	(79)	(6)
Total	**(82)**	**(6)**

The sub-item 3 “Due to customers”, “Payables” column includes:

Interest expense on due to customers:	Total 31/12/2016	Total 31/12/2015
- current accounts	(7,706)	(11,896)
- savings deposits and time deposits	(3,503)	(3,903)
- NewMic market loans	(201)	(85)
- deposits and accounts in foreign currency	(46)	(26)
Total	**(11,456)**	**(15,910)**

Sub-item 4 "Securities issued" includes the amount of Euro 25,418 thousand that comprises interest expense on bonds issued of Euro 25,200 thousand and on certificates of deposit of Euro 218 thousand.

1.6 Interest expense and similar charges: other information

1.6.1 Interest expense on foreign currency financial liabilities

ITEMS/AMOUNTS	Total 31/12/2016	Total 31/12/2015
Total	**(48)**	**(26)**

1.6.2 Interest expense on liabilities for finance lease transactions

Items/Amounts	Total 31/12/2016	Total 31/12/2015
Total	**(1)**	**(3)**

Section 2 - Fees and commissions - Items 40 and 50

These items include the income and expense relating to the services that the bank provides to its customers and those received from third parties. These items do not comprise the costs recharged within the sphere of other operating income.

2.1 Fee and commission income: breakdown

Type of services/Amounts	Total 31/12/2016	Total 31/12/2015
a) guarantees given	1,002	1,126
b) credit derivatives	-	-
c) management, trading and consulting services:	11,544	10,771
1. trading of financial instruments	-	-
2. currency trading	365	314
3. portfolio management	-	-
3.1 individual	-	-
3.2 collective	-	-
4. custody and administration of securities	136	121
5. custodian bank	-	-

6. placement of securities	5,359	4,324
7. order transmission and receipt activities	819	1,189
8. consulting services	-	-
8.1 on investments	-	-
8.2 on financial structure	-	-
9. distribution of third party services	4,865	4,823
9.1. portfolio management	-	-
9.1.1 individual	-	-
9.1.2 collective	-	-
9.2 insurance products	4,825	4,759
9.3 other products	40	64
d) collection and payment services	5,642	5,774
e) servicing for securitisation transactions	380	233
f) factoring transaction services	-	-
g) tax collection services	-	-
h) management of multilateral trading facilities	-	-
i) current account management	8,305	8,535
j) other services	3,805	3,741
Total	**30,678**	**30,180**

Item j) other services includes fees and commissions relating to credit cards, the use of Cashline and POS cards for around Euro 1,507 thousand, fees and commissions relating to loans and services related to current accounts.

2.2 Fee and commission income: distribution channels of products and services

Channels/Amounts	Total 31/12/2016	Total 31/12/2015
a) at Bank branches:	**10,224**	**9,146**
1. portfolio management	-	-
2. placement of securities	5,359	4,324
3. third party products and services	4,865	4,822
b) out-of-branch offer:	-	-
1. portfolio management	-	-
2. placement of securities	-	-
3. third party products and services	-	-
c) other distribution channels:	-	-
1. portfolio management	-	-
2. placement of securities	-	-
3. third party products and services	-	-

2.3 Fee and commission expense: breakdown

Services/Amounts	Total 31/12/2016	Total 31/12/2015

a) guarantees received	-	-
b) credit derivatives	-	-
c) management and trading services:	(960)	(891)
1. trading of financial instruments	-	-
2. currency trading	-	-
3. portfolio management	(835)	(762)
3.1 own account	(835)	(762)
3.2 for third parties	-	-
4. custody and administration of securities	(125)	(129)
5. placement of financial instruments	-	-
6. out-of-branch offer of financial instruments, products and services	-	-
d) collection and payment services	(1,341)	(1,316)
e) other services	(1,029)	(1,194)
Total	**(3,330)**	**(3,401)**

"Management and trading services – own portfolio management" includes fee and commission expense to managers of the UCIT owned portfolio.

Section 3 - Dividends and similar income - Item 70

3.1 Dividends and similar income: breakdown

	Items/Income	Total 31/12/2016		Total 31/12/2015	
		dividends	income from UCIT units	dividends	income from UCIT units
A.	Financial assets held for trading	-	-	-	-
B.	Available-for-sale financial assets	2,283	1,116	165	1,178
C.	Financial assets measured at fair value	-	-	-	-
D.	Equity investments	-	-	73	-
	Total	**2,283**	**1,116**	**238**	**1,178**

These are dividends collected on securities recorded in the portfolio of "available-for-sale financial assets", both on equity securities and on UCITS.

Section 4 - Net profit (loss) from trading activities - Item 80

The item includes:

a) the balance between the profits and losses on transactions classified under “financial assets held for trading” and “financial liabilities held for trading”, including the results of the valuations of these transactions;

a) the balance between gains and losses on financial transactions, other than those designated at fair value and those for hedging, denominated in foreign currency, including the results of the valuations of these transactions.

4.1 Net profit (loss) from trading activities: breakdown

Transactions / Income components	Capital gains (A)	Trading income (B)	Losses (C)	Trading losses(D)	Net (profit) loss [(A+B) - (C+D)]
1. Financial liabilities held for trading	**-**	**449**	**-**	**(3)**	**446**
1.1 Debt securities	-	2	-	(2)	-
1.2 Equities	-	-	-	(1)	(1)
1.3 UCIT units	-	-	-	-	-
1.4 Loans	-	-	-	-	-
1.5 Other	-	447	-	-	447
2. Financial liabilities held for trading	**-**	**-**	**-**	**-**	-
2.1 Debt securities	-	-	-	-	-
2.2 Payables	-	-	-	-	-
2.3 Other	-	-	-	-	-
3. Financial assets and liabilities: exchange differences	-	-	-	-	**74**
4. Derivative instruments	**-**	-	**-**	**-**	**-**
4.1 Financial derivatives:	-	-	-	-	-
- On debt securities and interest rates	-	-	-	-	-
- On equity securities and stock market share indices	-	-	-	-	-
- On currencies and gold	-	-	-	-	-
- Other	-	-	-	-	-

4.2 Credit derivatives	-	-	-	-	-
Total	-	**449**	-	**(3)**	**520**

The sub-item “1.5 financial assets held for trading: other” includes the gains and losses deriving from foreign currency trading.

Section 5 - Net hedging expense - Item 90

5.1 Net hedging expense: breakdown

The Bank has not carried out any hedging transactions over the last two years; therefore, the table belonging to the section is not drawn up.

Section 6 - Profit (Losses) on sale/repurchase - Item 100

This section includes the positive and negative balances of the gains and losses generated by means of the sale of financial assets and liabilities other than those relating to trading and those designated at fair value.

6.1 Profit (loss) on sale/repurchase: breakdown

Items/Income components	Total 31/12/2016			Total 31/12/2015		
	Profit	Losses	Net profit (losses)	Profit	Losses	Net profit (losses)
Financial assets						
1. Loans and receivables with banks	-	-	-	-	-	-
2. Loans and receivables with customers	23	(120)	(97)	243	(1,309)	(1,066)
3. Available-for-sale financial assets	10,644	(1,876)	8,768	39,213	(643)	38,570
3.1 Debt securities	8,410	(117)	8,293	30,567	(129)	30,438
3.2 Equity securities	85	-	85	1,451	-	1,451
3.3 UCITS units	2,149	(1,759)	390	7,195	(514)	6,681
3.4 Loans	-	-	-	-	-	-
4. Held-to-maturity financial assets	-	-	-	-	-	-
Total assets	**10,667**	**(1,996)**	**8,671**	**39,456**	**(1,952)**	**37,504**
Financial liabilities						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Securities issued	220	(832)	(612)	104	(688)	(584)
Total liabilities	**220**	**(832)**	**(612)**	**104**	**(688)**	**(584)**

The positive overall result from sale/repurchase activities amounted to Euro 8,059 thousand compared with Euro 36,920 thousand in 2015. It includes the net loss of Euro 97 thousand registered on the disposal of a number of loans and receivables with customers, the overall profit of Euro 8,768 thousand deriving from the sale of the securities included in the portfolio of available-for-sale financial assets, mainly Government securities, and the loss of Euro 612 thousand from the repurchase of Bank bonds at a price higher on average than that recognised in the accounts at amortised cost.

Section 7 - Profits (Losses) on financial assets and liabilities measured at fair value - Item 110

The table shows the amount resulting from the measurement of financial assets at fair value held by the Bank and classified in asset item 30.

7.1 Net value change of financial assets/liabilities measured at fair value

Transactions / Income components	Capital gains (A)	Gains on sales (B)	Capital losses (C)	Losses on sales (D)	Net (gain) loss [(A+B) - (C+D)]
1. Financial assets	**175**	**-**	**-**	**-**	**175**
1.1 Debt securities	**-**	**-**	**-**	**-**	**-**
1.2 Equity securities	**-**	**-**	**-**	**-**	**-**
1.3 UCITS units	**-**	**-**	**-**	**-**	**-**
1.4 Loans	175	-	-	-	175
2. Financial liabilities	**-**	**-**	**-**	**-**	**-**
2.1 Debt securities	**-**	**-**	**-**	**-**	**-**
2.2 Due to banks	**-**	**-**	**-**	**-**	**-**
2.3 Due to customers	**-**	**-**	**-**	**-**	**-**
3. Financial assets and liabilities in currency: exchange rate differences	-	-	-	-	-
4. Credit and financial derivatives	-	-	-	-	-
Total	**175**	-	-	-	**175**

During the financial year, insurance policies were taken out for a total amount of Euro 9 million; the result of the measurement as at 31 December 2016 is recorded in this item of the income statement.

Section 8 - Net impairment losses - Item 130

The balances of impairment losses and reversals of impairment losses related to loans and receivables with customers and with banks, of available-for-sale financial assets, of financial assets held until maturity and other financial transactions are presented in this item.

8.1 Net impairment losses on loans and receivables: breakdown

Net impairment losses on loans and receivables is broken down as follows:

Transactions/Income components	Impairment losses (1)			Reversals of impairment losses (2)				(1-2) Total 31/12/2016	Total 31/12/2015
	Individual		Collective	Individual		Portfolio			
	Derecognitions	Other		A	B	A	B		
A. Loans and receivables with banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- Loans	-	-	-	-	-	-	-	-	-
- Debt securities	-	-	-	-	-	-	-	-	-
B. Loans and receivables with customers	**(1,574)**	**(55,851)**	**-**	**8,596**	**8,908**	**-**	**3,734**	**(36,187)**	**(46,178)**
Purchased impaired loans and receivables	-	-	-	-	-	-	-	-	-
- Loans	-	-	-	-	-	-	-	-	-
- Debt securities	-	-	-	-	-	-	-	-	-
Other loans and receivables	(1,574)	(55,851)	-	8,596	8,908	-	3,734	(36,187)	(46,178)
- Loans	(1,574)	(55,851)	-	8,596	8,908	-	3,734	(36,187)	(46,178)
- Debt securities	-	-	-	-	-	-	-	-	-
C. Total	**(1,574)**	**(55,851)**	**-**	**8,596**	**8,908**	**-**	**3,734**	**(36,187)**	**(46,178)**

Key
A = From interest
B = Other reversals

Impairment losses, in correspondence to the "Individual - Derecognitions" column, are those pertaining to the year that derive from discharging events, while those corresponding to the "Individual - Other" column correspond to the amount booked to the income statement as a consequence of the analytical write-downs of impaired loans and receivables, impairment inclusive of the discounting back of the estimated future cash flows that populate the specific allowance for impairment.

The impairment losses recorded in the “collective” columns mostly represent the adjustment of the measurement of the overall risk on performing loans and receivables and their accounting counterpart is the allowance for impairment of performing loans and receivables (collective impairment in the tables of part E) to a lesser extent, the valuation impact of loans and receivables that have become non-interest bearing or have returned to produce interest.
The reversals of impairment losses stated in the “Specific - A” column refer to the restoration of value deriving from the discounting back and corresponding to the interest accrued in the period on the basis of the original interest rate used to calculate the impairment losses.
The individual reversals of impairment losses shown in column B by contrast refer to all the reversals of impairment losses (also for return to performing status) and collection of impaired loans and receivables, as well as the recovery of receivables and loans by now amortised.

8.2 Net impairment losses on available-for-sale financial assets: breakdown

Transactions/Income components	Impairment losses		Reversals of impairment losses		Total 31/12/2016	Total 31/12/2015
	Individual		Individual			
	Derecognitions	Other	A	B		
A. Debt securities	-	-	-	-	-	-
B. Equity securities	-	(2,188)	-	-	(2,188)	(2,453)
C. UCIT units	-	(545)	-	-	(545)	(536)
D. Loans and receivables with banks	-	-	-	-	-	-
E. Loans and receivables with customers	-	-	-	-	-	-
F. Total	-	**(2,733)**	-	-	**(2,733)**	**(2,989)**

Key

A = from interest B = other reversals

The amount refers:

- to the impairment of the shares held in Banca Popolare di Vicenza of Euro 1,946 thousand, with measurement at the price assigned on the occasion of the last share capital increase carried out by this bank during the 2016 financial year;
- to the impairment of the equity investment UBI Leasing for Euro 190 thousand, aligning the value recorded in the financial statements to shareholders' equity of the investee company as at 30 September 2016;
- for Euro 52 thousand, to the re-alignment of the Aedes shares to the market price recorded as at 31 December 2016, given the continuity of trading for a period longer than 18 months at a price lower than the book value;
- to the alignment of the book value to the value expressed in the last interim report of the UCIT funds Asset Bancari I (Euro 24 thousand), Asset Bancari IV (Euro 289 thousand), Asset Bancari V (Euro 37 thousand) and of the mutual fund Leopardi (Euro 195 thousand).

The impairment was made in compliance with the classification and measurement policies adopted by the Bank.

8.3 Net impairment losses on held-to-maturity financial assets: breakdown

The table is not drawn up because there are no financial assets classified as thus.

8.4 Net impairment losses on other financial transactions: breakdown

Transactions/Income components	Impairment losses (1)			Reversals of impairment losses (2)				(1-2) Total 31/12/2016	Total 31/12/2015
	Individual		Collective	Individual		Portfolio			
	Derecognitions	Other		A	B	A	B		
A. Guarantees given	(2)	(266)	(5)	-	196	-	-	**(77)**	**(92)**
B. Credit derivatives	-	-	-	-	-	-	-	-	-
C. Commitments to grant	-	-	-	-	-	-	-	-	-

finance									
D. Other transactions	-	-	-	-	-	-	-	-	-
E. TOTAL	**(2)**	**(266)**	**(5)**	-	**196**	-	-	**(77)**	**(92)**

Key
A = from interest B = other reversals

The table shows the impairment losses and reversals of impairment losses on endorsement credits to customers that are impaired.

Section 9 - Administrative expenses - Item 150

This section provides analysis of the “labour costs” and the “other administrative expenses” recorded during the year.

9.1 Labour costs: breakdown

TYPE OF EXPENSE/AMOUNTS	Total 31/12/2016	Total 31/12/2015
1) Employees	**(33,526)**	**(33,278)**
a) wages and salaries	(23,255)	(23,210)
b) social security charges	(6,316)	(6,279)
c) post-employment benefits	(415)	(420)
d) pension expenses	-	-
e) accrual for post-employment benefits	(104)	(110)
f) accruals for pension and similar provisions:	-	-
- defined contribution	-	-
- defined benefits	-	-
g) payments to external supplementary pension funds:	(2,075)	(2,079)
- defined contribution	(2,075)	(2,079)
- defined benefits	-	-
h) costs of share-based payment plans	-	-
i) other employee benefits	(1,361)	(1,180)
2) Other personnel in service	**(76)**	**(138)**
3) Directors and statutory auditors	**(887)**	**(879)**
4) Retired personnel	-	-
5) Cost recoveries for employees seconded to other companies	-	-
6) Cost reimbursement for third party employees seconded to the bank	-	-
Total	**(34,489)**	**(34,295)**

There was a slight change in the overall amount of labour costs in relation to the salary and wage trends and contractual rises, as well as to the change in the workforce.
The items “wages and salaries” and “social security charges” also include the provision for the 2016 results bonus, which will be paid during 2017.

The sub-item “c) post-employment benefits” includes the amounts intended for the INPS Treasury Fund, in accordance with the provisions introduced by the welfare reform as per Italian Legislative Decree No. 252/2005 and Italian Law No. 296/2006 as well as the sums paid monthly in the payroll to employees who have opted for this alternative introduced by Italian Law 190/2014.

The sub-item "e) accrual for post-employment benefits - employees" includes the revaluation of the Post-employment benefits that has remained in-house (post-employment benefit fund) and the non-actuarial components of the IAS measurements.

The sub-item g) includes the portions relating to the supplementary pension fund paid by the Bank to the Supplementary Funds on a compulsory (portion relating to the post-employment benefits) and optional basis.

The sub-item 2) "other personnel" of Euro 76 thousand includes costs for atypical employment contracts, including those for "temp work" contracts of Euro 47 thousand.

The item 3) "Directors and statutory auditors" comprises:
- the fee, inclusive of VAT and contributions, for the Board of Statutory Auditors totalling Euro 203 thousand;
- the fee, inclusive of VAT and contributions, if due, for the members of the Board of Directors totalling Euro 684 thousand.

9.2 Average number of employees by category

Items		Total 31/12/2016	Total 31/12/2015
°	**Employees:**	**486**	**477**
	a) executives	10	9
	b) middle managers	183	178
	c) other employees	293	290
°	**Other personnel**	**12**	**14**

The exact number of employees at year end was by contrast the following:

Exact number of employees	Total 31/12/2016	Total 31/12/2015
Employees	497	486
of which part time	18	16
Under staff leasing	3	1
Other personnel	12	13

The exact number is indicated without weighting by 50% the part-time employees.
Other personnel includes the 10 directors and 2 external co-workers.

9.3 Defined benefit company pension funds: costs and revenues

There are no defined benefit company pension funds.

9.4 Other employee benefits

This item includes various types of expense, as broken down below:

TYPE OF EXPENSE/AMOUNTS	TOTAL 31/12/2016	TOTAL 31/12/2015
Luncheon vouchers	(569)	(566)
Insurance premiums	(427)	(418)
Training expenses	(28)	(138)
Redundancy incentives	(300)	(15)
Other	(37)	(43)
Total	**(1,361)**	**(1,180)**

9.5 Other administrative expenses: breakdown

Administrative expenses other than labour costs amounted to Euro 36,931 thousand at year end; the table below presents a comparison with the previous year:

Type of expense/Amounts	Total 31/12/2016	Total 31/12/2015
Contributions to the resolution fund and to the deposit guarantee system	(4,817)	(4,807)
Telephone, postal and data transmission expense	(1,748)	(1,940)
Intangible fixed asset maintenance expenses	(1,496)	(1,647)
Rentals payable on properties	(1,577)	(1,467)
Security, transportation and custody of valuables expenses	(684)	(665)
Transportation expenses	(256)	(246)
Expert appraisals and real estate documents	(563)	(212)
Legislative and procedural consulting	(928)	(373)
Sundry consulting and services	(454)	(235)
Costs for office materials and supplies	(519)	(613)
Electricity and heating costs	(616)	(644)
Advertising and entertainment expenses	(828)	(583)
Legal costs	(1,868)	(1,924)
Insurance premiums	(2,039)	(2,127)
Costs for information and searches	(2,076)	(1,841)
Data processing centre	(4,987)	(4,534)
Indirect taxes	(7,881)	(8,877)
Cleaning services	(506)	(435)
Membership fees	(575)	(587)
Contributions for Treasury Service and sundry associations	(9)	(24)
Processing of bills, cheques and documents with third parties	(520)	(494)
Rented property maintenance and condo charges	(88)	(68)
Subscriptions and ads for newspapers and magazines	(129)	(106)
Purchase of promotional materials	(99)	(81)

Cost of the staff leasing contracts service	(4)	(12)
Expenses for travel and business trips involving personnel in service	(356)	(343)
Securitisation administrative expenses	(970)	(373)
Sundry minor costs and expenses for general meetings	(338)	(350)
Total	**(36,931)**	**(35,608)**

There is an overall increase in terms of administrative expenses. This increase is related both to consulting expenses of the increasingly stringent new regulations and to the outsourced activities in support of the acquisition of the business unit of Hypo Alpe Adria Bank S.p.A. (transaction described in part G of these Explanatory notes).
The increase in advertising expenses and the data processing centre as well as the change in expenses for surveys and appraisals (subrogations), are related to the acquisition of new customers and to the regular check of the existing customers.
The Resolution Fund, set up at the Bank of Italy, received ordinary contributions of Euro 1,380 thousand (Euro 1,056 thousand in 2015) and extraordinary contributions of Euro 2,760 thousand (Euro 3,170 thousand in 2015) for the capitalisation of the new banks emerging from the resolution procedures of CA.RI.FE., Banca Etruria, Banca Marche and Cassa di Risparmio di Chieti, procedure that started in November 2015.
Ordinary contributions of Euro 680 thousand have been paid over to the Deposit Guarantee Fund (Euro 381 thousand in 2015, only one six-monthly payment required at that time).
Administrative expenses also include the item “Indirect taxes”, item that also includes the stamp duty paid on behalf of customers, other taxes pertaining to the Banks such as IMU, TASI, TARI, municipal taxes, registration taxes and sundry associated with the debt collection activities. The prevailing amount regards stamp duty (Euro 6,735 thousand compared with Euro 7,745 thousand in 2015, a decrease attributable to the change in the average stock of bonds subject to the proportional stamp duty). The amount of the related recovery is recorded in the item “190 Other operating income and expense”.
In conclusion, mention is made of the incidence of the administrative charges relating to the new securitisation transaction carried out at the end of 2016 and described in part E.

Section 10 - Net accruals to provisions for risks and charges - item 160

This item includes the balance, positive or negative, between the allocations and any re-assignments to the income statement of provisions deemed in excess, relating to the provisions as per sub-item b) “other provisions” in item 120 “provisions for risks and charges” under the liability items of the balance sheet.

10.1 - Net accruals to provisions for risks and charges: breakdown

Items	Total 31/12/2016	Total 31/12/2015
Provision for legal disputes, compound interest and securities as well as for bankruptcy revocatory action	(821)	(1,066)
Return to income statement for settlement of disputes arising during core business activities	86	138
Total	**(735)**	**(928)**

Section 11 - Depreciation and net impairment losses on tangible assets - Item 170

The item comprises the balance between the depreciation and net impairment losses on operational tangible assets, including those relating to activities acquired through finance lease.

11.1 Depreciation and net impairment losses on tangible assets

Assets/Income items	Depreciation (a)	Impairment losses (b)	Reversals of impairment losses (c)	Net result (a + b - c)
A. Tangible assets				
A.1 Owned	**(1,490)**	-	-	**(1,490)**
- Used in operations	(1,490)	-	-	(1,490)
- Investment property	-	-	-	-
A.2 Acquired through a finance lease	**(11)**	-	-	**(11)**
- Used in operations	(11)	-	-	(11)
- Investment property	-	-	-	-
Total	**(1,501)**	-	-	**(1,501)**

The depreciation for 2016 amounted in total to Euro 1,501 thousand. Reference is also made to table 11.3 in Section 11 of the Balance Sheet - Assets “Tangible assets”.

In detail, the depreciation is broken down as follows:
• on properties Euro 674 thousand;
• on furniture and furnishings Euro 228 thousand;
• on electronic installations Euro 194 thousand;
• on the remaining assets Euro 494 thousand.
As at 31 December 2016, there were no assets held for sale and discontinued operations as per IFRS 5.

Section 12 - Amortisation and impairment losses on intangible assets - Item 180

This section comprises the balance between amortisation and impairment losses on intangible assets, other than goodwill, including those relating to assets acquired through finance lease assets provided under operating lease.

12.1 Amortisation and net impairment losses on intangible assets: breakdown

Assets/Income items	Amortisation (a)	Impairment losses (b)	Reversals of impairment losses (c)	Net result (a + b - c)
A. Intangible assets				
A.1 Owned	(843)	-	-	(843)
- Generated internally	-	-	-	-
- Other	(843)	-	-	(843)
A.2 Acquired through a finance lease	-	-	-	-
Total	**(843)**	-	-	**(843)**

The impairment losses refer to the amortisation of intangible assets with a definite useful life acquired externally.
Intangible assets are more fully described in Section 12 of the Balance Sheet - Assets “Intangible assets” in these explanatory notes

Section 13 - Other operating income/expense - Item 190

The costs and revenues not attributable to other items, which contribute to the formation of item 270 “Profit (Loss) from operations net of taxation” are illustrated in this section.

13.1 Other operating expenses: breakdown

The breakdown of other operating expense is provided below.

Type of expense/Amounts	Total 31/12/2016	Total 31/12/2015
Extraordinary expense	(85)	(191)
Costs for leasehold improvements	(182)	(125)
Other	(119)	(116)
Total	**(386)**	**(432)**

The item “costs for leasehold improvements” includes the amortisation of improvements made to third party assets, in detail structural work necessary for the setting up of branches in rented properties.
The item “Other” mainly comprises costs of legal and similar transactions pertaining to the year.

13.2 Other operating income: breakdown

The breakdown of other operating income is provided below.

Type of income/Amounts	Total 31/12/2016	Total 31/12/2015
Rent receivable on properties	38	41
Recovery of taxes from customers	6,721	7,741
Recovery of insurance premiums from customers	1,177	1,181
Recovery of expenses on deposits and current accounts	88	124
Services provided to other Group companies	20	20
Recoveries on legal costs	1,634	1,651
Extraordinary income	272	78
Fast credit processing fees	2,432	2,779
Extraordinary income from acquisition of the business unit of Hypo Alpe Adria Bank	17,500	-
Recovery of expenses from employees	2	1
Total	**29,884**	**13,616**

The aggregate includes the "extraordinary income" deriving from the acquisition of the business unit of Hypo Alpe Adria Bank S.p.A.; this transaction is described in part G of these Explanatory notes.
The recovery of taxes of Euro 6,721 thousand concerns the stamp duty on current accounts and securities deposits; this recovery is related to the amount recorded under administrative expenses (see table “9.5 Other administrative expenses”).
The item “Recoveries on legal costs” includes the recovery of legal costs concerning specific recovery activities vis-à-vis non-performing positions and recharged to the same (both expenses professional consulting expenses and tax expenses).

Fast credit processing fees are classified here as requested by the financial statement regulations of the Bank of Italy.
Services provided to Group companies include service activities provided to Valsabbina Real Estate S.r.l.

Section 14 - Net gains (losses) on equity investments - Item 210

14.1 Net gains (losses) on equity investments: breakdown

Income components/Amounts	Total 31/12/2016	Total 31/12/2015
A. Income	-	-
1. Revaluations	-	-
2. Gains on sale	-	-
3. Reversals of impairment losses	-	-
4. Other income	-	-
B. Expense	**(384)**	**(130)**
1. Impairment	(384)	(130)
2. Impairment losses	-	-
3. Losses on sale	-	-
4. Other expenses	-	-
Net gains (losses)	**(384)**	**(130)**

The item comprises the impairment on equity investments held in the subsidiary Valsabbina Real Estate S.r.l. (Euro 193 thousand) and in Polis S.g.R. (Euro 191 thousand).

Section 15 – Net profit (loss) from the fair value measurement of tangible and intangible assets - Item 220

Section 16 - Goodwill impairment - Item 230

These tables have not been drawn up since there have been no transactions that would require indication in these sections.

Section 17 - Net gains (losses) on sales of investments - Item 240

17.1 Net gains (losses) on sales of investments: breakdown

Income components/Amounts	Total 31/12/2016	Total 31/12/2015
A. Property	**-**	12
- Gains on sale	-	12
- Losses on sale	-	-
B. Other assets	25	-
- Gains on sale	36	3
- Losses on sale	(11)	(3)
Net gains (losses)	**25**	**12**

Section 18 - Income taxes for the year from continuing operations - Item 260

This item discloses the tax liability - equal to the balance between the current taxation and the deferred taxation - relating to the profit for the year.

18.1 Income taxes for the year from continuing operations: breakdown

The breakdown of taxation for the year is provided below.

Income components/Amounts		Total 31/12/2016	Total 31/12/2015
1.	Current taxes (-)	-	(7,083)
2.	Changes in current taxes of prior years (+/-)	87	-
3.	Reduction in current taxes for the year (+)	-	-
3.bis	Reduction in current taxes for the year for credit taxes set forth in Italian Law no. 214/2011 (+)	-	-
4.	Change in prepaid taxes (+/-)	(437)	4,288
5.	Change in deferred taxes (+/-)	(310)	(128)
6.	**Income taxes for the year (-) (-1+/-2+3+3bis+/-4+/-5)**	**(660)**	**(2,923)**

Current taxes were recognised on the basis of current tax regulations and tax rates (27.50% for Ires, 5.57% for IRAP); these taxes are calculated on the basis of the taxable base pertaining to the year for tax purposes.

The tax liability for 2016 was determined taking into account the amendments introduced by Italian Law No. 190 dated 23 December 2014 (2015 stability law) with regard to the deductibility of costs of permanent personnel from taxable Irap.
The change in prepaid taxes (prepaid arising less prepaid cancelled in the year) amounted to Euro -437 thousand and is shown in asset table 13.3, while that for deferred taxes amounted to Euro 310 thousand and is shown in asset table 13.5.

18.2 Reconciliation between theoretical tax expense and actual tax expense

The following table shows the reconciliation of the effective tax expense (13.73%) with respect to the theoretical one calculated on the profit from continuing operations gross of taxation (income statement item 250).

IRES	Taxable amount	Ires 27.5%	% incidence
Profit gross of taxation (theoretical taxation)	4,808	(1,322)	(27.50%)
Permanent increases			
- 4% non-deductible interest expense	1,484	(408)	(8.49%)
- non-deductibility of impairment of investment	2,572	(707)	(14.71%)
- other non-deductible expense	775	(213)	(4.44%)
Permanent decreases			
- dividends	(1,846)	507	10.56%
- equity increase (a.c.e.)	(4,447)	1,223	25.44%
- other changes	(489)	134	2.80%
Effective IRES tax expense		**(786)**	**(16.34%)**
IRAP	**Taxable amount**	**IRAP 5.57%**	**% incidence**
Profit gross of taxation (theoretical taxation)	4,808	(268)	(5.57%)
Permanent increases			
- 4% non-deductible interest expense	1,484	(83)	(1.72%)
- non-recoverable impairment of investment securities	2,330	(130)	(2.70%)
- other non-deductible expense (10% general expenses and other associated items)	1,552	(86)	(1.80%)
Permanent decreases			
- dividends	(1,142)	64	1.32%
- IRAP recovery on prior impairment from sale of loans and receivables	(192)	11	0.22%
- other changes	(11,097)	618	12.86%
Effective IRAP tax expense		**126**	**2.61%**
Total effective IRES and IRAP tax expense		**(660)**	**(13.73%)**

Section 19 - Profit (loss) from discontinued operations net of taxation - Item 280

The table is not drawn up because there are no assets classified as thus.

Section 20 – Other information

This section is not drawn up since it is deemed that the information provided previously is complete.

Section 21 - Earnings per share

The new international standards (IAS 33) require the returns indicator to be published on a mandatory basis: "earnings per share" (commonly known as "EPS"), in the two versions:

- "Basic EPS", calculated by dividing the net profit by the weighted average of the ordinary shares in circulation;
- "Diluted EPS", calculated by dividing the net profit by the weighted average of the ordinary shares in circulation, also taking into account the classes of instruments with diluting effects.

21.1 Average number of ordinary shares with diluted share capital

There are no ordinary shares that will be issued in the future with diluting effects on the capital.

21.2 - Other information

Items	Total 31/12/2016	Total 31/12/2015
Profit for the year	4,148	8,062
Ordinary shares (weighted average)	35,200,965	35,329,009
Earnings per share	**0.118**	**0.228**

On the basis of sections 19 - 20 of IAS 33, with regard to the calculation of the basic earnings per share, the number of the ordinary shares in circulation must be equal to the weighted average for the number of days the shares have been in circulation, therefore net of the own shares repurchased.

Part D – Statement of Comprehensive Income

This additional disclosure is required for presenting the not only the profit for the year but also the other income components that are not recognised in the income statement (basically those recorded as a change in the shareholders' equity valuation reserves).
In addition to the statement of comprehensive income shown after the financial statements, the following additional details are provided.

Analytical statement of comprehensive income

	Items	Gross amount	Income tax	Net amount
10.	**Profit (loss) for the year**	**X**	**X**	**4,148**
	Other comprehensive income without reversal to income statement	**(192)**	**64**	**(128)**
40.	Defined benefit plans	(192)	64	(128)
	Other comprehensive income with reversal to income statement	**(1,059)**	**478**	**(581)**
100.	Available-for-sale financial assets:	**(1,059)**	**478**	**(581)**
	a) fair value changes	(9,689)	3,328	(6,361)
	b) reversal to income statement	8,630	(2,850)	5,780
	- impairment losses	42	(10)	32
	- gains (losses) on sales	8,588	(2,840)	5,748
	c) other changes	-	-	-
130.	**Total other comprehensive income**	**(1,251)**	**542**	**(709)**
140.	**Comprehensive income (Item 10+130)**	**(1,251)**	**542**	**3,439**

With regard to item 100, the breakdown of the fair value changes and the reversal to income statement of the impairment losses recognised in 2016 is as follows:

	Gross amount	Income tax	Net amount
a) fair value changes	**(9,689)**	**3,328**	**(6,361)**
Debt securities	(8,813)	2,914	(5,899)
Equity securities	473	(32)	441
UCIT units	(1,349)	446	(903)
b) reversal to income statement - impairment losses	**42**	**(10)**	**32**
Equity securities	14	(1)	13
UCIT units	28	(9)	19
b) reversal to income statement - gains (losses) on sales	**8,588**	**(2,840)**	**5,748**
Debt securities	5,800	(1,918)	3,882
Equity securities	-	-	-
UCIT units	2,788	(922)	1,866
c) other changes	**-**	**-**	**-**

Item 40 is equal, as already indicated in the comment to liability item 110, to the actuarial change for the year in the post-employment benefit fund, a change that was registered against shareholders' equity reserve as from the 2012 financial statements.

The amount of the income tax for Euro 542 thousand, is also indicated in the tables 13.5 and 13.6 of the “Tax assets”, as follows:

13.5 Changes in prepaid taxes (through shareholders' equity)	
Increases	4,141
Decreases	(3,316)
13.6 Changes in deferred taxes (through shareholders' equity)	
Increases	(537)
Decreases	254
Effect of the income taxes on comprehensive income	**542**

Part E

Information on risks and the related hedging policies

Introduction

The Bank carries out its activities on a sound and prudent basis and with a contained propensity to risk, this in relation to:

- the need for stability associated with the performance of banking activities;
- the profile of its investors.

The overall propensity to risk is measured in summary form by identifying, as part of the Bank's equity ("own funds"), a capital component not intended for the assumption of risks (unexpected losses), but oriented to pursue the following purposes:

- the business as a going-concern over the mid/long-term, gradually strengthening equity and maintaining conditions of operational flexibility (so-called "strategic capital reserve");
- equity coverage of the impacts deriving from the occurrence of stress (so-called "stress capital coverage").

The Bank's system of internal controls ensures the implementation of the corporate strategies and policies and is made up of a series of rules, procedures and organisational structures that aim to observe the standards of sound and prudent management.

The Corporate Bodies have the prime responsibility of ensuring, according to specific responsibilities, the completeness, adequacy, functionality and reliability of the internal control system.

The Bank has adopted a traditional type of governance model that envisages the presence of a Board of Directors, a Board of Statutory Auditors and General Management.

The Board of Directors is responsible for the strategic supervision function and for managing the Bank, accompanied also by the General Management, whereas the control functions are assigned to the Board of Statutory Auditors.

The Board of Directors defines the business model by approving the strategic business plan and the annual budgets, with the awareness of the risks that this model exposes the Bank to and comprehension of the methods by means of which the risks are reported and assessed. The Board of Directors defines and approves the strategic guidelines and sees to their periodic review, establishes within the Risk Appetite Framework the propensity to risk and the related tolerance thresholds as well as the risk controlling policies, ensuring that the Bank's structure is consistent with the activities carried on and the business model adopted.

The risk controlling policies are formalised in specific regulations/policies that are promptly submitted for the approval of the Board of Directors.

The adoption of new products and services, the launch of new activities, introduction into new markets and, in general, the most significant operations are always approved by the Board of Directors.

The Board of Directors periodically assesses whether the risk profiles assumed by the Bank in terms of capital adequacy, liquidity and risk return ratio of the operating activities are consistent with the propensity towards risk defined within the sphere of the strategic planning activities and with the regulatory levels. Furthermore, the Board of Directors assesses the observance of the operating limits defined for the assumption of the various types of risks. The Board of Directors ensures the consistency between the strategic plan, the business model, the Risk Appetite Framework, the ICAAP process, the Budgets as well as the corporate organisation and the system of internal controls, taking into consideration the developments in the internal and external conditions under which the Bank operates.

In particular, during 2016, the "Risk Appetite Framework Policy" document was reviewed as usual further to the breakdown of the objectives of the Strategic Plan as part of the 2016 annual budget, up-dating the types of risk that the Bank intends to assume, the risk objectives, any tolerance thresholds and possible operating limits.
The Board of Directors is supported by the Risks Committee, a body within the board that performs advisory and proposal-related functions with regard to risks and the system of internal controls.
General Management, also availing itself of the Strategic Committee made up of all the senior members of the Bank, is fully aware of all the business risks, sees to the implementation of the strategic guidelines and the risk controlling policies defined by the Board of Directors. In particular, it proposes operating limits for the assumption of the various types of risk, considering the stress tests carried out by the appointed units, in accordance with the matters envisaged by the Bank's internal policies.
The General Management, with a view to facilitating the development and the divulgation - at all levels - of a culture of risk control, plans the training programmes for the Bank's personnel on the basis of the proposals made by the HR Division.
The Board of Statutory Auditors carries out periodic checks so as to ascertain the completeness, adequacy, functionality and reliability of the internal control system.
When carrying out its tasks, the Board of Statutory Auditors uses suitable information flows provided by other Corporate Bodies and control functions. The regular attendance of the Board of Statutory Auditors during Board meetings, which are held every two weeks, represents a guarantee with regard to prompt information to the Control Body with regard to management events.

The sound and prudent management of the banks in ensured by a suitable business organisation, which envisages a complete and functional system of internal controls.
Specifically, the Bank's System of internal controls is divided up into three different levels:

- line controls: aimed at ensuring proper execution of transactions. They are carried out by the production structures themselves or incorporated in the procedures and the IT systems, or carried out as part of back office activities.
  For the purpose of spreading within the entire structure deep-rooted awareness of the internal and external regulations, the Bank immediately communicated their updates to all relevant corporate functions using the dedicated electronic portal. Moreover, the controls to be implemented within each business process are broken down in the special "line control manual". Finally, with the aim of harmonising the conduct of the operators facilitating the integration of the controls, the mapping of the main business processes is made available on-line for all the personnel by means of a specific application;
- **controls on risks and on compliance (the "second-level controls"), aimed at ensuring, among other things:**
  - the correct implementation of the risk management process;
  - the observance of the operating limits assigned to the various divisions;
  - the compliance of business operations with standards; including those concerning self-regulation.

  The second level controls are delegated by the organisational rules to the Risk Management, Planning & Control Service, the Compliance Service and the Anti-money Laundering Service. The functions in charge of these controls are different from those in charge of production; they contribute towards the definition of the risk governance policies and the risk management process;

- Internal audit (known as "third-level controls"): aimed at identifying violations of procedures and regulations as well as evaluating on a regular basis the completeness, adequacy, functions and reliability of the internal control system and of the IT system. These activities are carried out by the Internal Audit Service.

The company control functions who see to the second and third level controls have the authority, resources and expertise necessary for the performance of their tasks.
The company organisation chart envisages - in compliance with the Supervisory regulations - the hierarchical and functional relationship of the company's control functions with regard to the Board of Directors.

The control functions have access to all the activities carried out by the Bank, both at the central offices and at the peripheral structures, as well as any information relevant for the performance of their tasks.

Pursuant to Italian Law No. 231/01, a specific Supervisory Body of a formal nature is present, made up of seven members, including one member of the Board of Statutory Auditors, the heads of the control functions and a Bank official who also carries out the role of secretary; the Chairman of the Supervisory Body is an outside professional of proven experience.
The presence of the company's different control functions provides assurance of the necessary link between the 231 Body and the internal structures of the Bank and complies with the necessary exchange of information flows envisaged by the regulations.
During the five meetings held during the year, the 231 Body was in a position to dwell, with greater attention, upon the adoption by the Bank of the necessary organisational measures suggested by the Bank of Italy and in particular those associated with the application of the regulations contrasting money laundering and the financing of international terrorism. The 231 Body also examined and discussed the annual reports of the various control units of the Bank, in particular evaluating any critical aspects emerging and the related measures adopted and/or planned for their removal.
Special attention was then paid to the examination of the records of the judicial proceedings that also involves the Bank pursuant to and for the purposes of Italian law 231/2001.
Copies of the reports of the 231 Body are sent to the Chairman of the Board of Directors and the Chairman of the Board of Statutory Auditors.
Also during 2016, no reports were received on the special e-mail that the 231 Body set up to ensure everyone the opportunity to highlight any relevant facts under the law 231/01.

Compliance department

The risk of non-compliance is overseen by the Compliance Service. The activities of the compliance department include the monitoring of new regulations (also with the support of specialist functions), the assessment of impacts, the proposal of organisational and procedural changes aimed at ensuring adequate monitoring of identified non-compliance risks, as well as the checking of the efficacy of the organisational adaptations carried out by the operating units (structures, processes, procedures including operational and commercial) suggested for the prevention of the non-compliance risk. In detail, the Compliance Service works together with the other control functions (Internal Audit, Risk Management, Anti-money Laundering) for the purpose of developing its risk management methods in a consistent manner with strategies and business operations, checks whether situations involving conflicts of interest in "investment services", or the possible occurrence of such conflict, can be eliminated, reduced or managed, and submits the new cases for the attention of General Management, making suggestions for their overcoming or solution.
The regulatory areas monitored directly by the Compliance Service are attributable to the regulations on the provision of investments services, the regulations on market abuse, the regulations regarding remuneration and incentive policies and practices in banks and banking groups, the regulations safeguarding customers (Banking Transparency as per Section VI of the CBA) and consumers (Consumer Code as per It. Decree Law No. 206/05), the regulations regarding conflicts of interest in investment services and codes of conduct.
The Compliance Department sees to consulting and assistance vis-à-vis the Bank’s Corporate Bodies with regard to all the matters in which the risk of non-compliance is relevant. Furthermore, the department collaborates in staff training activities on the provisions applicable to the activities carried out, for the purpose of spreading a corporate culture instilled with principles of honesty, correctness and respect of the spirit and letter of the law.
The Compliance Service sees to the constant up-dating of the system for the safeguarding of significant legislation (so-called “Compliance Framework”) in light of any changes in the characteristics of the Bank (i.e. size, operations and complexity) and of the market context. The "Compliance Framework" allows the

Compliance Department of the Bank to monitor, according to a risk-based approach, the management of non-compliance risk with regard to business activities, verifying the adequacy of internal procedures.

Anti-money Laundering Function

The Anti Money Laundering Service is hierarchically and functionally autonomous, compared to each operating structure of the Bank and acts autonomously and independently, reporting the results of the activity carried on to the Corporate bodies with objectivity and impartiality.
The Anti-money Laundering Service has the task of continually checking that the company procedures are consistent with the aim of preventing and contrasting money laundering and the financing of terrorism.

The operations of the Service pursue the twofold need of:

- implementing the fulfilments with regard to reporting of suspect transactions, carrying out checks with regard to the observance, of the provisions regarding anti-money laundering, notifying to the Ministry of the Economy and Finance any violations of the regulations on the use of cash and bearer securities as well as responding to the requests of the Authorities;
- providing advisory support to the organisational structures further to the issuance of new provisions regarding anti-money laundering having an impact on the Bank.

The guidelines adopted by the Bank with regard to anti-money laundering consider the provisions issued by the Bank of Italy with “Measure of 3 April 2013 relating to customer due diligence and keeping of the Centralised Computer Archive” and Circular No. 285 of 17 December 2013 “Supervisory provisions for banks”. The “Anti-money laundering Policy”, approved by the Board of Directors, brings together the guiding principles relating to the strategic stances and the government policies, the organisational and control safeguards for risk, appropriate checks, obligations to abstain and active collaboration vis-à-vis the Supervisory Authorities.

The Anti Money Laundering Service adopts, as an instrument for internal regulation of the specialist function, its own Regulations approved by the Board of Directors; internal regulations for use by all personnel is instead summarised in the form of a Manual, with the aim to collect together the operational principles and rules adopted by the Bank on the prevention of money laundering and terrorist financing risks.

The Anti-money Laundering Service, aided by the Compliance Service, takes steps to identify the external regulations applicable and, in collaboration with the competent Corporate Functions, assesses their impact on the process and the internal procedures. In particular, owing to what was already established by 4th EU Directive 2015/849, issued by the European Parliament and the European Council on Anti-Money Laundering, it coordinates the adaptation of the regulations and internal processes to the new relevant regulatory framework, which will be implemented by the Legislative Decree being implemented.

The Anti-Money Laundering Service supports the Training division, which is headed by the HR Division, in the preparation and delivery of dedicated internal staff courses aimed at raising awareness on anti-money laundering and financing of terrorism within the Bank's established training plans.

Risk Management Department

The Risk Management Department is to implement the risk control policies, through their adequate risk management process; this Department is assigned to the Risk Management, Planning and Control Service. The structure of the Service and its positioning within the organisational model of the Bank provide integrated oversight of the various risks to which the intermediary is exposed.
The Bank’s Organisational Structure and the regulations of the Service regulate the following tasks:

- **verify the adequacy of the RAF (Risk Appetite Framework) and, continuously, the adequacy of the management process of risks and operating limits;**
- **collaborate in defining and implementing the RAF, the risk governance policies and the various phases that make up the related management process as well as in fixing the operational limits to the assumption of various types of risk;**
- **verify the adequacy of the RAF and the adequacy of the management process of risks and operating limits;**
- **monitor the actual risk assumed by the Bank and its compliance with the risk objectives as well as the compliance with the operating limits;**
- **see to the measurement/valuation of the individual Pillar I and II risks, both in situations of normal course of business and in situations of stress, by analysing also the other risks difficult to quantify. The Risk Management department also sees to the development of the instruments and the methods for handling and measuring the risks, reporting to the corporate bodies and the units involved with regard to the results of the analysis, ensuring the necessary disclosure;**
- **seeing to the calculation of the current and forecast capital requirements of the Bank for ICAAP purposes (Internal Capital Adequacy Assessment Process);**
- **proposing the quantity and quality parameters required for defining the RAF (tolerance thresholds and operational limits), consistent with the methods used within the ICAAP process;**
- **seeing to the drafting of the "Public disclosure" (Pillar III).**

The area of operations of the Risk Management Department includes the following types of risk:

- credit risk and counterparty risk;
- market risk (relating to both the trading book and the bank book);
- operational risk;
- concentration risk;
- interest rate risk of the banking book;
- liquidity risk;
- risk related to the portion of encumbered assets;
- risk of excessive leverage;
- reputational risk;
- strategic risk;
- residual risk;
- risks deriving from securitisations;
- IT risk.

As part of the periodic review activities on the risk monitoring perimeter the bank is subject to, the Risk Management, Planning and Control Service also takes steps to monitor other risk aspects that are not subject to specific measurements (both qualitative and quantitative).

Examples of these risks are the model risk, the country risk, the transfer risk, the underlying risks and the risks linked to the macroeconomic environment.

The activity of the Department aims at identifying, assessing and monitoring the various types of risk assumed or that can be assumed in the various business segments and proposing the appropriate mitigation and prevention, seizing - within an integrated logic - the interrelationships, reporting the records to the Corporate Bodies.

The Risk Management Department checks the adequacy and efficacy of the measures adopted to remedy the shortfalls noted in the risk management process, identifying any areas for improvement and providing disclosure within the sphere of the ICAAP process.

Finally, the Risk Management, Planning and Control Service constantly monitors the risk profile assumed by the Bank compared to the risk appetite defined in the RAF, reporting to the Corporate Bodies.

Internal Audit Department

The Internal Audit Department checks, based on the annual planning, the suitability and the efficiency of the Internal Control System, the regularity of the corporate operations and the observance of the policies adopted with regard to risk assumption; it also checks the efficiency and the effectiveness of the second level controls assigned to the other corporate control functions and, in particular, those aimed at ensuring the containment of the business risks within the level deemed acceptable by the Bank. The department also takes steps to ascertain the removal of anomalies reported in the operating processes and in the functioning of the controls by means of follow up activities, and to carry out checks on the overall functioning of the Internal control system.

The unit presents the corporate bodies with an audit plan each year, indicating the planned control activities.

The Internal Audit Department carries out checks also with regard to specific irregularities, as per its own initiative or upon the request of the Board of Directors, the Board of Statutory Auditors or General Management. In conclusion, the tasks of the unit include the checking of the observance in the various operating sectors of the limits envisaged by the authorisation mechanisms, with particular reference to the Loans and Financial Sectors.

Section 1 - Credit risk
Qualitative information

1. General aspects
The business model adopted from day one by the Bank is essentially based on loan brokerage activities and is aimed at supporting families and the manufacturing sphere in the various areas of competence, according to the management guidelines outlined by the Board of Directors and in compliance with the statutory provisions.
The activity of credit disbursement mainly addresses the retail, small business and small/medium-sized company segments, in that they are entities that require a reference contact, capable of understanding and satisfying the needs; lending activities also address the corporate segment to a lesser extent.

The Bank, holding in due consideration its economic/equity amounts and the related economic scenario, outlines the lending policies overseeing the quality of the loans both during the first loan proposal resolution and in the subsequent management of the relation.
The policies in the last few years have seen the splitting of the loans and the loans portfolio diversification as the strategic approach in order to mitigate the impact of the current economic situation on the overall credit risk of the Bank.
The loan policies established by the Board of Directors have contributed towards the adoption, by the appointed structures, of greater precision both during the opening of the relation and in its subsequent management.
In the starting stage of the relation, particular attention must be paid to the quality of the entrepreneurial projects underlying the financial intervention required of the Bank, in particular, the income-earning prospects of the business as well as the consequent ability to repay are evaluated.
The management and monitoring of the loan already disbursed are aimed at timely restructuring the relation in accordance with the changes in the economic and financial situation of the counterparties and identifying any potential irregular trend. This monitoring is useful for preventing the effects of the deterioration in creditworthiness as well as for promptly intervening with corrective actions in removing anomalies (for example, reiteration of overruns, increase in unpaid instalments, acceptance of portfolio presentations on names already in default). The management of the credit facilities granted is based on the principles of utmost prudence and therefore any sign of performance not in line with correct operations is regularly analysed in order to implement the necessary actions.

Commercial policy is pursued through the branch network both in the geographical areas in which the Bank has a traditional presence, the objectives being the constant consolidation of its position, and in its new markets, in order to acquire new market shares and to facilitate the growth of loan brokerage activities.

2. Credit risk management policies
2.1 Organisational aspects
The factors that give rise to credit risk are related to the possibility of an unexpected change in the creditworthiness of a counterparty to which there is exposure generating a corresponding unexpected change in the current value of the relevant loan exposure.
Therefore, the credit risk is not only the possibility of insolvency of the counterparty, but also the mere worsening of its creditworthiness.

The assumption and management of the credit risk was regulated by means of the formalisation of the underlying process, detailing the role of the corporate bodies, the operations of all the parties involved, defining the first level controls and specifying the role of the control functions.
The General Management implements the loan policies issued by the Board of Directors and oversees the performance of the process, coordinating in particular the operations of the Loan Sector.
The "Performance Monitoring" Service is entrusted with the monitoring of performing and past due loans, in coordination with the area network. This activity is aimed at encouraging an anticipatory management of the credit risk and implementing the management strategies for improving the Bank's credit quality. The activities for handling the relationships classified as Probable Default and Non-performing are assigned by the organisational system to the Pre-litigation Service and the Legal And Disputes Service, respectively. The Bank has endowed itself with a special internal document called "Consolidated Law for the management of anomalous and non-performing loan" that defines the main tasks and guidelines in this matter, which are further specified in the relevant service regulations. The Board of Directors also defined a specific Loan Assessment Policy that defines the methods for assessing the loan and receivables portfolio of the Bank both performing or impaired.

The company functions involved in the credit process are as follows:
- the Loans Committee, whose mission involves guiding and optimising the Bank's loan policies, as part of the strategies established by the Board of Directors;
- the Anomalous Loan Committee, with the aim of supporting General Management in the formulation of strategies for recovery and handling of anomalous relationships and in the adoption of organisational and operative solutions directed at improving the supervision activities in the structures involved in the credit process and their co-ordination;
- the Business Division that, with the aid of the Strategic Planning Sector and Corporate Affairs, sees to checking the sustainability of the lending policies adopted, making proposals to the General Management relating to:
    - the instruments and types of counterparty to which the loan is destined for the purpose of generating profitable and fractioned loans;
    - the technical forms to be preferred defining the maximum limits in terms of amount and maturity;
    - the business sectors and geographical areas to be preferred with a view to diversification of the risk;
- the Loans Sector that manages and checks the process for assuming the risks related to the disbursement of credit, proposes the credit management policies and plans the consequent activities, supporting the branch network both during the first origination and as part of the review of credit facilities granted;
- the Performance Monitoring Service that deals with the monitoring of performing positions with anomalies and past due and/or overdue loans;
- the Pre-dispute Service that manages the loan portfolio classified as probable default of the Bank;

- the Legal and Dispute Service sees to the legal aspects of the cases classified as non-performing, with the aim of optimising the debt recovery phase also by means of the use of outside legal professional and collaborators;
- the Risk Management, Planning & Control Service which is entrusted with the checking of the correct performance of the trend monitoring on the loan exposures, in compliance with the matters envisaged by Bank of Italy Circular 285/2013 “Supervisory instructions for Banks”;
- The Internal Audit Service that assesses the functionality and reliability of the entire internal control system and checks, amongst other aspects, that lending is carried out in accordance with the rules.

As part of the adopted risk management and assumption, initial supervision is in the Branch, both via constant and continual dialogue with the customers and availing itself of information sources of an internal and external nature, with the help also of the IT procedures.
During the loan approval and review, the Bank analyses the financial requirements of the customer and the documents required for making an adequate assessment of the borrower's creditworthiness. Therefore, the decision to grant credit is based both on the analysis of the complete set of information relating to the economic subject and on the direct knowledge of customers and of the economic environment in which it operates. All the approval process activities concerning the operational process, which lead to the disbursement and periodic review of the position, are developed with the aim of disbursing a fair loan at individual name (and/or group) level, envisaging the most suitable technical forms of the credit facility and proper compensation for the risk assumed.
The Board of Directors defined, as part of the “Loan Regulations”, the autonomous decision-taking systems of each body delegated to grant credit. The observance of the powers authorised by the Board of Directors is guaranteed by the automated checks provided in the data processing system with which the loan approval process is managed.

2.2 Management, measurement and control systems

The credit risk management, measurement and control systems develop within an organisational context that involves the entire credit process cycle, from the initial approval process to the periodic review stage, and up to the revocation and recovery stage.
The Bank also carries out quantitative and qualitative analysis for the purposes of the measurement and periodic control of the Credit Risk. In particular, the quantitative assessments use different instruments that provide information from an economic, financial and equity standpoint of the customer:

- financial statements and tax returns: assessments of the equity and financial balances, determination of the degree of indebtedness, determination of the net financial positions, analysis of the economic indicators;
- Relation with the Bank: analysis of the current account transactions, the average use of the credit facilities agreed, checking of the regularity in repayment of loans;
- relations with other Banks: analysis of the Central Credit Register and of other external databanks:

At any given time, the Bank is aware of its exposure to each customer, since the information system adopted makes it possible for each counterparty (customer or group of associated customers) to use updated information and data each day.

Generally speaking, when providing credit, in addition to observance of the legal and supervisory provisions envisaged for financial brokers, the Bank resolves to achieve the following:

- the best knowledge of the contractual counterparties for the purpose of assessing the related current and future credit capacity;
- the use of the most appropriate technical form with regard to the loan requirement to be satisfied, taking into account the guarantees and the duration;
- the diversification of the credit risk, limiting the concentration of the exposures on groups of associated customers/groups of businesses or on individual sectors/branches of business activities;
- a suitable economic return from the relation compared to the risk assumed;
- the control of the performance of the individual positions carried out by means of the periodic review of the cases and systematic monitoring activities;
- the best management of impaired loans.

With regard to the determination of the capital requirement in the presence of credit risk (First Pillar), the Bank uses the standardised method envisaged by the Supervision Provisions, in line with the proportionality criteria. The related information is subject to quarterly reporting to the Bank of Italy.

The Bank calculates prudential requirements (First Pillar) and assesses the capital adequacy using the SDB Matrix application. Moreover, the Bank uses the procedure known as C.C.M. (Credit Capital Management) with the aim of integrating the measurements, as well as part of the supervisory review process (Second Pillar) and for the drafting of reports for public disclosure (Third Pillar).

The Bank, for merely internal management and operational purposes, adopted the rating model provided by the outsourcer Cedacri (CRS Credit Rating System), which is used in monitoring the credit quality of exposures previously granted and that, allowing a timely identification of the signs of deterioration of the credit, represents a valid management support.

This model, broken down on a specific segmentation of customer portfolio, is based on a statistical analysis and on a careful selection of the indicators used for estimating the probability of default
In particular, the adopted model assigns a probability of default for each customer, through an internal statistical scoring system, based on the analysis of internal and external indicators. In particular, the credit relation is analysed on the basis of the following information:

- performance of the relation with the Bank,
- performance of the customer with the system (Central Credit Register),
- economic and financial performance of the customer, (financial statements)
- customer's business segment (Private consumers, Small Businesses, SMEs, Large Corporate, Real Estate, Financial and Institutional).

Based on the estimated probability of default, each portion is assigned the corresponding rating. The rating scale used is defined by the IT outsourcer, on the basis of statistical studies.

As part of the credit trend monitoring, the Functions involved in the process are supported by specific operational procedures provided by the Outsourcer Cedacri.

In particular, the S.E.A.C. (Sistema Esperto Analisi Cliente) procedure, through the observation of particular indicators of anomaly and incorrect operation, assesses the customer by means of a numerical score. S.E.A.C. uses an expert system that allows to interpret the indicators and their correlations and to identify the risk positions.
The Bank also uses the "Credit Quality Management" application that supports the departments in charge of identifying the counterparties to be subjected to monitoring and managing the already anomalous positions. In particular, the application divides the customers up into monitoring sub-portfolios according to the Bank's strategic guidelines; for each customer "cluster" identified, it is possible to associate different lending strategies, with a customisation of the process chosen in terms of players and actions to be undertaken, providing an integrated view of current operations and the historical analysis of the relations.

The key elements of the procedure are: the definition of the status of the credit, the assignment of the risk classes and the identification of an operating process with various types of action practicable for each position surveyed by the application, also diversifying among the operational roles involved in the process.

The Credit Risk management and monitoring activities are also supported by portfolio analysis and specific processing, produced by the Bank on the basis of internal databases. This reporting is functional for the optimisation of the monitoring activities.

2.3 Credit risk mitigation techniques

The main levers for the mitigation of the credit risk are represented by the system of guarantees that assist the loan exposures, a contained degree of concentration with respect to the borrowers, as well as by a suitable level of diversification of the loan by credit type and commodities sector.
In particular, with reference to concentration risk, within the sphere of the "lending policies", the Bank has established a series of limits relating to the concentration of the loan exposures vis-à-vis individual counterparties or groups of associated counterparties and vis-à-vis counterparties belonging to the same business sector. These limits are constantly monitored by the Risk Management, Planning & Control Service and are the subject matter of specific reporting to the Corporate Bodies.
The handling of the guarantees and the related operating processes are formalised in the internal regulations.
The method for managing the guarantees is integrated in the information system, from which it is possible to infer the main information related to them.
With a view to ensuring the observance of the specific requirements envisaged by the new Supervisory provisions, Cedacri's C.R.M. (Credit Risk Mitigation) system has been used for some time, providing the instruments for the management of the processes and the data relating to the classification and assessment of the instruments guaranteeing the credit, in compliance with the Bank's management and strategic objectives, according to the dictates envisaged by the Supervisory regulations.

The Bank, in order to mitigate credit risk, uses collaterals and personal guarantees. In particular, the main types of collaterals used are real estate mortgage liens and financial collaterals.
The Bank uses an ad hoc procedure, known as "Collateral", provided by the outsourcer Cedacri, so as to efficiently oversee the entire process for the acquisition, assessment, checking and realisation of the mortgage liens, identifying all the inherent information and the link between the assets provide as collateral and those entitled to the asset. The procedure also permits the periodic up-dating of the "current" value of said guarantee and the control of the consistency of the value of the guarantee with respect to the risk resolved. The relationship between the loan and the value of the asset provided as collateral is subject to monitoring, also through the statistical revaluation process of expert value.

The Bank also defined specific organisational processes and operational guidelines for collecting pledges on financial instruments with a view to protecting the underlying credit exposures from fluctuations in market rates.
Personal guarantees consist for the most part in performance bonds granted by both natural persons and companies. Note also the use of guarantees given by specialised bodies (e.g.: Confidi) and by Financial institutions (e.g.: government guarantee via Mediocredito Centrale pursuant to Italian law 662/1996).
To date, the Group has not used credit derivatives to hedge or transfer the risk against the portfolio loans.

2.4 Impaired financial assets and exposures subject to concession measures

With regard to the classification of the loans, the Bank applies criteria compliant with the international accounting standards and the Supervisory Instructions.

With regard to the classification of the exposures, with particular reference to the impaired ones, the Bank makes reference to the legislation issued by the Supervisory Authority, supplemented by the internal regulations that fix criteria and rules for the classification of the loans within the sphere of the various risk categories.

During 2015, the 7th up-date of the Bank of Italy Circular No. 272/2008 was issued; this reviewed the previous classifications of the impaired loans and introduced the concept of exposures subject to concessions (so-called "forbearance"), assimilating the definitions introduced by the Implementing Technical Standards (in short, ITS) issued by the European Banking Authority (EBA). The up-date has the purpose of reducing the margins of discretion existing in the accounting and prudent definitions applied in the various countries, as well as of facilitating the comparability of the data at EU level.

In detail, the legislation requires that the relationships subject to concession measures be identified both within the sphere of performing loans and impaired loans, respectively defining the categories "Forborne performing exposures" and "Non-performing exposures with forbearance measures".
The legislation defines forbearance measures as changes to the original contractual terms and conditions, or the total or partial refinancing of the debt, which are granted to a debtor who finds themselves or is close to finding themselves in difficulty when meeting their financial commitments.

The Bank has also acknowledged the amendments to the definitions introduced by the 7th Up-date of the Bank of Italy Circular No. 272/2008 in the classification of impaired loans. Specifically, the impaired financial assets are divided up into the non-performing, probable default, past due exposures and/impaired overruns categories, depending on the following rules:

- **Non-performing**: all the on and off-balance sheet exposures vis-à-vis a party in a state of insolvency (even if not legally declared so) or in essentially similar situations, irrespective of any loss forecasts formulated by the bank.

- **Probable defaults** ("unlikely to pay"): classification in this category is, first and foremost, the result of the opinion of the bank regarding the improbability that, without recourse to action such as enforcement of the guarantees, the debtor fully satisfies (in terms of principal and/or interest) its loan obligations. This valuation must be carried out independently from the presence of any amounts (or instalments) past due and unpaid. Therefore, it is not necessary to wait for an explicit symptom of anomaly (non-payment), if elements exist that imply a situation of default risk of the debtor (for example, a crisis in the industrial sector in which the debtor operates).

- **Past due exposures and/or impaired overruns**: cash exposures, other than those classified under non-performing or probable defaults, which, as at the reporting reference date, are past due or overrun by more than 90 days.

The past due exposures and/or impaired overruns may be determined by making reference, alternatively, to the individual debtor or the individual transaction; the bank adopts a "by debtor" approach, as described below.

The past due or overrun must be on-going. Specifically, in the event of exposures involving repayment in instalments, the instalment not paid that has the longest delay must be considered.

If several past due exposures and/or overruns by more than 90 days refer to a debtor, it is necessary to consider the longest delay. In the event of openings of credit in current accounts upon revocation in which the credit facility limit agreed has been exceeded (also due to the capitalisation of the interest), the calculation of the overrun days starts - according to the case which occurs first - as from the first date of non-payment of the interest that leads to the overrun or as from the date of first request for repayment of the capital.

The overall exposure vis-à-vis a debtor must be recognised as past due and/or impaired overrun if, as at the reporting reference date, the greatest between the following two values is equal to or greater than the threshold of 5%:

a) average of the past due and/or overrun instalments of the entire exposure registered on a daily basis in the last previous quarter;

b) past due and/or overrun instalment of the entire exposure referring to the reporting reference date.

Within the sphere of the three categories of impaired loans, in compliance with legislation, the relationships subject to "concession measures" ("Non-performing exposures with forbearance measures") are identified.
The capacity of "forborne non-performing" does not therefore represent a reporting category in itself within the sphere of the impaired loans, but rather an additional transversal attribution to the three categories above.

The information relating to the impaired exposures is supplemented in the information system with the aid of specific instruments that support the handling thereof and indicate the related status.
On the basis of the specific anomaly indices reported both with the IT procedures and on the basis of qualitative assessments and in light of what is established by company regulations, the Trend Monitoring and Pre-dispute Service govern the classification process for the loan positions and the process of the variation of the related status within the limits of autonomy established by the Board of Directors and General Management.
The Performance Monitoring Service sees to the performing and past due loans. As part of performing loans, for operational purposes the Bank has defined a sub-class of loans known as "Under Control", in which the exposures showing a not fully regular trend of the loan relation are classified.
The Pre-dispute Service has the task of managing the positions classified as probable default, furthering the initiatives aimed at protecting the Bank's claims.
The non-performing loans are managed by the Legal and Dispute Service that assesses the actions to be undertaken for maximising the recovery of the credit, acting also with regard to guarantors and enforcing the payment of possible guarantees.

The assessment of the collectable nature of the impaired loans takes place on the basis of the criteria defined by the Board of Directors contained in the specific assessment policy.

Quantitative information

A. Credit quality

A.1 Impaired and unimpaired loans: amounts, impairment losses, trend, business and geographical distribution

A.1.1 Distribution of exposures by portfolio and credit quality (carrying amounts)

Portfolios/Quality	Non-performing loans	Probable defaults	Impaired past due exposures	Unimpaired past due exposures	Other unimpaired exposures	Total
1. Available-for-sale financial assets	-	-	-	-	1,026,372	1,026,372
2. Held-to-maturity financial assets	-	-	-	-	-	-
3. Loans and receivables with banks	-	-	-	-	212,026	212,026
4. Loans and receivables with customers	195,606	153,523	29,554	59,487	2,324,280	2,762,450
5. Financial assets measured at fair value	-	-	-	-	9,175	9,175
6. Discontinued financial assets	-	-	-	-	-	-
Total 31/12/2016	**195,606**	**153,523**	**29,554**	**59,487**	**3,571,853**	**4,010,023**
Total 31/12/2015	**189,500**	**169,491**	**29,636**	**97,637**	**3,335,037**	**3,821,301**

A.1.2 - Distribution of exposures by portfolio and credit quality (gross and net values)

Portfolios/Quality	Impaired assets			Unimpaired assets			Total (net exposure)
	Gross exposure	Individual impairment	Net exposure	Gross exposure	Collective impairment	Net exposure	
1. Available-for-sale financial assets	-	-	-	1,026,372	-	1,026,372	1,026,372
2. Held-to-maturity financial assets	-	-	-	-	-	-	-
3. Loans and receivables with banks	-		-	212,026	-	212,026	212,026
4. Loans and receivables with customers	620,022	241,339	378,683	2,396,650	12,883	2,383,767	2,762,450
5. Financial assets measured at fair value	-	-	-	-	-	9,175	9,175
6. Discontinued financial assets	-	-	-	-	-	-	-
Total 31/12/2016	**620,022**	**241,339**	**378,683**	**3,635,048**	**12,883**	**3,631,340**	**4,010,023**
Total 31/12/2015	**598,538**	**209,911**	**388,627**	**3,449,275**	**16,601**	**3,432,674**	**3,821,301**

Portfolios/Quality	Assets with evidently low credit quality		Other assets
	Accumulated losses	Net exposure	Net exposure
1. Financial assets held for trading	-	-	392
2. Hedging derivatives	-	-	-
Total 31/12/2016	-	-	**392**
Total 31/12/2015	-	-	**105**

A.1.3 On and off-balance sheet exposures with banks: gross and net values and past due brackets

Type of exposure/Amounts	Gross exposure					Individual impairment	Collective impairment	Net exposure
	Impaired assets				Unimpaired assets			
	Up to 3 months	From 3 months to 6 months	From 6 months to 1 year	Beyond 1 year				
A. ON-BALANCE SHEET EXPOSURES								
a) Non-performing loans	-	-	-	-	-	-	-	-
- of which: forbearance exposures	-	-	-	-	-	-	-	-
b) Probable defaults	-	-	-	-	-	-	-	-
- of which: forbearance exposures	-	-	-	-	-	-	-	-
d) Impaired past due loans	-	-	-	-	-	-	-	-
- of which: forbearance exposures	-	-	-	-	-	-	-	-
d) Unimpaired past due loans	-	-	-	-	-	-	-	-
- of which: forbearance exposures	-	-	-	-	-	-	-	-
e) Other unimpaired exposures	-	-	-	-	212,026	-	-	212,026
- of which: forbearance exposures	-	-	-	-	-	-	-	-
TOTAL A	-	-	-	-	**212,026**	-	-	**212,026**
B. OFF-BALANCE SHEET EXPOSURES								
a) Impaired	-	-	-	-	-	-	-	-
b) Unimpaired	-	-	-	-	192,887	-	-	192,887
TOTAL B	-	-	-	-	**192,887**	-	-	**192,887**

The "Other unimpaired exposures" (cash) are entirely made up of "loans and receivables with banks" as per asset item 60.
The "Off-balance sheet exposures" almost entirely comprise the valorisation of securities guaranteeing liability repurchase agreements with Banks (see liability item 10).

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

A.1.5 On-balance sheet exposures with banks impaired: total impairment losses

The tables are not drawn up since there are no impaired exposures due from banks.

A.1.6 On- and off-balance sheet exposures with customers: gross values, net values and past due brackets

Type of exposure/Amounts	Gross exposure					Individual impairment	Collective impairment	Net exposure
	Impaired assets				Unimpaired assets			
	Up to 3 months	From 3 months to 6 months	From 6 months to 1 year	Beyond 1 year				
A. ON-BALANCE SHEET EXPOSURES								
a) Non-performing loans	-	2,227	15,657	384,573	-	206,851	-	195,606
- of which: forbearance exposures	-	1,487	8,987	41,729	-	28,741	-	23,462
b) Probable defaults	81,096	13,300	25,731	65,278	-	31,882	-	153,523
- of which: forbearance exposures	49,970	4,570	8,559	13,179	-	9,263	-	67,015
d) Impaired past due loans	18,413	5,069	5,900	2,778	-	2,606	-	29,554
- of which: forbearance exposures	15,102	2,051	1,192	2,301	-	1,719	-	18,927
d) Unimpaired past due loans	-	-	-	-	60,827	-	1,340	59,487
- of which: forbearance exposures	-	-	-	-	8,967	-	225	8,742
e) Other unimpaired exposures	-	-	-	-	3,371,370	-	11,543	3,359,827
- of which: forbearance exposures	-	-	-	-	97,160	-	921	96,239
TOTAL A	**99,509**	**20,596**	**47,288**	**452,629**	**3,432,197**	**241,339**	**12,883**	**3,797,997**
B. OFF-BALANCE SHEET EXPOSURES								
a) Impaired	11,775	-	-	-	-	1,982	-	9,793
b) Unimpaired	-	-	-	-	122,866	-	316	122,550
TOTAL B	**11,775**	**-**	**-**	**-**	**122,866**	**1,982**	**316**	**132,343**

The net cash exposures comprise both the loans and receivables with customers for Euro 2,763 million and the bonds present in the assets for sale category for Euro 1,026 million and the Financial assets at fair value recorded in asset item 30 of approximately Euro 9 million. Gross non-performing loans, as well as the related adjustments, are stated net of the value of the default interest.

A.1.7 On-balance sheet exposures with customers: gross impaired

Causes/Categories	Non-performing loans	Probable defaults	Impaired past due exposures
A. Gross opening exposure	**358,175**	**208,368**	**31,995**
- of which: exposures transferred and not derecognised	-	-	-
B. Increases	**78,022**	**83,646**	**41,613**
B.1 inflows from performing loans	4,835	35,709	36,591
B.2 transfers from other categories of impaired loans	71,531	12,723	-
B.3 other increases	1,656	35,214	5,022
C. Decreases	**33,740**	**106,609**	**41,448**
C.1 outflows to performing loans	-	7,957	15,924
C.2 derecognitions	8,264	605	-
C.3 collections	24,254	30,566	8,750
C.4 gains on sales	1,100	-	-
C.5 losses on sales	122	-	-
C.6 transfers to other categories of impaired loans	-	67,481	16,774
C.7 other decreases	-	-	-
D. Gross closing exposure	**402,457**	**185,405**	**32,160**
- of which: exposures transferred and not derecognised	-	-	-

The line “Other increases” includes, in general:
- with regard to non-performing loans, the charge of expenses, outstanding amounts and other similar cases on positions recorded in previous years;
- with regard to the other categories, in particular for probable defaults, also the account transfer between accounts relating to the same name carried out after the date of inclusion in the category (e.g. advance transactions subject to collection).

A.1.7bis On-balance sheet exposures with customers: gross impaired: gross forbearance exposures broken down by credit quality

Causes/Quality	Impaired forbearance exposures	Other forbearance exposures
A. Gross opening exposure	**112,555**	**101,265**
- of which: exposures transferred and not derecognised		
B. Increases	**53,913**	**42,782**
B.1 inflows from performing non-forbearance exposures	6,894	36,820
B.2 inflows from performing forbearance exposures	19,960	-
B.3 inflows from impaired forbearance exposures	-	632
B.4 other increases	27,059	5,330
C. Decreases	**17,341**	**37,920**
C.1 outflows to performing non-forbearance exposures	-	3,833
C.2 outflows to performing forbearance exposures	632	-
C.3 outflows to impaired forbearance exposures	-	19,960
C.4 derecognitions	-	-
C.5 collections	11,625	13,510
C.6 gains on sale	-	-
C.7 losses on sale	-	-
C.8 other decreases	5,084	617
D. Gross closing exposure	**149,127**	**106,127**
- of which: exposures transferred and not derecognised		

A.1.8 Impaired on-balance sheet exposures with customers: total impairment losses

Causes/Categories	Non-performing loans		Probable defaults		Impaired past due exposures	
	Total	of which: forbearance exposures	Total	of which: forbearance exposures	Total	of which: forbearance exposures
A. Opening total impairment losses	**168,675**	**24,756**	**38,877**	**5,655**	**2,359**	**832**
- of which: exposures transferred and not derecognised	-	-	-		-	-
B. Increases	**57,265**	**7,323**	**13,814**	**4,894**	**2,011**	**1,302**
B.1 impairment losses	42,198	5,785	13,120	4,696	2,011	1,302
B.2 losses on sale	122	-	-	-	-	-
B.3 transfers from other categories of impaired loans	14,781	1,538	464	198	-	-
B.4 other increases	164	-	230	-	-	-
C. Decreases	**19,089**	**3,595**	**20,809**	**3,129**	**1,764**	**651**
C.1 reversals of impairment losses due to valuation	6,946	673	4,228	1,221	791	365
C.2 reversals of impairment losses due to collection	3,737	979	1,464	423	240	35
C.3 gains on sale	20	-	-	-	-	-
C.4 derecognitions	8,264	1,943	605	-	-	-
C.5 transfers to other categories of impaired loans	-	-	14,512	1,485	733	251
C.6 other decreases	122	-	-	-	-	-
D. Closing total impairment losses	**206,851**	**28,741**	**31,882**	**9,263**	**2,606**	**1,719**
- of which: exposures transferred and not derecognised	-	-	-	-	-	-

The sum of the values booked in rows “Derecognition” and “Other decreases” is equal to that recorded in rows “Derecognitions” and "Losses on sale" in table A.1.7.

A.2 Classification of exposures based on internal and external ratings

A.2.1 Distribution of on and off-balance sheet exposures by external rating class

On the basis of the guidelines envisaged by the Bank of Italy, the table in question has not been drawn up since the amount of the exposures with external ratings is exclusively referable to Government securities, in that the Bank has chosen to avail itself of the rating issued by the authorised agencies for just these assets, as per the specific resolution of the Board of Directors.

A.2.2 Distribution of on and off-balance sheet exposures by internal rating class

The table is not completed in that, to date, the rating models provided by the outsourcer are used only for management purposes as a tool for classifying, analysing and monitoring the customers.

A.3 Distribution of secured exposures by type of guarantee

A.3.1 Secured credit exposures to banks

The table is not drawn up because there are no secured exposures to banks as at 31 December 2016.

A.3.2 Secured credit exposures to customers

	Value of net exposure	Collaterals (1)				Personal guarantees (2)									Total (1)+(2)
						Credit derivatives					Endorsement loans				
							Other derivatives								
		Mortgaged properties	Financially leased properties	Securities	Other collaterals	CLN	Governments and central banks	Other public bodies	Banks	Other parties	Governments and central banks	Other public bodies	Banks	Other parties	
1. Secured on-balance sheet credit exposures:	*1,996,316*	*1,283,781*	-	*43,787*	*11,720*	-	-	-	-	-	-	*311,075*	*123*	*297,625*	*1,948,111*
1.1 fully secured	1,726,173	1,274,834	-	34,061	10,116	-	-	-	-	-	-	119,832	123	275,626	1,714,592
- of which impaired	312,041	249,736	-	2,534	2,688	-	-	-	-	-	-	5,410	-	45,093	305,461
1.2 partially secured	270,143	8,947	-	9,726	1,604	-	-	-	-	-	-	191,243	-	21,999	233,519
- of which impaired	22,597	3,360	-	512	47	-	-	-	-	-	-	5,788	-	6,254	15,961
2. Secured off-balance sheet credit exposures:	*60,180*	*5,604*	-	*14,114*	*6,057*	-	-	-	-	-	-	*705*	*510*	*25,475*	*52,465*
2.1 fully secured	44,991	5,604	-	12,223	3,005	-	-	-	-	-	-	2	510	23,647	44,991
- of which impaired	3,445	4	-	323	2,030	-	-	-	-	-	-	-	-	1,087	3,444
2.2 partially secured	15,189	-	-	1,891	3,052	-	-	-	-	-	-	703	-	1,828	7,474
- of which impaired	1,016	-	-	15	1,000	-	-	-	-	-	-	-	-	-	1,015

B. Distribution and concentration of credit exposures

B.1 Distribution of on and off-balance sheet credit exposures with customers by business segment (book value)

Exposures/Counterparties	Governments			Other public bodies			Financial companies			Insurance companies			Non-financial companies			Other parties		
	Net exposure	Individual impairment	Collective impairment	Net exposure	Individual impairment	Collective impairment	Net exposure	Individual impairment	Collective impairment	Net exposure	Individual impairment	Collective impairment	Net exposure	Individual impairment	Collective impairment	Net exposure	Individual impairment	Collective impairment
A. On-balance sheet exposures																		
A.1 Non-performing loans	-	-	-	-	-	-	5,384	1,393	-	-	-	-	148,451	180,671	-	41,771	24,787	-
- of which: forbearance exposures	-	-	-	-	-	-	5,049	1,198	-	-	-	-	15,469	26,601	-	2,944	942	-
A.2 Probable defaults	-	-	-	-	-	-	566	158	-	-	-	-	124,778	29,215	-	28,179	2,509	-
- of which: forbearance exposures	-	-	-	-	-	-	-	-	-	-	-	-	49,587	8,453	-	17,428	810	-
A.3 Impaired past due loans	-	-	-	-	-	-	17	1	-	-	-	-	21,922	1,955	-	7,615	650	-
- of which: forbearance exposures	-	-	-	-	-	-	17	1	-	-	-	-	15,221	1,394	-	3,689	324	-
A.4 Unimpaired loans	1,019,881	-	-	19,307	-	130	253,235	-	108	9,175	-	-	1,495,918	-	11,610	621,798	-	1,034
- of which: forbearance exposures	-	-	-	-	-	-	-	-	-	-	-	-	81,290	-	1,032	23,692	-	113
Total A	**1,019,881**			**19,307**		**130**	**259,202**	**1,552**	**108**	**9,175**			**1,791,069**	**211,841**	**11,610**	**699,363**	**27,946**	**1,034**

B. Off-balance sheet exposures																		
B.1 Non-performing loans	-	-	-	-	-	-	-	-	-	-	-	-	843	344	-	227	80	-
B.2 Probable defaults	-	-	-	-	-	-	-	-	-	-	-	-	8,595	1,552	-	39	-	-
B.3 Other impaired assets	-	-	-	-	-	-	-	-	-	-	-	-	62	5	-	27	1	-
B.4 Unimpaired loans	-	-	-	767	-	-	4,264	-	1	-	-	-	104,321	-	311	13,198	-	4
Total B	**-**	**-**	**-**	**767**	**-**	**-**	**4,264**	**-**	**1**	**-**	**-**	**-**	**113,821**	**1,901**	**311**	**13,491**	**81**	**4**
Total (A+B) 31/12/2016	**1,019,881**	**-**	**-**	**20,074**	**-**	**130**	**263,466**	**1,552**	**109**	**9,175**	**-**	**-**	**1,904,890**	**213,742**	**11,921**	**712,854**	**28,027**	**1,038**
Total (A+B) 31/12/2015	**905,850**	**-**	**-**	**21,381**	**-**	**140**	**166,645**	**1,312**	**86**	**-**	**-**	**-**	**2,030,752**	**186,579**	**15,319**	**701,814**	**23,801**	**1,367**

B.2 Breakdown of on and off-balance sheet credit exposures with customers by geographical segment (book value)

Exposures/Geographical areas	Italy		Other European countries		America		Asia		Rest of world	
	Net exposure	Total impairment	Net exposure	Total impairment	Net exposure	Total impairment	Net exposure	Total impairment	Net exposure	Total impairment
A. On-balance sheet exposures										
A.1 Non-performing loans	195,531	206,831	75	20	-	-	-	-	-	-
A.2 Probable defaults	153,523	31,882	-	-	-	-	-	-	-	-
A.3 Impaired past due loans	29,553	2,606	-	-	-	-	1	-	-	-
A.4 Unimpaired loans	3,415,260	12,866	2,978	2	953	14	123	-	-	-
Total	**3,793,867**	**254,185**	**3,053**	**22**	**953**	**14**	**124**	**-**	**-**	**-**
B. Off-balance sheet exposures										
B.1 Non-performing loans	1,070	424	-	-	-	-	-	-	-	-
B.2 Probable defaults	8,634	1,552	-	-	-	-	-	-	-	-
B.3 Other impaired assets	89	6	-	-	-	-	-	-	-	-
B.4 Unimpaired loans	122,430	316	-	-	120	-	-	-	-	-
Total	**132,223**	**2,298**	**-**	**-**	**120**	**-**	**-**	**-**	**-**	**-**
Total (A+B) 31/12/2016	**3,926,090**	**256,483**	**3,053**	**22**	**1,073**	**14**	**124**	**-**	**-**	**-**
Total (A+B) 31/12/2015	**3,726,839**	**228,576**	**98,511**	**16**	**1,088**	**12**	**4**	**-**	**-**	**-**

The exposures to customers mainly concern customers resident in the province of Brescia, to a lesser extent the province of Verona (former CREVER branches) and the area of Storo in the province of Trento.

B.3 Breakdown of on and off-balance sheet credit exposures with banks by geographical segment (book value)

Exposures/Geographical areas	Italy		Other European countries		America		Asia		Rest of world	
	Net exposure	Total impairment	Net exposure	Total impairment	Net exposure	Total impairment	Net exposure	Total impairment	Net exposure	Total impairment
A. On-balance sheet exposures										
A.1 Non-performing loans	-	-	-	-	-	-	-	-	-	-
A.2 Probable defaults	-	-	-	-	-	-	-	-	-	-
A.3 Impaired past due loans	-	-	-	-	-	-	-	-	-	-
A.4 Unimpaired loans	204,443	-	4,581	-	1,224	-	959	-	819	-
Total	**204,443**	**-**	**4,581**	**-**	**1,224**	**-**	**959**	**-**	**819**	**-**
B. Off-balance sheet exposures										
B.1 Non-performing loans	-	-	-	-	-	-	-	-	-	-
B.2 Probable defaults	-	-	-	-	-	-	-	-	-	-
B.3 Other impaired assets	-	-	-	-	-	-	-	-	-	-
B.4 Unimpaired loans	1,934	-	548	-	-	-	-	-	-	-

Total	1,934	-	548	-	-	-	-	-	-	-
Total (A+B) 31/12/2016	206,377	-	5,129	-	1,224	-	959	-	819	-
Total (A+B) 31/12/2015	113,679	-	12,499	-	8,133	-	270	-	724	-

B.4 Large exposures

As defined in EU Regulation 575/2013 (CRR), "Large exposures" are exposures to a customer or a group of related customers when their value is equal or greater than 10% of eligible capital of the body (Article 392), without applying weighting amounts.
Whereas limit to large exposures (Article 395 CRR), considering the mitigating effect of credit risk (weighted values), means 25% of the eligible capital of the Bank; if the customer is a body, or if within the group of related customers there is a body, the limit is increased to Euro 150 million if the value calculated at 25% is less than the above-mentioned amount.

The concept of exposure includes both the cash loans and the off-balance sheet loans; the aggregates in any event include the exposures vis-à-vis the European Central Administrations, in particular those represented by debt securities.

As at 31 December 2016, the eligible capital amounted to Euro 416,879 thousand. "Large exposures" included 8 exposures for a total nominal value of Euro 1,742,191 thousand and a weighted amount of Euro 413,015 thousand:

- no. 1 exposures to customers for a nominal amount of Euro 62,541 thousand and a weighted amount of Euro 30,721 thousand;

- no. 4 exposures to financial intermediaries for a nominal amount of Euro 403 million and a weighted amount of Euro 213 million; in addition to securities granted under guarantee with regard to repurchase agreements (Euro 230 million), the advance payment to Hypo Alpe Adria Bank of approximately Euro 105 million concerning the purchase of mortgage loans and Euro 68 million of liquidity from securitised mortgage loans and temporarily deposited with other banks contributes towards the formation of the exposure;

- the exposure to Italian government (Ministry of the Treasury) of Euro 1,139 thousand, weighted Euro 60 thousand; this item includes, in addition to the exposure for debt securities, credit for tax assets;

- the exposure to NewMic, body qualified as Cassa di Compensazione e Garanzia (central counterparty) totalling a nominal amount of Euro 90.8 million, 63% weighted, exposure consisting of Euro 63 million of short-term loans and for the residual part of guarantee deposits (default fund);

- an exposure classified legislatively as "unknown exposure", comprising part of the exposure in UCIT units in relation to which it has not been possible to identify the risk counterparties, Euro 46,295 thousand nominal and 100% weighted.

C. Securitisation transactions

C.1 Securitisation transactions

Qualitative information

Objectives, strategies and processes underlying the securitisation transactions
The Bank has identified an instrument in the securitisation transactions for diversifying the sources of funding, in particular so as to endow itself with a suitable reserve of liquidity to protect the Bank from any stress situations.

On 10 November 2016, the sale of a portfolio of residential mortgage and unsecured loans was concluded totalling approximately Euro 648 million by the Bank to the Special purpose vehicle Valsabbina SPV 1 Srl, as part of the Securitisation transaction of loans disbursed to SMEs called “Valsabbina SME”.

As at 31 December 2016, the Bank had also a self-securitisation transaction on performing mortgages loans to private individuals known as “Valsabbina SPV 1”, concluded in 2012, reopened in January 2015 (“size increase”) with the intention of putting in place funding transactions with the Central European Bank.
The Bank signed at the time of issue, as for the "Valsabbina SME" transaction, all the liabilities issued. Both transactions are described in Section III - Liquidity Risk.

Finally, in December 2015, as part of a multi-originator securitisation transaction, the Bank factored non-performing loans without recourse for a gross amount of Euro 5.8 million (net Euro 2.2 million) at a price of around Euro 2 million; in January 2016, to cover the credit claimed, the Bank received in part liquidity and in part a security with underlying non-performing loans assigned by various banks (including ours).

D. Information on structured entities not consolidated for accounting purposes (other than special purpose vehicles for securitisation)

Qualitative information
Quantitative information

The section is not drawn up because the Bank does not use structured entities not consolidated for accounting purposes other than special purpose vehicles for securitisation.

E. Transfers of assets

Qualitative information

Quantitative information

E.1 Financial assets transferred and not derecognised: book value and full value

Technical forms/Portfolio	Financial assets held for trading			Financial assets measured at fair value			Available-for-sale financial assets			Held-to-maturity financial assets			Loans and receivables with banks			Loans and receivables with customers			**Total**	
	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	**31/12/2016**	**31/12/2015**
A. On-balance sheet assets	-	-	-	-	-	-	**192,289**	-	-	-	-	-	-	-	-	-	-	-	**192,289**	**161,913**
1. Debt securities	-	-	-	-	-	-	192,289	-	-	-	-	-	-	-	-	-	-	-	192,289	161,913
2. Equity securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3. UCITS	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B. Derivatives	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total 31/12/2016	-	-	-	-	-	-	**192,289**	-	-	-	-	-	-	-	-	-	-	-	**192,289**	-
of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total 31/12/2015	-	-	-	-	-	-	**161,913**	-	-	-	-	-	-	-	-	-	-	-	-	**161,913**
of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

E.2 Financial liabilities against financial assets transferred and not derecognised: book value

Liabilities/Asset portfolio	Financial assets held for trading	Financial assets measured at fair value	Available-for-sale financial assets	Held-to-maturity financial assets	Loans and receivables with banks	Loans and receivables with customers	**Total**
1. Due to customers	-	-	-	-	-	-	-
a) for assets recognised in full	-	-	-	-	-	-	-
a) for assets recognised partially	-	-	-	-	-	-	-
2. Due to banks	-	-	**190,405**	-	-	-	**190,405**
a) for assets recognised in full	-	-	190,405	-	-	-	190,405
a) for assets recognised partially	-	-	-	-	-	-	-
Total 31/12/2016	-	-	**190,405**	-	-	-	**190,405**
Total 31/12/2015	-	-	**160,827**	-	-	-	**160,827**

These include, respectively, the value of the securities provided as collateral and the loans received for repurchase transactions with other banks as described in liability item 10.

F. Credit risk measurement models

The models and the procedures aimed at classifying the customers in risk classes are used, as previously mentioned, for a more accurate management of the credit risk.
These models are not used at present for the purposes of calculating the capital ratios, since, for such purposes, the Bank uses the standardised method.

Section 2 - Market risk

2.1 Interest rate risk and price risk - regulatory trading book

Qualitative information

A. General aspects

For the purpose of drawing up this section, just the financial instruments included in the "regulatory trading book" were taken into consideration, as defined in the regulations relating to the regulatory reports on market risks.
The transactions which during the year affected the trading book were marginal.

The investment strategy is traditionally characterised by prudent management of all the risks, in compliance with the "Securities Investments Risks" Regulations, which envisage a careful and balanced system of limits and operating autonomies in this connection.

B. Management process and measurement methods for the interest rate risk and the price risk

The "Securities Investments Risks" Regulations establish the operating limits (in terms of consistency of the portfolio and composition by type of securities) both with regard to exposure to rate risk (in terms of financial duration) and credit risk (in terms of rating and counterparties).

In consideration of the non-significance of the trading book, the measurement of interest rate risk and price risk was carried out solely on the banking book.

Quantitative information

1. Regulatory trading book: distribution by residual maturity (by re-pricing date) of on-balance sheet financial assets and liabilities and financial derivatives - EURO

Type/Residual duration	On demand	Up to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 5 years	From 5 years to 10 years	Beyond 10 years	Unspecified maturity
1. On-balance sheet assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1.1 Debt securities	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. On-balance sheet liabilities	-	-	-	-	-	-	-	-
2.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives	**-**	**11,873**	**3,398**	**521**	**-**	**-**	**-**	**-**
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	11,873	3,398	521	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	11,873	3,398	521	-	-	-	-
+ long positions	-	6,685	1,711	261	-	-	-	-
+ short positions	-	5,188	1,687	260	-	-	-	-

1. Regulatory trading book: distribution by residual maturity (by re-pricing date) of on-balance sheet financial assets and liabilities and financial derivatives - OTHER CURRENCIES

Type/Residual duration	On demand	Up to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 5 years	From 5 years to 10 years	Beyond 10 years	Unspecified maturity
1. On-balance sheet assets	-	-	-	-	-	-	-	-
1.1 Debt securities	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. On-balance sheet liabilities	-	-	-	-	-	-	-	-
2.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives	-	**12,474**	**3,510**	**550**	-	-	-	-
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	12,474	3,510	550	-	-	-	-
- Options								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	12,474	3,510	550	-	-	-	-
+ long positions	-	5,527	1,755	275	-	-	-	-
+ short positions	-	6,947	1,755	275	-	-	-	-

2. Regulatory trading book: distribution of exposures in equity securities and share indices for the main countries in the listing market

TYPE OF TRANSACTIONS/PRICE INDEX	LISTED		UNLISTED
	ITALY	OTHER	
A. Equity securities	**2**	**-**	**-**
long positions	2	-	-
short positions	-	-	-
B. Unsettled transactions involving equity securities	**-**	**-**	**-**
long positions	-	-	-
short positions	-	-	-
C. Other derivatives on equity securities	**-**	**-**	**-**

long positions	-	-	-
short positions	-	-	-
D. Derivatives on share indices	**-**	**-**	**-**
long positions	-	-	-
short positions	-	-	-

3. Regulatory trading book: internal models and other sensitivity analysis methods

The methods for analysing the sensitivity are applied to the banking book.

2.2 Interest rate risk and price risk - banking book
Qualitative information

A. General aspects, management procedures and methods of measuring interest rate risk and price risk

The interest rate risk is generated by the imbalance between the maturities (repricing) of the asset and liability items belonging to the banking book. The latter is made up of all the financial instruments, assets and liabilities, not included in the trading book as per the supervisory legislation indicated in section 2.1.
General Management is responsible for the interpretation of the guidelines for the management of the banking book, on a consistent basis with the strategic policies defined by the Board of Directors and the monitoring of the trend in its management.
The Business Division proposes to General Management any operations for the management and mitigation of the interest rate risk of the banking book.
The mitigation of the interest rate risk is pursued by means of the integrated management of the bank assets and liabilities and is aimed at stabilising the net interest income and safeguarding the economic value of the bank book.
In particular, the management of the bond portfolio is based primarily on maintaining the liquidity reserves of the Bank.
The measurement of the interest rate risk is carried out by the Risk Management, Planning and Control Service. The assessment takes place on a monthly basis; in particular, for each sensitive item identified in the time period chosen for the analysis, account is taken of the specific repricing methods.
The ERMAS procedure makes it possible to monitor all the Bank’s activities associated with the transformation of the maturities of the balance sheet assets and liabilities and to quantify the equity and income statement effects, induced by hypothetic shocks of the market rates. Said shocks are processed as part of macro-economic scenarios, or rather theoretic shifts of the market rate curves.
By means of the use of the ERMAS application it is possible to analyse the impact that unexpected changes in the external market conditions have on the Bank’s profitability, also offering the possibility of estimating the change in the expected net interest income and the business value of assets, based on the monthly balance sheet data.
For the purpose of measuring the variability of the net interest income, determined by positive and negative changes in the rates over a time period of 365 days, monitoring of the differences between asset and liability items of the financial statements is carried out, grouped according to the maturity or rate redefinition date; the method used is in fact “gap analysis”, via several approaches that make it possible to achieve increasingly accurate estimates. The techniques for the operational measurement of the rate risk are constantly implemented by the Risk Management, Planning & Control Service.

In detail, in the measurement for operational purposes of the rate risk, the behavioural model created for the on-demand funding and lending items is used.
The measurement of the sensitivity of the economic value of assets and liabilities of the Bank to changes in interest rates is carried out through the "Duration Gap" and "Sensitivity Analysis".

The source of the price risk, given the marginal nature of the regulatory trading book, is mainly represented by debt securities, UCIT units and equity securities falling within the “available for sale assets” book.
With regard to the quantification of the price risk with reference to the securities belonging to the Bank, a model is used based on the Value at Risk (VaR) concept, in order to express, synthetically and in monetary terms, the maximum probable loss incurred by a static portfolio with reference to a specific time horizon and a specific level of confidence in normal market conditions. For the calculation of the VaR, the Risk Management, Planning and Control Service uses the ERMAS application. The financial information necessary for the determination of VaR (volatility, correlations, forward structure of the interest rates, exchange rates, stock and benchmark indices) is provided by the Risk Size product. The VaR model adopted is parametric and it prudentially uses a confidence interval of 99% and a time period of 10 days. The measurement of the VAR takes place by taking into consideration the link (known as beta ratio) that exists between the individual instrument and the related risk factor.
The Risk Management, Planning and Control Service calculates the V.a.R. separately on a daily basis for the securities portfolio managed internally by the Financial Sector of the Bank and for the portfolio, consisting of real estate UCIT units, assigned under management to two external operators.
Backtesting analysis has also been prepared (or rather an accurate comparison of the portfolio V.A.R. with the daily changes in the banking book), aimed at checking the reliability of the VaR model in envisaging the quantification of (any) loss on the trading book. The calculation method adopted envisages that the theoretical losses/gains registered during the day are compared with the VaR of the previous day. The theoretical losses/gains are determined by revaluing the “t” time of the day end positions at “t-1” (hypothesising that the positions remain unchanged).
According to the “backtesting” analysis carried out in 2016, VaR was exceeded in 5 cases, calculated for the securities portfolio managed internally, whereas with reference to portfolios under management to external operators, there were no cases of overrunning. The backtesting activities therefore confirm the reliability of the measurement of risk made via the V.a.R.

With regard to the quantification of the price risk with reference to equity securities, the stock market listing (for listed securities), the measurements of shareholders' equity (for securities with a particular strategic valence), the prices of any transactions that have taken place during the year are constantly monitored and in conclusion alternative valuation methods are used via data deriving from different sources (for unlisted securities). The policies pertaining to the methods for measuring the financial instruments in the portfolio are defined in the document entitled “Fair value policy”.

The duration of the Bank’s securities portfolio as at 31 December 2016 was equal to 1108 days compared to 996 days as at 31 December 2015. The level of the duration of the securities portfolio in the second half of 2016 stood at an average value of approximately 3 years.

B. Fair value hedging

The bank has not carried out any fair value hedging transaction, with the exception of the implicit hedging activities deriving from the integrated management of the bank assets and liabilities.

C. Cash flow hedges

The Bank has not carried out any cash flow hedge.

Quantitative information

1. Banking book: distribution by residual maturity (by re-pricing date) of financial assets and liabilities

Type/Residual duration	On demand	Up to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 5 years	From 5 years to 10 years	Beyond 10 years	Unspecified maturity
1. On-balance sheet assets	**1,707,736**	**949,748**	**530,715**	**38,375**	**359,957**	**348,966**	**52,635**	-
1.1 Debt securities	-	123,001	480,741	5,109	184,550	277,257	15,448	-
- with early repayment option	-	-	-	5,058	-	-	-	-
- other	-	123,001	480,741	51	184,550	277,257	15,448	-
1.2 Loans to banks	124,808	23,936	-	10,001	-	-	-	-
1.3 Loans to customers	1,582,928	802,811	49,974	23,265	175,407	71,709	37,187	-
- Current account	444,650	162	2,731	1,413	25,748	14,382	16	-
- other loans	1,138,278	802,649	47,243	21,852	149,659	57,327	37,171	-
- with early repayment option	1,027,040	639,739	30,141	17,716	48,345	25,811	27,865	-
- other	111,238	162,910	17,102	4,136	101,314	31,516	9,306	-
2. On-balance sheet liabilities	**1,981,708**	**673,420**	**61,601**	**262,043**	**936,718**	**24,567**	-	-
2.1 Due to customers	1,898,626	348,505	35,864	44,239	69,803	-	-	-
- Current account	1,862,736	38,525	35,864	44,239	69,803	-	-	-
- other payables	35,890	309,980	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	35,890	309,980	-	-	-	-	-	-
2.2 Due to banks	80,224	300,405	-	-	415,021	-	-	-
- Current account	1,183	-	-	-	-	-	-	-
- other payables	79,041	300,405	-	-	415,021	-	-	-
2.3 Debt securities	2,437	24,510	25,737	217,804	451,894	24,567	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	2,437	24,510	25,737	217,804	451,894	24,567	-	-
2.4 Other liabilities	421	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	421	-	-	-	-	-	-	-
3. Financial derivatives	**259,635**	**186,739**	**46,042**	**47,277**	**253,537**	**37,146**	**29,987**	-
3.1 With underlying security	-	130	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	130	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	130	-	-	-	-	-	-
3.2 Without underlying security	259,635	186,609	46,042	47,277	253,537	37,146	29,987	-
- Options	259,635	184,693	46,042	47,277	253,537	37,146	29,987	-
+ long positions	-	20,569	40,736	47,184	253,537	37,146	29,987	-
+ short positions	259,635	164,124	5,306	93	-	-	-	-
- Other derivatives	-	1,916	-	-	-	-	-	-
+ long positions	-	1,916	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
4. Other off-balance sheet transactions	**58,996**	-	-	-	-	-	-	-
+ long positions	29,498	-	-	-	-	-	-	-
+ short positions	29,498	-	-	-	-	-	-	-

1. Banking book: distribution by residual maturity (by re-pricing date) of financial assets and liabilities - Currency: OTHER CURRENCIES

Type/Residual duration	On demand	Up to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 5 years	From 5 years to 10 years	Beyond 10 years	Unspecified maturity
1. On-balance sheet assets	**3,486**	**8,602**	**151**	-	-	-	-	-
1.1 Debt securities	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Loans to banks	2,274	5,697	-	-	-	-	-	-
1.3 Loans to customers	1,212	2,905	151	-	-	-	-	-
- Current account	654	-	-	-	-	-	-	-
- other loans	558	2,905	151	-	-	-	-	-
- with early repayment option	558	2,905	151	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2. On-balance sheet liabilities	**9,295**	-	-	-	-	-	-	-
2.1 Due to customers	9,295	-	-	-	-	-	-	-
- Current account	9,295	-	-	-	-	-	-	-
- other payables	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.2 Due to banks	-	-	-	-	-	-	-	-
- Current account	-	-	-	-	-	-	-	-
- other payables	-	-	-	-	-	-	-	-
2.3 Debt securities	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives	-	**1,897**	-	-	-	-	-	-
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-

+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	1,897	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	1,897	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	1,897	-	-	-	-	-	-
4. Other off-balance sheet transactions	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-

The valuation of the long and short positions shown in the financial derivatives is mainly attributable to the loan relationships with the customers that contractually envisage the acknowledgement of an index-linked interest rate with a minimum and/or maximum threshold (floor and cap).

2. Banking book: internal models and other sensitivity analysis methods

The measurement of the interest rate risk according to the second pillar is first of all carried out on the basis of the standard algorithm envisaged by Circular No. 285 of 2013, by means of the creation of a summary index that expresses the ratio between the change in the net value of the banking book against an interest rate shock (+/- 200 base points) and "own funds”. The Bank has always maintained the risk index at a level lower than the warning threshold established by the regulations (20%).
The change in the economic value of the bank book is also calculated in the presence of negative and positive interest rate shocks that represent the 1st percentile and the 99th percentile of the changes in the market rates recorded over the last 6 years.
The measurement of the interest rate risk occurs also for internal management purposes by using the ERMAS procedure that allows to quantify the effects, both on the net value of the banking book and on the expected net interest income, resulting from hypothetical shocks in market rates (for example assuming changes in the interest-rate curve and by applying different scenarios).
The use of the ERMAS procedure allows to carry out specific analysis, also on individual balance sheet items and on individual transactions in progress, that allow to take into account of the peculiarities of the Bank’s asset and liability structure.

2.3 Exchange-rate risk
Qualitative information

A. General aspects, management processes and measurement methods for exchange-rate risk

The Bank is exposed to the exchange-rate risk to a marginal extent, since it is always focused on the daily break-even of the currency positions, which is obtained by considering both the spot positions and the forward ones. The forward transactions, recorded under trading derivatives and financial trading liabilities, offset the specific request of the customer and without assuming any risk positions.
The exchange-rate risk is managed by means of operating limits, intraday and day end; furthermore, the internal regulations establish stop loss operating limits both on single positions and on the overall position assumed by the Bank.

The exchange risk assumed by the Bank during the year mainly derives from the investment in UCITs with underlying in currency other than the Euro. This type of investment is in any event specifically regulated within the sphere of the “management mandates”, in which the limits to the assumption of the exchange risk are defined.

B. Exchange-rate risk hedging

The primary objective of the Bank is to prudently manage the exchange-rate risk, by hedging properly the transactions carried out directly with customers.

Quantitative information

1. Distribution of assets, liabilities and derivatives by currency

Items	Currencies					
	US dollars	Swiss francs	Australian Dollars	Sterling	Canadian Dollars	Other currencies
A. Financial assets	**17,060**	**749**	**401**	**119**	**57**	**103**
A.1 Debt securities	-	-	-	-	-	-
A.2 Equity securities	6,250	-	-	-	-	-
A.3 Loans to banks	7,264	38	401	108	57	103
A.4 Loans to customers	3,546	711	-	11	-	-
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	**142**	**77**	**15**	**80**	**28**	**25**
C. Financial liabilities	**8,956**	**201**	**-**	**-**	**98**	**39**
C.1 Due to banks	-	-	-	-	-	-
C.2 Due to customers	8,956	201	-	-	98	39
C.3. Debt securities	-	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
D. Other liabilities	**-**	**-**	**-**	**-**	**-**	**-**
E. Financial derivatives	**17,076**	**721**	**411**	**187**	**1**	**38**
- Options	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-
- Other derivatives	17,076	721	411	187	1	38
+ long positions	7,497	48	-	-	-	13
+ short positions	9,579	673	411	187	1	25
Total assets	**24,699**	**874**	**416**	**199**	**85**	**141**
Total liabilities	**18,535**	**874**	**411**	**187**	**99**	**64**
Difference (+/-)	**6,164**	**-**	**5**	**12**	**(14)**	**77**

2. Internal models and other sensitivity analysis methods

Steps are not taken to analyse the sensitivity of the currency risk because the asset and liability positions, spot and forward, are deemed as balanced.

2.4 Derivative instruments

8. Financial derivatives

A.1 Regulatory trading book: year-end notional amounts

Underlying assets/ Type of derivatives	Total 31/12/2016		Total 31/12/2015	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates	**-**	**-**	**-**	**-**
a) Options	-	-	-	-
b) Swap	-	-	-	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
2. Equity securities and share indices	**-**	**-**	**-**	**-**
a) Options	-	-	-	-
b) Swap	-	-	-	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
3. Currencies and gold	**16,080**	**-**	**10,913**	**-**
a) Options	-	-	-	-
b) Swap	-	-	-	-
c) Forward	16,080	-	10,913	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
4. Commodities	**-**	**-**	**-**	**-**
5. Other underlying assets	**-**	**-**	**-**	**-**
Total	**16,080**	**-**	**10,913**	**-**

A.2 Banking book: year-end notional amounts

A.2.2 Other derivatives

Underlying assets/ Type of derivatives	Total 31/12/2016		Total 31/12/2015	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates	**-**	**-**	**-**	**-**
a) Options	-	-	-	-
b) Swap	-	-	-	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
2. Equity securities and share indices	**-**	**-**	**-**	**-**
a) Options	-	-	-	-
b) Swap	-	-	-	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
3. Currencies and gold	**1,897**	**-**	**-**	**-**
a) Options	-	-	-	-
b) Swap	-	-	-	-
c) Forward	1,897	-	-	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
4. Commodities	**-**	**-**	**-**	**-**
5. Other underlying assets	**-**	**-**	**-**	**-**
Total	**1,897**	**-**	**-**	**-**

A.3 Financial derivatives: positive gross fair value - breakdown by product

Underlying assets/ Type of derivatives	Positive fair value			
	Total 31/12/2016		Total 31/12/2015	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Regulatory trading book	**373**	**-**	**105**	**-**
a) Options	-	-	-	-
b) Interest rate swap	-	-	-	-
c) Cross currency swap	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forward	373	-	105	-
f) Futures	-	-	-	-
g) Others	-	-	-	-
B. Banking book - hedging	**-**	**-**	**-**	**-**
a) Options	-	-	-	-
b) Interest rate swap	-	-	-	-
c) Cross currency swap	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forward	-	-	-	-
f) Futures	-	-	-	-
g) Others	-	-	-	-
C. Banking book- other derivatives	**19**	**-**	**-**	**-**
a) Options	-	-	-	-
b) Interest rate swap	-	-	-	-
c) Cross currency swap	-	-	-	-
d) Equity swaps	19	-	-	-
e) Forward	-	-	-	-
f) Futures	-	-	-	-
g) Others	-	-	-	-
Total	**392**	**-**	**105**	-

A.4 Financial derivatives: negative gross fair value - breakdown by product

Books/ Types of derivatives	Negative fair value			
	Total 31/12/2016		Total 31/12/2015	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Regulatory trading book	**269**	**-**	**51**	**-**
a) Options	-	-	-	-
b) Interest rate swap	-	-	-	-
c) Cross currency swap	-	-	-	-
d) Equity swaps	-	-	-	-
d) Forward	269	-	51	-
e) Futures	-	-	-	-
f) Others	-	-	-	-
B. Banking book - hedging	**-**	**-**	**-**	**-**
a) Options	-	-	-	-
b) Interest rate swap	-	-	-	-
c) Cross currency swap	-	-	-	-
d) Equity swaps	-	-	-	-
d) Forward	-	-	-	-
e) Futures	-	-	-	-
f) Others	-	-	-	-
C. Banking book- other derivatives	**-**	**-**	**-**	**-**
a) Options	-	-	-	-
b) Interest rate swap	-	-	-	-
c) Cross currency swap	-	-	-	-
d) Equity swaps	-	-	-	-
e) Futures	-	-	-	-
f) Others	-	-	-	-
Total	**269**	**-**	**51**	**-**

A.5 OTC financial derivatives - regulatory trading book: notional amounts, positive and negative gross fair value by counterparty - contracts not included in netting agreements

Contracts not included in netting agreements	Governments and central banks	Other public bodies	Banks	Financial companies	Insurance companies	Non-financial companies	Other parties
1) Debt securities and interest rates	-	-	-	-	-	-	-
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
2) Equity securities and share indices	-	-	-	-	-	-	-
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
3) Currencies and gold	**-**	**-**	**11,998**	**-**	**-**	**4,899**	**-**
- notional amount	-	-	11,435	-	-	4,645	-
- positive fair value	-	-	307	-	-	66	-
- negative fair value	-	-	150	-	-	119	-
- future exposure	-	-	106	-	-	69	-
4) Other values	-	-	-	-	-	-	-
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-

A.7 Over-the-counter financial derivatives - regulatory trading book: notional amounts, positive and negative gross fair value by counterparty - contracts not included in netting agreements

Contracts not included in netting agreements	Governments and central banks	Other public bodies	Banks	Financial companies	Insurance companies	Non-financial companies	Other parties
1) Debt securities and interest rates	-	-	-	-	-	-	-
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
2) Equity securities and share indices	-	-	-	-	-	-	-
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
3) Currencies and gold	**-**	**-**	**1,935**	**-**	**-**	**-**	**-**
- notional amount	-	-	1,897	-	-	-	-
- positive fair value	-	-	19	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	19	-	-	-	-
4) Other values	-	-	-	-	-	-	-
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-

A.9 Residual maturity of OTC financial derivatives: notional amounts

Underlying assets/Residual life	Up to 1 year	From 1 year to 5 years	Beyond 5 years	Total
A. Regulatory trading book	**16,080**	-	-	**16,080**
A.1 Financial derivatives on debt securities and interest rates	-	-	-	-
A.2 Financial derivatives on equity securities and share indices	-	-	-	-
A.3 Financial derivatives on currencies and gold	16,080	-	-	**16,080**
A.4 Financial derivatives on other values	-	-	-	-
B. Banking book	**1,897**	-	-	**1,897**
B.1 Financial derivatives on debt securities and interest rates	-	-	-	-
B.2 Financial derivatives on equity securities and share indices	-	-	-	-
B.3 Financial derivatives on currencies and gold	1,897	-	-	**1,897**
B.4 Financial derivatives on other values	-	-	-	-
Total 31/12/2016	**17,977**	-	-	**17,977**
Total 31/12/2015	**10,913**	-	-	**10,913**

A.10 Financial derivatives OTC: counterparty risk/financial risk – Internal models

The financial risk of “plain vanilla” type derivative contracts, if existing, is monitored using traditional discounting back instruments on the basis of the rates curve. When present, the Bank uses derivative contracts, entered into with leading sector operators, exclusively for the hedging of the interest and exchange rate risk.

The transactions indicated in the table refer exclusively to forward foreign currency transactions. Their fair value is recorded in asset item 20 and liability item 40.

Section 3 - Liquidity risk

Qualitative information

A. General aspects, management processes and measurement methods for liquidity risk

The management of the liquidity risk is carried out mainly by the Business Division by means of the Financial Sector, with the aim of checking the Bank's ability to efficiently meet any liquidity requirements and avoid finding itself in situations of excessive and/or insufficient liquidity, with the consequent need to invest and/or raise funds at unfavourable rates with respect to market rates.

The overall model adopted by the bank for managing and monitoring the liquidity risk is divided up into three distinct areas according to the reference scope, time horizon and the analysis frequency:

- the management of the intraday liquidity, or rather the management of the daily settlements of the debit and credit positions in the various settlement, payment and clearing systems the Bank takes part in;
- the management of the operating liquidity, or rather the management of the most volatile events that impact the Bank's liquidity position over a period between 1 day and up to 6 months, with the primary objective of maintaining the Bank's ability to meet its ordinary and extraordinary payment commitments, minimising the costs; in this context, the recognition of imbalances between incoming and outgoing sources as well as the related system of supervisory limits, focus in particular on the maturities up to six months;
- the management of the structural liquidity, or rather the management of all the events of the bank book which impact the Bank's overall liquidity position in the period especially beyond 6 months, with the primary objective of maintaining a suitable dynamic ratio between medium/long-term assets and liabilities.

Significant support for the management of the liquidity risk derives from the monitoring carried out by the Risk Management/Planning and Control Service, by means of an internal model that has the aim of reporting the effects of the investment/financing transactions by means of the distribution by maturity of the transactions. Operations are measured by using the Asset and Liability Management (A.L.M) method, via the ERMAS application, which makes it possible to measure and manage both any liquidity requirement/surplus of the Bank generated by the imbalance between incoming and outgoing flows, and the structural balance deriving from the correct composition by maturity of the sources and the uses.

In line with national and international best practice and the prudent supervisory indications, the model adopted by the Bank for the management and monitoring of the operational liquidity is based on the "Maturity Mismatch" approach, which presupposes the construction of a maturity ladder and on the allocation of the certain and estimated flows on its various time brackets, for the purpose of calculating the cumulative GAP for each maturity bracket.

As part of the liquidity policy, the Bank - on a consistent basis with the risk tolerance threshold established by the Board of Directors - defined operating limits both for the management of the operating liquidity (even assuming stress scenarios) and the structural liquidity.
With regard to the management of the operational liquidity, the limits are defined in terms of absolute value of the cumulative GAPs, on the various maturities.
The Bank continually checks the value of the Counterbalancing capacities (CBC), understood as the availability of assets that can be reimbursed, sold or used in refinancing transactions with the interbank system and that therefore make it possible to generate liquidity rapidly and efficiently.
The limit adopted by the Bank for the monitoring of the structural liquidity risk is by contrast defined in terms of ratio between the assets and liabilities with a maturity of more than one year. The definition of this limit has the aim of ensuring the maintenance of a structural liquidity profile consistent with the strategy for financing the assets over the mid/long-term with liabilities of the same duration.

The Bank has also a “Contingency Funding Plan”, as an instrument for mitigating the liquidity risk. The document indicates, in detail, the individuals and the structures responsible for the implementation of the extraordinary funding policies in the event of need, as well as the actions to be adopted to remedy them, in accordance with the regulatory requirements envisaged by the supervisory regulations.
As part of the definition of the “Contingency Funding Plan”, the Bank established a series of risk indicators, which are constantly monitored for the purpose of anticipating possible situations of stress or liquidity crisis.

The Bank sends on a monthly basis to the Supervisory Authority the measurement of the short-term liquidity indicator, “Liquidity Coverage ratio” (LCR) on the basis of the matters envisaged by the EU Delegated Regulation 2015/61 issued to supplement EU Regulation No. 575 dated 26 June 2013 of the European Parliament (CRR Regulations), as well as the additional indications and recommendations of the European Banking Authority on the subject.

With regard to the “Net Stable Funding Ratio” (NSFR) indicator, representing a longer-term structural balance, the Bank has implemented an operational-type measurement on the basis of the matters envisaged by the Basel III Framework.

During 2016, the quarterly reporting related to the ALMM (Additional Liquidity Monitoring Metrics) was also sent to the Supervisory Authority, as additional liquidity monitoring metrics to allow a comprehensive view of the Bank's risk profile.

The management of company liquidity is optimised with a continuous monitoring of the assets that can be readily liquidated or used in refinancing transactions with the ECB. The Bank joined the Nuovo Mercato Interbancario Collateralizzato dei Depositi (New MIC), the e-MID market segment intended for Euro deposits with maturities between one day and a year, which avails itself of the guarantee system managed by Cassa di Compensazione e garanzia (CC&G).

As mentioned in section I - “Credit risk”, subsection C “Securitisations”, the Bank put together two self-securitisation transactions, for the purpose of increasing its financing ability with the system.
These transactions adopted the name “Valsabbina SPV 1” and “Valsabbina SME” and were finalised in 2012 and in 2016, respectively, with the intention of disposing of securities that could be set aside so as to be able to establish funding transactions with the Central European Bank.

The “Valsabbina SPV 1” transaction was concluded with the transfer of a portfolio of performing residential mortgage loans by the Bank, as originator, and the subscription by the originator of the securities issued by the special purpose vehicle.
In January 2015, the size increase of the previous securitisation was concluded, with an additional sale of residential mortgage loans; in connection with this sale, the amount of the senior security recorded an increase of Euro 156,701 thousand, whereas the value assigned to the junior security remained unchanged.

The “Valsabbina SME” transaction concerned a portfolio of residential mortgage and unsecured loans disbursed to SMEs totalling approximately Euro 648 million by, which was sold by the Bank to the Special purpose vehicle Valsabbina SPV 1 Srl.
In connection with the sale of mortgage loans, Valsabbina SPV 1 Srl issued in December 2016 a tranche of bonds secured by mortgages that, fully subscribed by our Bank (Self-Securitisation), were used in refinancing transactions with the European Central Bank.

In order to support the amount of mortgages collateral to the bond, the transaction envisages for the 2017-2018 two-year period on a quarterly basis, the possibility of selling additional mortgage loan portfolios disbursed to SMEs.

The related details are provided below for the sake of completeness.

“Valsabbina Spv1” securitisation transaction

- Special purpose vehicle: Valsabbina Spv 1 S.r.l.
- Date of assignment of the receivables: 12/12/2011 and 22/01/2015
- Type of receivables assigned: Residential mortgage loans
- Quality of receivables assigned: *Performing*
- Guarantees on the receivables assigned: Senior mortgage
- Geographical area of receivables assigned: Italy
- Business activities of the assigned debtors: Private parties
- Number of receivables assigned 1st sale: 7,401
- Price of receivables assigned 1st sale: Euro 284,703 thousand
- Nominal value of receivables assigned 1st sale: Euro 284,053 thousand
- Interest accrued on receivables assigned 1st sale: Euro 650 thousand
- Number of receivables assigned 2nd sale: 1,355
- Price of receivables assigned 2nd sale: Euro 151,511 thousand
- Nominal value of receivables assigned 2nd sale: Euro 151,376 thousand
- Interest accrued on receivables assigned 2nd sale: Euro 135 thousand

As part of the above-mentioned transaction, the ABS securities indicated below were issued, all subscribed by the *originator:*
• *senior tranche* of Euro 312,600 thousand (fully subscribed by the Bank) with an external rating assigned by Moody’s (“Aa2”) and DBRS (“AAA”) with a return index-linked to the 3-month Euribor plus 40 bps;
• *junior portion* of Euro 100,100 thousand (fully subscribed by the Bank) without any rating.

As at 31 December 2016, the residual capital to accrue amounted to Euro 229,406 thousand, with accruals for Euro 17 thousand.
At the end of the reporting period, the situation of the securities issued in correspondence with the securitisation transaction was as follows:

• *residual senior tranche* of nominal Euro 130,084 thousand;
• *junior tranche* of nominal Euro 100,100 thousand.

"Valsabbina SME" securitisation transaction

- Special purpose vehicle: Valsabbina Spv 1 S.r.l.
- Date of assignment of the receivables: 10/11/2016
- Type of receivables assigned: Landed-property loans, mortgage loans, non-mortgage loans, commercial loans
- Quality of receivables assigned: *Performing*
- Guarantees on the receivables assigned: Mortgage, MCC Guarantee (as per Law 662/96), Confidi Guarantee
- Geographical area of receivables assigned: Italy
- Business activities of the assigned debtors: SMEs
- Number of receivables assigned 1st sale: 4,870
- Price of receivables assigned 1st sale: Euro 648,161 thousand
- Nominal value of receivables assigned 1st sale: Euro 647,657 thousand
- Interest accrued on receivables assigned 1st sale: Euro 504 thousand

As part of the above-mentioned transaction, the ABS securities indicated below were issued, all subscribed by the *originator:*
• *senior tranche* of Euro 400 million (fully subscribed by the Bank) with an external rating assigned by Moody's ("A1") and DBRS ("A (low)") with a return index-linked to the 3-month Euribor plus 50 bps;
• *junior tranche* of Euro 255.4 thousand (fully subscribed by the Bank) without any rating.

As at 31 December 2016, the residual capital to accrue amounted to Euro 611,848 thousand, with accruals for Euro 486 thousand.
At the end of the reporting period, the situation of the securities issued in correspondence with the securitisation transaction was unchanged compared to the issue of securities for both tranches.

Both transactions allowed to improve the liquidity profile of the Bank by increasing the "collateral" that can be used in refinancing transactions with the ECB.

As at 31 December 2016, the Senior securities from both transactions permitted an overall refinancing margin with the ECB of approximately Euro 510 million.

Quantitative information

1. Distribution of financial assets and liabilities by residual contractual maturity
- Currency: EURO

Items/Time periods	on demand	from 1 to 7 days	from 7 to 15 days	from 15 days to 1 month	from 1 to 3 months	from 3 months to 6 months	from 6 months to 1 year	from 1 year to 5 years	Beyond 5 years	Unspecified
On-balance sheet assets	**800,503**	**44,564**	**67,427**	**134,355**	**181,735**	**242,385**	**170,317**	**1,282,540**	**1,303,408**	**23,647**
A.1 Government securities	-	-	260	-	627	140,624	3,542	310,000	548,000	-
A.2 Other debt securities	-	-	3	8	680	408	5,613	45,430	14,833	-
A.3 UCIT units	201,406	-	-	-	-	-	-	-	-	-
A.4 Loans	599,097	44,564	67,164	134,347	180,428	101,353	161,162	927,110	740,575	23,647
- banks	124,808	-	235	-	55	-	10,001	-	-	23,647
- customers	474,289	44,564	66,929	134,347	180,373	101,353	151,161	927,110	740,575	-
On-balance sheet liabilities	**1,986,716**	**128,884**	**184,400**	**293,647**	**69,269**	**67,623**	**270,854**	**935,144**	**16,538**	-
B.1 Deposits and current accounts	1,926,206	4,739	3,982	11,934	17,510	36,089	44,833	69,587	-	-
- banks	27,064	1	-	-	-	-	-	-	-	-
- customers	1,899,142	4,738	3,982	11,934	17,510	36,089	44,833	69,587	-	-
B.2 Debt securities	6,811	24,140	328	388	2,638	31,534	226,021	450,557	16,538	-
B.3 Other liabilities	53,699	100,005	180,090	281,325	49,121	-	-	415,000	-	-
Off-balance sheet transactions	**30,404**	**487**	**5,644**	**5,312**	**10,423**	**5,158**	**1,396**	**3,141**	**14,869**	-
C.1 Financial derivatives with exchange of principal	-	487	5,444	3,412	4,576	3,398	521	-	-	-
- long positions	-	223	2,796	2,957	2,625	1,711	261	-	-	-
- short positions	-	264	2,648	455	1,951	1,687	260	-	-	-
C.2 Financial derivatives w/o exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be received	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to grant finance	30,404	-	200	1,900	5,847	1,760	875	3,141	14,869	-

- long positions	906	-	200	1,900	5,847	1,760	875	3,141	14,869	-
- short positions	29,498	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees given	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-

1. Distribution of financial assets and liabilities by residual contractual maturity - Currency: OTHER CURRENCIES

Items/Time periods	on demand	from 1 to 7 days	from 7 to 15 days	from 15 days to 1 month	from 1 to 3 months	from 3 months to 6 months	from 6 months to 1 year	from 1 year to 5 years	Beyond 5 years	unspecified
On-balance sheet assets	**9,728**	**139**	**2,989**	**522**	**5,032**	**154**	**-**	**-**	**-**	**-**
A.1 Government securities	-	-	-	-	-	-	-	-	-	-
A.2 Other debt securities	-	-	-	-	-	-	-	-	-	-
A.3 UCIT units	6,250	-	-	-	-	-	-	-	-	-
A.4 Loans	3,478	139	2,989	522	5,032	154	-	-	-	-
- banks	2,274	-	2,850	-	2,855	-	-	-	-	-
- customers	1,204	139	139	522	2,177	154	-	-	-	-
On-balance sheet liabilities	**9,297**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B.1 Deposits and current accounts	9,297	-	-	-	-	-	-	-	-	-
- banks	-	-	-	-	-	-	-	-	-	-
- customers	9,297	-	-	-	-	-	-	-	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-	-
Off-balance sheet transactions	**-**	**456**	**5,763**	**3,432**	**4,721**	**3,510**	**550**	**-**	**-**	**-**
C.1 Financial derivatives with exchange of principal	-	456	5,763	3,432	4,721	3,510	550	-	-	-
- long positions	-	182	2,846	474	2,025	1,755	275	-	-	-
- short positions	-	274	2,917	2,958	2,696	1,755	275	-	-	-
C.2 Financial derivatives w/o exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-

C.3 Deposits and loans to be received	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to grant finance	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees given	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-

Section 4 - Operational risks

Qualitative information

A. General aspects, management processes and measurement methods for operational risk

The operational risk is defined as the risk of incurring losses resulting from inadequacy or inefficiency of procedures, human resources and internal systems, or from external events. This risk is inherent to the performance of banking activities and can be generated and reside therefore in all the company processes.

In general, the main sources of manifestation of the operational risk are attributable to internal fraud, external fraud, employment and work safety relationships, professional obligations vis-à-vis the customers, damages from external events, the malfunction of the IT system and the execution, consignment and management of the processes.

The Bank has defined a series of organisational processes for the supervision and management of the types of operational risk, within which it avails itself of specific functions:

- the Internal Audit, whose activities, on the one hand, are aimed at checking the regularity of the operations and the trend of the risks, and on the other hand, at assessing the functioning of the overall internal control system;
- the Control Body pursuant to Legislative Decree No. 231/2001, whose composition and functioning are regulated by means of specific regulations, within the adopted Organisational, management and control Model;
- Risk Management, which responds to the need to report and measure the typical risks of the banking business by means of constant monitoring of those assumed and those potentially generated by the investment, lending and service policies;
- the Compliance unit, tasked with the supervision and control of observance of the regulations, providing support for the prevention and management of the risk of incurring legal or administrative sanctions and/or suffering significant losses consequent to the violation of internal or external legislation.

To support the Operational Risk management model, the Bank has adopted the following operating processes:

- "Loss Data Collection" – process for collecting the operational losses manifesting within the Bank (active since 2012);
- "Risk Self Assessment" – self-diagnostic process for the forward-looking assessment of the operational risks aimed at identifying the possible risk events estimating the possible potential impacts.

Specifically, the Loss Data Collection process achieved is broken down into the following components:

- Collection of data on the operational loss events (Loss Event Collection): this represents the collection and registration process for the operational loss data that has taken place within the Bank;
- Creation of a database of the events (Loss Data Collection) that generate losses used to carry out statistical processing of the losses that have occurred and the causes that have led to the same.

The organisational model adopted has the following levels of responsibility:

- Reporter (all the organisational units);
- Manager (Internal Audit Service);
- Validator (Risk Management, Planning & Control Service).

The role of reporter of a possible or potential operational risk is carried out by all the organisational units, whether they are branches or head office. On occurrence of a loss event, a report is drawn up and sent to the Internal Audit Service that sees to the management of the report and its insertion in the procedure (Loss Data Collection). The validation and the consolidation are carried out by the Risk Management/Planning and Control Service.

As part of the "Loss Data Collection" activities, the events indexed over the last five years, and in relation to which steps were taken to record the related operational loss, have been catalogued by type of operational loss (event type).
The types of event were subsequently assigned to the business lines and to the loss events on the basis of the classifications envisaged by the Bank of Italy Circular No. 285/2013 and Regulation No. 575/2013 (CRR).

The objectives intended to be pursued by means of the afore-mentioned process are:

- **identify the causes of the detrimental events that underlie the operational losses and consequently increase the business profitability;**
- **improve the efficiency of the management, by means of the identification of the critical areas, their monitoring and the optimisation of the control systems;**
- **optimise the risk mitigation and transfer policies;**
- **develop the culture of the operational risk at Bank level, raising the awareness of the entire structure.**

For the purpose of supplementing the operations that are already carried out afterwards with the collation of the operating losses, the Bank implemented - with the support of a leading consulting company - a self-assessment process functional for estimating on a forecast basis the Bank's exposure to the operating risk ("Risk Self Assessment"). Specifically, this involves an estimation self-diagnostic process that sets out to assess the degree of the exposure to the risk by means of a combination of opinions expressed in terms of impact, probability of occurrence, efficacy of the controls. The process represents a further monitoring of operational risk as it allows to identify potential risk scenarios and therefore to evaluate appropriate mitigation actions.

Within the sphere of the risk management processes, the mitigation activities are first of all pursued by means of legislative, organisational, procedural and training measures. Any critical areas, identified by means of the prior and subsequent analysis carried out, are looked at in-depth with the competent Units so as to evaluate the appropriate corrective measures.

Furthermore, again overseeing the occurrence of types of operational risk, the following were drawn up:

- the Business continuity plan, aimed at protecting the Bank in the presence of critical events that may invalidate full operations;
- the mapping of the main operating processes (credit, finance and branch), with the aim of harmonising the conduct of the operators facilitating the integration of the controls.

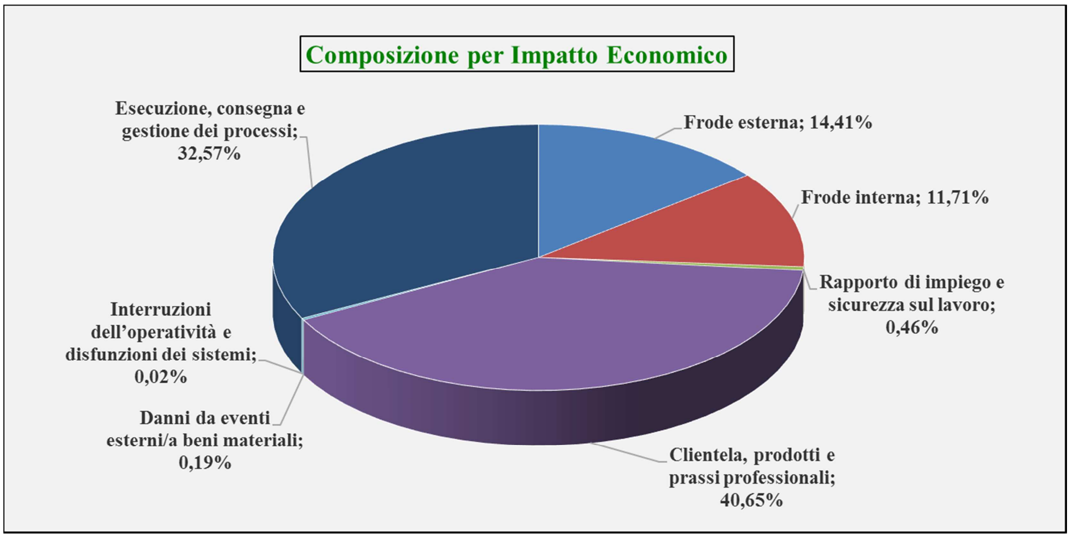
The Bank adopted, for the calculation of the capital requirement in the presence of operational risk, the Basic Indicator Approach (BIA), which envisaged that the capital covering this type of risk equates to 15% of the average of the "basic indicator" of the last three financial years, calculated pursuant to Articles 315 and 316 of the CRR Regulations.

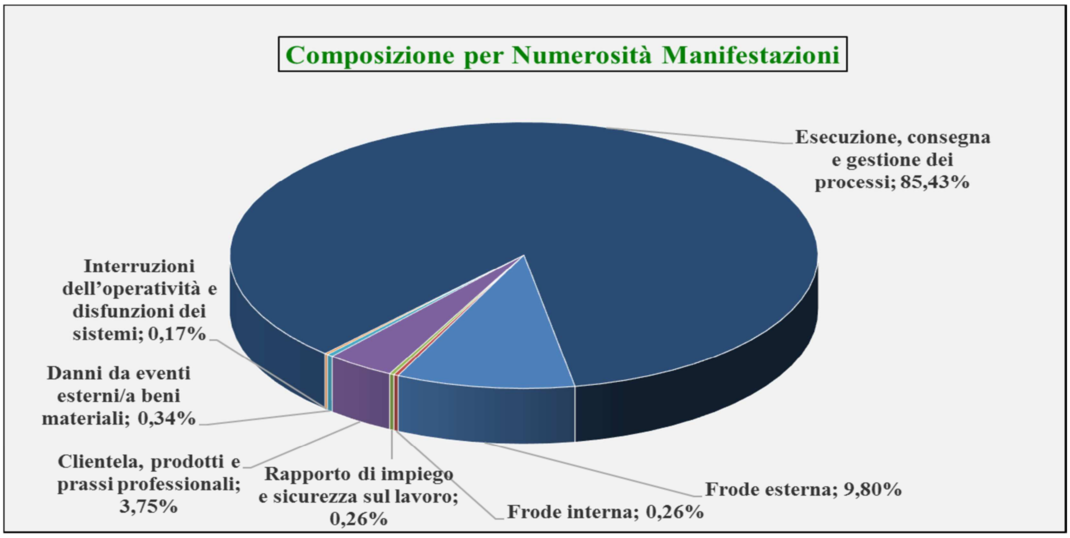
The capital absorption for this type of risk as at 31 December 2016 came to Euro 14,476 thousand.

Quantitative information

With regard to the loss data, inserted in the Bank's Loss Data Collection archive in the years from 2012 to 2016, the distribution by type of loss is presented below, with indication by impact to the income statement and by number of occurrence, according to the classification of the events envisaged by the new Supervisory provisions.

Incidence of the operational losses by type of event (2012 - 2016 survey)





Legend: Breakdown by economic impact: Execution, delivery and management of the processes – Stoppage of operations and malfunctions of the systems – Damaged caused by external events – Customers, products and business practices – Contractual relationship and safety in the workplace – Internal fraud - External fraud

Breakdown by number of events: Stoppage of operations and malfunctions of the systems – Damaged caused by external events – Customers, products and business practices – Contractual relationship and safety in the workplace – Internal fraud - External fraud - Execution, delivery and management of the processes

Furthermore, by way of disclosure, the historical trend in robberies and claims is presented below, indicating the number of the events and the cost the Bank must cover, recorded under operating expense (amounts in thousands of Euro):

	Robberies		Claims		
	No.	Amount Euro 000	No. received	No. accepted	Reimbursements Euro 000
2010 financial year	3	10	74	17	28
2011 financial year	3	6	84	28	26
2012 financial year	2	10	86	29	107
2013 financial year	2	26	109	26	231
2014 financial year	2	2	153	33	38
2015 financial year	2	66	161	25	251
2016 financial year	1	12	223	33	99

The provisions for risks and charges are provided in relation to legal actions suffered of Euro 1,119 thousand.

Public disclosure

The information regarding capital adequacy, exposure to risks and the characteristics of the systems in charge of the identification, measurement and management of these risks envisaged by the New prudential supervisory provisions for banks (Circular No. 285 of 17 December 2013), in Section III "Public disclosure", is published on the Bank's website:www.lavalsabbina.it.

PART F - Information on equity

Section 1 - Corporate equity

A. Qualitative information

The Bank's equity corresponds to the algebraic sum of the items 130 "Valuation reserves", 160 "Reserves", 170 "Share premium reserve", 180 "Share capital", 190 "Own shares (-)" and 200 " Profit/loss for the year" under liabilities in the balance sheet.
The amount and the trend of equity represent one of the Bank's strategic priorities, both in relation to the growth and development prospects of the risk and in relation to regulatory legislation.
Therefore, also with regard to the future, the capital requirements are determined:
- by the observance of the capital requirements laid down by supervisory regulations;
- by the supervision of the risks related to the banking business;
- by business development projects;
- by assessments on the amount of profits to be distributed to the shareholders and to be capitalised.

Part B - Liability Section 14 of these explanatory notes provides disclosure regarding the components, amounts, origin and degree of availability and distributable nature of the various items.

B. Quantitative information

B.1 Company equity: breakdown

Item/Amounts		Total 31/12/2016	Total 31/12/2015
1.	Share capital	106,550	107,390
2.	Share premium reserve	230,299	235,405
3.	Reserves	57,765	53,972
	- income-related	60,857	57,064
	a) legal	23,780	22,974
	b) statutory	24,301	21,367
	c) own shares	12,014	12,014
	d) other	762	709
	- other	(3,092)	(3,092)
4.	Capital instruments	-	-
5.	(Own shares)	(5,182)	(8,855)
6.	Valuation reserves	(4,460)	(3,751)
	- Available-for-sale financial assets	(5,018)	(4,438)
	- Tangible assets	-	-
	- Intangible assets	-	-
	- Hedging of investments in foreign operations	-	-
	- Cash flow hedges	-	-
	- Exchange rate gains (losses)	-	-
	- Non-current assets held for sale and discontinued operations	-	-
	- Actuarial gains/loss on defined-benefit		

	pension plans	(421)	(292)
	- Portion of valuation reserves of equity-accounted investments	-	-
	- Special revaluation laws	979	979
7.	Profit (Loss) for the year	4,148	8,062
	TOTAL	**389,120**	**392,223**

The change in the reserves as per point 3. of the table above (financial statement item 160) is described in the following table:

	Balances as at 31 December 2015	Shareholders' resolution for approval of 2015 financial statements			Other changes	Closing balances as at 31 December 2016
		Allocation to reserves	Assignment of own shares to supplement dividend	Reintegration and increase of Provision for purchase of own shares		
Income-related reserves:	57,064	3,740	-	-	53	60,857
a) legal	22,974	806	-	-	-	23,780
b) statutory	21,367	2,934	-	-	-	24,301
c) own shares	12,014	-	-	-	-	12,014
d) other	709	-	-	-	53	762
"Other" reserves	(3,092)	-	-	-	-	(3,092)
Reserves item 160	**53,972**	**3,740**	**-**	**-**	**53**	**57,765**

The amount recorded under Reserves "Other" represents the merger difference deriving from the incorporation of Credito Veronese in 2012.
The "other changes" include the dividends relating to the own shares and those acquired by the bank in accordance with Article 30.2 of the Banking Consolidation Act.

B.2 Valuation reserves for available-for-sale financial assets: breakdown

	Assets/Balances	Total 31/12/2016		Total 31/12/2015	
		Positive reserve	Negative reserve	Positive reserve	Negative reserve
1.	Debt securities	725	(6,150)	611	(4,020)
2.	Equity securities	5,227	(91)	4,695	(13)
3.	UCIT units	493	(5,222)	190	(5,901)
4.	Loans	-	-	-	-
	TOTAL	**6,445**	**(11,463)**	**5,496**	**(9,934)**

The valuation reserves are assigned both the positive and negative fair value changes registered in available-for-sale financial assets.
The overall net difference with regard to the previous year of Euro 580 thousand is indicated in the statement of comprehensive income included in part D of these explanatory notes.

B.3 Valuation reserves for available-for-sale financial assets: annual changes

		Debt securities	Equity securities	UCIT units	Loans
1.	**Opening balances**	**(3,409)**	**4,682**	**(5,711)**	-
2.	**Increases**	**4,458**	**545**	**3,183**	**-**
2.1	Fair value gains	438	532	1,108	-
2.2	Reversal to income statement of				
	negative reserves	4,020	13	2,075	-
	from impairment	-	13	37	-
	on sales	4,020	-	2,038	-
2.3	Other changes	-	-	-	-
3.	**Decreases**	**6,474**	**91**	**2,201**	**-**
3.1	Fair value losses	6,336	91	2,011	-
3.2	Impairment losses	-	-	18	-
3.3	Reversal to income statement of				
	positive reserves: on sales	138	-	172	-
3.4	Other changes	-	-	-	-
4.	**Closing balances**	**(5,425)**	**5,136**	**(4,729)**	**-**

B.4 Valuation reserves related to defined benefit plans: annual changes

The actuarial reserve relating to the future defined benefit pension plans, recorded under Valuation reserves net of the tax effects recorded under prepaid taxes, presented a negative balance of Euro 421 thousand as at 31 December 2016, whilst at the end of 2015 it presented a negative balance of Euro 292 thousand, decreasing by Euro 129 thousand (Euro 192 thousand without the tax effect).

The difference is due to the different financial parameters used that led to an actuarial loss of Euro 192 thousand, compared with a gain of Euro 324 thousand in 2015.

As described in part B of the explanatory notes, the actuary carried out the calculation on the basis of the following financial assumptions: annual discount rate of 1.31% (determined, consistently with section 83 of IAS 19, with reference to the average yield curve that derives from the IBOXX Eurozone Corporates AA index with a duration of 10+ struck on 31 December 2016, rate considered as the best expression of yields of businesses of primary standing), annual rate of inflation 1.50% and annual Post-employment benefit rate 2.625%.

Section 2 - Own funds and capital ratios

2.1 Own funds

A. Qualitative information

Own funds and capital ratios were calculated on the basis of the book values determined with the application of the regulations envisaged by the IAS/IFRS international accounting standards; moreover, the specific regulations issued by the European Union on Prudential Supervision (CRR 575/2013 regulation, directive 36 of 2013, implementing regulation 680/2014 as supplemented) and implemented by the Bank of Italy in its Circulars, no. 285 and no. 286 of 2013, in particular, are taken into consideration.

1. Common Equity Tier 1 capital (CET1)

The Common Equity Tier 1 capital (CET1) before the application of deductions and prudential filters consists of the share capital, share premium reserves, reserves, including valuation reserves; this aggregate also includes the regulatory reduction envisaged for own shares, equal to the maximum authorised amount of Euro 10.1 million.

The items to be deducted include goodwill (net of the relevant deferred taxation), other intangible assets and the prepaid taxation related to the second exemption of goodwill from incorporation of Credito Veronese.

The items relating to the "Transitory regime" show the values useful for the correct calculation of the reckonability of the reserves pertaining to the securities recorded in the AFS portfolio.

Note that, complying with Article 26, par. 2 of Reg. 575/2013, the Bank did not calculate in the equity elements the profit (loss) for the year because when the supervisory reports were sent (13/02/2017), the financial statements were not yet approved by the Board of Directors and certified by the Independent Auditing Firm.

The Bank exercised the option for the neutralisation of gains/losses on government securities issued by Central Governments of European Countries (Measure of Bank of Italy of 18 May 2010, "Symmetric approach").

Pursuant to Article 467 of the CRR, the right exercised by the Bank of Italy to allow the banks to opt for the total sterilisation of profits and losses arising from exposures to Central Governments recorded in the AFS portfolio is limited temporarily, i.e. until the adoption of the accounting standard IFRS9; this standard came into force in December 2016. On this issue, on 23 January 2017, the Bank of Italy announced that, pending formal clarification by the European Supervisory Authorities, this discretionary power will continue to apply to non-significant banks.

2. Additional Tier 1 capital (AT1)

There are no significant Additional Tier 1 capital elements.

3. Tier 2 capital (Tier2 - T2)

The Tier 2 capital is made up of two subordinated bonds of which one issued during the year. The securities observe the stringent requirements laid down by the European regulations, the main ones being:

- original duration of at least 5 years;
- no provision of early repayment incentive.

Straight-line repayment of the portion that can be reckoned for regulatory purposes is envisaged in the last 5 years of residual duration of the instrument.

The first subordinated bond was issued on 10 February 2015, it has a duration of 6 years maturing on 10 February 2021 and offers a fixed rate of return of 4.50%. The second one was issued on 15 July 2016, expires on 15 July 2022 (duration 6 years) and offers a fixed rate of return of 4%.

The Bank of Italy authorised a maximum repurchase amount related only to subordinated loans of Euro 1.05 million.

B. Quantitative information

	Total 31/12/2016	Total 31/12/2015
A. Common Equity Tier 1 capital (CET1) before the application of prudential filters	**380,054**	**382,717**
of which instruments of CET1 subject to transitional provisions	-	-
B. CET 1 prudential filters (+/-)	**-**	**-**
C. CET1 gross of elements to be deducted and of the effects of the transitional regime (A+/-	**380,054**	**382,717**
D. Elements to be deducted from CET1	**(11,239)**	**(11,907)**
E. Transitional regime - Impact on CET1 (+/-)	**5,259**	**4,026**
F. Total Common Equity Tier 1 capital (CET1) (C-D+/-E)	**374,074**	**374,836**
G. Additional Tier 1 capital (AT1) gross of elements to be deducted and of the effects of the transitional regime	**2**	**617**
of which instruments of AT1 subject to transitional provisions	-	-
H. Elements to be deducted from AT1	**-**	**-**
I. Transitional regime - Impact on AT1 (+/-)	**(2)**	**(617)**
L. Additional Tier 1 capital (AT1) (G-H+/-I)	**-**	**-**
M. Tier 2 capital (Tier 2 - T2) gross of elements to be deducted and of the effects of transitional regime	**43,774**	**35,000**
of which instruments of T2 subject to transitional provisions	-	-
N. Elements to be deducted from T2	**(1,050)**	**-**
O. Transitional regime - Impact on T2 (+/-)	**81**	**-**
P. Total Tier 2 capital (Tier 2 - 2) (M-N+/-O)	**42,805**	**35,000**
own funds (F + L + P)	**416,879**	**409,836**

There are no effects relating to the application of the new IAS 19 effective as from 2013, given that before application of the new standard the Bank directly booked the changes from discounting back to the income statement, without using the corridor approach.

In the absence of the option for the neutralisation of capital gains/losses on the Government securities issued by Central Governments of European countries and with the maintenance of the asymmetric approach, Own funds would be smaller by Euro 5,420 thousand (equal to the sum of negative reserves of Euro 6,140 thousand and of positive reserves of Euro 720 thousand).

2.2 Capital adequacy

Qualitative information

The prudent regulations according to the Basel Agreement on Capital are based on three Pillars as already indicated in the section "The Risk Management System" in the report on operations.
For the valuation of the equity soundness and the observance of the minimum ratios on an on-going basis, the Bank implements a series of controls that result in the production of the "ICAAP" and "RAF" reports. Among other things, stress tests are carried out useful for understanding the evolution of the prudent ratios further to any impairment in the market conditions.

Quantitative information

Categories/Values	Unweighted amounts		Weighted amounts/requirements	
	31/12/2016	31/12/2015	31/12/2016	31/12/2015
A. RISK ASSETS	4,652,926	4,435,933	2,244,518	2,265,472
A.1 CREDIT AND COUNTERPARTY RISK	**4,652,926**	**4,435,933**	**2,244,518**	**2,265,472**
1. Standardised approach	4,642,833	4,435,933	2,242,743	2,265,742
2. Internal rating method	-	-	-	-
2.1 Base	-	-	-	-
2.2 Advanced	-	-	-	-
3. Securitisations	10,093	-	1,775	-
B. REGULATORY CAPITAL REQUIREMENTS			-	-
B.1 CREDIT RISK AND COUNTERPARTY RISK			**179,561**	**181,238**
B.2 CREDIT RATING ADJUSTMENT RISK			**1**	**-**
B.3 SETTLEMENT RISK			**-**	**-**
B.4 MARKET RISK			**4,072**	**4,648**
1. Standardised approach			4,072	4,648
2. Internal models			**-**	**-**
3. Concentration risk			-	-
B.5 OPERATIONAL RISK			**14,476**	**14,835**
1. Basic indicator approach			14,476	14,835
2. Standardised approach			-	-

3. Advanced approach		-	-
B.6 OTHER CALCULATION ELEMENTS		**-**	**-**
B.7 TOTAL PRUDENTIAL REQUIREMENTS		**198,110**	**200,721**
C. RISK ASSETS AND CAPITAL RATIOS			
C.1 Risk-weighted assets		2,476,381	2,509,013
C.2 Common equity tier 1 capital / Risk-weighted assets (CET1 capital ratio)		15.11%	14.94%
C.3 Tier 1 Capital/Risk-weighted assets (Tier 1 capital ratio)		15.11%	14.94%
C.4 Total own funds/Risk-weighted assets (Total capital ratio)		16.83%	16.33%

The Bank presents a ratio between Tier 1 capital and risk-weighted assets (CET 1 capital ratio) equal to 15.11%, increasing compared with 14.94% last year. The ratio between Own funds and risk-weighted assets (Total Capital Ratio) comes to 16.83%, improving by half a percentage point compared to 2015.

With the implementation in Italy of Directive 2013/36/EU (CRD IV), the Bank of Italy carried out an initial process during 2015 for the prudent review of the Bank (SREP) on the basis of which additional capital requirements were determined: these requirements remained in force until 31 December 2016.
The overall requirements to be applied further to the process are quantified as follows:
- CET 1 Ratio equal to 7%, inclusive of the 2.5% required by way of capital conservation reserve: there are no additional requirements with respect to the legislative minimum requirements;
- Tier 1 Ratio equal to 9%, inclusive of the 2.5% by way of capital conservation reserve and 0.5% from the outcome of the SREP process;
- Total Capital Ratio equal to 12%, inclusive of the 2.5% by way of capital conservation reserve and 1.5% further to the SREP process;
The ratios measured as at 31 December 2016 are far above the thresholds required.

In conclusion, the Bank of Italy adopted the gradual introduction of capital conservation buffer requirement envisaged by EU Directive no. 36/2013 (CRD IV).
On the basis of the new regulatory provisions, banks will have to apply a minimum ratio of capital conservation buffer of:
- 1.25% from 1 January 2017 to 31 December 2017;
- 1.875% from 1 January 2018 to 31 December 2018;
- 2.5% from 1 January 2019.

Part G - Business combinations

On 29 December 2016, Banca Valsabbina S.c.p.A., after having received the required authorisation of the Bank of Italy, finalised the purchase from Hypo Alpe Adria Bank S.p.A. of:

- a portfolio of performing mortgage loans disbursed by Hypo Bank;
- a business branch consisting of no. 7 branches and relevant assets and liabilities.

The acquisition, with two separate deeds after an in-depth valuation analysis and an intense contractual phase, is part of the broader restructuring process that the Hypo Alpe Adria Bank International AG Group, headed by HBI-Bundesholding AG (holding of the Austrian Ministry of Finance), defined for the repayment of the aid received with the nationalisation at the end of 2009.

In purchasing deed, legal relations with customers, employees and other persons are expected to be transferred as from 1 January 2017.

The Business unit is made up of 7 branches: Vicenza, Schio, Verona, Modena, Brescia via Triumplina, Brescia Centre, Bergamo.
The customers of the branches are mainly retail, consistently with those of Banca Valsabbina, and the type of products includes loans and other types of receivables on current accounts of customers, direct deposits (current account payables and savings deposits).
The final Business unit is as follows:

(amounts in Euro 000)

Assets			**Liabilities**	
10. Cash	348		20. Due to customers	41,098
70. Loans and receivables with customers	1,094		100 Other liabilities	151
110. Tangible assets	148		110. Post-employment benefits	290
150. Other assets	1,087			
Total assets	2,677		Total liabilities	41,539
credit imbalance of Banca Valsabbina	38,862			

The consideration for the sale agreed by Banca Valsabbina is given by two components:
1. the difference between the value of the assets and liabilities that are defined at a certain date and subject to review based on the updated asset values at the date of actual transfer of the Branch;
2. Euro 17.5 million (fixed amount) by way of extraordinary sale contribution paid by Hypo Alpe Adria Bank.

At the end of the year, upon completion of the purchase of the business unit, the following were received:
- an advance payment of Euro 53,161 thousand to cover the imbalance of assets/liabilities listed in the above table, recorded as at 31 December 2016 in due to banks. The difference between the final imbalance of € 38,862 thousand and the advance payment was settled in February 2017;
- Euro 17,500 thousand by way of final contribution, amount recorded in the income statement under item 190. Other operating income and expense.

The IT migration took place on 7 January 2017.
In addition to the above-mentioned assets and liabilities and related contracts, the unit includes:

- indirect deposits from customers represented by contracts of custody and administration of securities and other financial instruments such as UCIT units and insurance policies;
- contracts relating to the service of safe-deposit boxes and postal direct debit contracts;

- service agreements relating to branches, such as utilities, cleaning and maintenance services;
- databanks, containing the personal data referred to in Italian Legislative Decree no. 196 of 30 June 2003 as amended and supplemented, relating to customers, transferred employees, suppliers etc. concerning the relations included in the Business unit;
- movable assets, ATMs, cash dispensers, hardware and software licensing contracts;
- contracts relating to the use of credit cards and POS terminals relating to the branches.

The transfer of the Business unit also involves the transfer of 33 employees, characterised by different professional qualifications, seniority and duties.

The consideration for a business combination in accordance with IAS IFRS3 derives from the sum of the fair values at the date of acquisition of the assets and liabilities subject matter of the sale.

In this transaction, mainly related to short-term assets and liabilities, receivables and payables were entered at their nominal value.

Also based on IFRS 3, future losses and other costs that are expected to be incurred as a result of a combination must not be considered as they are not among the liabilities incurred or taken on by the purchaser in exchange for control and therefore, they are not part of the cost of the combination.

In some circumstances, the business combination represents a bargain for the combining entity, which results in a negative excess between the consideration and the fair value of the acquired assets and liabilities.

In the presence of a negative excess, the cost allocation procedure at fair value of the acquired identifiable assets and liabilities must be reviewed in order to ensure the reliability of the allocation.

The negative excess is recognised in profit or loss immediately upon acquisition, when it is considered a bargain for the purchaser.

On the basis of these considerations and the aid of a third party expert, the amount received as an extraordinary contribution was allocated to the income statement under item 190 among other operating income.

The portfolio of performing mortgage loans disbursed by Hypo Bank and purchased at the end of the year for which a fair value of 85% was agreed amounted to a nominal value of Euro 120,416 thousand, with a final price of Euro 102,371 thousand. Since an advance payment of Euro 104,692 thousand was made, recorded as at 31 December 2016 under item “60 Loans and receivables with banks”, the difference was settled in January 2017.

These loans and receivables are recognised at amortised cost and the difference compared to the nominal value will be recognised in the income statement using the amortised cost method.

PART H - RELATED PARTY TRANSACTIONS

Section 1 - Information on remuneration of key executives

The following table discloses the fees for the year of the directors and statutory auditors, as well as the remuneration paid to key executives in 2016:

Item/Amounts	31/12/2016
Directors	600
Statutory Auditors	160
Key executives	1,686

The fees for the Directors refer to the matters established by the Shareholders' meeting held on 30 April 2016, net of VAT and social security charges if due.
The emolument of the Board of Statutory Auditors is equal to that resolved by the Shareholders' meeting held on 2 May 2015 for the three year period from 2015 to 2017, again net of VAT and the social security charges when due.
The amount is detailed in the comments on the income statement, part C of the explanatory notes - section 9.1 - labour costs.
The amount indicated for "key executives" includes the amount of the remuneration disbursed to those who have held the office, as well as the social security and welfare charges payable by the Bank and the portion of the post-employment benefit accrued during the year. With regard to the executives, no incentive payments linked to the profits achieved are envisaged; no pension plans are envisaged other than those enjoyed by employees; and no stock option incentive plans have been envisaged.

Section 2 - Information on transactions with related parties

Related parties, as defined by the international standard IAS 24, are the following:
1. Subsidiary companies, parent companies or those subject to joint control;
2. The companies that may exercise significant influence over the company that draws up the financial statements;
3. Associates;
4. Joint ventures in which the company that draws up the financial statements invests;
5. The Directors, statutory auditors and key executives of the company that draws up the financial statements.
6. Close family members of one of the parties as per point 5;
7. Subsidiary companies, jointly controlled companies or parties subject to the significant influence of one of the parties as per points 5 and 6;
8. Pension funds of employees or any other body related to them.

Close family members are understood to be those who it is expected may influence, or be influenced by, the party concerned in their dealings with the company such as spouses not legally separated and common-law spouses, offspring and dependent individuals of the party, the spouse not legally separated and the common-law spouse.
On the basis of the legislation on industrial co-operative banks, there is no controlling party or a party that exercises management and co-ordination activities over Banca Valsabbina S.C.p.A.

The Bank wholly-owns Valsabbina Real Estate S.R.L., a single-shareholder company.

Related party transactions are regulated on the arms'-length basis envisaged for individual transactions or aligned, if the requirements are met, to the conditions applied to employees.
No specific provisions have been made for losses on loans/receivables during the year, vis-à-vis related parties.

The risks outstanding with related parties, including companies in which the directors and statutory auditors cover management and audit positions, were as follows at year end:

Directors, Statutory auditors, Key executives	31/12/2016	31/12/2015
On-balance sheet loans and receivables	37,258	69,447
Endorsement loans	2,024	3,725

The ratio of loans and receivables with related parties to total loans and receivables in the financial statements is 1.35% compared to 2.50% of the previous year.
The balance sheet ratios, as well as the income statement balances as at 31 December, with the subsidiary company are illustrated in the table below:

Financial statement items	Valsabbina Real Estate	
	31/12/2016	31/12/2015
Balance sheet amounts: assets	**4,567**	**2,143**
Loans and receivables with customers	4,567	2,143
Balance sheet amounts: liabilities	**-**	**-**
Income statement figures	**62**	**105**
Interest income	42	85
Other operating income and expense	20	20

Part L - Segment reporting

This part is not drawn up since the banking activities carried out by the Bank predominantly concern retail customers resident in the province of Brescia, the province of Trento, limited to the branches in the Storo area, and in the province of Verona.

Publication of the fees for the auditing and of other services differing from the audit as per the Consob Issuers' Regulations Article 149 duodieces

The fees in favour of the Independent Auditing Firm BDO Italia SpA and possibly the companies belonging to the same network for the audit services (control of the annual and interim accounts) and certification services, as resolved by the Shareholders' meeting held on 9 April 2011 (inclusive of any index-linking, but excluding out-of-pocket expenses, the Consob contribution and VAT) amount to Euro 40 thousand.