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.
During 2017, the “Risk Appetite Framework Policy” document was reviewed as usual further to the breakdown of the objectives of the 2017-2019 Strategic Plan, in particular, as part of the 2017 annual budget, updating the types of risk that the Bank intends to assume, the risk objectives, any tolerance thresholds and possible operating limits.
In compliance with Directive (EU) 2014/59 Bank Recovery Resolution Directive (BRRD), the Bank has also adopted the Recovery Plan, i.e. the instrument dedicated to dealing promptly and effectively with crisis situations, regulating the measures to be taken to restore the Bank's economic, equity and financial equilibrium. In particular, the plan identified the indicators to be monitored for the timely identification of crisis situations, envisaging that the related monitoring is carried out as part of the periodic analysis of the Bank's positioning with respect to the risks assumed.
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.

The function of Supervisory Body, established pursuant to Italian Law 231/01, has been assigned to the Board of Statutory Auditors as from 15 November 2017. Previously, the Supervisory Board consisted of seven members, including the Chairman of the Board of Statutory Auditors, the heads of the control functions and a Bank official who also carried out the role of secretary, whereas the Chairman of the Supervisory Body was an outside professional.
During the 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 associated with the application of the regulations contrasting money laundering and the financing of international terrorism in the light of the changes that occurred with Italian Legislative Decree 90/2017.
The 231 Body also examined and discussed the annual reports of the various control functions of the Bank, in particular evaluating any critical aspects emerging and the related measures adopted and/or planned by the Bank for their removal.
Special attention was paid to the judicial proceedings that also involve the Bank pursuant to Italian law 231/2001 (Ca.ri.fe. affair).
With regard to preventive proceedings, it should be noted that, despite the fact that the case was closed since it was time-barred, the Bank was involved not only as a result of the charges against its directors and managers, but also as an administrative body responsible pursuant to Italian Legislative Decree 231/01.
The examining magistrate rejected the first seizure request on 19 June 2017 and the second one on 21 December 2017.
Following the rejection, the Public Prosecutor appealed to the Supreme Court of Cassation, which will discuss the matter at the end of March 2018. The Court of Cassation will be able to confirm or cancel the decisions of the examining magistrate and, in the event of cancellation, the request for seizure will be assigned again to the assessment of the Court of Ferrara.
With regard to the proceedings on the merits, at present no request has been quantified by those who brought a civil legal action against Banca Valsabbina.
Copies of the reports of the 231 Body, which are recorded in the specific stamped and dated book, are sent to the Chairman of the Board of Directors and the Chairman of the Board of Statutory Auditors.
During 2017, the Body received a number of written communications indicating alleged irregularities in the management of the bank; following the relative and appropriate investigations, these communications were responded to where deemed necessary. You are hereby reminded that the company website contains all the information regarding the Organisational Model adopted by the Bank as well as the composition of the Supervisory Body.

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 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 constantly updates the internal regulations that allow 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. 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 IV Directive (EU) 2015/849, issued by the European Parliament and the European Council and implemented by Italian Legislative Decree no. 90 of 25 May 2017, which amended, effective as from 4 July 2017, Italian Legislative Decree no. 231/2007 relating to the prevention of the use of the financial system for the purpose of money laundering and terrorist financing, started the necessary internal regulatory and procedural adjustments.

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 purpose of the Risk Management Department is to implement the risk control policies, by means of an appropriate process for identifying, measuring and monitoring such risks; 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;
- collaborate in the drafting of the "Public disclosure" (Pillar III);
- coordinate the preparation and updating of the Recovery Plan, by supporting the Corporate Bodies in particular in the identification of the indicators, in the calibration of the thresholds for the activation of the Plan and in the identification of the recovery options.

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, as part of third-level controls and the checks carried out, operates autonomously and independently. 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 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.
Note that, effective as from 5 February 2018, the Bank's organisational structure was modified by setting up the Anomalous Loan Division and including the Trend Monitoring, Pre-dispute, Legal and Disputes Services. The change in the organisational structure is aimed at improving synergies and coordination between the various services as part of the debt collection activities by optimising the reporting process with regard to corporate bodies.
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. This Policy was revised in 2017 in order to implement methods for estimating the recovery values of receivables based on best practices on the matter, as well as to take into account of the evidences of internal statistics. Also in consideration of the entry into force of the new accounting standard IFRS 9, as well as the recent "Guidelines for Italian Less Significant Banks on the management of impaired loans" issued by the Supervisory Authority in January 2018, the valuation policies will be subject to further updates also during 2018, thus taking advantage of the new assessment logics introduced by the change in the accounting standard, as well as the expectations of the Bank of Italy on the matter.

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 Bank 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, the system for handling the guarantees implemented by Cedacri has been used, 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 that in recent years the Bank resorted to the form of guarantees given by the State through Mediocredito Centrale pursuant to Law 662/1996, as well as to the use of guarantees issued by specialised entities (e.g. Confidi) for the loans granted. A special agreement was also signed with the European Investment Fund in 2017.
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.

Moreover, the legislation, contained in Bank of Italy Circular no. 272/2008 and Regulation (EU) 680/2014, requires that the relationships subject to concession measures (known as forbearance) 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.

Specifically, the impaired financial assets are divided up into the non-performing, probable default, past due exposures and/or 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 unlikely to pay, 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 unlikely to pay, 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	Unlikely to pay	Impaired past due exposures	Unimpaired past due exposures	Other unimpaired exposures	Total
1. Available-for-sale financial assets	-	-	-	-	766,703	766,703
2. Held-to-maturity financial assets	-	-	-	-	-	-
3. Loans and receivables with banks	-	-	-	-	129,372	129,372
4. Loans and receivables with customers	181,667	113,462	24,226	64,261	2,656,369	3,039,985
5. Financial assets measured at fair value	-	-	-	-	9,380	9,380
6. Discontinued financial assets	-	-	-	-	-	-
Total 31/12/2017	**181,667**	**113,462**	**24,226**	**64,261**	**3,561,824**	**3,945,440**
Total 31/12/2016	**195,606**	**153,523**	**29,554**	**59,487**	**3,571,853**	**4,010,023**

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	-	-	-	766,703	-	766,703	766,703
2. Held-to-maturity financial assets	-	-	-	-	-	-	-
3. Loans and receivables with banks	-		-	129,372	-	129,372	129,372
4. Loans and receivables with customers	592,943	273,588	319,355	2,732,895	12,265	2,720,630	3,039,985
5. Financial assets measured at fair value	-	-	-	-	-	9,380	9,380
6. Discontinued financial assets	-	-	-	-	-	-	-
Total 31/12/2017	**592,943**	**273,588**	**319,355**	**3,628,970**	**12,265**	**3,626,085**	**3,945,440**
Total 31/12/2016	**620,022**	**241,339**	**378,683**	**3,635,048**	**12,883**	**3,631,340**	**4,010,023**

Portfolios/Quality	Assets with evidently low credit quality		Other assets
	Accumulated losses	Net exposure	Net exposure
1. Financial assets held for trading	-	-	174

2. Hedging derivatives	-	-	-
Total 31/12/2017	-	-	**174**
Total 31/12/2016	-	-	**392**

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) Unlikely to pay	-	-	-	-	-	-	-	-
- 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	-	-	-	-	144,878	-	-	144,878
- of which: forbearance exposures	-	-	-	-	-	-	-	-
TOTAL A	-	-	-	-	**144,878**	-	-	**144,878**
B. OFF-BALANCE SHEET EXPOSURES								
a) Impaired	-	-	-	-	-	-	-	-
b) Unimpaired	-	-	-	-	3,782	-	-	3,782
TOTAL B	-	-	-	-	**3,782**	-	-	**3,782**

The "Other unimpaired exposures" (cash) are made up of "loans and receivables with banks" as per asset item 60 and by debt securities issued by banks, recorded in asset item 40.

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	-	1,582	8,041	401,719	-	229,675	-	181,667
- of which: forbearance exposures	-	17	2,147	52,683	-	33,090	-	21,757
b) Unlikely to pay	66,323	20,453	21,457	47,053	-	41,824	-	113,462
- of which: forbearance exposures	41,830	10,671	8,362	12,468	-	19,178	-	54,153
d) Impaired past due loans	12,321	5,776	6,442	1,776	-	2,089	-	24,226
- of which: forbearance exposures	10,294	2,387	1,376	42	-	1,092	-	13,007
d) Unimpaired past due loans	-	-	-	-	65,585	-	1,324	64,261
- of which: forbearance exposures	-	-	-	-	16,102	-	492	15,610
e) Other unimpaired exposures	-	-	-	-	3,427,887	-	10,941	3,416,946
- of which: forbearance exposures	-	-	-	-	79,103	-	567	78,536
TOTAL A	**78,644**	**27,811**	**35,940**	**450,548**	**3,493,472**	**273,588**	**12,265**	**3,800,562**
B. OFF-BALANCE SHEET EXPOSURES								
a) Impaired	6,328	-	-	-	-	435	-	5,893
b) Unimpaired	-	-	-	-	147,105	-	465	146,640
TOTAL B	**6,328**	**-**	**-**	**-**	**147,105**	**435**	**465**	**152,533**

The net cash exposures comprise both the loans and receivables with customers for Euro 3,040 million and the bonds present in the assets for sale category for Euro 751 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	Unlikely to pay	Impaired past due exposures
A. Gross opening exposure	**402,457**	**185,405**	**32,160**

- of which: exposures transferred and not derecognised	-	-	-
B. Increases	**46,815**	**62,494**	**36,147**
B.1 inflows from performing loans	4,627	22,306	30,771
B.2 transfers from other categories of impaired loans	39,794	14,511	-
B.3 other increases	2,394	25,677	5,376
C. Decreases	**37,930**	**92,613**	**41,992**
C.1 outflows to performing loans	-	4,564	13,793
C.2 derecognitions	6,463	7,796	-
C.3 collections	24,114	42,334	11,813
C.4 gains on sales	7,353	-	-
C.5 losses on sales	-	-	-
C.6 transfers to other categories of impaired loans	-	37,919	16,386
C.7 other decreases	-	-	-
D. Gross closing exposure	**411,342**	**155,286**	**26,315**
- 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 unlikely to pay, 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 - of which: exposures transferred and not derecognised	**149,127**	**106,127**
B. Increases	**21,071**	**32,643**
B.1 inflows from performing non-forbearance exposures	3,175	20,358
B.2 inflows from performing forbearance exposures	8,832	-
B.3 inflows from impaired forbearance exposures	-	8,666
B.4 other increases	9,064	3,619
C. Decreases	**27,921**	**43,565**
C.1 outflows to performing non-forbearance exposures	-	26,433
C.2 outflows to performing forbearance exposures	8,666	-
C.3 outflows to impaired forbearance exposures	-	8,832
C.4 derecognitions	53	-
C.5 collections	19,202	8,300
C.6 gains on sale	-	-
C.7 losses on sale	-	-
C.8 other decreases	-	-
D. Gross closing exposure - of which: exposures transferred and not derecognised	**142,277**	**95,205**

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

Causes/Categories	Non-performing loans	Unlikely to pay	Impaired past due exposures

	Total	of which: forbearance exposures	Total	of which: forbearance exposures	Total	of which: forbearance exposures
A. Opening total impairment losses	**206,851**	**28,741**	**31,882**	**9,263**	**2,606**	**1,719**
- of which: exposures transferred and not derecognised	-	-	-		-	-
B. Increases	**40,443**	**6,736**	**28,001**	**12,583**	**1,650**	**713**
B.1 impairment losses	34,096	5,802	26,129	12,276	1,638	713
B.2 losses on sale	285	-	1,481	-	-	-
B.3 transfers from other categories of impaired loans	5,974	934	391	307	12	-
B.4 other increases	88	-	-	-	-	-
C. Decreases	**17,619**	**2,387**	**18,059**	**2,668**	**2,167**	**1,340**
C.1 reversals of impairment losses due to valuation	6,718	651	3,414	1,506	1,057	733
C.2 reversals of impairment losses due to collection	4,018	503	847	247	432	281
C.3 gains on sale	420	420	303	-	-	-
C.4 derecognitions	6,178	528	6,316	-	-	-
C.5 transfers to other categories of impaired loans	-	-	5,699	915	678	326
C.6 other decreases	285	285	1,480	-	-	-
D. Closing total impairment losses	**229,675**	**33,090**	**41,824**	**19,178**	**2,089**	**1,092**
- 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 2017.

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:	*2,192,410*	*1,342,715*	-	*60,558*	*34,986*	-	-	-	-	-	-	*396,479*	-	*300,419*	*2,135,157*
1.1 fully secured	1,842,698	1,328,469	-	52,184	33,464	-	-	-	-	-	-	149,219	-	268,383	1,831,719
- of which impaired	258,816	205,688	-	1,914	2,768	-	-	-	-	-	-	4,772	-	37,778	252,920
1.2 partially secured	349,712	14,246	-	8,374	1,522	-	-	-	-	-	-	247,260	-	32,036	303,438
- of which impaired	20,278	4,529	-	295	19	-	-	-	-	-	-	6,528	-	6,055	17,426
2. Secured off-balance sheet credit exposures:	*64,677*	*6,802*	-	*28,769*	*3,539*	-	-	-	-	-	-	*412*	*559*	*19,787*	*59,868*
2.1 fully secured	55,383	6,802	-	27,385	1,090	-	-	-	-	-	-	-	559	19,428	55,264
- of which impaired	449	1	-	57	237	-	-	-	-	-	-	-	-	154	449
2.2 partially secured	9,294	-	-	1,384	2,449	-	-	-	-	-	-	412	-	359	4,604
- of which impaired	11	-	-	-	-	-	-	-	-	-	-	-	-	10	10

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	-	-	-	-	-	-	713	985	-	-	-	-	140,360	201,656	-	40,594	27,034	-
- of which: forbearance exposures	-	-	-	-	-	-	67	598	-	-	-	-	16,333	31,011	-	5,357	1,481	-
A.2 Unlikely to pay	-	-	-	-	-	-	408	411	-	-	-	-	89,311	37,681	-	23,743	3,732	-
- of which: forbearance exposures	-	-	-	-	-	-	-	-	-	-	-	-	38,195	16,807	-	15,958	2,371	-
A.3 Impaired past due loans	-	-	-	-	-	-	521	45	-	-	-	-	15,091	1,289	-	8,614	755	-
- of which: forbearance exposures	-	-	-	-	-	-	418	35	-	-	-	-	8,120	673	-	4,469	384	-
A.4 Unimpaired loans	724,636	-	-	19,096	-	123	313,684	-	139	9380	-	-	1,678,028	-	11,065	736,384	-	937
- of which: forbearance exposures	-	-	-	-	-	-	676	-	15	-	-	-	68,349	-	898	25,122	-	146
Total A	**724,636**	**-**	**-**	**19,096**	**-**	**123**	**315,326**	**1,441**	**139**	**9,380**	**-**	**-**	**1,922,790**	**240,626**	**11,065**	**809,335**	**31,521**	**937**
-																		
B.1 Non-performing loans	-	-	-	-	-	-	13	86	-	-	-	-	828	252	-	227	80	-
B.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-	-	-	4,689	7	-	11	-	-
B.3 Other impaired assets	-	-	-	-	-	-	-	-	-	-	-	-	112	10	-	12	-	-
B.4 Unimpaired loans	-	-	-	1,238	-	-	3,694	-	-	-	-	-	129,203	-	459	12,504	-	6
Total B	**-**	**-**	**-**	**1,238**	**-**	**-**	**3,707**	**86**	**-**	**-**	**-**	**-**	**134,832**	**269**	**459**	**12,754**	**80**	**6**
Total (A+B) 31/12/2017	**724,636**	**-**	**-**	**20,334**	**-**	**123**	**319,033**	**1,527**	**139**	**9,380**	**-**	**-**	**2,057,622**	**240,895**	**11,524**	**822,089**	**31,601**	**943**
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**

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	181,596	229,654	71	20	-	-	-	-	-	-
A.2 Unlikely to pay	113,461	41,825	-	-	-	-	-	-	-	-
A.3 Impaired past due loans	24,226	2,089	-	-	-	-	-	-	-	-
A.4 Unimpaired loans	3,463,699	12,253	12,826	4	4,066	7	616	-	-	-
Total	**3,782,982**	**285,821**	**12,897**	**24**	**4,066**	**7**	**616**	**-**	**-**	**-**
B. Off-balance sheet exposures										
B.1 Non-performing loans	1,068	417	-	-	-	-	-	-	-	-
B.2 Unlikely to pay	4,700	7	-	-	-	-	-	-	-	-
B.3 Other impaired assets	124	10	-	-	-	-	-	-	-	-
B.4 Unimpaired loans	146,520	465	-	-	120	-	-	-	-	-
Total	**152,412**	**899**	**-**	**-**	**120**	**-**	**-**	**-**	**-**	**-**
Total (A+B) 31/12/2017	**3,935,394**	**286,720**	**12,897**	**24**	**4,186**	**7**	**616**	**-**	**-**	**-**
Total (A+B) 31/12/2016	**3,926,090**	**256,483**	**3,053**	**22**	**1,073**	**14**	**124**	**-**	**-**	**-**

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 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
A.3 Impaired past due loans	-	-	-	-	-	-	-	-	-	-
A.4 Unimpaired loans	131,976	-	10,231	-	361	-	1,028	-	1,281	-
Total	**131,976**	**-**	**10,231**	**-**	**361**	**-**	**1,028**	**-**	**1,281**	**-**
B. Off-balance sheet exposures										
B.1 Non-performing loans	-	-	-	-	-	-	-	-	-	-
B.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
B.3 Other impaired assets	-	-	-	-	-	-	-	-	-	-
B.4 Unimpaired loans	3,473	-	166	-	-	-	-	-	144	-
Total	**3,473**	**-**	**166**	**-**	**-**	**-**	**-**	**-**	144	**-**
Total (A+B) 31/12/2017	**135,449**	**-**	**10,397**	**-**	**361**	**-**	**1,028**	**-**	**1,425**	**-**
Total (A+B) 31/12/2016	**206,377**	**-**	**5,129**	**-**	**1,224**	**-**	**959**	**-**	**819**	**-**

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 2017, the eligible capital amounted to Euro 408,945 thousand. “Large exposures” included 5 counterparties for a total nominal value of Euro 1,412,566 thousand and a weighted amount of Euro 223,559 thousand:
- no. 1 exposures to customers for a nominal amount of Euro 79,659 thousand and a weighted amount of Euro 32,130 thousand;
- the exposure to Italian government (Ministry of the Treasury) of Euro 1,157 thousand, weighted Euro 64 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 61.7 million, 60% weighted, exposure consisting of Euro 60 million of short-term loans and for the residual part of guarantee deposits (default fund);
- the exposure to the Bank of Italy consisting of Compulsory Reserve deposit;
- no. 1 exposure to financial intermediaries for 100% weighted amount of Euro 68 million, as liquidity from securitised mortgages and temporarily deposited with other entities.

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.

As at 31 December 2017, the Bank had two self-securitisation transactions.
The first, completed in 2012 and reopened in January 2015 ("size increase"), called "Valsabbina SPV 1", concerns the sale of a portfolio of mortgage loans to private individuals 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, i.e. to have loans at rates equal to those officially guaranteed by securities eligible net of a margin of tolerance ("haircut").
The Bank signed at the time of issue all the liabilities issued.
With the same objective, 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”.
Again, all the securities issued were subscribed by the Bank.

Both transactions are more fully 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; 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).

The subscription of bonds issued by the vehicle managed by Valsabbina Investimenti srl whose purpose is the purchase at discount of receivables from the Public Administration has a different objective. Against these purchases, the vehicle issues bonds fully subscribed by the Bank. The return is equal to a fixed rate as well as a variable return depending on the collections and management costs.

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	**31/12/2017**	**31/12/2016**
A. On-balance sheet assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**192,289**
1. Debt securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	192,289
2. Equity securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3. UCITS	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B. Derivatives	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total 31/12/2017	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total 31/12/2016	-	-	-	-	-	-	**192,289**	-	-	-	-	-	-	-	-	-	-	-	-	**192,289**
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	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) for assets recognised in full	-	-	-	-	-	-	-
a) for assets recognised partially	-	-	-	-	-	-	-
Total 31/12/2017	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total 31/12/2016	**-**	**-**	**190,405**	**-**	**-**	**-**	**190,405**

As at 31 December 2016, these included, 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, type of operations not present as at 31 December 2017.

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	**-**	**9,652**	**4,727**	**3,276**	**-**	**-**	**-**	**-**
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	9,652	4,727	3,276	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	9,652	4,727	3,276	-	-	-	-
+ long positions	-	5,100	2,370	1,650	-	-	-	-
+ short positions	-	4,552	2,357	1,626	-	-	-	-

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	-	**9,501**	**4,653**	**3,269**	-	-	-	-
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	9,501	4,653	3,269	-	-	-	-
- Options								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	9,501	4,653	3,269	-	-	-	-
+ long positions	-	4,477	2,326	1,634	-	-	-	-
+ short positions	-	5,024	2,327	1,635	-	-	-	-

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

The table relating to this section is not drawn up in that as at 31 December 2017 there were no equity securities recorded in this portfolio.

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 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 2017, VaR was exceeded in a single case, 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 2017 was equal to 722 days compared to 1,108 days as at 31 December 2016.

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	**1,510,444**	**1,200,628**	**379,762**	**49,958**	**382,061**	**246,141**	**162,486**	-
1.1 Debt securities	-	171,725	340,054	460	122,724	149,268	95,073	-
- with early repayment option	-	122	175	297	2,701	7,892	2,004	-
- other	-	171,603	339,879	163	120,023	141,376	93,069	-
1.2 Loans to banks	29,392	51,802	-	10,100	8,046	-	-	-
1.3 Loans to customers	1,481,052	977,101	39,708	39,398	251,291	96,873	67,413	-
- Current account	404,920	6	970	4,288	48,948	13,283	12	-
- other loans	1,076,132	977,095	38,738	35,110	202,343	83,590	67,401	-
- with early repayment option	1,054,553	744,830	37,158	18,512	106,960	51,794	57,891	-
- other	21,579	232,265	1,580	16,598	95,383	31,796	9,510	-
2. On-balance sheet liabilities	**2,158,034**	**193,555**	**63,224**	**364,096**	**1,041,949**	**15,352**	-	-
2.1 Due to customers	2,154,993	160,156	31,304	150,295	100,957	216	-	-
- Current account	2,120,514	40,162	31,304	150,295	100,957	216	-	-
- other payables	34,479	119,994	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	34,479	119,994	-	-	-	-	-	-
2.2 Due to banks	315	-	-	-	686,955	-	-	-
- Current account	315	-	-	-	-	-	-	-
- other payables	-	-	-	-	686,955	-	-	-
2.3 Debt securities	2,511	33,399	31,920	213,801	254,037	15,136	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	2,511	33,399	31,920	213,801	254,037	15,136	-	-
2.4 Other liabilities	215	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	215	-	-	-	-	-	-	-
3. Financial derivatives	**253,485**	**207,322**	**57,569**	**93,047**	**222,291**	**30,767**	**20,289**	-
3.1 With underlying security	-	5	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	5	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	5	-	-	-	-	-	-
3.2 Without underlying security	253,485	207,317	57,569	93,047	222,291	30,767	20,289	-
- Options	253,485	206,547	57,569	93,047	222,291	30,767	20,289	-
+ long positions	-	23,341	52,361	92,948	222,291	30,767	20,289	-
+ short positions	253,485	183,206	5,208	99	-	-	-	-
- Other derivatives	-	770	-	-	-	-	-	-
+ long positions	-	770	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
4. Other off-balance sheet transactions	**48,814**	-	-	-	-	-	-	-
+ long positions	24,407	-	-	-	-	-	-	-
+ short positions	24,407	-	-	-	-	-	-	-

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	**6,076**	**6,942**	**110**	**231**	**323**	**195**	-	-
1.1 Debt securities	-	-	39	231	323	195	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	39	231	323	195	-	-
1.2 Loans to banks	5,517	5,010	-	-	-	-	-	-
1.3 Loans to customers	559	1,932	71	-	-	-	-	-
- Current account	520	-	-	-	-	-	-	-
- other loans	39	1,932	71	-	-	-	-	-
- with early repayment option	39	1,932	71	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2. On-balance sheet liabilities	**11,788**	-	-	-	-	-	-	-
2.1 Due to customers	11,788	-	-	-	-	-	-	-
- Current account	11,788	-	-	-	-	-	-	-
- 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	-	**769**	-	-	-	-	-	-
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	769	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	769	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	769	-	-	-	-	-	-
4. Other off-balance sheet transactions	-	6,671	-	-	-	-	-	-
+ long positions	-	3,335	-	-	-	-	-	-
+ short positions	-	3,336	-	-	-	-	-	-

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 banking book is also calculated against non-parallel shifts in the interest rate curve.
The measurement of the interest rate risk occurs also for internal management purposes on a monthly basis 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 makes it possible 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-rate risk assumed by the Bank during the year mainly derives from investments in securities denominated in currencies other than the Euro, as part of the mandates given to external managers, 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**	**Sterling**	**Australian Dollars**	**Indian Rupee**	**Other currencies**
A. Financial assets	**11,787**	**796**	**384**	**357**	**219**	**765**
A.1 Debt securities	-	-	-	-	219	569
A.2 Equity securities	430	-	-	-	-	-
A.3 Loans to banks	9,449	142	384	357	-	196
A.4 Loans to customers	1,908	654	-	-	-	-
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	**112**	**71**	**69**	**16**	**-**	**51**
C. Financial liabilities	**11,339**	**61**	**282**	**3**	**-**	**102**
C.1 Due to banks	-	-	-	-	-	-
C.2 Due to customers	11,339	61	282	3	-	102
C.3. Debt securities	-	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
D. Other liabilities	**134**	**-**	**-**	**-**	**-**	**-**
E. Financial derivatives	**16,790**	**772**	**169**	**371**	**-**	**89**
- Options	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-
- Other derivatives	16,790	772	169	371	-	89
+ long positions	8,402	-	-	-	-	36
+ short positions	8,388	772	169	371	-	53
Total assets	**20,301**	**867**	**453**	**373**	**219**	**852**
Total liabilities	**19,861**	**833**	**451**	**374**	**-**	**155**
Difference (+/-)	**440**	**34**	**2**	**(1)**	**219**	**697**

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

A. Financial derivatives

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

Underlying assets/ Type of derivatives	Total 31/12/2017		Total 31/12/2016	
	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	**17,197**	**-**	**16,080**	**-**
a) Options	-	-	-	-
b) Swap	-	-	-	-
c) Forward	17,197	-	16,080	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
4. Commodities	**-**	**-**	**-**	**-**
5. Other underlying assets	**-**	**-**	**-**	**-**
Total	**17,197**	**-**	**16,080**	**-**

A.2 Banking book: year-end notional amounts

A.2.2 Other derivatives

Underlying assets/ Type of derivatives	Total 31/12/2017		Total 31/12/2016	
	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	**769**	**-**	**1,897**	**-**
a) Options	-	-	-	-
b) Swap	-	-	-	-
c) Forward	769	-	1,897	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
4. Commodities	**-**	**-**	**-**	**-**
5. Other underlying assets	**-**	**-**	**-**	**-**
Total	**769**	**-**	**1,897**	**-**

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

Underlying assets/ Type of derivatives	Positive fair value			
	Total 31/12/2017		Total 31/12/2016	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Regulatory trading book	**173**	**-**	**373**	**-**
a) Options	-	-	-	-
b) Interest rate swap	-	-	-	-
c) Cross currency swap	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forward	173	-	373	-
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	**1**	**-**	**19**	**-**
a) Options	-	-	-	-
b) Interest rate swap	-	-	-	-
c) Cross currency swap	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forward	1	-	19	-
f) Futures	-	-	-	-
g) Others	-	-	-	-
Total	**174**	**-**	**392**	**-**

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

Books/ Types of derivatives	Negative fair value			
	Total 31/12/2017		Total 31/12/2016	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Regulatory trading book	**135**	**-**	**269**	**-**
a) Options	-	-	-	-
b) Interest rate swap	-	-	-	-
c) Cross currency swap	-	-	-	-
d) Equity swaps	-	-	-	-
d) Forward	135	-	269	-
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	**135**	**-**	**269**	**-**

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	**-**	**-**	**9,880**	**-**	**-**	**7,787**	**-**
- notional amount	-	-	9,650	-	-	7,547	-
- positive fair value	-	-	37	-	-	135	-
- negative fair value	-	-	110	-	-	24	-
- future exposure	-	-	83	-	-	81	-
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	**-**	**-**	**778**	**-**	**-**	**-**	**-**
- notional amount	-	-	769	-	-	-	-
- positive fair value	-	-	1	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	8	-	-	-	-
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	**17,197**	-	-	**17,197**
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	17,197	-	-	**17,197**
A.4 Financial derivatives on other values	-	-	-	-
B. Banking book	**769**	-	-	**769**
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	769	-	-	**769**
B.4 Financial derivatives on other values	-	-	-	-
Total 31/12/2017	**17,966**	-	-	**17,966**
Total 31/12/2016	**17,977**	-	-	**17,977**

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. Moreover, in line with the Recovery Plan, the Bank defined a recovery threshold for the gap accumulated over one month, the "Recovery Plan" is activated when the threshold is exceeded.

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's liquidity risk management framework envisages specific processes to be activated in the event of a deviation of the assumption of risk from the objectives set. In particular, the Risk Appetite Framework, "Contingency Funding Plan" and the Recovery Plan provide details of the services and 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.

The Bank sends the measurement of the short-term liquidity indicator "Liquidity Coverage Ratio" (LCR) to the Supervisory Authority on a monthly basis, monitoring its development over time.
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.

The quarterly reporting related to the ALMM (Additional Liquidity Monitoring Metrics) was also made 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. Self-securitisation transactions do not involve the derecognition of the underlying receivables from the financial statements.
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 (revolving).

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 for a nominal value of Euro 512,100 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 2017, the relevant activities of the vehicle as part of the "Valsabbina Spv1" operation included the residual value of the receivables acquired of Euro 183,418 thousand, with accruals of Euro 15 thousand in addition to cash of Euro 12,439 thousand, of which Euro 10,117 thousand collected by the Bank in January 2018.
Liabilities include the residual debt of securities issued of:
• senior tranche of nominal Euro 65,255 thousand;
• junior tranche of nominal Euro 100,100 thousand,
in addition to interest accrued on the junior tranche for 30,460 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.

During 2017, in order to support the collateralisation of the Senior share issued in the Valsabbina SME Transaction, receivables were sold on a quarterly basis (revolving sales) at a price of Euro 179,989 thousand, of which Euro 179,861 thousand as the nominal value, and Euro 128 thousand as accrued interest on the receivables sold. This operation made it possible to avoid the amortisation of the senior security, allowing the Bank to benefit from a higher amount that could be refinanced at the ECB.

As at 31 December 2017, the relevant activities of the vehicle as part of the "Valsabbina SME" operation included the residual value of the receivables acquired of Euro 600,078 thousand, with accruals of Euro 404 thousand in addition to cash of Euro 55,138 thousand, of which Euro 51,647 thousand collected by the Bank in January 2018.
Liabilities include the residual debt of securities issued of:
• senior tranche of nominal Euro 400,000 thousand;
• junior tranche of nominal Euro 255,400 thousand,
in addition to interest accrued on the junior tranche for Euro 647 thousand.

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

As at 31 December 2017, the Senior securities from both transactions permitted an overall refinancing margin with the ECB of approximately Euro 419 million.

Quantitative information

1. Distribution over time 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	**626,727**	**66,522**	**53,519**	**101,908**	**210,219**	**106,867**	**203,849**	**1,439,617**	**1,288,866**	**46,801**
A.1 Government securities	-	-	131	-	1,242	4,440	4,615	295,000	415,000	-
A.2 Other debt securities	1,304	16	2,022	423	743	2,890	1,951	35,038	110,310	-
A.3 UCIT units	143,736	-	-	-	-	-	-	-	-	-
A.4 Loans	481,687	66,506	51,366	101,485	208,234	99,537	197,283	1,109,579	763,556	46,801
- banks	29,393	-	-	-	5,003	-	10,192	8,000	-	46,801
- customers	452,294	66,506	51,366	101,485	203,231	99,537	187,091	1,101,579	763,556	-
On-balance sheet liabilities	**2,160,963**	**52,481**	**31,850**	**59,117**	**51,943**	**68,185**	**371,889**	**1,037,705**	**15,215**	-
B.1 Deposits and current accounts	2,155,882	2,457	11,396	8,908	16,787	31,501	151,822	100,590	215	-
- banks	315	-	-	-	-	-	-	-	-	-
- customers	2,155,567	2,457	11,396	8,908	16,787	31,501	151,822	100,590	215	-
B.2 Debt securities	4,631	22	451	196	35,156	36,684	220,067	247,115	15,000	-
B.3 Other liabilities	450	50,002	20,003	50,013	-	-	-	690,000	-	-
Off-balance sheet transactions	**29,038**	**231**	**671**	**1,311**	**10,813**	**4,911**	**3,496**	**1,876**	**14,896**	-
C.1 Financial derivatives with exchange of principal	-	231	671	1,311	8,213	4,727	3,276	-	-	-
- long positions	-	116	336	656	4,761	2,370	1,650	-	-	-
- short positions	-	115	335	655	3,452	2,357	1,626	-	-	-
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	29,038	-	-	-	2,600	184	220	1,876	14,896	-
- long positions	4,631	-	-	-	2,600	184	220	1,876	14,896	-
- short positions	24,407	-	-	-	-	-	-	-	-	-
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 over time 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	**6,487**	**48**	**99**	**2,619**	**4,237**	**112**	**269**	**318**	**301**	-
A.1 Government securities	-	-	-	-	-	-	-	-	-	-
A.2 Other debt securities	-	-	-	-	-	40	269	318	201	-
A.3 UCIT units	430	-	-	-	-	-	-	-	-	-
A.4 Loans	6,057	48	99	2,619	4,237	72	-	-	-	-
- banks	5,516	2	-	2,510	2,510	-	-	-	-	-
- customers	541	46	99	109	1,727	72	-	-	-	-
On-balance sheet liabilities	**11,789**	**-**	-	-	-	**-**	**-**	-	**-**	**-**
B.1 Deposits and current accounts	11,789	-	-	-	-	-	-	-	-	-
- banks	-	-	-	-	-	-	-	-	-	-
- customers	11,789	-	-	-	-	-	-	-	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-	-
Off-balance sheet transactions	-	**6,896**	**667**	**1,284**	**8,093**	**4,653**	**3,269**	-	-	-
C.1 Financial derivatives with exchange of principal	-	225	667	1,284	8,093	4,653	3,269	-	-	-
- long positions	-	110	334	642	3,392	2,326	1,634	-	-	
- short positions	-	115	333	642	4,701	2,327	1,635	-	-	-
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	-	6,671	-	-	-	-	-	-	-	-
- long positions	-	3,335	-	-	-	-	-	-	-	-
- short positions	-	3,336	-	-	-	-	-	-	-	-
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, 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. The main operating processes are also mapped and regulated, with the consequent definition of tasks and responsibilities.

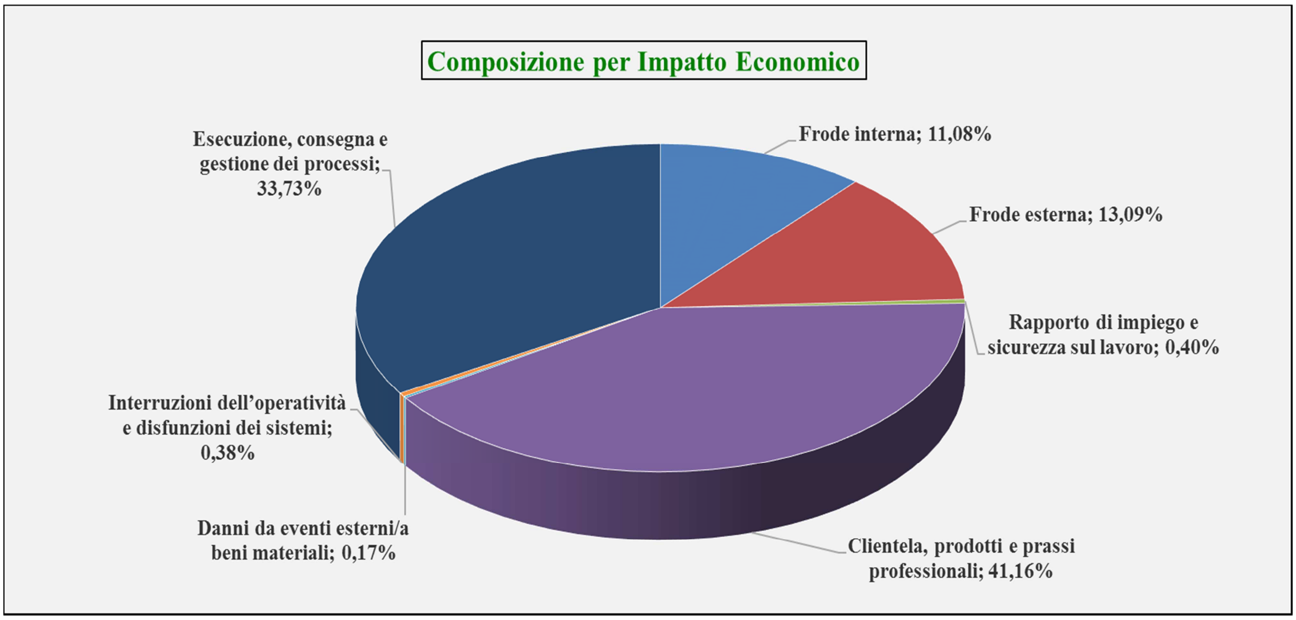
Any critical areas, identified by means of the prior and subsequent analysis carried out, are looked at in-depth with the competent Units so as to evaluate the appropriate corrective measures.

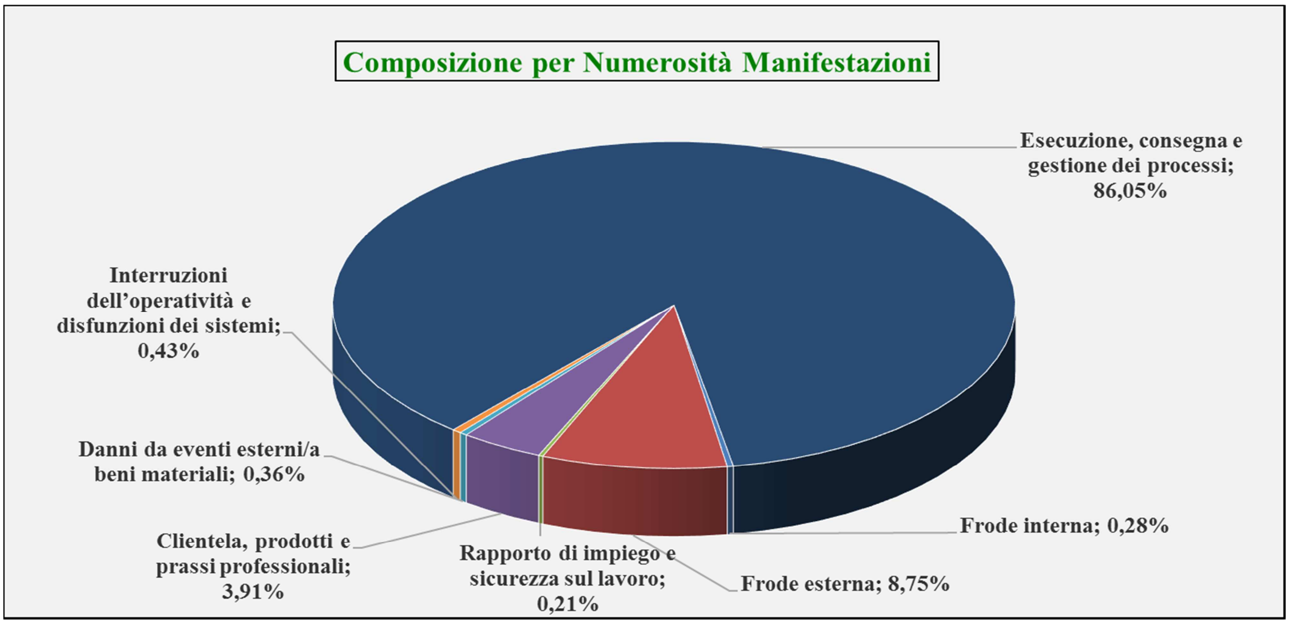
The Bank adopted, for the calculation of the capital requirement in the presence of operational risk, the Basic Indicator Approach (BIA), which envisaged that the capital covering this type of risk equates to 15% of the average of the "basic indicator" of the last three financial years, calculated pursuant to Articles 315 and 316 of the CRR Regulations.
The capital absorption for this type of risk as at 31 December 2017 came to Euro 14,635 thousand.

Quantitative information

With regard to the loss data, inserted in the Bank's Loss Data Collection archive in the years from 2012 to 2017, 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 - 2017 survey)





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**
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
2017 financial year	1	1	97	43	187

The provisions for risks and charges are provided in relation to legal actions suffered of Euro 1,436 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 31/12/2017	Total 31/12/2016
1.	Share capital	106,550	106,550
2.	Share premium reserve	230,299	230,299
3.	Reserves	59,775	57,765
	- income-related	62,867	60,857
	a) legal	24,195	23,780
	b) statutory	25,844	24,301
	c) own shares	12,014	12,014
	d) other	814	762
	- other	(3,092)	(3,092)
4.	Capital instruments	-	-
5.	(Own shares)	(8,185)	(5,182)
6.	Valuation reserves	(649)	(4,460)
	- Available-for-sale financial assets	(1,214)	(5,018)
	- 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	(414)	(421)
	- Share of valuation reserves relating to investee companies carried at equity	-	-
	- Special revaluation laws	979	979
7.	Profit (Loss) for the year	(5,821)	4,148
	Total	**381,969**	**389,120**

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 2016	Shareholders' resolution for approval of 2016 financial statements			Other changes	Closing balances as at 31 December 2017
		Allocation to reserves	Assignment of own shares to supplement dividend	Reintegration and increase of Provision for purchase of own shares		
Income-related reserves:	60,857	1,958	-	-	52	62,867
a) legal	23,780	415	-	-	-	24,195
b) statutory	24,301	1,543	-	-	-	25,844
c) own shares	12,014	-	-	-	-	12,014
d) other	762	-	-	-	52	814
"Other" reserves	(3,092)	-	-	-	-	(3,092)
Reserves item 160	**57,765**	**1,958**	**-**	**-**	**52**	**59,775**

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

Asset/Amounts		Total 31/12/2017		Total 31/12/2016	
		Positive reserve	Negative reserve	Positive reserve	Negative reserve
1.	Debt securities	82	(5,492)	725	(6,150)
2.	Equity securities	8,473	-	5,227	(91)
3.	UCIT units	155	(4,432)	493	(5,222)
4.	Loans	-	-	-	-
	Total	**8,710**	**(9,924)**	**6,445**	**(11,463)**

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 a positive Euro 3,804 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**	**(5,425)**	**5,136**	**(4,729)**	**-**
2.	**Increases**	**3,855**	**3,337**	**3,678**	**-**
2.1	Fair value gains	752	2,904	248	-
2.2	Reversal to income statement of				
	negative reserves	3,103	91	3,430	-
	from impairment	-	91	732	-
	on sales	3,103	-	2,698	-
2.3	Other changes	-	342	-	-
3.	**Decreases**	**3,840**	**-**	**3,226**	**-**
3.1	Fair value losses	3,120	-	2,736	-
3.2	Impairment losses	-	-	-	-
3.3	Reversal to income statement of			-	
	positive reserves: on sales	720	-	490	-
3.4	Other changes	-	-	-	-
4.	**Closing balances**	**(5,410)**	**8,473**	**(4,277)**	**-**

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 414 thousand as at 31 December 2017, in line with the end of 2016, when it amounted to Euro 421 thousand, decreasing by Euro 7 thousand (Euro 10 thousand without the tax effect).
The limited difference is reflected in the financial parameters used, which are very similar in the two years compared.
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 1.30% (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 2017, 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 amount authorised for the repurchase of Euro 10.1 million. The loss for the year, net of tax, is also deducted.

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 the securities recorded in the AFS portfolio.

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 ends on the adoption of IFRS 9 - Financial Instruments; IFRS 9 was adopted on 1 January 2018 and therefore from that date it will no longer be possible to apply the sterilisation to the losses/gains relating to Government securities. In the same way, the transitional period for the calculation of reserves arising from securities other than those issued by central governments will also end; therefore, from 1 January 2018 all reserves on securities will be fully calculated in equity.

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. The securities observe the stringent requirements laid down by the European regulations, including:

- original duration of at least 5 years;
- no provision of early repayment incentive.

The part eligible for supervisory purposes has been calculated according to a payment plan that results in a constant decrease in the portion over the last 5 years of the residual life of the instruments, as provided for by article 64 of the CRR.

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 31/12/2017	**Total 31/12/2016**
A. Common Equity Tier 1 capital (CET1) before the application of prudential filters	**380,054**	**380,054**
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	**380,054**	**380,054**
D. Elements to be deducted from CET1	**(10,816)**	**(11,239)**
E. Transitional regime - Impact on CET1 (+/-)	**4,547**	**5,259**
F. Total Common Equity Tier 1 capital (CET1) (C-D+/-E)	**373,785**	**374,074**
G. Additional Tier 1 capital (AT1) gross of elements to be deducted and of the effects of the transitional regime	**-**	**2**
of which instruments of AT1 subject to transitional provisions	-	-
H. Elements to be deducted from AT1	**-**	**-**
I. Transitional regime - Impact on AT1 (+/-)	**-**	**(2)**
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	**35,393**	**43,774**
of which instruments of T2 subject to transitional provisions	-	-
N. Elements to be deducted from T2	**(653)**	**(1,050)**
O. Transitional regime - Impact on T2 (+/-)	**420**	**81**
P. Total Tier 2 capital (Tier 2 - 2) (M-N+/-O)	**35,160**	**42,805**
Q. Total own funds (F+L+P)	**408,945**	**416,879**

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 5,380 thousand (equal to the sum of negative reserves of Euro 5,396 thousand and of positive reserves of Euro 16 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	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
A. RISK ASSETS	4,369,313	4,652,926	2,251,803	2,244,518
A.1 CREDIT AND COUNTERPARTY RISK	**4,369,313**	**4,652,926**	**2,251,803**	**2,244,518**
1. Standardised approach	4,281,892	4,642,833	2,230,216	2,242,743
2. Internal rating method	-	-	-	-
2.1 Base	-	-	-	-
2.2 Advanced	-	-	-	-
3. Securitisations	87,421	10,093	21,587	1,775
B. REGULATORY CAPITAL REQUIREMENTS			-	-
B.1 CREDIT RISK AND COUNTERPARTY RISK			**180,144**	**179,561**
B.2 CREDIT RATING ADJUSTMENT RISK			**2**	**1**
B.3 SETTLEMENT RISK			**-**	**-**
B.4 MARKET RISK			**2,330**	**4,072**
1. Standardised approach			2,330	4,072
2. Internal models			-	-
3. Concentration risk			-	-
B.5 OPERATIONAL RISK			**14,635**	**14,476**
1. Basic indicator approach			14,635	14,476
2. Standardised approach			-	-
3. Advanced approach			-	-
B.6 OTHER CALCULATION ELEMENTS			**-**	**-**
B.7 TOTAL PRUDENTIAL REQUIREMENTS			**197,111**	**198,110**
C. RISK ASSETS AND CAPITAL RATIOS				
C.1 Risk-weighted assets			2,463,886	2,476,381
C.2 Common equity tier 1 capital / Risk-weighted assets (CET1 capital ratio)			15.17%	15.11%
C.3 Tier 1 Capital/Risk-weighted assets (Tier 1 capital ratio)			15.17%	15.11%
C.4 Total own funds/Risk-weighted assets (Total capital ratio)			16.60%	16.83%

As at 31 December, the Bank presented a ratio of Tier 1 capital to risk-weighted assets (CET 1 Capital Ratio) of 15.17%, whereas the ratio of Own Funds to risk-weighted assets (Total Capital Ratio) was 16.60%. Both ratios are in line with the previous year's figures.

During the year, the Bank of Italy communicated the new additional capital requirements for our Bank deriving from the prudent review of the Bank (SREP 2016).
The overall requirements to be applied further to the process are quantified as follows:
- CET 1 Ratio equal to 6.30%, inclusive of 1.25% required by way of capital conservation reserve and 0.55% required in addition to the minimum regulatory requirement;
- Tier 1 Ratio equal to 8.00%, inclusive of the 1.25% by way of capital conservation reserve and 0.75% from the outcome of the SREP process;
- Total Capital Ratio equal to 10.25%, inclusive of the 1.25% by way of capital conservation reserve and 1.00% further to the SREP process;

The ratios measured as at 31 December 2017 are far above the thresholds required.

The capital conservation buffer requirement, as envisaged by directive (EU) no. 36/2013 (CRD IV), depending on the transitional period is 1.25% for the year 2017.
For the year 2018, it will be 1.875% and 2.5% definitively from 1 January 2019, the date on which the transitional period ends.

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 2016, 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 Euro 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 2016 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 licencing 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 of 2016 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 was recognised as from 1 January 2017 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 2017:

Item/Amounts	31/12/2017
Directors	600
Statutory Auditors	160
Key executives	947

The fees for the Directors refer to the matters established by the Shareholders' meeting held on 6 May 2017, 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	31/12/2017	31/12/2016
On-balance sheet loans and receivables	34,295	37,258
Endorsement loans	1,820	2,024

The ratio of loans and receivables with related parties to total loans and receivables in the financial statements is 1.13% compared to 1.35% 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	
	31/12/2017	31/12/2016
Balance sheet amounts: assets	**5,865**	**4,567**
Loans and receivables with customers	5,865	4,567
Balance sheet amounts: liabilities	**-**	**-**
Income statement figures	**89**	**62**
Interest income	69	42
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 and residually in other provinces.

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 following table, prepared pursuant to Article 149-duodecies of the Consob Issuers' Regulations, shows the fees paid in 2017 for services provided by the Independent Auditing Firm.

Type of services	Subject who supplied the service	Recipient	Fees due in 2017 (in Euro 000)
Audit	BDO Italia S.p.A.	Banca Valsabbina S.C.p.A.	(1) 34
Certification services	BDO Italia S.p.A.	Banca Valsabbina S.C.p.A.	(2) 40
Total			**74**

(1) Includes fees for carrying out a limited audit of the interim financial statements and for verifying that the accounts are properly kept.

(2) Certification services including both checks on the accuracy of the reported data in relation to Targeted Longer-Term Refinancing Operations (TLTRO II) and the checks on the submission of the non-financial statement.

Valsabbina Real Estate srl – Financial statements as at 31 December 2017

BALANCE SHEET		31/12/2017		31/12/2016
Assets				
B) Intangible fixed assets				
I – Intangible fixed assets		-		313
Total Fixed assets (B)		-		313
C) Current assets				
I – Inventories		5,449,190		3,346,167
Property	5,449,190		3,346,167	
II – Loans and Receivables		590,200		1,386,163
within the next financial year	478,576		1,358,117	
beyond the next financial year	111,624		28,046	
Total Current assets (C)		6,039,390		4,732,330
D) Accruals and deferrals		-		1,528
Total assets		**6,039,390**		**4,734,171**
Liabilities and shareholders' equity				
A) Shareholders' equity		114,656		110,278
I - Capital		100,000		100,000
IV - Legal reserve		2,826		2,826
VI – Payments to cover losses		302,452		134,405
VIII – Retained earnings (losses)		-		-
IX – Profit (Loss) for the year		(290,622)		(126,953)
D) Payables		5,924,734		4,623,587
within the next financial year	59,335		56,220	
beyond the next financial year	5,865,399		4,567,367	
E) Accrued expenses and deferred income		-		306
Total liabilities and shareholders' equity		**6,039,390**		**4,734,171**

INCOME STATEMENT		31/12/2017		31/12/2016
A) Value of production		1,157,500		195,403
1) revenues from sales	1,152,000		190,000	
2) rents receivable	-		-	
3) others	5,500		5,403	
B) Costs of production		(1,439,381)		(308,688)
6) for raw materials, consumables and goods for resale	(3,387,162)		(1,544,837)	
7) for services	(119,902)		(87,132)	
8) for use of third party assets	(2,670)		(2,408)	
10) amortisation, depreciations and write-downs	(313)		(313)	
11) changes in inventories of goods	2,103,022		1,348,692	
14) sundry operating expenses	(32,356)		(22,690)	
Difference between value and cost of production (A-B)		(281,881)		(113,285)
C) Finance income and costs		(68,909)		(41,714)
17) interests and other finance costs	(68,909)		(41,714)	
interest expense to parent company	(68,909)		(41,714)	
Profit/loss before taxes (A-B+-C+-)		(350,790)		(154,999)
20) Current and deferred income taxes for the year		60,168		28,046
21) Profit (Loss) for the year		**(290,622)**		**(126,953)**