BALANCE SHEET

ASSETS (in EUR)

	Asset items	31/12/2017	31/12/2016
10.	Cash and cash equivalents	15,771,020	13,468,376
20.	Financial assets held for trading	173,702	393,894
30.	Financial assets measured at fair value	9,379,650	9,175,240
40.	Available-for-sale financial assets	939,254,006	1,257,014,059
60.	Loans and receivables with banks	129,371,724	212,025,678
70.	Loans and receivables with customers	3,039,985,288	2,762,450,205
100.	Equity investments	1,121,248	1,121,248
110.	Tangible assets	29,234,310	27,693,760
120.	Intangible assets	9,819,351	10,087,516
	of which: goodwill	8,458,447	8,458,447
130.	Tax assets	72,638,036	69,586,768
	a) current	7,636,106	7,421,251
	b) prepaid	65,001,930	62,165,517
	b1) of which as per Italian Law No. 214/2011	51,983,721	53,554,496
150.	Other assets	53,874,738	42,418,442
	Total assets	**4,300,623,073**	**4,405,435,186**

LIABILITIES AND SHAREHOLDERS' EQUITY (in EUR)

	Liabilities and shareholders' equity items	31/12/2017	31/12/2016
10.	Due to banks	687,269,410	795,650,246
20.	Due to customers	2,609,954,680	2,406,793,297
30.	Securities issued	550,803,390	746,948,598
40.	Financial liabilities held for trading	134,664	269,013
80.	Tax liabilities	2,581,961	3,592,664
	a) current	778,221	898,221
	b) deferred	1,803,740	2,694,443
100.	Other liabilities	60,556,335	55,552,247
110.	Post-employment benefits	5,158,352	5,347,800
120.	Provisions for risks and charges	2,195,097	2,161,643
	b) other provisions	2,195,097	2,161,643
130.	Valuation reserves	(649,483)	(4,459,878)
160.	Reserves	59,775,417	57,764,870
170.	Share premium reserve	230,298,585	230,298,585
180.	Share capital	106,550,481	106,550,481
190.	Own shares (-)	(8,185,301)	(5,182,258)
200.	Profit (Loss) for the year (+/-)	(5,820,515)	4,147,878
	Total liabilities and shareholders' equity	**4,300,623,073**	**4,405,435,186**

INCOME STATEMENT (in EUR)

Items		31/12/2017	31/12/2016
10.	Interest income and similar revenues	87,699,084	86,767,483
20.	Interest expense and similar charges	(30,544,936)	(37,101,211)
30.	**Net interest income**	**57,154,148**	**49,666,272**
40.	Fee and commission income	34,796,442	30,678,023
50.	Fee and commission expense	(4,417,635)	(3,329,728)
60.	**Net fee and commission income**	**30,378,807**	**27,348,295**
70.	Dividends and similar income	3,767,478	3,398,777
80.	Net profit (loss) from trading activities	552,706	519,688
100.	Profit (Loss) on sale or repurchase of:	13,906,872	8,058,305
	a) loans and receivables	(754,010)	(97,175)
	b) available-for-sale financial assets	15,124,874	8,767,883
	d) financial liabilities	(463,992)	(612,403)
110.	Profits (Losses) on financial assets and liabilities measured at fair value	204,410	175,240
120.	**Net interest and other banking income**	**105,964,421**	**89,166,577**
130.	Net impairment losses on:	(50,917,606)	(38,997,664)
	a) loans and receivables	(44,954,243)	(36,186,787)
	b) available-for-sale financial assets	(7,362,201)	(2,733,454)
	d) other financial transactions	1,398,838	(77,423)
140.	**Net profit (loss) from financial operations**	**55,046,815**	**50,168,913**
150.	Administrative expenses:	(73,116,361)	(71,420,555)
	a) labour costs	(36,421,475)	(34,489,444)
	b) other administrative expenses	(36,694,886)	(36,931,111)
160.	Net accruals to provisions for risks and charges	(568,585)	(735,465)
170.	Depreciation and net impairment losses on tangible assets	(1,709,756)	(1,501,215)
180.	Amortisation and net impairment losses on intangible assets	(914,219)	(842,903)
190.	Other operating income/expense	10,717,878	29,498,198
200.	**Operating costs**	**(65,591,043)**	**(45,001,940)**
210.	Net gains (losses) on equity investments	(295,000)	(384,000)
240.	Net gains (losses) on sales of investments	(16,725)	24,789
250.	**Profit (Loss) from operations gross of taxation**	**(10,855,953)**	**4,807,762**
260.	Income taxes for the year on current operations	5,035,438	(659,884)
270.	**Profit (Loss) from operations net of taxation**	**(5,820,515)**	**4,147,878**
290.	**Profit (Loss) for the year**	**(5,820,515)**	**4,147,878**

STATEMENT OF COMPREHENSIVE INCOME

Items		31/12/2017	31/12/2016
10.	**Profit (Loss) for the year**	**(5,820,515)**	**4,147,878**
	Other income components net of taxation without reversal to income statement	**6,564**	**(128,697)**
40.	Defined benefit plans	6,564	(128,697)
	Other income components net of taxation with reversal to income statement	**3,803,831**	**(580,284)**
100.	Available-for-sale financial assets	3,803,831	(580,284)
130.	**Total other income components net of taxation**	**3,810,395**	**(708,981)**
140.	**Comprehensive income (Item 10+130)**	**(2,010,120)**	**3,438,897**

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY AS AT 31 DECEMBER 2017

Items	Balances as at 31 December 2016	Change in opening balances	Balances as at 1 January 2017	Allocation of previous year result		Changes during the year								Shareholders' equity as at 31 December 2017
				Reserves	Dividends and other allocations	Change in reserves	Transactions on shareholders' equity						Comprehensive income 2017 financial year	
							Issue of new shares	Purchase of own shares	Extraordinary dividend distribution	Change in capital instruments	Derivatives on own shares	Stock options		
Share capital	106,550,481	-	106,550,481	-	-	-	-	-	-	-	-	-	-	106,550,481
a) ordinary shares	106,550,481	-	106,550,481	-	-	-	-	-	-	-	-	-	-	106,550,481
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premium reserve	230,298,585	-	230,298,585	-	-	-	-	-	-	-	-	-	-	230,298,585
Reserves	57,764,870	-	57,764,870	2,009,872	-	675	-	-	-	-	-	-	-	59,775,417
a) income-related	60,856,962	-	60,856,962	2,009,872	-	675	-	-	-	-	-	-	-	62,867,509
b) other	(3,092,092)	-	(3,092,092)	-	-	-	-	-	-	-	-	-	-	(3,092,092)
Valuation reserves	(4,459,878)	-	(4,459,878)	-	-	-	-	-	-	-	-	-	3,810,395	(649,483)
Capital instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Own shares	(5,182,258)	-	(5,182,258)	-	-	-	-	(3,003,043)	-	-	-	-	-	(8,185,301)
Profit (Loss) for the year	4,147,878	-	4,147,878	(2,009,872)	(2,138,006)	-	-	-	-	-	-	-	(5,820,515)	(5,820,515)
Shareholders' equity	**389,119,678**	**-**	**389,119,678**	**-**	**(2,138,006)**	**675**	**-**	**(3,003,043)**	**-**	**-**	**-**	**-**	**(2,010,120)**	**381,969,184**

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

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

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

CASH FLOW STATEMENT

Indirect method	Amount	
	31/12/2017	31/12/2016
A. OPERATING ACTIVITIES		
1. Cash flow from operating activities	**49,136,897**	**53,085,864**
- profit (loss) for the year (+/-)	(5,820,515)	4,147,878
- net impairment losses (+/-)	54,638,454	43,585,994
- depreciation/amortisation and net impairment losses on tangible and intangible	2,623,975	2,344,118
- net allocations to provisions for risks and charges and other costs/revenues (+/-	568,585	735,465
- unpaid taxes (+)	(5,035,438)	659,884
- other adjustments (+/-)	2,161,836	1,612,525
2. Cash flow generated/used by financial assets	**60,569,232**	**(123,305,063)**
- financial assets held for trading	220,192	(285,384)
- financial assets measured at fair value	(204,410)	(9,175,240)
- available-for-sale financial assets	314,909,408	(116,729,498)
- loans and receivables with banks: on demand	86,189,091	11,765,104
- loans and receivables with banks: other receivables	(3,571,949)	15,761,794
- loans and receivables with customers	(327,282,780)	(21,576,192)
- other assets	(9,690,320)	(3,065,647)
3. Cash flow generated/used by financial liabilities	**(98,071,076)**	**130,596,301**
- due to banks: on demand	(256,010,627)	39,253,115
- due to banks: other	150,658,108	81,760,851
- due to customers	203,558,440	246,749,414
- securities issued	(199,148,395)	(223,222,472)
- financial liabilities held for trading	(134,349)	218,213
- other liabilities	3,005,747	(14,162,820)
Cash flow from (used in) operating activities	**11,635,053**	**60,377,102**
B. INVESTING ACTIVITIES		
2. Cash flow used in	**(4,191,360)**	**(53,940,122)**
- purchases of equity investments	(295,000)	(130,000)
- purchases of tangible assets	(3,250,306)	(1,762,069)
- purchases of intangible assets	(646,054)	(516,462)
- purchases of business segments	-	(51,531,591)
Cash flow from (used in) investing activities	**(4,191,360)**	**(53,940,122)**
C. FINANCING ACTIVITIES		
- issues/purchases of own shares	(3,003,043)	(2,273,336)
- dividend distribution and other purposes	(2,138,006)	(4,269,205)
Cash flow from (used in) financing activities	**(5,141,049)**	**(6,542,541)**
CASH FLOW GENERATED/USED DURING THE YEAR	**2,302,644**	**(105,561)**
KEY (+) generated (-) used		
RECONCILIATION	**31/12/2017**	**31/12/2016**
Financial statement items		
Cash and cash equivalents at the beginning of the year	**13,468,376**	**13,573,937**
Total cash flow generated/used during the year	**2,302,644**	**(105,561)**
Cash and cash equivalents: effect of change in exchange rates		**-**
Cash and cash equivalents at the end of the year	**15,771,020**	**13,468,376**

EXPLANATORY NOTES

Part A - Accounting policies

A.1 - General section

Section 1 – Statement of compliance with International Financial Reporting Standards

The Financial Statements for the year ended 31 December 2017 were drawn up in accordance with the international accounting standards issued by the International Accounting Standards Board (IASB) and approved on the date of preparation of these financial statements, illustrated in the following point A.2; they were also drawn up in accordance with the related interpretations of the International Financial Reporting Interpretation Committee (IFRIC) and Circular No. 262 of 22 December 2005 of the Bank of Italy, updated as at 15 December 2015, issued on the basis of the authorisation contained in Italian Legislative Decree No. 38/2005, which acknowledged in Italy Regulation (EC) No. 1606/2002 regarding international accounting standards.
Circular No. 262 contains the formats of the financial statements, the guidelines and the contents of the explanatory notes.
Reference was also made to the "framework for the preparation and presentation of financial statements" (known as IAS framework).
The derogation laid down by Article 5.1 of Italian Legislative Decree No. 38/2005 was not used.

Section 2 – Basis of presentation

The financial statements comprise the Balance Sheet, Income Statement, Statement of Comprehensive Income, Statement of changes in equity, Statement of cash flows and the Explanatory notes and are also accompanied by a Directors' report on operations.
As per Article 5 of Italian Legislative Decree No. 38/2005, the financial statements are drawn up using the Euro as the reporting currency. The amounts reported in the Financial Statements are expressed in Euro, while the figures in the Explanatory Notes are in thousands of Euro.
The financial statements and the Explanatory notes show the comparative figures as at 31 December 2016 in addition to the amounts for the reporting period.

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

1) Going concern: the financial statements were prepared with a view to the Bank continuing its business activities for the foreseeable future, therefore assets, liabilities and "off-balance sheet" transactions were valued in accordance with the operational features.
The possible foreseeable future taken into consideration is that which emerges from all the available information used for preparing the strategic plan. Furthermore, in relation to the activities carries out, taking account of all the risks that are analysed and illustrated in other parts of the financial statements, the Bank believes that it falls within the sphere of application of IAS 1 according to which when pre-existing profitable activities and easy access to financial resources

exist, the requirement of the company as a going concern is appropriate without carrying out detailed analysis.
When assessing the business as a going concern, the references to IAS 1 contained in the joint "Bank of Italy/Consob/ISVAP No. 2 dated 6 February 2009" were used.

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

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

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

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

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

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

Estimates and valuations

The preparation of the financial statements requires the use of estimates and valuations that may have a significant impact on the values recorded in the balance sheet and income statement.
The use of valuations and assumptions is more commonly required for:
- quantifying the impairment of financial assets, loans and receivables, tangible and intangible assets;
- determining the fair value of financial instruments to be used for disclosure purposes and the use of valuation models for determining fair value of financial instruments not listed on active markets;
- assessing the reasonableness of the amount of goodwill and of other intangible assets;
- quantifying employees' provisions and provisions for risks and charges;
- the actuarial and financial assumptions used to determine liabilities associated with defined benefit plans for employees;
- the estimates and assumptions made with regard to the recoverability of deferred tax assets.

Reasonable estimates and assumptions are formulated by using all the internal and external information available and past experience.
The adjustment of an estimate further to changes in the circumstances on which it was based or further to new information or additional experience, is applied prospectively and therefore generates

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

Section 3 - Events after the reporting date

During the period of time between the reporting date of these financial statements and their approval by the Board of Directors on 14 March 2018, no events took place which led to an adjustment of the figures approved at that time nor were there any significant events that would require a supplement to the disclosure provided.

Section 4 – Other aspects

Audit

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

Accounting standards/interpretations approved and applicable on a mandatory basis as from 2017

The Regulations approved by the European Commission during 2017 or in previous years, whose application will be mandatory as from 2017 and amending or supplementing the international accounting standards, are listed below:

• no. 1989/2017 of 06/11/2017 - IAS 12 "Income taxes", limited to the recording of deferred tax assets relating to debt instruments measured at fair value
• no. 1990/2017 of 06/11/2017 - IAS 7 "Cash Flow Statement" limited to the representation of the change in liabilities deriving from financing activities.

Accounting standards/interpretations approved and applicable on a mandatory basis as from financial years after 2017

The Regulations approved by the European Commission during 2017 or in previous years, whose application will be mandatory as from 2018 or subsequent financial years and amending or supplementing the international accounting standards, are listed below:

• no. 1905/2016 of 29/10/2016 and 1987/2017 of 31/10/2017 - IFRS 15 "Revenues from contracts with customers" and amendments to other related accounting standards/interpretations; these amendments are to be applied starting from 1 January 2018 onwards
• no. 1986/2017 of 31/10/2017 - IFRS 16 "Leasing" and amendments to other related accounting standards/interpretations; these amendments are to be applied starting from 1 January 2019 onwards
• no. 2067/2016 of 22/11/2016 - IFRS 9 "Financial instruments" effective on a mandatory basis as from 1 January 2018.

The entry into force of IFRS 9 is of particular importance for financial institutions; By means of this publication, the process for the reform of IAS 39, which was divided up into the three stages of “Classification and Measurement”, “Impairment” and “General Hedge Accounting” was completed.

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

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

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

a) the business model followed to manage financial assets;
b) the characteristics of contractual cash flows of financial assets.

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

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

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

The FVOCI category includes financial assets:

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

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

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

Impairment
IFRS9 envisages a model characterised by a forward looking approach that requires the immediate recognition of losses on loan and receivables even if only envisaged, contrary to IAS 39 that requires for their recognition the examination of past events and current conditions.
The impairment model defined by IFRS9, unique for different financial instruments, requires for the estimate of losses on loans and receivables to be made on the basis of supportable information, available without unreasonable effort or expense that include historical, current and future figures (forward looking approach). The objective of this new approach is to ensure a more immediate recognition of the losses with respect to the “incurred loss” model envisaged by IAS 39, on the

basis of which the losses must be recognised if objective evidence of losses in value are noted after the initial recognition of the asset.
In detail, the model envisaged that the exposures must be classified in three separate “stages”:
- stage 1: financial assets to be measured by calculating the expected loss over a 12-month time horizon. These are performing assets with low credit risk or not significantly increased with respect to the date of initial recognition;
- stage 2: financial assets to be measured on the basis of the expected loss over their residual life. These are performing assets that have suffered a significant increase in risk compared to their initial recognition;
- stage 3: non-performing financial assets.

Impacts deriving from the adoption of IFRS 9 “Financial instruments”

IAS 8 ”Accounting policies, changes in accounting estimates and errors” envisages that significant disclosure be provided so as to assess the possible impacts on the financial statements deriving from first time application of the new accounting standards. Owing to the extent of the changes envisaged by IFRS 9 that has been disclosed earlier, as from the 2015 financial year, the Bank works together with its outsourcer for the necessary project activities aimed at identifying the main areas of impact and defining the reference method framework for the classification, measurement and impairment of the financial assets.
A project was also started with a specialised consulting company, with which activities were carried out:

- to define the criteria for allocation to new portfolios,
- to identify the methods for defining the credit risk related to financial assets other than receivables, such as government securities and commitments to grant credit,
- first in simulation on 31 December 2016, and then effectively to define the methods with which to identify the "significant impairment of risk with respect to the date of granting".

With regard to the first point, the project activities focused on the definition of the business model, in that for the purposes of classifying the financial assets in the various portfolios their objective characteristics are also relevant, which are identified through the so-called Solely Payment Principal Interest (SPPI Test) and through the so-called Benchmark Test in the presence of clauses that involve the so-called modified time value of money.
The purpose of the qualitative SPPI test is to verify whether the financial instrument essentially envisages payments that are merely an expression of principal and interest.
The quantitative Benchmark Test is added to the SPPI when the financial instrument shows an imperfect correlation between the interest rate benchmark (e.g. 3-month Euribor) and the passing of time (e.g. monthly instalment). In this case, the purpose of the test is to check the importance in terms of different cash flows compared to the cash flows of a benchmark instrument that is not characterised by "modified time value of money".
Passing the two tests is essential for the assets to be included in the categories of amortised cost and FVOCI. A negative outcome results in the financial instrument being classified as "Fair value Through Profit of Loss".

With regard to the securities portfolio, the estimated quantitative impacts mainly relate to the accounting reclassification of some securities:

- previously classified as "Available-for-sale financial assets", which pursuant to IFRS 9 are associated with the "Hold to Collect" business model and therefore measured at Amortised Cost;
- previously classified as "Available-for-sale financial assets", which pursuant to IFRS 9 must be measured at fair value (equity and real estate UCIT units).

With regard to the Bank's loan and receivable portfolio, which is mainly retail and is normally based on standard products, where financial flows are directed towards the remuneration of time and credit risk, on the basis of initial sample analyses, the possibility of maintaining the valuation at amortised cost for almost all the loans granted by the Bank is confirmed.
Organisational solutions will be prepared, possibly based on automatic methods, using structured questionnaires in the software applications provided by the outsourcer, to carry out the test for new disbursements.

Parameters have been defined to determine the significant impairment in credit risk in order to correctly allocate performing exposures to stage 1 or stage 2.
In particular, the credit rating assessment carried out by the rating model at the time of the first disbursement of each loan was recovered. Together with the outsourcer, the methods for calculating the default probability curves over a multi-year period are being defined by inserting "forward-looking" assessments in order to move from an "incurred" model to an "expected" one.

The current criteria for classifying loans/receivables in the "impaired" portfolio will be maintained in order to identify those to be classified in stage 3.
With reference to stage 3, note that, with regard to non-performing positions, the rules for their analytical valuation, developed from a "gone concern" perspective, include forward looking elements in the estimate of the percentage of assets covered by the guarantee.
IFRS9 allows the introduction of alternative scenarios for the recovery of exposures, also with the forecast of sales scenarios, both to maximise cash flows and in relation to a specific strategy for the management of impaired loans.
Consequently, the estimate of the Expected Credit Loss, in accordance with IFRS 9, reflects not only the recovery through ordinary management of the receivable/loan, but also the presence of the sales scenario and therefore of the cash flows deriving from this sale. Further work is in progress on this point.
At the time these explanatory notes were prepared, non-performing positions were sold for a total of Euro 23 million.
Introducing the disposal scenario and given the proximity of the transactions to the FTA date (1 January 2018), these non-performing positions were reclassified in 2018 from IAS 39 portfolio "at amortised cost" to IFRS9 FVtPL trading portfolio (Fair value through profit loss) by recognising the negative difference of Euro 1.6 million, arising between the disposal value and the net value of the positions shown in the financial statements as at 31 December 2017, to the shareholders' equity reserve, net of related taxes.

Statement of comprehensive income

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

Comparability

The financial statements show the comparative figures as at 31 December 2016 in addition to the amounts for the reporting period.

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

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

Definition of Financial assets and liabilities held for trading

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

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

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

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

Definition of Financial assets and liabilities measured at fair value

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

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

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

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

or

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

Recognition criteria
The financial instruments “Financial assets and liabilities held for trading and Financial assets and liabilities measured at fair value” are recognised, respectively, on the settlement date if debt securities or equities; or on the subscription date, if derivative contracts.
The initial recognition value is equal to the cost deemed as the fair value of the instrument, without considering any transaction costs or income directly attributable to these instruments.
On the basis of IFRS 13 (Fair Value Measurement), effective as from 1 January 2013, the fair value is the "price that would be received for the sale of an asset or that would be paid for the transfer of a liability in a regular transaction between market operators on the measurement date", without considering the transaction costs and revenues relating to said instrument.

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

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

Recognition criteria for income components
The result of the disposal/redemption or measurement of financial assets or liabilities held for trading is recognised in profit or loss in item “80 Net profit (loss) from trading activities”.
The result of the disposal/redemption or measurement of financial assets or liabilities measured at fair value is recognised in profit or loss in item “110 Profits (Losses) on financial assets and liabilities measured at fair value”.

2 - Available-for-sale financial assets

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

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

Measurement criteria

Subsequent to the date of initial recognition, available-for-sale assets are measured at fair value with recognition in the income statement of the value corresponding to the amortised cost.

The determination of the fair value of the securities is based on prices struck on active markets or on internal measurement models generally used in financial practice, as better specified in the chapter on fair value.

The profits and the losses deriving from fair value measurements but that are not realised, are booked to a specific equity reserve, net of the related tax effect, until the moment that the financial asset is sold or written down.

If an available-for-sale financial asset undergoes a permanent loss in value (impairment), the cumulative loss further to the previous fair value measurements booked to shareholders' equity is stated in the income statement item “Net impairment losses on available-for-sale financial assets”.

Checking of the existence of impairment losses on the basis of objective evidence (impairment test) is carried out at the end of each reporting period or at the time of preparation of the interim statements.

For example, this circumstance applies in the event of:

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

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

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

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

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

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

Derecognition criteria

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

Recognition criteria for income components

If an available-for-sale financial asset is sold, the profits or losses up to that moment that are not realised and booked to shareholders' equity, are transferred to the item "Profit/loss on sale of available-for-sale financial assets" in the income statement.
Impairment losses on investments in debt instruments are recognised with an offset in the income statement only if this impairment may be objectively correlated to an event that takes place after the loss due to impairment has been booked to the income statement, within the limit of the value of the amortised cost that the financial assets would have had in the absence of previous adjustments.
Impairment losses on investments in capital instruments, which can be correlated to an event that has taken place after the impairment loss has been booked to the income statement, must be recognised as an offset in shareholders' equity.

3. - Held-to-maturity financial assets

Definition

Non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity, are defined as Held to maturity (HTM). Exceptions:
(a) those held for trading and those designated at the time of initial recognition at fair value recognised in the income statement (par.1);
(b) those designated as available for sale (par. 2);
(c) those that meet the definition of receivables and loans (par. 4).
When preparing the financial statements or interim financial statements, the intention and ability to hold the financial asset to maturity are assessed.
These activities are recognised in the item "50. Held-to-maturity financial assets".

Recognition criteria

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

Measurement criteria

Held-to-maturity financial assets are measured at amortised cost by using the effective interest rate method. The resulting value is recorded in the income statement under item 10 "Interest income and similar revenues".
When preparing the financial statements or interim reports, impairment tests are carried out to check if there is objective evidence that the asset is impaired. In case of impairment losses, the difference between the book value of the asset and the current value of estimated future financial flows, discounted at the original effective interest rate, is recognised in the income statement in item "130 Net impairment losses on c) held-to-maturity financial assets". Any reversals of impairment

losses are recorded in the income statement item if the reasons for the previous impairment losses cease to exist.
The fair value of held-to-maturity financial assets is determined for information purposes or in case of effective hedges for exchange rate risk and credit risk (in relation to the hedged risk) and it is estimated as described more in detail in Part A.4 “Fair value disclosure” of the Explanatory Notes.

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

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

4 - Loans and receivables

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

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

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

Measurement criteria
Subsequent to initial recognition, loans and receivables are measured at “amortised cost”, equal to the initial recognition cost, decreased / increased by the capital repayments, impairment losses / reversals of impairment losses and amortisation - calculated using the effective interest rate method - of the difference between the amounts disbursed and that which can be repaid on maturity, attributable typically to the costs / income booked directly to the individual loan/receivable. The

effective interest rate is identified by calculating the rate that makes the current value of the future flows of the loan/receivable, in terms of capital and interest, equal to the amount disbursed inclusive of the costs / income attributable to the loan/receivable.
The amortised cost method is not used for loans/receivables whose brief duration suggests that the effect of application of the discounting back is negligible. These loans and receivables are valued at historical cost and the costs / income referring to the same are assigned to the income statement in a linear manner over the contractual duration of the same. A similar approach is adopted for loans and receivables without a definite maturity or subject to revocation.
The loan/receivable book is subject to periodic measurement at least at each reporting date or interim statement, so as to identify and establish any objective impairment losses.
This circumstance applies when it is envisaged that the bank is not able to collect the amount due, on the basis of the original contractual conditions or rather, for example, in the presence of:
-significant financial difficulties of the issuer or the debtor;
-violation of the contract, such as breach or non-payment of the interest or the principal;
-granting to the beneficiary of a concession/facility that the bank has taken into consideration mainly for economic or legal reasons relating to its financial difficulties and that otherwise it would not have granted;
-probability that the debtor may be subject to bankruptcy/insolvency proceedings or other financial reorganisations.
-the disappearance of an active market of the security as a result of the financial difficulties of the issuer;
-other evidence pointing to an objective reduction of the issuer's ability to generate future cash flows sufficient to meet its contractual commitments.

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

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

Derecognition criteria

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

Recognition criteria for income components

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

5 - Hedging transactions

Risk hedging transactions are aimed at neutralising potential losses on exchange and interest rates.
The hedges can be divided up into the following categories:
• hedging of the fair value of a specific asset or liability, which has the aim of maintaining the current value of a financial asset/liability in the presence of interest rate changes;
• hedging of the future cash flows attributable to a specific asset or liability, which has the aim of maintaining the cash flow of a financial asset/liability in the presence of interest rate changes;
• hedging of the effects of an investment in foreign currency.

Recognition criteria

Financial hedging derivatives are initially recognised and subsequently measured at fair value and classified in asset item 80 and liability item 60 “Hedging derivatives”.
A relation qualifies as hedging if all the following conditions are satisfied:
• at the start of the hedge, there is a designation and formal documentation of the hedge accounting, the nature of the risk hedged and the risk objectives pursued;
• the definition of the criteria for determining the efficacy of the hedge;
• the expected hedge is highly effective and can be reliably measured and the measurement is carried out on an on-going basis.

Measurement criteria

The determination of the fair value of the derivative instruments is based on prices taken from regulated markets or provided by qualified operators on models for the measurement of the options or on models discounting back future cash flows. A hedge is considered highly effective if, both at the start and during its life, the change in the fair value or the cash flows of the element hedged are almost completely offset by the change in the fair value or the cash flows of the hedging derivative, or rather the effective results remain within an interval between 80% and 125%.
Transactions are no longer considered hedging if:
• the hedge made via the derivative ceases or is no longer highly effective;
• the derivative expires, is sold, terminated or exercised;
• the element hedged is sold, expires or is reimbursed;
• the hedging definition is revoked.
The ineffective part of the hedge is provided by the difference between the change in the fair value of the hedging instrument and the change in the fair value of the hedged element.

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

Derecognition criteria

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

Recognition criteria for income components

The fair value change of the hedged instrument, in effective fair value hedges, is recorded in the income statement item “90 Net hedging income (expense)”. The fair value changes of the hedged element, attributable to the hedged risk with the derivative instrument, are recorded in the income statement to offset the change in the book value of the hedged element.
If the hedge no longer satisfies the criteria for being recorded as such or the derivative is terminated, also due to the insolvency of the counterpart, the difference between the book value of the hedged element at the time the hedge ceases and that which would have been its book value if the hedge had never existed, in the event of interest-bearing financial instruments, is amortised in the income statement, over the residual life of the original hedge; in the event of non-interest bearing financial instruments, this difference is recorded directly in the income statement.

6 - Equity Investments

Recognition criteria

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

Classification criteria

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

Measurement criteria

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

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

Derecognition criteria

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

Recognition criteria for income components

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

7 - Tangible assets

Recognition criteria

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

Classification criteria

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

Measurement criteria

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

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

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

8 - Intangible assets

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

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

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

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

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

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

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

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

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

9 – Current and deferred taxation

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

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

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

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

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

10 - Provisions for risks and charges

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

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

11 - Post-employment benefits

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

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

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

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

12 - Liabilities and securities issued

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

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

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

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

13 - Other information

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

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

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

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

Foreign currency assets and liabilities

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

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

Own shares

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

Securitisations

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

Recognition criteria for income components

Besides the matters illustrated in the basis of presentation, revenues are recognised when they are received or, on any event, when it is likely that future benefits will be received and these benefits can be reliably quantified. In detail:
- interest on due from customers and banks is classified under interest income and similar revenues deriving from loans and receivables with banks and customers and is recognised on an accruals basis. Default interest is recognised on an accruals basis and written down for the portion that is deemed as non-recoverable;
- dividends are recognised in the income statement when received or when, on the basis of IAS 39, section 55, the right to payment arises;
- commission and interest received or paid relating to financial instruments are recognised on an accruals basis.

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

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

A.3 - Disclosure on transfers between financial asset portfolios

The Bank has not carried out, either in the current or in the previous financial year, reclassifications of the portfolio of financial assets from categories measured at fair value to the categories carried at amortised cost based on the possibilities introduced by EC Regulation no. 1004/2008 of the European Commission.
It allows in "rare circumstances" to transfer financial instruments allocated in the trading book to other portfolios with a different measurement method. This circumstance came about during 2008, year in which, due to the crisis that had hit the international markets, since market prices no longer adequately expressed the fair value of financial instruments, they had lost significance and ran the risk of distorting the representation of these instruments in the financial statements of companies applying IAS/IFRS, causing abnormal fluctuations in the income statement and in equity.

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

As at 31 December 2017, there are no previously reclassified securities.

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

A.3.3 Transfer of financial assets held for trading

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

The tables have not been drawn up in that during 2017 there were no reclassifications of financial assets.

A.4 - Information on fair value

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

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

FVH provides for the following levels:

1. Quoted prices taken from active markets (Level 1): the fair value derives from quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date (IFRS 13 par. 76).
An active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis (IFRS 13 Appendix A).
2. Measurement methods based on observable market parameters (Level 2): the fair value is determined from inputs that are observable for the asset or liability, either directly or indirectly. (IFRS 13 par. 81).
Level 2 inputs include (IFRS 13 par. 82):
- quoted prices in active markets for identical assets or liabilities;
- quoted prices for identical or similar assets or liabilities in markets that are not active;
- inputs other than quoted prices that are observable for the asset or liability, for example: interest rates, yield curves, volatility etc.);
- input from or corroborated by observable market data.
3. Measurement methods based on unobservable market parameters (Level 3): the fair value is a Level 3 if the inputs used in the valuation techniques of the fair value are unobservable on the market (IFRS 13 par. 86).
When using Level 3 inputs, it must be considered that the aim of the measurement is to determine an exit price (transfer price) to the market participant holding the financial instrument. Level 3 inputs must reflect the assumptions of the Bank, on market participant assumptions, in attributing a price to the instrument (IFRS 13 par. 87).
Level 3 inputs are developed based on the best information available on the basis of inside information to the Bank.

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

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

Mark to Market Policy
To determine fair value, the Bank uses information based on market data, any time it is available, obtained from independent sources, in that considered to be the best evidence of fair value. In this case, the fair value is the market price of the same measured instrument, meaning without changes in or recomposition of the instrument itself, which can be taken from the listings expressed by an active market (and classified in Level 1 of the fair value hierarchy). A market is considered active when the transactions occur with sufficient frequency and volume to provide useful information for determining the price on an ongoing basis (IFRS 13 Appendix A).
The following are generally considered active markets:
- regulated securities and derivative markets, with the exception of the Luxembourg stock market;
- certain OTC electronic trading networks, when given circumstances are in place based on the presence of a certain number of contributors with executable offers, characterised by bid-ask spreads – i.e., the difference between the price a seller is offering for a security (ask price) and the price a buyer is willing to pay (bid price) – falling within a given tolerance threshold;
- the secondary market for UCIT units, expressed by the official NAV (Net Asset Value), based on which the issuing asset management company guarantees to settle the units in a short time. In particular, these are open-end harmonised UCIT funds, characterised by type of investment and high levels of transparency and liquidity

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

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

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

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

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

Fair value determined using Level 2 inputs

The following types of investments are normally considered Level 2:

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

Fair value determined on the basis of Level 3 input

The following financial instruments are generally considered Level 3:

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

A.4.2 Processes and sensitivity of measurements

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

A.4.3 Fair value level

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

A.4.4 Other information

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

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

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

Impaired assets

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

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

Method for determining the amortised cost

The "amortised cost" of a financial asset or liability is equal to the initial recognition cost, decreased / increased by the capital repayments, impairment losses / reversals of impairment losses

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

Methods for determining impairment losses on financial assets.

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

Quantitative information

A.4.5 Fair value level

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

Financial assets/liabilities at fair value	Total 31/12/2017			Total 31/12/2016		
	L 1	L 2	L 3	L 1	L 2	L 3
1. Financial assets held for trading	-	174	-	-	392	2
2. Financial assets measured at fair value	-	-	9,380	-	-	9,175
3. Available-for-sale financial assets	863,027	12,210	63,960	1,194,173	9,522	49,661
4. Hedging derivatives	-	-	-	-	-	-
5. Tangible assets	-	-	-	-	-	-
6. Intangible assets	-	-	-	-	-	-
Total	**863,027**	**12,384**	**73,340**	**1,194,173**	**9,914**	**58,838**
1. Financial liabilities held for trading	-	135	-	-	269	-
2. Financial liabilities measured at fair value	-	-	-	-	-	-
3. Hedging derivatives	-	-	-	-	-	-
Total	**-**	**135**	**-**	**-**	**269**	**-**

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

Shares issued by financial intermediaries of Euro 12,210 thousand are classified in FV Level 2 of the "Available-for-sale financial assets", valued according to the price taken from the last significant transactions or using a price taken from similar securities.
Securities classified in FV Level 2 consist of:

- Arca S.g.r., valued for a total of Euro 8,307 thousand by using the price taken from similar securities listed on the Italian Stock Exchange;
- Cedacri S.p.A. valued for Euro 3,903 thousand using the price criterion of the last exchanges carried out; in the specific case, in December 2017, Fondo Strategico Italiano acquired 27% of the shares of Cedacri from various financial intermediaries and this price was therefore used in order to value the share in our financial statements.

FV Level 3 of the AFS portfolio of an amount of Euro 63,960 thousand includes the securities listed (with changes) in the next table of part A.4.5.2:

- units of mutual funds of Euro 48,059 thousand on the basis of price indications provided by the issuer counterpart; the aggregate includes both units of equity funds (Fondo Atlante) and units of real estate funds.

  Fondo Atlante employed a large part of its resources, as already pointed out in the report on operations, in the recapitalisation of Veneto Banca and Popolare di Vicenza; these banks were put into compulsory winding-up and, as a result, the unit-holders of the Fund unfortunately incurred substantial capital losses. Banca Valsabbina recorded capital losses of Euro 3,997 thousand in the income statement, an amount including Euro 959 thousand allocated at the end of 2016 to negative equity reserves.

  Capital losses on other real estate funds amounted to Euro 1,428 thousand; Euro 1,167 thousand were recognised in the income statement and this included Euro 134 thousand already recognised in the negative equity reserve. The residual amount of Euro 261 thousand was recognised through shareholders' equity, since the conditions for a direct write-down to the income

statement are not met. During the year, units in Fondo Fenice of Euro 7,650 thousand and in Fondo Namira of Euro 5,750 thousand were subscribed.
- shares of Euro 15,104 thousand, corresponding to the valuation of the equity investment held in the Bank of Italy and the interest in the F.I.T.D. Voluntary Scheme
- Multiseller NPL bonds of Euro 797 thousand, repaid during the period for Euro 740 thousand.

The change in "financial assets held for trading" is not significant and therefore presents a nil balance.
Two insurance policies valued as at 31 December 2017 according to the indications provided by the issuers are recognised in item 30. Financial assets measured at fair value.

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

	Financial assets held for trading	Financial assets measured at fair value	Available-for-sale financial assets	Hedging derivatives	Tangible assets	Intangible assets
1. Opening balances	**2**	**9,175**	**49,661**	**-**	**-**	**-**
2. Increases	**105**	**205**	**22,641**	**-**	**-**	**-**
2.1 Purchases	105	-	22,553	-	-	-
2.2 Gains recognised in:	-	205	85	-	-	-
2.2.1 Income statement	-	205	66	-	-	-
- of which: Capital gains	-	205	66	-	-	-
2.2.2 Shareholders' equity	-	-	19	-	-	-
2.3 Transfers from other levels	-	-	-	-	-	-
2.4 Other increases	-	-	3	-	-	-
3. Decreases	**107**	**-**	**8,342**	**-**	**-**	**-**
3.1 Sales	106	-	1,850	-	-	-
3.2 Redemptions	-	-	741	-	-	-
3.3 Losses recognised in:	-	-	5,746	-	-	-
3.3.1 Income statement	-	-	5,485	-	-	-
- of which Capital losses	-	-	-	-	-	-
3.3.2 Shareholders' equity	-	-	261	-	-	-
3.4 Transfers to other levels	-	-	-	-	-	-
3.5 Other decreases	1	-	5	-	-	-
4. Closing balances	**-**	**9,380**	**63,960**	**-**	**-**	**-**

Breakdown of financial assets measured at fair value on a recurring basis (Level 3) – AFS portfolio													
	Bonds	Shares			Mutual funds								
	MULTISELLER NPL	UBI LEASING	BANK OF ITALY	F.I.T.D. VOLUNTARY SCHEME	FONDO ATLANTE	LEOPARDI - REAL ESTATE PROPERTY FUND	ASSET BANCARI I	ASSET BANCARI IV	ASSET BANCARI V	ASSET BANCARI VI	FININT FENICE	NAMIRA DISTR ASS	TOTAL
1. Opening balances	**1,540**	**1,784**	**7,500**	**415**	**3,098**	**484**	**940**	**7,652**	**963**	**11,216**	**14,069**	**-**	**49,661**
2. Increases	**3**	**66**	**7,500**	**1,103**	**550**	**-**	**-**	**-**	**19**	**-**	**7,650**	**5,750**	**22,641**
2.1 Purchases	-	-	7,500	1,103	550	-	-	-	-	-	7,650	5,750	22,553
2.2 Gains recognised in:	-	66	-	-	-	-	-	-	19	-	-	-	85
2.2.1 Income statement	-	66	-	-	-	-	-	-	-	-	-	-	66
- of which: Capital gains	-	66	-	-	-	-	-	-	-	-	-	-	66
2.2.2 Shareholders' equity	-	-	-	-	-	-	-	-	19	-	-	-	19
2.3 Transfers from other levels	-	-	-	-	-	-	-	-	-	-	-	-	-
2.4 Other increases	3	-	-	-	-	-	-	-	-	-	-	-	3
3. Decreases	**746**	**1,850**	**-**	**1,414**	**3,038**	**149**	**41**	**726**	**-**	**117**	**228**	**33**	**8,342**
3.1 Sales	-	1,850	-	-	-	-	-	-	-	-	-	-	1,850
3.2 Redemptions	741	-	-	-	-	-	-	-	-	-	-	-	741
3.3 Losses recognised in:	-	-	-	1,414	3,038	149	41	726	-	117	228	33	5,746
3.3.1 Income statement	-	-	-	1,414	3,038	149	41	726	-	117	-	-	5,485
- of which Capital losses	-	-	-	-	-	-	-	-	-	-	-	-	-
3.3.2 Shareholders' equity	-	-	-	-	-	-	-	-	-	-	228	33	261
3.4 Transfers to other levels	-	-	-	-	-	-	-	-	-	-	-	-	-
3.5 Other decreases	5	-	-	-	-	-	-	-	-	-	-	-	5
4. Closing balances	**797**	**-**	**15,000**	**104**	**610**	**335**	**899**	**6,926**	**982**	**11,099**	**21,491**	**5,717**	**63,960**

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

The Bank did not issue financial liabilities at fair value.

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

Assets/liabilities not measured at fair value or measured at fair value on a non-recurring basis	31/12/2017				31/12/2016			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Held-to-maturity financial assets	-	-	-	-	-	-	-	-
2. Loans and receivables with banks	129,372	-	-	129,372	212,026	-	-	212,026
3. Loans and receivables with customers	3,039,985	2,923	811	3,180,057	2,762,450	5,845	-	2,848,951
4. Investment property	-	-	-	-	-	-	-	-
5. Non-current assets held for sale and disposal groups	-	-	-	-	-	-	-	-
Total	**3,169,357**	**2,923**	**811**	**3,309,429**	**2,974,476**	**5,845**	**-**	**3,060,977**
						-	-	
1. Due to banks	687,269	-	-	687,269	795,650	-	-	795,689
2. Due to customers	2,609,955	-	-	2,609,955	2,406,793	-	-	2,406,793
3. Securities issued	550,803	-	-	549,548	746,949	-	-	745,089
4. Liabilities associated with assets held for sale and discontinued operations	-	-		-	-	-	-	-
Total	**3,848,027**	**-**	**-**	**3,846,772**	**3,949,392**	**-**	**-**	**3,947,571**

A.5 Information on the “day one profit/loss”

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

Part B - Information on the Balance Sheet

Assets

Section 1 - Cash and cash equivalents - Item 10

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

1.1 Cash and cash equivalents: breakdown

Item/Amounts	Total 31/12/2017	Total 31/12/2016
a) Cash	15,771	13,468
b) Demand deposits with Central Banks	-	-
Total	**15,771**	**13,468**

The item "Cash" includes the balances of coins and banknotes at the branch accounts, cash point machines and the centralised account. Foreign banknotes amount to Euro 319 thousand. At year end, there were no demand deposits with the Bank of Italy. The Compulsory Reserve is recorded in item "60 Loans and receivables with banks".

Section 2 - Financial assets held for trading - Item 20

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

2.1 Financial assets held for trading: breakdown by type

Item/Amounts	Total 31/12/2017			Total 31/12/2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A On-balance sheet assets						
1. Debt securities	-	-	-	-	-	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	-	-	-	-	-	-
2. Equity securities	-	-	-	-	-	2
3. UCIT units	-	-	-	-	-	-
4. Loans	-	-	-	-	-	-
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total A	**-**	**-**	**-**	**-**	**-**	**2**
B Derivative instruments						
1. Financial derivatives	-	174	-	-	392	-
1.1 trading	-	174	-	-	392	-
1.2 related to the fair value option	-	-	-	-	-	-
1.3 other	-	-	-	-	-	-
2. Credit derivatives	-	-	-	-	-	-
2.1 trading	-	-	-	-	-	-
2.2 related to the fair value option	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
Total B	**-**	**174**	**-**	**-**	**392**	**-**
Total (A+B)	**-**	**174**	**-**	**-**	**392**	**2**

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

- with regard to level 2, Euro 173 thousand in foreign currency forward transactions, whose value is offset by the liability item 40 "Financial liabilities held for trading". The book amount (intrinsic value) is the expression of a notional value of the transactions equating to Euro 9,458 thousand;
- again with regard to level 2, Euro 1 thousand being the intrinsic value referring to hedges of foreign currency transactions carried out by the Bank, with a notional value of Euro 470 thousand.

The term "level", in the heading of the various columns, represents the different method of measurement of the financial assets with the use for level 1 of market values, for level 2 of different external sources either direct (prices) or indirect (derived from prices), and for level 3 of internal measurements or the cost.
Complete disclosure on the fair value level is provided at the end of the accounting standards: "Fair value disclosure".

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

Item/Amounts	Total 31/12/2017	Total 31/12/2016
A. On-balance sheet assets		
1. Debt securities	**-**	**-**
a) Governments and Central Banks	-	-
b) Other public bodies	-	-
c) Banks	-	-
d) Other issuers	-	-
2. Equity securities	**-**	**2**
a) Banks	-	-
b) Other issuers:	-	2
- insurance companies	-	-
- financial companies	-	-
- non-financial companies	-	2
- other	-	-
3. UCIT units	**-**	**-**
4. Loans	**-**	**-**
a) Governments and Central Banks	-	-
b) Other public bodies	-	-
c) Banks	-	-
d) Other parties	-	-
Total A	**-**	**2**
B. Derivative instruments		
a) Banks - fair value	38	326
b) Customers - fair value	136	66
Total B	**174**	**392**
Total (A+B)	**174**	**394**

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

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

3.1 Financial liabilities measured at fair value: breakdown by type

Item/Amounts	Total 31/12/2017			Total 31/12/2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	-	-	-	-	-	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	-	-	-	-	-	-
2. Equity securities	-	-	-	-	-	-
3. UCIT units	-	-	-	-	-	-
4. Loans	-	-	9,380	-	-	9,175
4.1 Structured	-	-	-	-	-	-
4.2 Other	-	-	9,380	-	-	9,175
Total	-	-	**9,380**	-	-	**9,175**
Cost	-	-	**9,000**	-	-	**9,000**

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

Items/Amounts	Total 31/12/2017	Total 31/12/2016
1. Debt securities	**-**	**-**
a) Governments and Central Banks	-	-
b) Other public bodies	-	-
c) Banks	-	-
d) Other issuers	-	-
2. Equity securities		
a) Banks	-	-
b) Other issuers:	-	-
- insurance companies	-	-
- financial companies	-	-
- non-financial companies	-	-
- other	-	-
3. UCIT units	**-**	**-**
4. Loans	**9,380**	**9,175**
a) Governments and Central Banks	-	-
b) Other public bodies	-	-
c) Banks	-	-
d) Other parties	-	-

Total	**9,380**	**9,175**

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

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

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

Item/Amounts	Total 31/12/2017			Total 31/12/2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	**765,906**	**-**	**797**	**1,024,831**	**-**	**1,540**
1.1 Structured securities	2,955	-	-	-	-	-
1.2 Other debt securities	762,951	-	797	1,024,831	-	1,540
2. Equity securities	**1,014**	**12,210**	**15,161**	**108**	**9,522**	**13,357**
2.1 Measured at fair value	1,014	12,210	15,104	108	9,522	9,699
2.2 Measured at cost	-	-	57	-	-	3,658
3. UCIT units	**96,107**	**-**	**48,059**	**169,234**		**38,422**
4. Loans	**-**	**-**	**-**	**-**	**-**	**-**
Total	**863,027**	**12,210**	**64,017**	**1,194,173**	**9,522**	**53,319**

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

FV level 3 includes Euro 57 thousand in unlisted shares maintained at cost, in the absence of manifestations of risk that require a different measurement.

The term “level”, in the heading of the various columns, represents the different method of measurement of the financial assets with the use for level 1 of market values, for level 2 of different external sources either direct (prices) or indirect (derived from prices), and for level 3 of internal measurements or the cost.
Complete disclosure on the fair value level is provided at the end of the accounting standards: “Fair value disclosure”.

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

Item/Amounts	Total 31/12/2017	Total 31/12/2016
1. Debt securities	**766,703**	**1,026,371**
a) Governments and Central Banks	724,636	1,019,880
b) Other public bodies	-	-
c) Banks	15,507	-
d) Other issuers	26,560	6,491
2. Equity securities	**28,385**	**22,987**
a) Banks	16,118	9,576
b) Other issuers	12,267	13,411
- insurance companies	-	-
- financial companies	8,336	9,673
- non-financial companies	3,931	3,738
- other	-	-
3. UCIT units	**144,166**	**207,656**
4. Loans	-	-
a) Governments and Central Banks	-	-
b) Other public bodies	-	-
c) Banks	-	-
d) Other parties	-	-
Total	**939,254**	**1,257,014**

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

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

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

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

Section 6 - Loans and receivables with banks - Item 60

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

6.1 Loans and receivables with banks: breakdown by type

Type of transaction/Amounts	Total 31/12/2017				Total 31/12/2016			
	BV	FV Level 1	FV Level 2	FV Level 3	BV	FV Level 1	FV Level 2	FV Level 3
A. Loans and Receivables with Central Banks	**46,801**	**-**	**-**	**-**	**23,647**	**-**	**-**	**-**
1. Time deposits	-	-	-	-	-	-	-	-
2. Compulsory reserve	46,801	-	-	-	23,647	-	-	-
3. Repurchase agreements	-	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-	-
B. Loans and receivables with banks	**82,571**	**-**	**-**	**-**	**188,379**	**-**	**-**	**-**
1. Loans	63,066	-	-	-	143,070	-	-	-
1.1 Current accounts and demand deposits	9,629	-	-	-	5,008	-	-	-
1.2. Time deposits	28,157	-	-	-	15,698	-	-	-
1.3. Other loans:	25,280	-	-	-	122,364	-	-	-
- Reverse repurchase agreements	-	-	-	-	-	-	-	-
- Finance leases	-	-	-	-	-	-	-	-
- Other	25,280	-	-	-	122,364	-	-	-
2. Debt securities	19,505	-	-	-	45,309	-	-	-
2.1 Structured securities	-	-	-	-	-	-	-	-
2.2 Other debt securities	19,505	-	-	-	45,309	-	-	-
Total	**129,372**	**-**	**-**	**129,372**	**212,026**	**-**	**-**	**212,026**

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

Just the balance of the Compulsory reserve, amounting to Euro 46,801 thousand, is recorded under loans and receivables with Central banks.

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

- current accounts and demand deposits, held with both Italian and foreign banks, of amounts in Euro totalling Euro 4,112 thousand and amounts in currency of Euro 5,517 thousand;
- time deposits, held with Italian banks of Euro 23,147 thousand and foreign of Euro 5,010 thousand;
- other loans of Euro 25,280 thousand; as at 31 December 2016, this aggregate includes Euro 104,692 thousand relating to the advance payment to Hypo Alpe Adria Bank S.p.A. for the purchase of mortgage loans, purchase finalised in 2017;
- debt securities, issued by banking counterparts of Euro 19,505 thousand.

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

Section 7 - Loans and receivables with customers - Item 70

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

7.1 Loans and receivables with customers: breakdown by type

Type of transaction/Amounts	Total 31/12/2017						Total 31/12/2016					
	Book value			Fair value			Book value			Fair value		
	Performing	Impaired		L1	L2	L3	Performing	Impaired		L1	L2	L3
		Purchased	Other					Purchased	Other			
Loans	**2,626,745**	**95**	**319,260**	**-**	**-**	**-**	**2,369,343**	**-**	**378,683**	**-**	**-**	**-**
1. Current accounts	408,887	-	64,050	-	-	-	409,795	-	80,751	-	-	-
2. Reverse repurchase agreements	-	-	-	-	-	-	-	-	-	-	-	-
3. Mortgages	1,843,064	95	247,297	-	-	-	1,570,100	-	289,518	-	-	-
4. Credit cards, personal loans and salary-backed loans	830	-	359	-	-	-	874	-	432	-	-	-
5. Financial leases	-	-	-	-	-	-	-	-	-	-	-	-
6. Factoring	-	-	-	-	-	-	-	-	-	-	-	-
7. Other loans	373,964	-	7,554	-	-	-	388,574	-	7,982	-	-	-
Debt securities	**93,885**	-	-	-	-	-	**14,424**	-	-	-	-	-
8. Structured securities	-	-	-	-	-	-	-	-	-	-	-	-
9. Other debt securities	93,885	-	-	-	-	-	14,424	-	-	-	-	-
Total	**2,720,630**	**95**	**319,260**	**2,923**	**811**	**3,180,057**	**2,383,767**	**-**	**378,683**	**5,845**	**-**	**2,848,951**

Loans and receivables with customers are stated net of impairment.
Financial statement regulations envisage that loans and receivables with customers are stated in separate columns with distinction between performing and impaired, on the basis of their technical form.
The impaired loans include bad loans, probable defaults restructured and past due impaired loans, as more fully illustrated in part E of these Explanatory Notes: Section 1- Credit risk.
The Fair Value column measures the exposures on the basis of the rates applied to the individual transactions and the duration of the loans, discounted back on the basis of the existing market rate curve.
Other loans include treasury operations with central counterparts of Euro 60 million; as at 31 December 2016, the balance of these operations was Euro 63 thousand.
Debt securities include, for Euro 86,624 thousand, the Valsabbina Investimenti security; this is a bond fully subscribed by the Bank and issued by a vehicle company set up to securitise loans and receivables with the Public Administration. 67.72% of loans and receivables acquired by the vehicle consist of local governments, 15.04% of central governments, 9.25% of local health centres and the remaining 7.99% of other public administration bodies; 68.36% of these loans and receivables originate from the supply of raw materials and energy services.
The greater value assigned to loans and receivables from the merged Credito Veronese, originally of Euro 5,612 thousand, amounts as at 31 December 2016 to Euro 1,619 thousand, after amortisation for the year of Euro 391 thousand, charged to the decrease in interest income.

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

Type of transaction/Amounts	Total 31/12/2017			Total 31/12/2016		
	Performing	Impaired		Performing	Impaired	
			Other			Other
1. Debt securities:	**93,885**	**-**	**-**	**14,424**	**-**	**-**
a) Governments	-	-	-	-	-	-
b) Other public bodies	-	-	-	-	-	-
c) Other issuers	93,885	-	-	14,424	-	-
- non-financial	5,257	-	-	5,872	-	-
- financial companies	88,628	-	-	8,552	-	-
- insurance companies	-	-	-	-	-	-
- others	-	-	-	-	-	-
2. Loans to:	**2,626,745**	**95**	**319,260**	**2,369,343**	**-**	**378,683**
a) Governments	-	-	-	-	-	-
b) Other public bodies	19,096	-	-	19,307	-	-
c) Other parties	2,607,649	95	319,260	2,350,036	-	378,683
- non-financial	1,655,988	95	244,667	1,487,106	-	295,151
- financial companies	215,278	-	1,643	241,132	-	5,967
- insurance companies	-	-	-	-	-	-
- other	736,383	-	72,950	621,798	-	77,565
Total	**2,720,630**	**95**	**319,260**	**2,383,767**	**-**	**378,683**

The distribution of loans and receivables by debtor/issuer is obtained using the classification criteria envisaged by the Bank of Italy.
The tables "7.3 Loans and receivables with customers: subject to micro hedge" and "7.4 Financial leases" are not drawn up due to the absence of such transactions.

Section 8 - Hedging derivatives – Item 80

This section is not drawn up because as at 31 December 2017 the Bank did not have any transactions of this type, as in the previous year.

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

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

Section 10 – Equity investments - Item 100

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

10.1 Equity investments: information on investment relationships

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

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

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

Valsabbina Real Estate is fully owned; the consolidated financial statements are not drawn up due to the scant significance and relevance of the balances of the subsidiary with respect to those of the parent company, in application of the "Framework for the Preparation and Presentation of financial statements", which represents the conceptual model underlying the IAS standards.
The financial statement total of the subsidiary (Euro 6,039 thousand) is lower than the limits envisaged by the Supervisory instructions for the consolidated indications (financial statement assets less than Euro 10 million).
The reporting formats of the Company are enclosed with the financial statements of the Bank.

10.3 Significant equity investments: accounting information

Company name	Cash and cash equivalents	Financial assets	Non-financial assets	Financial liabilities	Non-financial liabilities	Total revenues	Net interest income	Depreciation/amortisation and net impairment losses on tangible and intangible assets	Profit (Loss) from operations gross of taxation	Profit (Loss) from operations net of taxation	Profit (loss) from discontinued operations net of taxation	Profit (loss) for the year (1)	Other income components net of taxation (2)	Comprehensive income (3) = (1) + (2)
A. Fully-controlled companies	**-**	**-**	**6,039**	**5,865**	**60**	**1,158**	**-**	**-**	**(351)**	**(291)**	**-**	**(291)**	**-**	**(291)**
1. Valsabbina Real Estate s.r.l.	-	-	6,039	5,865	60	1,158	-	-	(351)	(291)	-	(291)	-	(291)
B. Jointly-controlled companies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
C. Companies subject to significant influence	-	-	-	-	-	-	-	-	-	-	-	-	-	-

The figures indicated in the table are related to the financial statements as at 31 December 2017; the shareholders' equity of the subsidiary, inclusive of the profit (loss) for the year, amounts to Euro 115 thousand.

10.4 Non-significant equity investments: accounting information

Company name	Book value of equity investments	Total assets	Total liabilities	Total revenues	Profit (Loss) from operations net of taxation	Profit (loss) from discontinued operations net of taxation	Profit (loss) for the year (1)	Other income components net of taxation (2)	Comprehensive income (3) = (1) + (2)
A. Fully-controlled companies	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B. Jointly-controlled companies	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
C. Companies subject to significant influence	**1,014**	**11,488**	**11,488**	**7,628**	**641**	**-**	**641**	**645**	**1,286**

The figures shown refer to the financial statements as at 31 December 2016.

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

10.5 *Equity investments: annual changes*

Items	Total 31/12/2017	Total 31/12/2016
A. Opening balances	**1,121**	**1,375**
B. Increases	**295**	**130**
B.1 Purchases	-	-
B.2 Reversals of impairment losses	-	-
B.3 Revaluations	-	-
B.4 Other changes	295	130
C. Decreases	**295**	**384**
C.1 Sales	-	-
C.2 Impairment losses	295	384
C.3 Other changes	-	-
D. Closing balances	**1,121**	**1,121**
E. Total revaluations	-	-
F. Total impairment losses	**295**	**384**

During the year, Banca Valsabbina paid over to the investee company Real Estate Euro 295 thousand to cover losses; at the same time, it took steps to write down the investment of Euro 295 thousand recorded in the financial statements.

10.6 *Commitments referred to equity investments in jointly controlled companies*
There are no equity investments in jointly controlled companies.

10.7 *Commitments referred to equity investments in companies subject to significant influence*
As things stand, there are no commitments with Polis S.g.r.

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

10.9 *Other information*
A credit facility of Euro 15 million was made available to Valsabbina Real Estate; this facility was used at year end by Euro 5,865 thousand, for possible transactions falling within the cases for which the company was established.
81 properties have been acquired since its formation for an overall total of Euro 19.7 million; as at 31 December 2017, properties remained for an equivalent value of Euro 5.4 million.

Section 11 – Tangible assets - Item 110

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

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

Asset/Amounts	Total 31/12/2017	Total 31/12/2016
1 Owned assets	**29,234**	**27,694**
a) land	2,597	2,219
b) buildings	23,800	23,038
c) furniture	511	492
d) electronic systems	444	492
e) other	1,882	1,453
2 Acquired under finance lease	**-**	**-**
a) land	-	-
b) buildings	-	-
c) furniture	-	-
d) electronic systems	-	-
e) other	-	-
Total	**29,234**	**27,694**

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

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

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

11.5 Tangible assets used in operations: changes during the year

Items	Land	Buildings	Furniture	Electronic systems	Other	Total
A. Gross opening balances	**2,219**	**29,856**	**7,443**	**6,105**	**9,475**	**55,098**
A.1 Net total impairment	-	6,818	6,951	5,613	8,022	27,404
A.2 Net opening balances	**2,219**	**23,038**	**492**	**492**	**1,453**	**27,694**
B. Increases	**378**	**1,739**	**264**	**139**	**1,052**	**3,572**
B.1 Purchases	378	1,725	163	139	1,033	3,438
B.2 Capitalised improvement expenditure	-	-	-	-	-	-
B.3 Reversals of impairment losses	-	-	-	-	-	-
B.4 Positive fair value changes recognised in:	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
B.5 Exchange rate gains	-	-	-	-	-	-
B.6 Transfers from investment property	-	-	-	-	-	-
B.7 Other changes	-	14	101	-	19	134
C. Decreases	**-**	**977**	**245**	**187**	**623**	**2,032**
C.1 Sales	-	195	26	5	17	243
C.2 Depreciations	-	703	219	182	606	1,710
C.3 Impairment losses recognised in:	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.4 Negative fair value changes recognised in:	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.5 Exchange rate losses	-	-	-	-	-	-
C.6 Transfers to:	-	-	-	-	-	-
a) investment property	-	-	-	-	-	-
b) assets held for sale and discontinued operations	-	-	-	-	-	-
C.7 Other changes	-	79	-	-	-	79
D. Net closing balances	**2,597**	**23,800**	**511**	**444**	**1,882**	**29,234**
D.1 Net total impairment	-	7,386	6,657	2,709	6,701	23,453
D.2 Gross closing balances	**2,597**	**31,186**	**7,168**	**3,153**	**8,583**	**52,687**
E. Measured at cost	-	-	-	-	-	-

The item tangible fixed assets amounts to Euro 29,234 thousand, with an increase of Euro 1,540 thousand compared to the previous year, as the imbalance between purchases of Euro 3,438 thousand, depreciations of Euro 1,710 thousand, net disposals of Euro 243 thousand and other changes increasing all in all by Euro 55 thousand.
The purchases recorded in the table columns called “furniture, electronic system and other assets” concern the purchase of furniture, plant, electronic machines for the office, alarm systems and other minor categories, both for the head offices and the branches.
The depreciation has been calculated on all the tangible assets, with the exclusion of land, in relation to the estimated useful life of the same as indicated below:
Properties 33 - 50 years
Furniture and furnishing 7 years
Vehicles 4 years
Armoured counters 5 years
Electronic systems 4 years
Sundry machinery and equipment 5 years

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

11.6 Investment property: annual changes

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

Section 12 – Intangible assets - Item 120

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

12.1 Intangible assets: breakdown by type of asset

Asset/Amounts		Total 31/12/2017		Total 31/12/2016	
		Definite duration	Indefinite duration	Definite duration	Indefinite duration
A.1	**Goodwill**	**-**	**8,458**	**-**	**8,458**
A.2	**Other intangible assets**	**1,361**	**-**	**1,629**	**-**
A.2.1	Assets measured at cost:	1,361	-	1,629	-
	a) internally generated intangible assets	-	-	-	-
	b) other assets	1,361	-	1,629	-
A.2.2	Assets measured at fair value:	-	-	-	-
	a) internally generated intangible assets	-	-	-	-
	b) other assets	-	-	-	-
	Total	**1,361**	**8,458**	**1,629**	**8,458**

Intangible assets with a definite duration include:

- Euro 789 thousand relating to the costs incurred for the purchase of EDP programmes inclusive of those supplied with specific invoicing by our outsourcer; these costs are each year on the basis of the useful life, as a rule 3 years. All the classes of intangible assets are measured at cost;
- Euro 572 thousand relating to intangible assets linked to the relationship with the customer and identified as “Core Deposits” emerging from the incorporation of Credito Veronese. Amortisation over 96 years is envisaged. The initial amount was Euro 3,428 thousand, the portion pertaining to the 2017 income statement comes to Euro 428 thousand.

Intangible assets with an indefinite duration comprise:

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

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

The identification of the CGUs to which the goodwill must be allocated, must be consistent with the strategic vision of the company, and thus with the internally recognised territorial areas. Since each geographic area constitutes a CGU, its overall assessment represents the most appropriate

approach for checking goodwill, albeit the CGUs consist of a broader set of branches compared to those originally acquired, i.e. compared to those to which a goodwill was allocated initially.
The general rule established by par. 72 IAS 36 (consistency of the CGU identification criterion) may be waived if the change in the CGU definition criterion is justified by the reorganisation plan that intervened on the management model. In this context, the rule of par. 87 of IAS 36 is effective (reorganisation of the IT system) and reads “If an entity reorganises the structure of its IT system in such a way as to change the composition of one or more cash generating units to which the goodwill has been allocated, goodwill must be reallocated to the units concerned”. The management, control, planning and reporting system of the Bank refers to a CGU observed as a whole.
Moreover, consider that goodwill represents the premium paid for entry and development in the reference area and that the CGUs include exchanges of resources and contracts with customers. This, on the one hand, indicates the re-arrangement of all the original structure acquired and, on the other, the transfer of know-how to the benefit of the entire Bank.
The process of implementing the network with the branches acquired by the incorporation of Cassa Rurale di Storo and Credito Veronese, as well as the normal territorial expansion process, resulted in homogeneous areas characterised by a perimeter other than the one identifiable at the time of initial acquisition; in 2017, the process of territorial expansion continued and the territorial areas were redefined.
The "Verona Area", which, until 31 December 2017, comprised the seven branches acquired with the Credito Veronese operation, was merged into the new "North East Area" (comprising fourteen branches), which also includes some branches aggregated with the Bank following the Hypo Alpe Adria Bank S.p.A. merger (see part G of these explanatory notes).
The "Valsabbia Area", an area of fourteen branches which, until 31 December 2017, included the four branches acquired with Cassa Rurale di Storo, was merged into the "Valsabbia and Valtrompia Area" (twenty-two branches).

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

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

The value in use of the CGU was established by discounting back the forecast cash flows, which in the case of banking concerns correspond to the values of capital available after the capitalisation requirements laid down by sector regulations (Excess Capital Method or Dividend Discount Method - DDM) have been met.
The development of the DDM envisages the estimate of the projections of the available cash flows, the discounting back rate and the long-term growth rate (g).
The cash flows available for the 2018-2022 period were estimated on the basis of the economic and financial projections prepared by the Management.
The discount rate was estimated as equal to the cost of the capital on the basis of the Capital Asset Pricing Model (CAPM) from which a rate of 8.78% emerges. The model expresses a linear

relationship, under conditions of balance of the markets, between the return of an investment and its systematic risk. The return on an investment is calculated as the sum of the risk free rate and the premium for the risk assigned to it according to the following formula:
$Ke = rf + \beta \times (rm - rf)$ where:
• rf is the return of an asset with no risk (free risk rate);
• β is the volatility index of the investment;
• (rm - rf) is the premium for the risk.
The parameters used were:
- Risk free rate: 1.89% (average value of the returns on 10-year Government securities. The average value of the returns in a period of observation corresponding to three months)
- Beta: 1.25% average of the betas surveyed for a sample of listed Italian banks
- Premium at risk: 5.50% estimate of the market premium provided by the difference between the return of a diversified portfolio made up of all the risk investments available on the market and the return of a security lacking risk.

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

The North East Area CGU has an accounting goodwill of Euro 6.5 million and Core Deposits (recorded in intangible assets) of Euro 0.4 million net of the tax effect; both assets were subject to impairment test, although core deposits were regularly amortised.
The estimated value in use was Euro 43.8 million compared to an operating capital - minimum shareholders' equity requirement - of Euro 25.0 million; the theoretical goodwill amounted to Euro 18.8 million, higher than Euro 6.9 million of the book value of the recognised intangible assets.
The sensitivity analysis provided a range of estimates of the value of the goodwill attributable to the CGU ranging from Euro 15.9 million to Euro 22.1 million; therefore, also varying the parameters used, it is indicated that the book value of the intangible assets is confirmed.

The Valsabbia and Valtrompia CGU have an accounting goodwill of Euro 2 million; this goodwill is residual compared to the initial one of Euro 4.2 million, partially amortised.
The estimated value in use was for this Area Euro 68.1 million compared to an operating capital - minimum shareholders' equity requirement - of Euro 34.7 million, to which corresponds a goodwill of Euro 33.3 million, higher than the book value of the recorded intangible assets.
The sensitivity analysis provided a range of estimates of the value of the goodwill attributable to the CGU ranging from Euro 29.3 million to Euro 38.1 million; therefore, also varying the parameters used, it is indicated that the book value of the intangible assets is confirmed.

Moreover, as a mere simulation, both for the goodwill deriving from the Credito Veronese operation and for the goodwill deriving from the incorporation of Cassa Rurale di Storo, an impairment test was carried out using economic and financial projections consistent with the structure of each CGU before the reorganisation in 2017; however, at the end of this estimation process, the stability of the goodwill is confirmed.

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

12.2 Intangible assets: annual changes

	Items	Goodwill	Other intangible assets: internally generated		Other intangible assets: other		Total
			Def.	Indef.	Def.	Indef.	
A.	**Gross opening balances**	**8,458**	-	**-**	**4,442**	-	**12,900**
A.1	Net total impairment	-	-	-	2,813	-	2,813
A.2	**Net opening balances**	**8,458**	-	**-**	**1,629**	-	**10,087**
B.	**Increases**	**-**	**-**	**-**	**646**	**-**	**646**
B.1	Purchases	-	-	-	646	-	646
B.2	Increases in internally generated intangible assets	-	-	-	-	-	-
B.3	Reversals of impairment losses	-	-	-	-	-	-
B.4	Positive fair value changes	-	-	-	-	-	-
	- to shareholders' equity	-	-	-	-	-	-
	- to income statement	-	-	-	-	-	-
B.5	Exchange rate gains	-	-	-	-	-	-
B.6	Other changes	-	-	-	-	-	-
C.	**Decreases**	**-**	**-**	**-**	**914**	**-**	**914**
C.1	Sales	-	-	-	-	-	-
C.2.	Impairment losses	-	-	-	914	-	914
	- Amortisation	-	-	-	914	-	914
	- Impairment	-	-	-	-	-	-
	+ shareholders' equity	-	-	-	-	-	-
	+ income statement	-	-	-	-	-	-
C.3	Negative fair value changes	-	-	-	-	-	-
	- to shareholders' equity	-	-	-	-	-	-
	- to income statement	-	-	-	-	-	-
C.4)	Transfers to non-current assets held for sale and discontinued operations	-	-	-	-	-	-
C.5	Exchange rate losses	-	-	-	-	-	-
C.6	Other changes	-	-	-	-	-	-
D.	**Net closing balances**	**8,458**	**-**	**-**	**1,361**	**-**	**9,819**
D.1	Total net impairment losses	-	-	-	3,234	-	3,234
E.	**Gross closing balances**	**8,458**	**-**	**-**	**4,595**	**-**	**13,053**
F.	Measured at cost	-	-	-	-	-	-

Key Def: with definite duration Indef: with indefinite duration

12.3 Other information

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

Section 13 – Tax assets and tax liabilities

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

Asset item 130 and Liability item 80

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

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

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

Current assets, totalling Euro 7,636 thousand, represent the surplus of Ires/Irap advances for 2015 and 2016 with respect to the final tax charge for those years.

With reference to prepaid taxes recognised during the year, note that these mainly relate to the recognition of taxes relating to the Ires tax loss for 2017, recognised in consideration of the prospective positive economic results envisaged by the long-term anticipatory plan approved by the Board of Directors. Prepaid taxation was also recorded, relating to the negative value of net production relevant for IRAP purposes, intended for transformation into a tax credit (Law 214/2011).

The positive effects of the prepaid taxes recognised and cancelled during the financial year of Euro 4,755 thousand and of deferred taxes of Euro 280 thousand, are recognised in the income statement under item "260 income taxes for the year from continuing operations" of Euro 5,035 thousand.

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

13.1 Deferred tax assets: breakdown

Items	Total 31/12/2017		Total 31/12/2016	
	Law No.	Other	Law No.	Other
Through the income statement:				
Impairment of loans and receivables deductible	42,816	-	46,753	-
- from previous years	42,816	-	46,753	-
- from current year	-	-	-	-
Exemption of goodwill and other elements from incorporation	1,818	-	2,026	-
Exemption of goodwill from consolidation	2,937	-	2,937	-
Tax losses	4,413	5,162	1,838	-
Allowance to provision for risks and charges	-	610	-	715
Provision for guarantees given	-	247	-	632
Financial assets	-	62	-	194
Administrative expense and other items	-	1,715	-	1,085
Total through the income statement	**51,984**	**7,796**	**53,554**	**2,626**
Through shareholders' equity:				
AFS securities	**-**	**4,903**	**-**	**5,663**
- bonds	-	2,713	-	3,038
- shares	-	-	-	45
- mutual funds	-	2,190	-	2,580
Actuarial effect on employee benefits	**-**	**319**	**-**	**323**
Total through shareholders' equity	**-**	**5,222**	**-**	**5,986**
Total	**51,984**	**13,018**	**53,554**	**8,612**

Prepaid taxes “as per Italian law No. 214/2011” are those recorded in relation to the impairment of loans and receivables not yet deducted and the value of the goodwill and other intangible assets whose negative components are deductible in subsequent tax periods. In the event of the recording of a statutory or tax loss, they permit transformation into a tax credit that can be used immediately, with benefits, including supervisory.
On the basis of Stability Law No. 147/2013, in the same circumstances, the same possibility has been extended to the IRAP, in the presence of financial statements closing with a loss or a negative net production value (IRAP declaration with a loss).
Italian Decree Law No. 83/2015 envisaged that, as from 1 January 2016, impairment losses on loans and receivables with customers recorded in the financial statements will become fully deductible during the year in which they are recognised, instead of deductible over five financial years as introduced by Italian Law No. 147/2013; for 2015, a transitional regime was envisaged for which 75% of the losses/write-downs were deductible. The remaining 25%, as well as the amount still to be recovered as at 31 December 2014, was and will be deducted as from 2016 until 2025 with a measure varying from 5% to 12% of the taxable base.

The amount of taxes “as per Italian Law No. 214/2011” comes to Euro 51,984 thousand and is made up as follows:

- Euro 42,816 thousand for taxes relating to residual impairment losses of receivables of previous years: Euro 15,520 thousand formed until 2012, Euro 23,965 thousand in 2013 and 2014 and Euro 3,331 thousand in 2015. These taxes will be recovered, to a variable extent depending on the year, between 2018 and 2025;

- Euro 1,818 thousand derive from the exemption of the elements resulting from the incorporation of Credito Veronese of which Euro 1,547 thousand concerns the goodwill originating from the financial statements as at 31 December 2012, as envisaged by Article 186 of the ITCA (with regard to this case, taxes for 1/18th were recovered in 2017, for Euro 119 thousand) and Euro 271 thousand refer to “other elements from incorporation” and in other words to the Core Deposits and the Loans/Receivables Fair Value, for which a temporary misalignment of one year exists between the time of booking to the financial statements and the year of recovery for tax purposes;
- Euro 2,937 thousand derive from the misalignment for tax purposes of the goodwill and the other intangible assets recorded autonomously in the 2011 consolidated financial statements as envisaged by Article 23 of Italian Decree Law No. 98/2011 and Article 20 of Italian Decree Law No. 201/2011. By means of the amendments made by Italian Law No. 228 dated 24 December 2012, the recovery in 10 annual portions will take place by the end of 2020;
- Euro 4,413 thousand refers to prepaid taxation relating to the Ires tax loss (Euro 3,913 thousand) and to prepaid taxation relating to the negative value of net production relevant for IRAP purposes, destined for transformation into a tax credit (Euro 500 thousand).

Prepaid taxes through shareholders' equity amount to Euro 5,222 thousand; of this, Euro 4,903 thousand refers to the capital losses booked to the negative valuation reserves (the amount derives from the application of the rate envisaged on total gross negative reserves for Euro 14,827 thousand), and Euro 319 thousand refers to the actuarial differences registered on post-employment benefits.

13.2 Deferred tax liabilities: breakdown

Items	Total 31/12/2017	Total 31/12/2016
Through the income statement:		
- on sundry capital gains	1	2
- on valuation of properties at revalued cost	-	60
- on accumulated depreciation of land	181	181
- on default interest	270	375
- on amortisation of goodwill	550	515
- on dividends still to be collected	18	19
- on payments to the F.I.T.D. Voluntary Scheme	35	182
Total through the income statement	**1,055**	**1,334**
Through shareholders' equity:		
Available-for-sale financial assets		
- bonds	40	358
- shares	632	758
- mutual funds	77	244
Total through shareholders' equity	**749**	**1,360**
Total	**1,804**	**2,694**

The amount of deferred taxes with an offsetting entry in the income statement decreased mainly due to the collection of default interests.

Deferred taxes with an offsetting entry in shareholders' equity amount to Euro 749 thousand and relate to the positive reserves from valuation of available-for-sale securities totalling Euro 9,459 thousand gross.
Deferred tax liabilities on monetary revaluation reserves subject to deferred taxation have not been recognised, since it is deemed that the possibility that the taxation pre-requisite will apply (distribution of the same) is very remote.

13.3 Changes in prepaid taxes (through the income statement)

	Total 31/12/2017	Total 31/12/2016
1. Opening balance	**56,180**	**56,617**
2. Increases	**10,644**	**3,612**
2.1 Prepaid taxes recognised in the financial year	10,644	3,612
a) relating to previous financial years	125	33
b) due to changes in accounting policies	-	-
c) reversals of impairment losses	-	-
d) other	10,519	3,579
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**7,044**	**4,049**
3.1 Prepaid taxes cancelled during the financial year	6,009	4,049
a) reversals	6,009	4,049
b) impairment losses due to non-recoverability	-	-
c) changes in accounting policies	-	-
d) other	-	-
3.2 Reductions in tax rates	-	-
3.3 Other decreases:	1,035	-
a) conversion into tax assets set forth in Italian Law 214/2011	1,035	-
b) other	-	-
4. Closing balance	**59,780**	**56,180**

The decrease in prepaid taxes is mainly due to the reversal of prepaid taxes relating to the impairment of prior loans and receivables of Euro 3,937 thousand, whereas the increase is largely due to the recognition of prepaid taxation relating to the IRES and IRAP tax loss (Euro 9,575 thousand, of which Euro 4,413 thousand can be converted into a tax credit under Law 214/2011).

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

	Total 31/12/2017	Total 31/12/2016
1. Opening balance	**53,554**	**54,248**
2. Increases	**4,684**	**2,206**

3. Decreases	**6,254**	**2,900**
3.1 Reversals	4,417	2,900
3.2 Transformations into tax credits	1,035	-
a) deriving from losses for the year	-	-
a) deriving from tax losses	1,035	-
3.3 Other decreases	802	-
4. Closing balance	**51,984**	**53,554**

13.4 Changes in deferred taxes (through the income statement)

	Total 31/12/2017	**Total 31/12/2016**
1. Opening balance	**1,334**	**1,025**
2. Increases	**89**	**311**
2.1 Deferred taxes recognised in the financial year	89	311
a) relating to previous financial years	-	-
b) due to changes in accounting policies	-	-
c) other	-	311
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**368**	**2**
3.1 Deferred taxes cancelled during the financial year	368	2
a) reversals	368	2
b) due to changes in accounting policies	-	-
c) other	-	-
3.2 Reductions in tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	**1,055**	**1,334**

13.5 Changes in prepaid taxes (through shareholders' equity)

	Items	**Total 31/12/2017**	**Total 31/12/2016**
1.	**Opening balance**	**5,986**	**5,161**
2.	**Increases**	**2,890**	**4,141**
2.1	Prepaid taxes recognised in the financial year	-	4,141
	a) relating to previous financial years	-	-
	b) due to changes in accounting policies	-	-
	c) other	2,890	4,141
2.2	New taxes or increases in tax rates	-	-
2.3	Other increases	-	-
3.	**Decreases**	**3,654**	**3,316**
3.1	Prepaid taxes cancelled during the financial year	3,247	3,297
	a) reversals	2,866	2,993
	b) impairment losses due to non-recoverability	-	-

	c) due to changes in accounting policies	-	-
	d) other	381	304
3.2	Reduction in tax rates	-	-
3.3	Other decreases	407	19
4.	**Closing balance**	**5,222**	**5,986**

13.6 Changes in deferred taxes (through shareholders' equity)

Items		Total 31/12/2017	Total 31/12/2016
1.	**Opening balance**	**1,360**	**1,077**
2.	**Increases**	**333**	**537**
2.1	Deferred taxes recognised in the financial year	333	537
	a) relating to previous financial years	-	-
	b) due to changes in accounting policies	-	-
	c) other	333	537
2.2	New taxes or increases in tax rates	-	-
2.3	Other increases	-	-
3.	**Decreases**	**944**	**254**
3.1	Deferred taxes cancelled during the financial year	602	245
	a) reversals	598	153
	b) due to changes in accounting policies	-	-
	c) other	4	92
3.2	Reduction in tax rates	-	-
3.3	Other decreases	342	9
4.	**Closing balance**	**749**	**1,360**

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

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

Section 15 – Other assets – Item 150

15.1 Other assets: breakdown

Items	Total 31/12/2017	Total 31/12/2016
Credits for direct taxes relating to previous financial years and accrued interest	1,184	1,184
Withholdings	770	905
Amounts due from tax authorities for advances paid	10,423	13,097
Current account cheques and foreign currency drawn on banks and third parties	10	16
Guarantee deposits on behalf of the Bank	46	37
Securities transactions pending final allocation	51	62
Cheques being processed	5,572	4,484
Sundry utilities to be debited/SDD/Other items	28,416	16,759
Cheques returned unpaid	30	17
Credit cards and Cashline card withdrawals	451	415
Credit transfers and debits to be made	4,967	3,613
Prepaid expenses	964	746
Costs for leasehold improvements	991	1,083
Total	**53,875**	**42,418**

The amounts due from tax authorities for advances paid refer to the advances paid for stamp duty, for substitute tax on mortgage loans and on capital gain.
“Other items” includes the receivable from Fondo Strategico Italiano for the partial disposal of the equity investment held in Cedacri, an operation mentioned in the Report on Operations. The receivable was collected in January 2018.

Liabilities and shareholders’ equity

Section 1 - Due to banks - Item 10

1.1 Due to banks: breakdown by type

Type of transaction/Amounts	Total 31/12/2017	Total 31/12/2016
1. Due to central banks	**686,955**	**510,000**
2. Due to banks	**314**	**285,650**
2.1 Current accounts and demand deposits	314	27,063
2.2 Time deposits	-	-
2.3 Loans	-	205,426
2.3.1 Repurchase agreements	-	190,405
2.3.2 Other	-	15,021
2.4 Payables for commitments to repurchase own equity instruments	-	-
2.5 Other payables	-	53,161
Total	**687,269**	**795,650**
Fair value - Level 1	-	-
Fair value - Level 2	-	-
Fair value - Level 3	**687,269**	**795,689**
Total fair value	**687,269**	**795,689**

Deposits with Central Banks are made up of the following loans taken out with the ECB for the total nominal amount of Euro 690 million:

- TLTRO II loan taken out on 29 June 2016 and maturity date 24 June 2020, Euro 250 million;
- TLTRO II loan taken out on 28 December 2016 and maturity date 16 December 2020, Euro 150 million;
- TLTRO II loan taken out on 29 March 2017 and maturity date 24 March 2021, Euro 290 million.

The book value also includes the accrued negative interest

As at 31 December 2017, there were no other loans present other than those mentioned above.

Advances received at the end of 2016 from Hypo Alpe Adria Bank S.p.A. concerning the transfer of the Business unit were closed at the same time as the transaction was completed in January 2017.

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

Section 2 - Due to customers - Item 20

2.1 Due to customers: breakdown by type

Type of transaction/Amounts	Total 31/12/2017	Total 31/12/2016
1. Current accounts and demand deposits	**2,166,577**	**1,907,844**
2. Time deposits	**322,934**	**188,431**
3. Loans	**119,994**	**309,979**
3.1 Repurchase agreements	-	-
3.2 Other	119,994	309,979
4. Payables for commitments to repurchase own equity instruments	**-**	**-**
5. Other payables	**450**	**539**
Total	**2,609,955**	**2,406,793**
Fair value - Level 1	**-**	**-**
Fair value - Level 2	**-**	**-**
Fair value - Level 3	**2,609,955**	**2,406,793**
Total fair value	**2,609,955**	**2,406,793**

The current accounts and demand deposits comprise:

	Total 31/12/2017	Total 31/12/2016
Euro current accounts	2,120,514	1,862,734
Savings deposits	34,274	35,813
Foreign currency current accounts	11,789	9,297
	2,166,577	**1,907,844**

Time deposits are restricted deposits with a maximum maturity of 7 years.
The item “Loans: other” includes as at 31 December 2016 amounts due to Cassa di Compensazione e Garanzia for loans obtained on the NewMic Collateralised interbank market, maximum maturity in January 2018.

The following tables are not prepared: 2.2 Breakdown of item 20 “Due to customers: subordinate debts”, 2.3 Breakdown of item 20 “Due to customers": structured debts” and 2.4 "Due to customers: payables subject to micro hedging”, in that these types of transactions are not present.

2.5 Payables for financial leases

As at 31 December 2017, there are no finance lease payables.

Section 3 – Securities issued - Item 30

3.1 Securities issued: breakdown by type

Type of security/Amounts	Total 31/12/2017				Total 31/12/2016			
	Book value	Fair value			Book value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Securities								
1. Bonds	511,852	-	-	510,597	705,795	-	-	703,935
1.1 structured	-	-	-		-	-	-	-
1.2 other	511,852	-	-	510,597	705,795	-	-	703,935
2. Other securities	38,951	-	-	38,951	41,154	-	-	41,154
2.1 structured	-	-	-		-	-	-	-
2.2 other	38,951	-	-	38,951	41,154	-	-	41,154
Total	**550,803**	**-**	**-**	**549,548**	**746,949**	**-**	**-**	**745,089**

The bonds outstanding are inclusive of the current accrued coupon and are net of the bonds repurchased, which on the basis of the IAS accounting standards must be eliminated; the recognition criteria used for the book value is that of amortised cost.
They include subordinated bonds for a book value of Euro 65,782 thousand (Euro 64,808 thousand in nominal value).
The bonds issued by the Bank are not listed but a valuation, useful for trading, is carried out by an external provider; the value stated in the FV Level 3 column has been obtained by means of the discounting back of the flows on the basis of the average rate of a basket of triple B bank bonds.
Medium/long-term certificates of deposit are recorded under other securities.

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

Items	Book value	
	Total 31/12/2017	Total 31/12/2016
Subordinated securities issued and in issue	65,782	69,587
Total	**65,782**	**69,587**

Subordinated bonds include the following securities:
-IT0004982481 issued on 30 December 2013 of Euro 25 million, fixed rate of 4.50% and maturity 30 December 2019, with repayment of 20% per annum as from 30 December 2015, nominal residual value Euro 4,705 thousand net of repayments and repurchases;
-IT0004987456 issued on 3 February 2014 of Euro 35 million, fixed rate of 4.50% and maturity 2 February 2021, with repayment of 20% per annum as from 3 February 2017, nominal residual value Euro 1,805 thousand net of repurchases;
-IT0005014706 issued on 2 May 2014 of Euro 25,432 thousand, fixed rate of 4.00% and maturity 2 May 2022, with repayment of 20% per annum as from 2 May 2018, nominal residual value Euro 8,470 thousand net of repurchases;

-IT0005085250 issued on 10 February 2015 of Euro 35 million, fixed rate of 4.50% and maturity 10 February 2021, nominal residual value Euro 34,828 thousand net of repurchases;
-IT0005204257 issued on 15 July 2016 of Euro 15 million, fixed rate of 4.00% and maturity 15 July 2022, nominal residual values equal to the issued amount.

3.3 Securities issued: securities subject to micro hedging

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

Section 4 - Financial liabilities held for trading - Item 40

4.1 Financial liabilities held for trading: breakdown by type

Type of transaction/Amounts	Total 31/12/2017					Total 31/12/2016				
	NV	FV			FV *	NV	FV			FV *
		L1	L2	L3			L1	L2	L3	
A. On-balance sheet liabilities										
1. Due to banks	-	-	-	-	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-	-	-	-	-
3. Debt securities	-	-	-	-	-	-	-	-	-	-
3.1 Bonds	-	-	-	-	-	-	-	-	-	-
3.1.1 Structured	-	-	-	-	-	-	-	-	-	-
3.1.2 Other bonds	-	-	-	-	-	-	-	-	-	-
3.2 Other securities	-	-	-	-	-	-	-	-	-	-
3.2.1 Structured	-	-	-	-	-	-	-	-	-	-
3.2.2 Other	-	-	-	-	-	-	-	-	-	-
Total A	-	-	-	-	-	-	-	-	-	-
B. Derivative instruments										
1. Financial derivatives	-	-	135	-	-	-	-	269	-	-
1.1 Trading	-	-	135	-	-	-	-	269	-	-
1.2 Related to the fair value option	-	-	-	-	-	-	-	-	-	-
1.3) others	-	-	-	-	-	-	-	-	-	-
2. Credit derivatives	-	-	-	-	-	-	-	-	-	-
2.1 Trading	-	-	-	-	-	-	-	-	-	-
2.2 Related to the fair value option	-	-	-	-	-	-	-	-	-	-
2.3 Other	-	-	-	-	-	-	-	-	-	-
Total B	-	-	**135**	-	-	-	-	**269**	-	-
Total (A+B)	-	-	**135**	-	-	-	-	**269**	-	-

Key

FV = fair value	NV = nominal or notional value	L1 = level 1	L2 = level 2	L3 = level 3
FV* = fair value calculated by excluding changes in value due to the change in creditworthiness				

The amount of Euro 135 thousand (Level 2) comprises:
- Euro 130 thousand in foreign currency forward transactions, whose value is offset by asset item 20 "Financial assets held for trading". The book amount (intrinsic value) is the expression of a notional value of the transactions equating to Euro 7,198 thousand;
- Euro 5 thousand being the intrinsic value referring to hedges of foreign currency transactions carried out by the Bank, with a notional value of Euro 840 thousand.

In the absence of transactions, the following tables are not drawn up: 4.2 Breakdown of item 40 "Financial liabilities held for trading: subordinated liabilities, 4.3 Breakdown of item 40

“Financial liabilities held for trading”: structured debts, and 4.4 On-statement of final positions liabilities (excluding "uncovered short positions") held for trading: annual changes.

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

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

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

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

Section 6 - Hedging derivatives - Item 60

As at 31 December 2017 and 31 December 2016 the bank did not have any hedging derivatives outstanding. The following tables are not drawn up:

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

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

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

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

Section 8 - Tax liabilities - Item 80

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

With reference to the tax situation of the Bank, it is hereby specified that the years up to 2012 have been settled for tax purposes.

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

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

Section 10 - Other liabilities - Item 100

10.1 Other liabilities: breakdown

Items	Total 31/12/2017	Total 31/12/2016
Tax withholdings and contributions relating to staff	2,675	2,321
Amounts to be paid to staff and related contributions	1,449	3,306
Taxes to be paid to the tax authorities	1,583	1,585
Taxes to be paid to the tax authorities on behalf of third parties	2,575	2,393
Dividends not yet collected	1	1
Credit transfers to be carried out	22,337	15,561
Credit cards and Cashline card withdrawals	141	152
Companies being formed due to payment of the share capital	39	67
Amount paid for withdrawal of bills and cheques and payment by advice collections	944	1,306
Currency spreads on portfolio transactions	15,967	14,882
Provision for guarantees and commitments	899	2,298
Due to suppliers	6,031	4,995

Deferred income and provisions	403	363
Charity Fund	30	71
Other items	5,482	6,251
Total	**60,556**	**55,552**

The "amounts to be paid to staff, inclusive of related contributions" also include variable remuneration, including contributions and holiday accruals, relating to the management of employees.

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

Section 11 - Post-employment benefits - Item 110

11.1 Post-employment benefits: annual changes

Items	Total 31/12/2017	Total 31/12/2016
A. Opening balances	**5,348**	**5,165**
B. Increases	**1,975**	**1,700**
B.1 Provision in the year	1,669	1,507
B.2 Other changes	306	193
C. Decreases	**2,165**	**1,517**
C.1 Benefits paid	565	90
C.2 Other changes	1,600	1,427
D. Closing balances	**5,158**	**5,348**
TOTAL	**5,158**	**5,348**

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

11.2 Other information

The balance of post-employment benefits as at 31 December 2017 calculated on the basis of Italian legislation amounts to Euro 4,755 thousand, Euro 404 thousand lower than the book value; in 2016, the same came to Euro 4,941 thousand, Euro 407 thousand less with respect to the book value. The financial parameters used for the discounting process, listed below, are substantially unchanged compared to last year.

IAS 19 "Employee benefits" enforces the recognition of the actuarial changes offset by shareholders' equity and the recognition in the income statement is no longer allowed.

The actuary carried out the calculation on the basis of the following financial assumptions:

- annual discount rate of 1.30% (determined, on a consistent basis with section 83 of IAS 19, with reference to the average returns curve that derives from the IBOXX Eurozone Corporates AA index with a duration of 10+ struck on 31 December 2017, rate considered as the best expression of returns of businesses of primary standing),
- annual rate of inflation 1.50%,
- annual Post-employment benefit rate 2.625%.

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

Section 12 - Provisions for risks and charges - Item 120

12.1 Provisions for risks and charges - provisions

Item/Amounts	Total 31/12/2017	Total 31/12/2016
1. Company pension funds	-	-
2. Other provisions for risks and charges	**2,195**	**2,162**
2.1 legal disputes	2,156	2,115
2.2 labour costs	-	-
2.3 other	39	47
Total	**2,195**	**2,162**

12.2 Provisions for risks and charges: annual changes

Items	Pension funds	Other funds	Total
A. Opening balances	-	**2,162**	**2,162**
B. Increases	-	**880**	**880**
B.1 Provision in the year	-	880	880
B.2 Changes due to the passing of time	-	-	-
B.3 Changes due to discount rate fluctuations	-	-	-
B.4 Other changes	-	-	-
C. Decreases	-	**847**	**847**
C.1 Uses in the year	-	535	535
C.2 Changes due to discount rate fluctuations	-	-	-
C.3 Other changes	-	312	312
D. Closing balances	-	**2,195**	**2,195**

12.3 Defined benefit company pension funds

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

12.4 Provisions for risks and charges - other provisions

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

Section 13 - Redeemable shares - Item 140

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

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

14.1 "Share capital" and "Own shares: breakdown

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

14.2 Share capital - Number of shares: annual changes

Items/Types	Ordinary	Other
A. Shares at the beginning of the year	**35,516,827**	**-**
- fully paid-up	35,516,827	-
- not fully paid-up	-	-
A.1 Own shares (-)	453,775	-
A.2 Outstanding shares: opening balances	**35,063,052**	**-**
B. Increases	**-**	**-**
B.1 New issues	-	-
- against payment:	-	-
- business combinations	-	-
- conversion of bonds	-	-
- exercise of warrants	-	-
- other	-	-
- free:	-	-
- in favour of employees	-	-
- in favour of directors	-	-
- other	-	-
B. 2 Sales of own shares	-	-
B.3 Other changes	-	-
C. Decreases	**507,780**	**-**
C.1. Cancellation	-	-
C. 2 Purchase of own shares	507,780	-
C.3 Disposal of companies	-	-
C.4 Other changes	-	-
D. Outstanding shares: closing balances	**34,555,272**	**-**
D.1 Own shares (+)	961,555	-
D.2 Shares at the end of the year	35,516,827	-
- fully paid-up	35,516,827	-
- not fully paid-up	-	-

During the year, approximately 508 thousand shares were purchased, bringing the total of own shares in the portfolio to 962 thousand for an equivalent value of Euro 8,185 thousand (liability item 190 "own shares").

14.3 Share capital - Other information.

The following revaluation reserves have been transferred over time to the share capital:
- Italian Law No. 576 dated 2 December 1975 for Euro 88 thousand, reserve from monetary revaluation;

- Italian Law No. 72 dated 19 March 1983 for Euro 2,067 thousand, reserve from monetary revaluation;
- Italian Law No. 413 dated 30 December 1991 for Euro 1,375 thousand, reserve from monetary revaluation;
- Italian Legislative Decree No. 38 dated 28 February 2005 (application of the IAS principles in Italy) for Euro 7,955 thousand.

14.4 Income-related reserves: other information

The reserves as per liability item 160 amount to Euro 59,775 thousand; Euro 62,868 thousand refers to provisions of income, while the “other” reserves includes the negative reserves from the merger of Credito Veronese of Euro 3,092 thousand.
Additional information relating to their changes can be found in the statement of changes in shareholders' equity and in part F of these explanatory notes.
Pursuant to Article 2427.7 bis of the Italian Civil Code, the composition of Shareholders' equity, according to the origin and the degree of availability and distributable nature of the various items, is as follows:

Items	Amount	Possibility of use	Portion available	Tax restriction	Uses made in the last three accounting periods	
					to cover losses	for other reasons
A) SHARE CAPITAL						
- Share capital (1)	106,550		90,531	16,019	no use	no use
B) CAPITAL RESERVES						
- Share premium reserve (2)	230,299	ABC	230,299	-	no use	no use
C) INCOME-RELATED						
- Legal reserve (3)	24,195	B		-	no use	no use
- Extraordinary reserve	25,844	ABC	25,844	-	no use	no use
- Reserve for purchase of own shares	12,014	ABC	3,829	-	no use	no use
- Other reserves	814	ABC	814	-	no use	no use
D) OTHER RESERVES						
- Merger differences	(3,092)			-	no use	no use
- IAS valuation reserves (5)	(649)	AB		-	no use	no use
E) OWN SHARES						
- Own shares	(8,185)					
TOTAL	**387,790**					
- 2017 loss for the year	(5,821)					
TOTAL EQUITY	**381,969**					

Key:
A: for increase in portion; B: to cover losses; C: for distribution to Shareholders
Note:
1) In the event of distribution, the share capital is subject to a tax restriction equal to the booking of monetary revaluation reserves of Euro 11,485 thousand as specified in point 14.3 plus Euro 4,534 equal to the difference between the amount tax sheltered in 2013 of the additional values acknowledged to the properties for Euro 5,398 thousand and the substitute tax of 16% for Euro 864 thousand.
2) On the basis of Article 2431 of the Italian Civil Code, the “share premium reserve” can be fully distributed since the legal reserve is higher than one fifth of the share capital, equal to Euro 21,310 thousand.
3) On the basis of Article 24 of the Banking Consolidation Act, Italian Legislative Decree No. 385 dated 1 September 1993, industrial co-operative banks must allocate at least ten percent of the annual net profits to the legal reserve.
4) The reserve is available for the surplus with respect to the amount of own shares in the portfolio, which amounted to Euro 8,185 thousand as at 31 December 2017.
5) The reserve is restricted in accordance with Article 6 of Italian Legislative Decree No. 38/2005 (introduction of the IAS accounting standards) and in any event negative.

14.5 Capital instruments: breakdown and annual changes

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

14.6 Other information

The Board of Directors proposes to cover the loss for the year of Euro 5,821 thousand, through the use of the extraordinary reserve.

Other information

1. Guarantees given and commitments

Transactions	Amount 31/12/2017	Amount 31/12/2016
1) Financial guarantees given	**8,603**	**9,383**
a) Banks	-	1,778
b) Customers	8,603	7,605
2) Commercial guarantees given	**101,900**	**82,204**
a) Banks	409	378
b) Customers	101,491	81,826
3) Irrevocable commitments to grant finance	**45,644**	**42,975**
a) Banks	3,341	130
i) certain to be called on	3,341	130
ii) not certain to be called on	-	-
b) Customers	42,303	42,845
i) certain to be called on	551	109
ii) not certain to be called on	41,752	42,736
4) Commitments underlying credit derivatives: protection sales	-	-
5) Assets pledged as guarantee for third-party commitments	-	-
6) Other commitments	-	-
Total	**156,147**	**134,562**

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

Portfolios	Amount 31/12/2017	Amount 31/12/2016
1. Financial assets held for trading	-	-
2. Financial assets measured at fair value	-	-
3. Available-for-sale financial assets	618,881	1,123,464
4. Held-to-maturity financial assets	-	-
5. Loans and receivables with banks	7,542	-
6. Loans and receivables with customers	-	-
7. Tangible assets	-	-

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

3. Information on operating leases

The Bank does not carry out finance lease transactions.

4. Management and trading on behalf of third parties

	Amount
1. Execution of orders on behalf of customers	
a) Purchases	-
1. settled	-
2. unsettled	-
b) Sales	-
1. settled	-
2. unsettled	-
2. Portfolio management	**-**
a) individual	-
b) collective	-
3. Custody and administration of securities	**3,349,364**
a) A) third party securities held on deposit: when acting as custodian bank (excluding portfolio management)	-
1. securities issued by the reporting bank	-
2. other securities	-
b) other third-party securities held on deposit (excluding portfolio management): others	1,441,393
1. securities issued by the reporting bank	593,170
2. other securities	848,223
c) third-party securities deposited with third parties	1,335,688
d) portfolio securities deposited with third parties	1,907,971
4. Other transactions	-

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

The table provides a breakdown of the differences deriving from the elimination of the asset items relating to the portfolio received subject to due reserve and after collection with those of the liabilities relating to transferors with settlement date subsequent to the end of the reporting period. According to the Supervisory instructions, in the annual financial statements the "other assets" or the "other liabilities" will have to contain, according to the value of the sign, only the imbalance of the items relating to the portfolio, indicating the individual components in the Explanatory notes.
The imbalance between the sum of the "debit adjustments" represented by the asset items for bank collection order, bills of exchange, direct debits, etc. accepted subject to due reserve and after collection by customers and banks and the sum of the "credit adjustments" represented by the liability items of the transferors, is equal to Euro 15,968 thousand and is recorded in the financial statement liability item 100 "other liabilities".
Points a.1 and b.1 include the amount of the items, with settlement date in 2018, flowing to the current accounts of the correspondent banks already during 2017 and related to remittances of bills for collection. These items have been reversed from the individual pertinent accounts and booked to the original portfolio items (bills received on collection from banks or rather bills sent for collection to banks).

Items	Total 31/12/2017	Total 31/12/2016
a) "debit" adjustments	525,958	489,183
1. Current accounts	7,159	4,193
2. Portfolio	515,898	479,578
3. Cash	544	669
4. Other accounts	2,357	4,743
b) "credit" adjustments	541,926	504,065
1. Current accounts	13,222	12,665
2. Transferors' bills and documents	524,933	486,084
3. Other accounts	3,771	5,316
Currency spreads on portfolio transactions	**15,968**	**14,882**

Part C - information on the income statement

Section 1 - Interest - Items 10 and 20

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

1.1 Interest income and similar revenues: breakdown

	Items/Technical forms	Debt securities	Loans	Other transactions	Total 31/12/2017	Total 31/12/2016
1.	Financial assets held for trading	-	-	-	-	-
2.	Available-for-sale financial assets	5,011	-	-	5,011	3,685
3.	Held-to-maturity financial assets	642	-	-	642	386
4.	Loans and receivables with banks	619	307	-	926	1,183
5.	Loans and receivables with customers	739	76,356	-	77,095	81,509
6.	Financial assets measured at fair value	-	-	-	-	-
7.	Hedging derivatives	-	-	3	3	4
8.	Other assets	-	-	4,022	4,022	-
	Total	**7,011**	**76,663**	**4,025**	**87,699**	**86,767**

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

Interest income on loans and receivables with banks due to:	Total 31/12/2017	Total 31/12/2016
- deposit tied to compulsory reserve	-	1
- current accounts for services rendered	7	3
- deposits	300	523
- debt securities	619	656
Total	**926**	**1,183**

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

Interest income on loans and receivables with customers due to:	Total 31/12/2017	Total 31/12/2016
- current accounts	25,450	29,428
- mortgage and personal loans	32,118	29,055
- import - export advances	1,469	1,669
- other credit transactions	16,215	19,538
- default interest	1,104	1,656
- securities recorded in loans and receivables with customers	739	163

Total	77,095	81,509

The sub-item 8."Other assets" includes, as required by law, negative interests on deposits with certain institutional intermediaries (ECB for TLTRO II financing, Cassa Compensazione e Garanzia for the NewMic interbank market and guarantee for the interbank market and banks for repurchase agreements).

During the financial year, default interest of Euro 325 thousand accrued on non-performing positions, fully written down; item 10 comprises only the default interest collected of Euro 858 thousand. With regard to the other performing and impaired positions other than non-performing, default interest was recorded in the income statement for a total of Euro 246 thousand.
With regard to the positions that were impaired as at 31 December 2017, interest was recorded in the income statement other than default interest, accrued throughout the year to the following extent:
- Past due Euro 976 thousand
- Probable defaults Euro 4,146 thousand

1.3 Interest income and similar revenues: other information
1.3.1 Interest income on foreign currency financial assets

Item/Amounts	Total 31/12/2017	Total 31/12/2016
Total	584	682

1.4 Interest expense and similar charges: breakdown

	Items/Technical forms	Payables	Securities	Other transactions	Total 31/12/2017	Total 31/12/2016
1.	Due to central banks	-	-	-	-	(144)
2.	Due to banks	(47)	-	-	(47)	(82)
3.	Due to customers	(10,543)	-	-	(10,543)	(11,456)
4.	Securities issued	-	(19,811)	-	(19,811)	(25,418)
5.	Financial liabilities held for trading	-	-	-	-	-
6.	Financial liabilities measured at fair value	-	-	-	-	-
7.	Other liabilities and provisions	-	-	(144)	(144)	(1)
8.	Hedging derivatives	-	-	-	-	-
	Total	**(10,590)**	**(19,811)**	**(144)**	**(30,545)**	**(37,101)**

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

Interest expense for due to banks:	Total 31/12/2017	Total 31/12/2016
- current accounts	(2)	(1)
- foreign currency deposits	-	(2)
- loans received	(45)	(79)
Total	**(47)**	**(82)**

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

Interest expense on due to customers:	Total 31/12/2017	Total 31/12/2016
- current accounts	(7,211)	(7,706)
- savings deposits and time deposits	(3,298)	(3,503)

- NewMic market loans	-	(201)
- deposits and accounts in foreign currency	(34)	(46)
Total	**(10,543)**	**(11,456)**

Sub-item 4 "Securities issued" includes the amount of Euro 19,811 thousand that comprises interest expense on bonds issued of Euro 19,110 thousand and on certificates of deposit of Euro 701 thousand.

1.6 Interest expense and similar charges: other information

1.6.1 Interest expense on foreign currency financial liabilities

Item/Amounts	Total 31/12/2017	Total 31/12/2016
Total	**(35)**	**(48)**

1.6.2 Interest expense on liabilities for finance lease transactions

Item/Amounts	Total 31/12/2017	Total 31/12/2016
Total	**-**	**(1)**

Section 2 - Fees and commissions - Items 40 and 50

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

2.1 Fee and commission income: breakdown

Type of services/Amounts	Total 31/12/2017	Total 31/12/2016
a) guarantees given	966	1,002
b) credit derivatives	-	-
c) management, trading and consulting services:	13,586	11,544
1. trading of financial instruments	-	-
2. currency trading	363	365
3. portfolio management	-	-
3.1 individual	-	-
3.2 collective	-	-
4. custody and administration of securities	163	136
5. custodian bank	-	-
6. placement of securities	6,652	5,359
7. order transmission and receipt activities	872	819
8. consulting services	70	-
8.1 on investments	70	-
8.2 on financial structure	-	-
9. distribution of third party services	5,466	4,865
9.1. portfolio management	-	-
9.1.1 individual	-	-
9.1.2 collective	-	-
9.2 insurance products	5,424	4,825
9.3 other products	42	40
d) collection and payment services	5,800	5,642
e) servicing for securitisation transactions	458	380
f) factoring transaction services	-	-
g) tax collection services	-	-
h) management of multilateral trading facilities	-	-
i) current account management	8,256	8,305
j) other services	5,730	3,805
Total	**34,796**	**30,678**

Item j) other services includes fees and commissions relating to credit cards, the use of Cashline/POS cards and fees and commissions relating to loans and services related to current accounts.

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

Channels/Amounts	Total 31/12/2017	Total 31/12/2016
a) at Bank branches:	**12,118**	**10,224**
1. portfolio management	-	-
2. placement of securities	6,652	5,359
3. third party products and services	5,466	4,865
b) out-of-branch offer:	-	-
1. portfolio management	-	-
2. placement of securities	-	-
3. third party products and services	-	-
c) other distribution channels:	-	-
1. portfolio management	-	-
2. placement of securities	-	-
3. third party products and services	-	-

2.3 Fee and commission expense: breakdown

Services/Amounts	Total 31/12/2017	Total 31/12/2016
a) guarantees received	(6)	-
b) credit derivatives	-	-
c) management and trading services:	(1,176)	(960)
1. trading of financial instruments	-	-
2. currency trading	-	-
3. portfolio management	(1,037)	(835)
3.1 own account	(1,037)	(835)
3.2 for third parties	-	-
4. custody and administration of securities	(139)	(125)
5. placement of financial instruments	-	-
6. out-of-branch offer of financial instruments, products and services	-	-
d) collection and payment services	(1,340)	(1,341)
e) other services	(1,896)	(1,029)
Total	**(4,418)**	**(3,330)**

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

Section 3 - Dividends and similar income - Item 70

3.1 Dividends and similar income: breakdown

	Items/Income	Total 31/12/2017		Total 31/12/2016	
		dividends	income from UCIT units	dividends	income from UCIT units
A.	Financial assets held for trading	-	-	-	-
B.	Available-for-sale financial assets	2,570	1,138	2,283	1,116
C.	Financial assets measured at fair value	-	-	-	-
D.	Equity investments	59	-	-	-
	Total	**2,629**	**1,138**	**2,283**	**1,116**

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

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

The item includes:

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

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

4.1 Net profit (loss) from trading activities: breakdown

Transactions / Income components	Capital gains (A)	Trading income (B)	Losses (C)	Trading losses(D)	Net (profit) loss [(A+B) - (C+D)]
1. Financial liabilities held for trading	**-**	**591**	**-**	**(1)**	**590**
1.1 Debt securities	-	-	-	-	-
1.2 Equity securities	-	4	-	(1)	3
1.3 UCIT units	-	-	-	-	-
1.4 Loans	-	-	-	-	-
1.5 Other	-	587	-	-	587
2. Financial liabilities held for trading	**-**	**-**	**-**	**-**	**-**
2.1 Debt securities	-	-	-	-	-
2.2 Payables	-	-	-	-	-
2.3 Other	-	-	-	-	-
3. Financial assets and liabilities: exchange differences	**-**	**-**	**-**	**-**	**(38)**
4. Derivatives	**-**	**-**	**-**	**-**	**-**
4.1 Financial derivatives:	-	-	-	-	-
- On debt securities and interest rates	-	-	-	-	-
- On equity securities and stock market share indices	-	-	-	-	-
- On currencies and gold	-	-	-	-	-
- Other	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-

Total	-	591	-	(1)	552

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

Section 5 - Net hedging expense - Item 90

5.1 Net hedging expense: breakdown

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

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

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

6.1 Profit (loss) on sale/repurchase: breakdown

Items/Income components	Total 31/12/2017			Total 31/12/2016		
	Profit	Losses	Net profit (losses)	Profit	Losses	Net profit (losses)
Financial assets						
1. Loans and receivables with banks	290	(1)	289	-	-	-
2. Loans and receivables with customers	723	(1,766)	(1,043)	23	(120)	(97)
3. Available-for-sale financial assets	18,813	(3,688)	15,125	10,644	(1,876)	8,768
3.1 Debt securities	11,859	(288)	11,571	8,410	(117)	8,293
3.2 Equity securities	5,248	-	5,248	85	-	85
3.3 UCITS units	1,706	(3,400)	(1,694)	2,149	(1,759)	390
3.4 Loans	-	-	-	-	-	-
4. Held-to-maturity financial assets	-	-	-	-	-	-
Total assets	**19,826**	**(5,455)**	**14,371**	**10,667**	**(1,996)**	**8,671**
Financial liabilities						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Securities issued	44	(508)	(464)	220	(832)	(612)
Total liabilities	**44**	**(508)**	**(464)**	**220**	**(832)**	**(612)**

The positive overall result from sale/repurchase activities amounted to Euro 13,907 thousand compared with Euro 8,059 thousand in 2016. It includes the net loss of Euro 1,043 thousand registered on the disposal of a number of loans and receivables with customers, Euro 289 thousand from the profit on the sale of debt securities issued by banks and included in the loan portfolio, the overall profit of Euro 15,125 thousand deriving from the sale of the securities included in the portfolio of available-for-sale financial assets, mainly Government securities, and the loss of Euro 464 thousand from the repurchase of Bank bonds at a price higher on average than that recognised in the accounts at amortised cost.

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

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

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

During the 2016 financial year, insurance policies were taken out for a total amount of Euro 9 million; the valuation difference between 31 December 2017 and the previous year is recorded in this item of the income statement.

Transactions / Income components	Capital gains (A)	Gains on sales (B)	Losses (C)	Losses on sales (D)	Net gains (losses) [(A+B) - (C+D)]
1. Financial assets	**204**	**-**	**-**	**-**	**204**
1.1 Debt securities	-	-	-	-	-
1.2 Equity securities	-	-	-	-	-
1.3 UCIT units	-	-	-	-	-
1.4 Loans	204	-	-	-	204
2. Financial liabilities	-	-	-	-	-
2.1 Debt securities	-	-	-	-	-
2.2 Due to banks	-	-	-	-	-
2.3 Due to customers	-	-	-	-	-
3. Financial assets and liabilities in currency: exchange rate differences	-	-	-	-	-
4. Credit and financial derivatives	-	-	-	-	-
Total	**204**	**-**	**-**	**-**	**204**

Section 8 - Net impairment losses - Item 130

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

8.1 Net impairment losses on loans and receivables: breakdown

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

Transactions/Income components	Impairment losses (1)			Reversals of impairment losses (2)				(1-2) Total 31/12/2017	Total 31/12/2016
	Individual		Collective	Individual		Portfolio			
	Derecognitions	Other		A	B	A	B		
A. Loans and receivables with banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- Loans	-	-	-	-	-	-	-	-	-
- Debt securities	-	-	-	-	-	-	-	-	-
B. Loans and receivables with customers	**(2,149)**	**(59,900)**	**(3)**	**7,010**	**9,470**	**-**	**618**	**(44,954)**	**(36,187)**
Purchased impaired loans and receivables	-	-	-	-	-	-	-	-	-
- Loans	-	-	-	-	-	-	-	-	-
- Debt securities	-	-	-	-	-	-	-	-	-
Other loans and receivables	(2,149)	(59,900)	(3)	7,010	9,470	-	618	(44,954)	(36,187)
- Loans	(2,149)	(59,900)	(3)	7,010	9,470	-	618	(44,954)	(36,187)
- Debt securities	-	-	-	-	-	-	-	-	-
C. Total	**(2,149)**	**(59,900)**	**(3)**	**7,010**	**9,470**	**-**	**618**	**(44,954)**	**(36,187)**

Key
A = From interest
B = Other reversals

Impairment losses, in correspondence to the “Individual - Derecognitions” column, are those pertaining to the year that derive from discharging events, while those corresponding to the “Individual - Other” column correspond to the amount booked to the income statement as a consequence of the analytical write-downs of impaired loans and receivables, impairment inclusive of the discounting back of the estimated future cash flows that populate the specific allowance for impairment.
The impairment losses recorded in the “collective” columns mostly represent the adjustment of the measurement of the overall risk on performing loans and receivables and their accounting counterpart is the allowance for impairment of performing loans and receivables (collective impairment in the tables of part E) to a lesser extent, the valuation impact of loans and receivables that have become non-interest bearing or have returned to produce interest.
The reversals of impairment losses stated in the “Specific - A” column refer to the restoration of value deriving from the discounting back and corresponding to the interest accrued in the period on the basis of the original interest rate used to calculate the impairment losses.

The individual reversals of impairment losses shown in column B by contrast refer to all the reversals of impairment losses (also for return to performing status) and collection of impaired loans and receivables, as well as the recovery of receivables and loans by now amortised.

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

Transactions/Income components	Impairment losses		Reversals of impairment losses		Total 31/12/2017	Total 31/12/2016
	Individual		Individual			
	Derecognitions	Other	A	B		
A. Debt securities	-	-	-	-	-	-
B. Equity securities	-	(2,198)	-	-	(2,198)	(2,188)
C. UCIT units	-	(5,164)	-	-	(5,164)	(545)
D. Loans and receivables with banks	-	-	-	-	-	-
E. Loans and receivables with customers	-	-	-	-	-	-
F. Total	**-**	**(7,362)**	**-**	**-**	**(7,362)**	**(2,733)**

Key
A = from interest B = other reversals

The amount refers:
- to the impairment of the equity investment in the Voluntary Scheme held by the Interbank Guarantee Fund of Euro 1,550 thousand;
- to the impairment of the equity investment held in Banca Popolare di Cividale of Euro 642 thousand and of other equity investments of Euro 6 thousand;
- to the write-down of UCIT units held in Fondo mobiliare Atlante of Euro 3,998 thousand;
- to the alignment of the book value to the value expressed in the last interim report of the UCIT funds Asset Bancari I (Euro 41 thousand), Asset Bancari IV (Euro 725 thousand), Asset Bancari VI (Euro 251 thousand) and of the mutual fund Leopardi (Euro 149 thousand).

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

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

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

8.4 Net impairment losses on other financial transactions: breakdown

Transactions/Income components	Impairment losses (1)			Reversals of impairment losses (2)				(1-2) Total 31/12/2017	Total 31/12/2016
	Individual		Collective	Individual		Portfolio			
	Derecognitions	Other		A	B	A	B		
A. Guarantees given	-	(13)	(149)	-	1,561	-	-	**1,399**	**(77)**
B. Credit derivatives	-	-	-	-	-	-	-	-	-
C. Commitments to grant finance	-	-	-	-	-	-	-	-	-
D. Other transactions	-	-	-	-	-	-	-	-	-
E. Total	**-**	**(13)**	**(149)**	**-**	**1,561**	**-**	**-**	**1,399**	**(77)**

Key
A = from interest B = other reversals

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

Section 9 - Administrative expenses - Item 150

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

9.1 Labour costs: breakdown

Type of expense/Amounts	Total 31/12/2017	Total 31/12/2016
1) Employees	**(35,279)**	**(33,526)**
a) wages and salaries	(24,742)	(23,255)
b) social security charges	(6,695)	(6,316)
c) post-employment benefits	(453)	(415)
d) pension expenses	-	-
e) accrual for post-employment benefits	(113)	(104)
f) accruals for pension and similar provisions:	-	-
- defined contribution	-	-
- defined benefits	-	-
g) payments to external supplementary pension funds:	(1,974)	(2,075)
- defined contribution	(1,974)	(2,075)
- defined benefits	-	-
h) costs of share-based payment plans	-	-
i) other employee benefits	(1,302)	(1,361)
2) Other personnel in service	**(252)**	**(76)**
3) Directors and statutory auditors	**(890)**	**(887)**
4) Retired personnel	-	-
5) Cost recoveries for employees seconded to other companies	-	-
6) Cost reimbursement for third party employees seconded to the bank	-	-
Total	**(36,421)**	**(34,489)**

There was a slight change in the overall amount of labour costs in relation to the salary and wage trends and contractual rises, as well as to the change in the workforce.

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

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

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

The sub-item 2) “other personnel” of Euro 252 thousand includes costs for atypical employment contracts, including those for “temp work” contracts of Euro 142 thousand.

The item 3) “Directors and statutory auditors” comprises:
- the fee, inclusive of VAT and contributions, for the Board of Statutory Auditors totalling Euro 203 thousand;

- the fee, inclusive of VAT and contributions, if due, for the members of the Board of Directors totalling Euro 687 thousand.

9.2 Average number of employees by category

Items		Total 31/12/2017	Total 31/12/2016
°	**Employees:**	**537**	**486**
	a) executives	10	10
	b) middle managers	213	183
	c) other employees	314	293
°	**Other personnel**	**13**	**12**

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

Exact number of employees	Total 31/12/2017	Total 31/12/2016
Employees	558	497
of which part time	17	18
Under staff leasing	3	3
Other personnel	12	12

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

9.3 Defined benefit company pension funds: costs and revenues

There are no defined benefit company pension funds.

9.4 Other employee benefits

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

Type of expense/Amounts	Total 31/12/2017	Total 31/12/2016
Luncheon vouchers	(623)	(569)
Insurance premiums	(473)	(427)
Training expenses	(125)	(28)
Redundancy incentives	(42)	(300)
Other	(40)	(37)
Total	**(1,303)**	**(1,361)**

9.5 Other administrative expenses: breakdown

Administrative expenses other than labour costs amounted to Euro 36,695 thousand at year end; the table below presents a comparison with the previous year:

Type of expense/Amounts	Total 31/12/2017	Total 31/12/2016
Contributions to the resolution fund and to the deposit guarantee system	(2,357)	(4,817)
Telephone, postal and data transmission expense	(1,799)	(1,748)
Intangible fixed asset maintenance expenses	(1,899)	(1,496)
Rentals payable on properties	(2,114)	(1,577)
Security, transportation and custody of valuables expenses	(779)	(684)
Transportation expenses	(279)	(256)
Expert appraisals and real estate documents	(565)	(563)
Legislative and procedural consulting	(1,242)	(928)
Sundry consulting and services	(423)	(454)
Costs for office materials and supplies	(600)	(519)
Electricity and heating costs	(674)	(616)
Advertising and entertainment expenses	(1,210)	(828)
Legal costs	(2,043)	(1,868)
Insurance premiums	(2,306)	(2,039)
Costs for information and searches	(2,162)	(2,076)
Data processing centre	(5,817)	(4,987)
Indirect taxes	(7,385)	(7,881)
Cleaning services	(566)	(506)
Membership fees	(562)	(575)
Contributions for Treasury Service and sundry associations	(9)	(9)
Processing of bills, cheques and documents with third parties	(456)	(520)
Rented property maintenance and condo charges	(112)	(88)
Subscriptions and ads for newspapers and magazines	(193)	(129)
Purchase of promotional materials	(117)	(99)
Cost of the staff leasing contracts service	(12)	(4)
Expenses for travel and business trips involving personnel in service	(440)	(356)
Securitisation administrative expenses	(83)	(970)
Sundry minor costs and expenses for general meetings	(491)	(338)
Total	**(36,695)**	**(36,931)**

Even if the amount of administrative expenses is all-in-all similar compared to the previous year, at a detailed level, general expenses increased compared to 31 December 2016; the increase is related to the expansion of the territorial network, deriving in particular from the acquisition of the former Hypo Alpe Adria Bank S.p.A. branches.

Specific expenses such as contributions to Depositors' Resolution and Guarantee Funds and securitisation expenses offset the increase in general expenses.

Ordinary contributions of Euro 1,318 thousand were paid to the Resolution Fund set up by the Bank of Italy (Euro 1,380 thousand in 2016); in 2016, extraordinary contributions of Euro 2,760

thousand were also paid for the recapitalisation of the new banks resulting from the procedures for the resolution of CA.RI.FE., Banca Etruria, Banca Marche and Cassa di Risparmio di Chieti, a procedure that began in November 2015.
Ordinary contributions of Euro 833 thousand have been paid over to the Deposit Guarantee Fund (Euro 680 thousand in 2016) and contributions relating to the Bailout Fund of Bondholders for Euro 206 thousand.
Securitisation expenses decreased compared to 2016, when some securitisation transactions were carried out. No transactions of this nature were carried out in 2017.

Administrative expenses also include the item "Indirect taxes", item that also includes the stamp duty paid on behalf of customers, other taxes pertaining to the Banks such as IMU, TASI, TARI, municipal taxes, registration taxes and sundry associated with the debt collection activities. The prevailing amount regards stamp duty (Euro 6,424 thousand compared with Euro 6,735 thousand in 2016, a decrease attributable to the change in the average stock of bonds subject to the proportional stamp duty). The amount of the related recovery is recorded in the item "190 Other operating income and expense".

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

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

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

Items	Total 31/12/2017	Total 31/12/2016
Provision for legal disputes, compound interest and securities as well as for bankruptcy revocatory action	(880)	(821)
Return to income statement for settlement of disputes arising during core business activities	311	86
Total	**(569)**	**(735)**

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

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

11.1 Depreciation and net impairment losses on tangible assets

Assets/Income items	Depreciation (a)	Impairment losses (b)	Reversals of impairment losses (c)	Net result (a + b - c)
A. Tangible assets				
A.1 Owned	**(1,710)**	-	-	**(1,710)**
- Used in operations	(1,710)	-	-	(1,710)
- Investment property	-	-	-	-

A.2 Acquired through a finance lease	-	-	-	-
- Used in operations	-	-	-	-
- Investment property	-	-	-	-
Total	**(1,710)**	-	-	**(1,710)**

The depreciation for 2017 amounted in total to Euro 1,710 thousand. Reference is also made to table 11.3 in Section 11 of the Balance Sheet - Assets “Tangible assets”.

In detail, the depreciation is broken down as follows:
• on properties Euro 703 thousand;
• on furniture and furnishings Euro 219 thousand;
• on electronic installations Euro 182 thousand;
• on the remaining assets Euro 606 thousand.
As at 31 December 2017, there were no assets held for sale and discontinued operations as per IFRS 5.

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

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

12.1 Amortisation and net impairment losses on intangible assets: breakdown

Assets/Income items	Depreciation (a)	Impairment losses (b)	Reversals of impairment losses (c)	Net result (a + b - c)
A. Intangible assets				
A.1 Owned	(914)	-	-	(914)
- Generated internally	-	-	-	-
- Other	(914)	-	-	(914)
A.2 Acquired through a finance lease	-	-	-	-
Total	**(914)**	-	-	**(914)**

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

Section 13 - Other operating income/expense - Item 190

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

13.1 Other operating expenses: breakdown

The breakdown of other operating expense is provided below.

Type of expense/Amounts	Total 31/12/2017	Total 31/12/2016
Extraordinary expense	(113)	(85)
Costs for leasehold improvements	(249)	(182)
Other	(78)	(119)
Total	**(440)**	**(386)**

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

13.2 Other operating income: breakdown

The breakdown of other operating income is provided below.

Type of income/Amounts	Total 31/12/2017	Total 31/12/2016
Rent receivable on properties	40	38
Recovery of taxes from customers	6,393	6,721
Recovery of insurance premiums from customers	1,145	1,177
Recovery of expenses on deposits and current accounts	82	88
Services provided to other Group companies	20	20
Recoveries on legal costs	1,344	1,634
Extraordinary income	342	272
Fast credit processing fees	1,790	2,432
Extraordinary income from acquisition of the business unit of Hypo Alpe Adria Bank	-	17,500
Recovery of expenses from employees	2	2
Total	**11,158**	**29,884**

As at 31 December 2016, the aggregate included the "extraordinary income" deriving from the acquisition of the Hypo Alpe Adria Bank S.p.A. business unit.
The recovery of taxes of Euro 6,393 thousand concerns the stamp duty on current accounts and securities deposits; this recovery is related to the amount recorded under administrative expenses (see table "9.5 Other administrative expenses").
The item "Recoveries on legal costs" includes the recovery of legal costs concerning specific recovery activities vis-à-vis non-performing positions and recharged to the same (both expenses professional consulting expenses and tax expenses).
Fast credit processing fees are classified here as requested by the financial statement regulations of the Bank of Italy.

Services provided to Group companies include service activities provided to Valsabbina Real Estate S.r.l.

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

14.1 Net gains (losses) on equity investments: breakdown

Income components/Amounts	Total 31/12/2017	Total 31/12/2016
A. Income	**-**	**-**
1. Revaluations	-	-
2. Gains on sale	-	-
3. Reversals of impairment losses	-	-
4. Other income	-	-
B. Expense	**(295)**	**(384)**
1. Impairment	(295)	(384)
2. Impairment losses	-	-
3. Losses on sale	-	-
4. Other expenses	-	-
Net gains (losses)	**(295)**	**(384)**

The item comprises the impairment on equity investment held in the subsidiary Valsabbina Real Estate S.r.l. (Euro 295 thousand).

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

Section 16 - Goodwill impairment - Item 230

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

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

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

Income components/Amounts	Total 31/12/2017	Total 31/12/2016
A. Property	(21)	-
- Gains on sale	-	-
- Losses on sale	(21)	-
B. Other assets	4	25
- Gains on sale	15	36
- Losses on sale	(11)	(11)
Net gains (losses)	**(17)**	**25**

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

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

18.1 Income taxes for the year from continuing operations: breakdown

The breakdown of taxation for the year is provided below.

Income components/Amounts		Total 31/12/2017	Total 31/12/2016
1.	Current taxes (-)	-	-
2.	Changes in current taxes of prior years (+/-)	-	87
3.	Reduction in current taxes for the year (+)	-	-
3.bis	Reduction in current taxes for the year for credit taxes set forth in Italian Law no. 214/2011 (+)	-	-
4.	Change in prepaid taxes (+/-)	4,755	(437)
5.	Change in deferred taxes (+/-)	280	(310)
6.	**Income taxes for the year (-) (-1+/-2+3+3bis+/-4+/-5)**	**5,035**	**(660)**

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

The change in prepaid taxes (prepaid arising less prepaid cancelled in the year) amounted to Euro 4,755 thousand and is shown in asset table 13.3, while that for deferred taxes amounted to Euro 280 thousand and is shown in asset table 13.5.
Therefore, taxes are generally positive (revenue) in accordance with the gross negative result and are recorded on the basis of expectations of recovery.

18.2 Reconciliation between theoretical tax expense and actual tax expense

The following table shows the reconciliation of the effective tax expense (46.38%, with a positive sign) with respect to the theoretical one calculated on the profit from continuing operations gross of taxation (income statement item 250).

IRES	Taxable amount	Ires 27.5%	% incidence
Profit gross of taxation (theoretical taxation)	(10,856)	2,985	27.50%
Permanent increases			
- non-deductibility of impairment of investment	941	(259)	(2.38%)
- other non-deductible expense	687	(189)	(1.74%)
Permanent decreases			
- dividends	(2,196)	604	5.56%
- equity increase (a.c.e.)	(1,477)	406	3.74%
- capital gains from the disposal of equity investments	(4,977)	1,369	12.61%
- other changes	(1,189)	327	3.01%
Effective IRES tax expense		**5,243**	**48.30%**
IRAP	**Taxable amount**	**IRAP 5.57%**	**% incidence**
Profit gross of taxation (theoretical taxation)	(10,856)	605	5.57%
Permanent increases			
- non-recoverable impairment of investment securities	5,463	(304)	(2.80%)
- other non-deductible expense (10% general expenses and other associated items)	13,075	(728)	(6.71%)
Permanent decreases			
- dividends	(1,315)	73	0.67%
- IRAP recovery on prior impairment from sale of loans and receivables	(338)	18	0.17%
- other changes	(2,298)	128	1.18%
Effective IRAP tax expense		**(208)**	**(1.92%)**
Total effective IRES and IRAP tax expense		**5,035**	**46.38%**

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

The table is not drawn up in that there are no assets classified as such.

Section 20 – Other information

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

Section 21 - Earnings per share

The new international standards (IAS 33) require the returns indicator to be published on a mandatory basis: “earnings per share” (commonly known as “EPS”), in the two versions:
• “Basic EPS”, calculated by dividing the net profit by the weighted average of the ordinary shares in circulation;
• “Diluted EPS”, calculated by dividing the net profit by the weighted average of the ordinary shares in circulation, also taking into account the classes of instruments with diluting effects.

21.1 Average number of ordinary shares with diluted share capital

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

21.2 Other information

Items	Total 31/12/2017	Total 31/12/2016
Profit/loss for the year	(5,821)	4,148
Ordinary shares (weighted average)	34,715,775	35,200,965
Earnings per share	**(0.168)**	**0.118**

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

Part D – Statement of Comprehensive Income

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

	Analytical statement of comprehensive income			
	Items	**Gross amount**	**Income tax**	**Net amount**
10.	**Profit (loss) for the year**	**X**	**X**	**(5,821)**
	Other comprehensive income without reversal to income statement	**10**	**(3)**	**7**
40.	Defined benefit plans	10	(3)	7
	Other comprehensive income with reversal to income statement	**3,954**	**(150)**	**3,804**
100.	Available-for-sale financial assets:	3,954	(150)	3,804
	a) fair value changes	(4,136)	2,183	(1,953)
	b) reversal to income statement	8,090	(2,675)	5,415
	- impairment losses	1,229	(406)	823
	- gains (losses) on sales	6,861	(2,269)	4,592
	c) other changes	-	342	342
130.	**Total other comprehensive income**	**3,964**	**(153)**	**3,811**
140.	**Comprehensive income (Item 10+130)**	**3,964**	**(153)**	**(2,010)**

With regard to item 100, the breakdown of the fair value changes and the reversal to income statement of the impairment losses recognised in 2017 is as follows:

	Gross amount	**Income tax**	**Net amount**
a) fair value changes	**(4,136)**	**2,183**	**(1,953)**
Debt securities	(3,538)	1,170	(2,368)
Equity securities	3,121	(217)	2,904
UCIT units	(3,719)	1,230	(2,489)
b) reversal to income statement - impairment losses	**1,229**	**(406)**	**823**
Equity securities	135	(44)	91
UCIT units	1,094	(362)	732
b) reversal to income statement - gains (losses) on sales	**6,861**	**(2,269)**	**4,592**
Debt securities	3,561	(1,178)	2,383
Equity securities	-	-	-
UCIT units	3,300	(1,091)	2,209
c) other changes	**-**	**342**	**342**

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

The amount of the income tax for Euro -153 thousand, is also indicated in the tables 13.5 and 13.6 of the “Tax assets”, as follows:

13.5 Changes in prepaid taxes (through shareholders' equity)	
Increases	2,890
Decreases	(3,654)
13.6 Changes in deferred taxes (through shareholders' equity)	
Increases	(333)
Decreases	944
Effect of the income taxes on comprehensive income	**(153)**