Financial Statements
2017

BANCA CAMBIANO 1884
SOCIETÀ PER AZIONI

REPORT AND FINANCIAL STATEMENTS

FOR FISCAL YEAR 2017

Ordinary Shareholders' Meeting

2 March 2018
First calling

3 March 2018
Second calling

BANCA CAMBIANO 1884
SOCIETÀ PER AZIONI

Registered Office and General Administration: Viale Antonio Gramsci, 34 – 50132 Florence
Administrative Offices: Piazza Giovanni XXIII, 6 – 50051 Castelfiorentino (Fi)
Registered in the Bank of Italy Banking Register at n. 5667
Corporate Capital € 232,800,000.00 fully paid-in
Registration number in the Register of Companies of Florence,
Fiscal code and VAT code: 02599341209
Member of the Gruppo Bancario Cambiano
Subject to Management and Coordination by Ente Cambiano S.c.p.a.

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Notice of the Shareholders' Meeting

BANCA CAMBIANO 1884
SOCIETÀ PER AZIONI

BANCA CAMBIANO 1884
Società per Azioni
Registered at n. 5667 of the Banking Registrar
Member of the Gruppo Bancario Cambiano
Subject to management and coordination by Ente Cambiano Scpa
Registered offices: viale Antonio Gramsci, 34 - 50132 Florence (FI), Italy
Share capital: € 232,800,000.00 fully paid-in
Register of companies: Firenze 02599341209
Administrative Economic Index (R.E.A.): Florence 648868 – Fiscal code: 02599341209 – VAT code: 02599341209

NOTICE OF ORDINARY SHAREHOLDERS' MEETING

The shareholders are hereby given notice of an ordinary shareholders' meeting, to be held at first calling at 5:00 p.m. on Friday 2 March 2018 in the meeting room of the registered office located in Florence, in Viale Antonio Gramsci n. 34 and, if necessary, at second calling, at 10:00 a.m. on SATURDAY 3 MARCH 2018, same location, to discuss and vote on the following agenda:

1. Financial Statements at 31 December 2017 complete with the Director's Report on Operations, the Report of the Board of Statutory Auditors and the Report of the Independent Auditor; resolutions pertaining thereto and resulting there from;
2. The Bank's remuneration and incentive policies: (i) Annual report on the remuneration for managers, auditors, employees and collaborators not bound to the company by permanent employment contracts as per articles 10, letter g) and 27 of the Articles of Association; (ii) Remuneration and incentive policies for the 2018 fiscal year.

ATTENDANCE PROCEDURE

Shareholders are reminded that, in accordance with article 11 of the Articles of Association and the Regulations for shareholders' meetings:

a) A shareholder may be represented by another shareholder who is a physical person, unless the latter is a director, statutory auditor or employee of the company, pursuant to a written proxy specifying the name of the representative and if the signature of the delegating shareholder has been authenticated by the chairman, by members of the board or by a company employee authorized to do so by the Board of Directors, by a notary public or by any other public official authorized by law; the Board of Directors has given authorization to authenticate the signatures of delegating shareholders to all of General Management and all Branch Managers; the proxy to vote may also be assigned by means of an IT document undersigned electronically, in accordance with current laws in force and notified to the Company at the email address info@bancacambiano.it; every shareholder may receive no more than 15 proxies;
b) Shareholders whose shares are not deposited at the bank and who wish to attend the shareholders' meeting (also for the purpose of the complying with the provisions of the third sub-section of article 2370 of the Italian Civil Code) are required to file a document that demonstrates eligibility to attend and vote at the meeting, at the company's registered office at least two days prior to the date set for the meeting; shares may not be withdrawn before the end of the shareholder's meeting;
c) Attendance by means of communication from a distance is not provided for, pursuant to article 11 of the Articles of Association.

Florence, 9 February 2018

The Board of Directors
The Chairman
Paolo Regini

Notice of Shareholders' Meeting published in the Official Gazette of the Republic of Italy – II Section – Announcement sheet – business announcements – Notice of shareholders' meetings – n. 18 dated 13 February 2018

Corporate and Supervisory Officers

BANCA CAMBIANO 1884
SOCIETÀ PER AZIONI

Corporate and Supervisory Officers

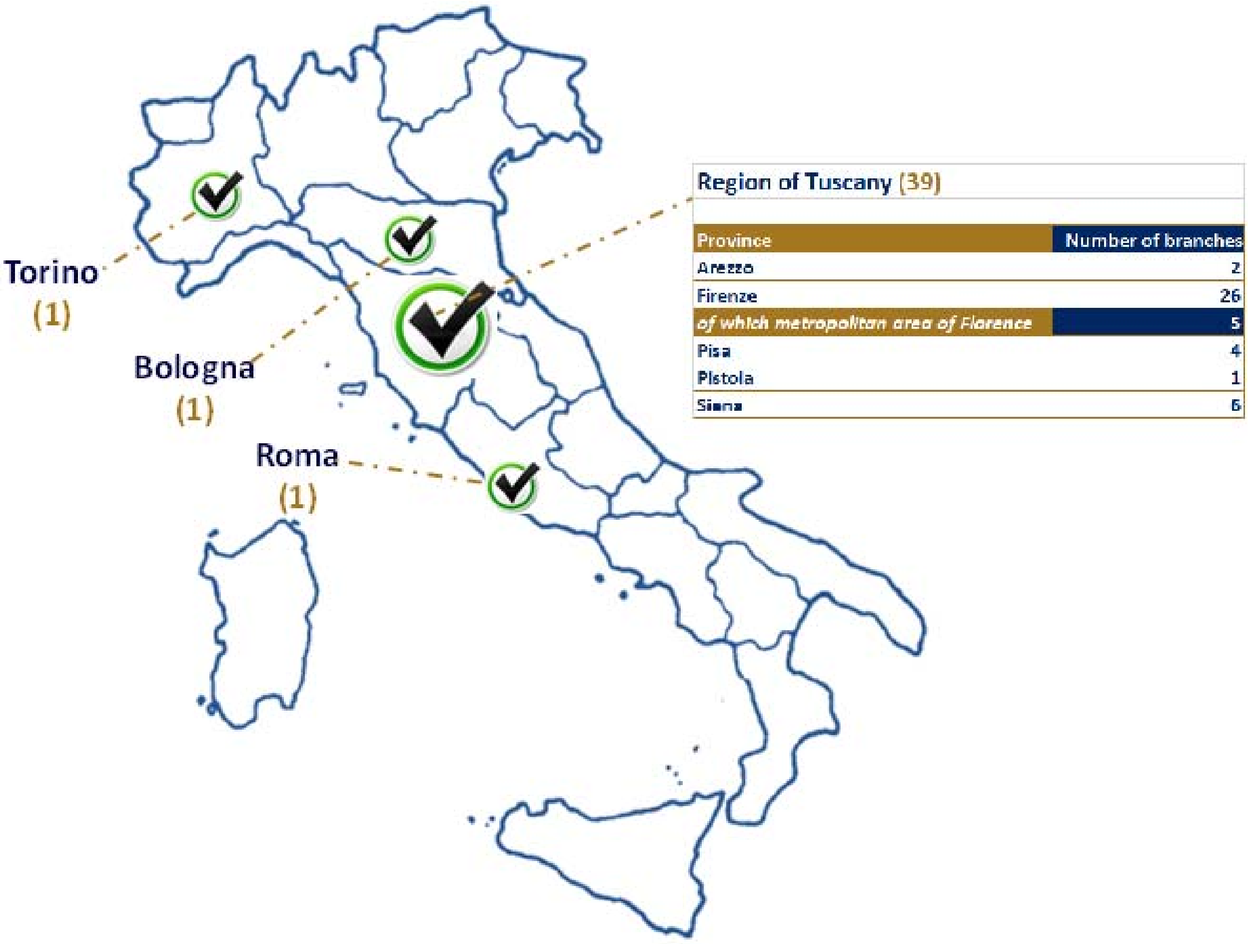
Board of Directors	
Chairman	*Paolo Regini*
Vice Chairman	*Enzo Anselmi*
Director	*Mauro Bagni*
Director	*Giambattista Cataldi*
Director	*Giovanni Martelli*
Director	*Paolo Profeti*
Director	*Giuseppe Salvi*
Board of Statutory Auditors	
Chairman	*Stefano Sanna*
Acting Member	*Gaetano De Gregorio*
Acting Member	*Rita Ripamonti*
Alternate Member	*Edoardo Catelani*
Alternate Member	*Gianluca Musco*
General Managers	
Managing Director	*Francesco Bosio*
Vice Deputy Managing Director	*Bruno Chiecchio*
Vice Managing Director	*Giuliano Simoncini*
Independent Auditor	
	Baker Tilly Revisa S.p.a.

Branch Network

BANCA CAMBIANO 1884
SOCIETÀ PER AZIONI

The network of branches of Banca Cambiano 1884 Spa comprises n. 42 branches, of which n. 39 in the original home locations of former BCC di Cambiano Scpa (region of Tuscany); these are complemented by the 3 branch offices in Turin, Bologna and Rome of former Banca A.G.C.I. Spa, purchased pursuant to the execution of the so-called way-out operation.

Graph n. 1 – Network of branches of Banca Cambiano 1884 S.p.a.



Territorial Area	% Lending	% Deposits	Tot. direct deposits	Lending / direct deposits
Region of Tuscany	94.52%	98.15%	93.30%	101.30%
Turin	1.04%	0.63%	2.91%	35.92%
Bologna	2.16%	1.03%	2.85%	75.81%
Rome	2.28%	0.20%	0.94%	242.46%
Total	**100.00%**	**100.00%**	**100.00%**	**97.61%**

Report on Management

BANCA CAMBIANO 1884
SOCIETÀ PER AZIONI

Dear Shareholders,

The 2017 fiscal year marks the 134th year of activity of Cambiano (former BCC), and the first as a "joint stock company".

The transformation took place following the decision to adhere to the *way out* procedure created by the reform of credit unions (Italian Legislative Decree n. 18/2016, converted into Law n. 49/2016) that consisted in the possibility for all credit unions with shareholder's equity greater than 200 million Euro, to transfer the banking business activity to a joint stock company bank, either existing or newly incorporated, pursuant to article 58 of the Consolidated Banking Act.

Cambiano decided to implement the aforementioned company transfer, selecting former Banca A.G.C.I. SpA as the transferee bank, in a context of reciprocal positivity, contribution and compliance with required objectives and timelines. The bank in question, founded in 2008 thanks to an initiative taken by the Centrale Cooperativa Nazionale A.G.C.I., was supported from the start of operations by Cambiano and by the CABEL Network and faced the physiological issues of the start-up stage that coincided with the persisting systemic crisis, which humbled the endeavor's original potentiality for development.

In this scenario, the *way out* solution allowed Cambiano to simplify the process of transform into a joint stock company (SpA) and, simultaneously, avoided the virtual dispersal of value of the same Banca A.G.C.I., called upon to operate in an economic context that is increasingly complex due to regulatory innovations and changes in market operators.

Moreover, the *way out* solution was fully coherent with the choice that has been operated by Cambiano since the 1970s, to abandon the federal structures of the then Rural and Artisan Banks, reason for which above-mentioned Law n. 49/2016 consented the pursuit of an evolutionary path already laid out almost forty years back.

Indeed, the passage from BCC to SpA opened a management scenario that is extremely challenging but that, at the same time, paves the way for new opportunities for growth, without compromising the firm intention to keep the cultural bond with the historical home territories intact, well aware that his bond has always typified our manner of "banking and of being a bank".

The sound relationship with the markets of reference has permitted the Bank to efficiently perform its role as actor dedicated to the growth and development of the territory of competence, without remaining trapped by local influences, or in opportunistic or "parochial" behavior. An unending focus on allocation policies and credit merit – for individuals, families and businesses – has favored the development of virtuous circuits in areas characterized by synergic production and an incomparable territorial heritage, which make our country and the areas in which we operate unique.

We are certain that the approach we have undertaken constitutes an antidote to the malaise of financial/industrial gigantism and globalization, all too often seen as the only way to be.

During the current fiscal year, we have finally seen the first signs of overcoming the heavy crisis and recession that has struck the country for over a decade, although a full return to "pre-crisis levels" will require some years yet.

The current, greater productivity and the boost in business activities are an objective towards which we must all strive with determination, because “development is the new name of peace” (Paul VI, *Enciclica Populorum Progressio*), if – as we hope – it is pursued in a sustainable manner, mitigating social and economic inequalities and asymmetries.

Indeed, persisting, profound structural diversities between Italy and the leading European Countries (characteristics of the business system, the burden of bureaucracy and taxation, the labor market, the infrastructures, etc.) have contributed to making out Country less competitive and less attractive.

Spill-over effects on the Italian banking system were inevitable, a banking system that in recent years has been the object of radical transformations that have redrawn its perimeter and the type of institutions, both regionally and nationally. Limiting observations to just the region of Tuscany, the transformations underway in the local banking market have lead to a veritable *tsunami*, during which multiple transformations and metamorphoses have followed one another: the transfer of a leading Italian bank from private to public ownership, the purchase of the largest regional cooperative bank by a national group, the governance of an historical regional savings bank by a French operator with the payment of significant support contributions on the part of the national banking system. Add to all of this the constitution of cooperative banking groups, to which cooperative credit banks have adhered and which will require the development, not free of difficulties nor uncertainties, of industrial projects capable of supporting nationally organized endeavors while safeguarding the unique local characteristics of cooperative credit unions.

This has lead to the Tuscan banking system being centered prevalently on banks re-included into groups, all outside the regional dimension, or with public holdings in corporate capital. Only four banks, with head offices in the region of Tuscany, have remained fully autonomous; in alphabetical order, they are: Banca Cambiano 1884 Spa, Banca Popolare di Cortona Scpa, Banca Popolare di Lajatico scpa and Cassa di Risparmio di Volterra Spa.

The concurrence of the extraordinary economic crisis, the transition stage of the domestic and European Vigilance regulatory framework and the restructuring of the domestic banking system, pushes banks towards a pro-cyclical operational approach, where the context would call for a different type of credit support. In 2017, the lending trend in Tuscany registered a 1.7% drop (as at September 2017), compared to a 1.8% increase on a domestic level. Moreover, the data analysis carried out shows that small businesses were the most penalized, as credit support was redirected towards larger enterprises. In addition to the difference in distribution of credit, a disparity in economic treatment was also registered in favor of large businesses, also due to the effects of targeted longer term refinancing operations (TLTRO). On the other hand, Banca Cambiano continued to provide financial support to small and medium sized businesses, which represent the local support structure, thereby continuing to demonstrate its capacity for resilience in the face of adverse market conditions.

The implementation of *quantitative easing* on the part of the ECB, the growing level of “*debankization*” and potential International tensions are additional factors that make the banking trade particularly difficult; fully aware of the challenges of the current situation, Banca Cambiano intends to pursue its strategies to transform circumstances that may otherwise become further limitations to the growth and “good health” of local economies into opportunities.

Following is the summary of results for the financial year, followed by greater details regarding management trends.

Main summary data

SUMMARY DATA AND INDEXES

data in €/000

	SUMMARY DATA AND ECONOMIC INDEXES	31/12/2017	31/12/2016 (1)	Percent variation
DATA	Interest income	47,750	43,508	9.75%
	Commission income	25,211	22,848	10.34%
	Operating income	76,646	78,687	-2.59%
	Net income from financial assets	61,440	63,255	-2.87%
	Total operating costs	55,213	58,209	-5.15%
	Of which personnel costs	24,728	26,766	-7.61%
	Of which other administrative costs	31,280	31,728	-1.41%
	Net result for the fiscal year	4,500	5,142	-12.49%
INDEXES	Cost / Income (operating costs /operating income)	72.04%	73.98%	-2.62%
	Interest income / employees (average value)	135	126	7.26%
	Commission income / employees (average value)	71	66	7.84%
	Operating income / employees (average value)	217	228	-4.80%

	SUMMARY DATA AND CAPITAL RATIOS	31/12/2017	31/12/2016 (1)	Percent variation
DATA	Total assets	3,373,103	3,411,385	-1.12%
	Total risk-weighted assets (RWA)	1,923,548	1,911,306	0.64%
	Receivables from customers	2,445,470	2,262,109	8.11%
	Of which non-performing loans	137,798	134,945	2.11%
	Total financial assets	560,049	772,424	-27.49%
	Overall deposits	3,067,779	2,928,028	4.77%
	Of which direct deposits	2,557,418	2,481,449	3.06%
	Of which indirect funding	510,361	446,579	14.28%
	Shareholders' statutory equity	235,548	284,543	-17.22%
	Tier 1 capital (CET1)	232,247	281,050	-17.36%
	Total own funds	232,247	281,050	-17.36%
INDEXES	Lending / Direct deposits	95.62%	91.16%	4.89%
	CET1 ratio	12.07%	14.70%	-17.89%
	Tier 1 capital ratio	12.07%	14.70%	-17.89%
	Total capital ratio	12.07%	14.70%	-17.89%
	Net non performing loans / Receivables from customers	5.63%	5.97%	-5.54%
	Receivables from customers / employees (average value)	6,928	6,557	5.66%

	STRUCTURAL DATA	31/12/2017	31/12/2016 (1) (2)	Percent variation
DATA	Employees (precise number)	365	351	3.99%
	Employees (average number)	353	345	2.32%
	Number of tellers	42	42	0%

(1) In order to make data correctly comparable, data referred as at 31/12/2016 take into account the aggregation between former BCC di Cambiano Scpa and former Banca A.G.C.I. Spa (so-called "way out" operation), which took place starting 01/01/2017. Conversely, aggregate shareholders' equity, as at 31/12/2016, is gross of extraordinary taxes (€ 54 million) provided for by the above-mentioned Legislative Decree n. 18/2016, For details on the matter, please consult Part G of the Notes to the Financial Statements.

(2) During the 2017 fiscal year, the banking license of the Quarrata branch was transferred to the Arezzo branch.

The results illustrated above follow management actions centered on the quality of customer relations, on priority begin given to progressive growth in new territories and on enriching the range of products and offers for the market.

The combination "use of innovative technologies / quality of interpersonal contact structures" continues to be of primary importance in the Bank's investment decisions. The significant industrial investments made with Cabel Industry Spa are framed in this context: localization of the Oracle Flex Cube platform will mark a radical innovation in the Bank's information technology set up, with significant returns in terms of the optimization of production and sales processes.

Hence, the summary data account for the firm determination of Cambiano to pursue the objectives set forth in the Industrial Plan, in qualitative and quantitative terms, upholding a policy of unerring attention in the application of economic conditions to customers that, if they have up to now compressed the fiscal year profits, they have also simultaneously consolidated the image of the Bank in its new role as joint stock company, as an institution capable of increasing the brokered volumes, the number of relations opened, strengthening its market position and rethinking the future in new terms.

Local economic situation

The International, European and Italian scenario

The year 2017 was characterized by the beginning of a solid economic growth, particularly in the leading advanced and emerging economies, as summarized in the table below.

Table n. 1 – Growth of GDP and of inflation in the main world economies

Growth of GDP and inflation				
	Growth of GDP			Inflation
	2016	II quarter '17	III quarter '17	dic-17
Advanced countries				
Japan	1.0%	2.9%	2.5%	0.5%
United Kingdom	1.8%	1.2%	1.6%	3.0%
United States	1.5%	3.1%	3.2%	2.1%
Emerging countries				
Brazil	-3.5%	0.4%	1.4%	3.0%
China	6.7%	6.9%	6.8%	1.8%
India	7.9%	5.7%	6.3%	5.2%
Russia	-0.2%	2.5%	1.8%	2.5%
World trade	**1.7%**	**3.0%**	**3.5%**	

Source: Economic bulletin n. 1/2018 published on 19 January 2018.

As shown by the data above, the growth currently under way is not yet accompanied by a recovery in inflation, which remains weak.

During the third quarter of 2017, the world trade growth rate increased 3.5%, with an even stronger trend for the Euro Zone and emerging countries imports component, the latter net of China.

The GDP for the world economy increased by 3.6% in 2017, with a further expected growth of 3.7% in 2018 (OCSE estimates). This acceleration of world production would seem to derive mainly from contributions coming from the economies of the more advanced countries.

Estimations provided by Bank of Italy also move in this perspective, forecasting for 2018 a growth in International trade exchanges of 4.6% (5.4% in 2017), maintaining an even better performance with respect to the previously forecasted growth levels for economic activity.

The risks for unforeseen variations in world economy trends continue to depend on geo-political tensions and, specifically, on the results of the power struggle between North Korea and the United States of America.

Growth in the Euro Zone continues along a positive trend, at a fairly sustained rate, maintaining a base component, tied to inflation, that is still weak and still needs the support provided by the expansive monetary policy adopted by the European Central Bank.

Below is the summary of the data regarding the GDP and inflation in the Euro Zone, with detailed data regarding the four principle European economies.

Table n. 2 – Growth of GDP and inflation in the Euro Zone

Growth of GDP and inflation in the Euro Zone				
	Growth of GDP			Inflation
	2016	II quarter '17	III quarter '17	dic-17
France	1.2%	0.6%	0.6%	1.2%
Germany	1.9%	0.6%	0.8%	1.6%
Italy	**0.9%**	**0.3%**	**0.4%**	**1.0%**
Spain	3.3%	0.9%	0.8%	1.2%
Euro Zone Average	**1.8%**	**0.7%**	**0.7%**	**1.4%**

Source: Economic bulletin n. 1/2018 published on 19 January 2018.

December 2017 forecasts regarding the GDP of the Euro Zone show an expected 2.3% growth, increased (+ 0.4%) with respect to previous estimations, published last September. Specifically, the GDP was developed by Eurosystem experts based on the following forecasted trend of the main external variables:

Table n. 3 – hypothesis of the main external variables for the Euro Zone

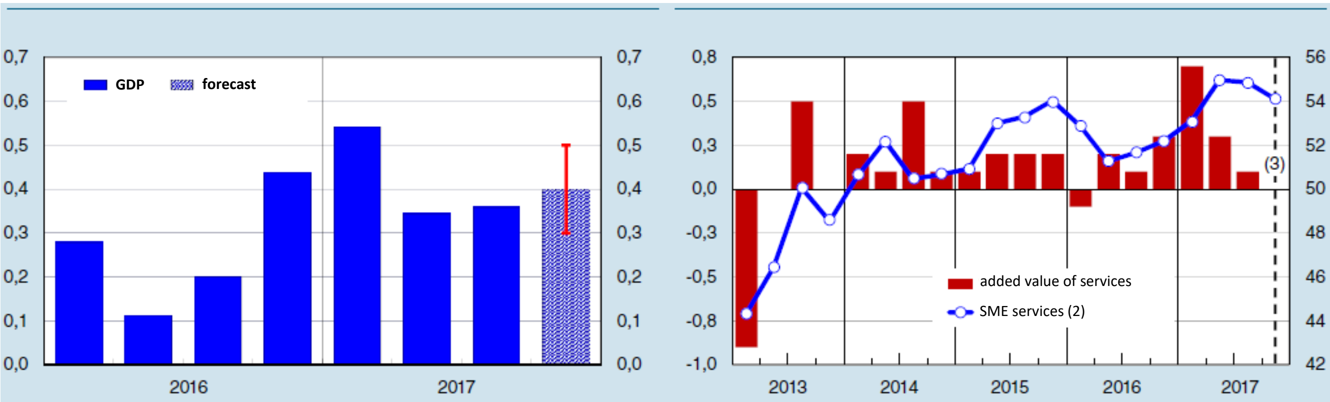
Hypothesis regarding the main external variables (2018-2020)				
	2017	2018	2019	2020
Weighted foreign demand	5.4%	4.8%	4.0%	3.7%
Dollar / Euro	1.13	1.17	1.17	1.17
Nominal effective exchange rate	-0.6%	-0.7%	0.0%	0.0%
Price of foreign manufactured goods	3.0%	1.3%	1.6%	1.7%
Price of crude oil	54.3	61.6	59.0	57.4
Euribor 3m	-0.3%	-0.3%	-0.1%	0.2%
BTP Average	1.3%	1.5%	2.0%	2.5%

Source: Macroeconomic forecasts for the Italian economy (Eurosystem coordinated financial) at 15 December 2017.

With specific reference to Italy, during the end of 2017, economic activity picked up (+0.4% of the third quarter of 2017), driven by both internal and external demand. Specifically, added value rose in the industrial sector, with the strong growth of manufacturing, and in the construction industry, which seems to be finally headed towards recovery.

The increase in GDP, added value in service and the PMI index are shown below.

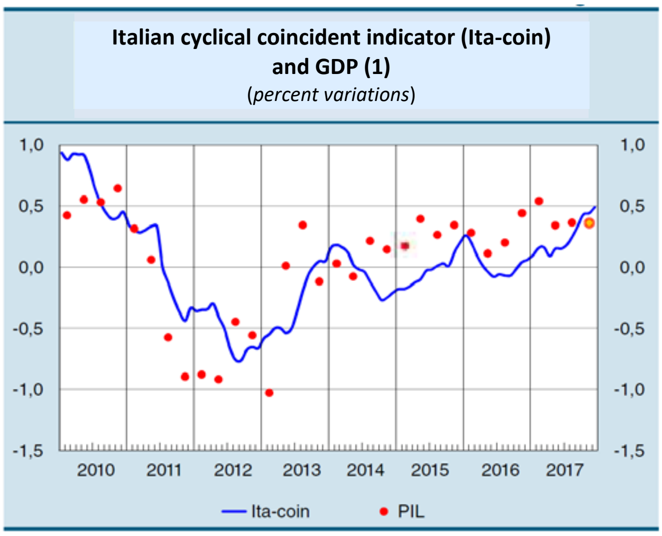
Graph n. 2 – Trend of GDP (left) and trend of added value and PMI (right)



Source: Economic bulletin n. 1/2018 published 19 January 2018.

Also based on the results expressed by the Italian economy, surveys by Bank of Italy express a returning climate of hope among businesses to levels preceding the double recession (2006).
Furthermore, in 2017, the synthetic Ita-coin indicator, elaborated by Bank of Italy, reached the highest recorded level since the summer of 2010. The historical trend of the indicator is illustrated in the graph below.

Graph n. 3 – Italian cyclical coincident indicator (Ita-coin) and GDP

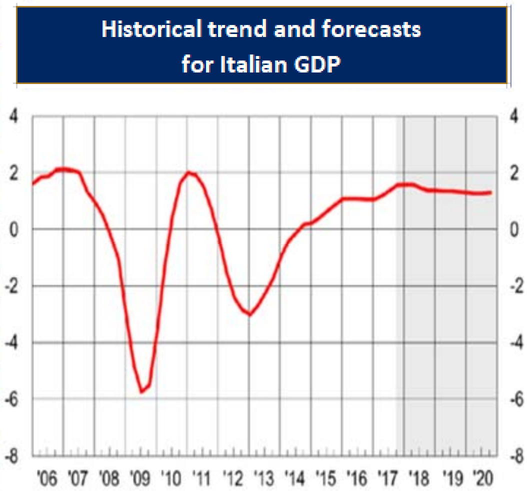


Source: Economic bulletin n. 1/2018 published 19 January 2018.

As a result of all the data set forth above, in December 2017, Bank of Italy reported positive impressions regarding the forecasted trend for the Italian economy, expressed both in table and graph formats, as shown below.

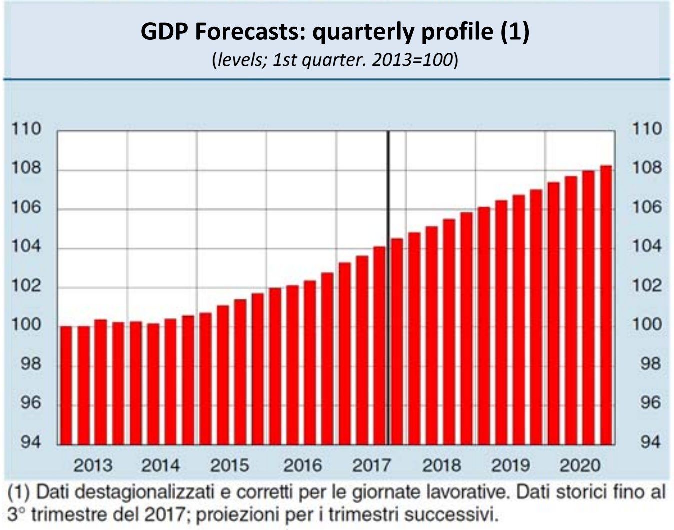
Table n. 4 – Macroeconomic forecasts for the Italian economy

Data on macroeconomic forecasts for Italy	2017	2018	2019	2020
GDP	1,6%	1,4%	1,3%	1,3%
Family consumption	1,4%	1,2%	1,1%	1,0%
Collective consumption	0,7%	0,2%	0,1%	0,3%
Gross fixed investments	2,4%	3,8%	2,9%	2,0%
Of which inv. in m.m.t.	3,4%	5,5%	3,8%	2,7%
Of which in construction	1,2%	1,8%	1,8%	1,2%
Total exports	5,1%	3,6%	3,3%	3,1%
Total imports	5,7%	4,3%	3,1%	2,4%
Variations in inventory	0,2%	0,1%	0,0%	0,0%
Consumer prices (IPCA)	1,3%	0,9%	1,5%	1,6%
IPCA net of energy and food	0,8%	0,6%	1,4%	1,6%
Employment	1,2%	1,1%	1,0%	1,0%
Unemployment rates	11,3%	11,1%	10,8%	10,5%



Source: Macroeconomic forecasts for the Italian economy (Eurosystem coordinate financial year) at 15 December 2017.

Graph n. 4 – Projected forecasts on Italian GDP

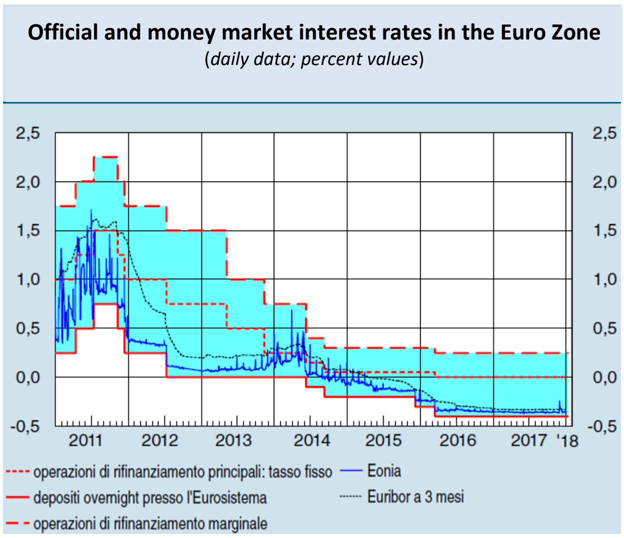


Source: Economic bulletin n. 1/2018 published 19 January 2018.

Financial markets and measures by monetary authorities at a European level

At the end of 2017, the Board of Directors of the ECB, while recalibrating the intensity and measures of monetary policy, reiterated the need for a still greater monetary adjustment, aimed at stabilizing inflation on levels near (but nevertheless lower than) the 2% mark on an annual basis. Therefore, official rates will remain at current levels (see the graph below) for a prolonged period, well beyond the horizon of net purchases of securities and of the duration of the Cambiano current Industrial Plan.

Graph n. 5 – Official Euro Zone interest rates (2011 – 2017 and E2018)



Source: Economic bulleting n. 1/2018 published 19 January 2018.

The Board of Directors of the ECB resolved that, until a lasting adjustment in the evolution of prices is not observed:

a. Net purchases in the ECB Purchase Program (so-called APP - Asset Purchase Programs) will continue from the start of 2018 at a monthly rate of € 30 billion (with respect to the previous 60 billion);
b. The Eurosystem will invest the repaid capital from maturing Securities within the scope of the APP;
c. Principal refinancing transactions and longer-term transactions with a three-month maturity will continue with fixed rate tender procedure with full allotment.

The detailed analyses provided by Eurosystem experts explain that up to this point, the expansive monetary policy has not produced any undesired effects, that is to say, accumulated imbalances in the Zone.

Mid-January 2018, the book value of securities purchased by the Eurosystem within the purchase program was € 2,298 billion, of which:

- € 1,898 billion in government securities (€ 327 billion in Italian securities, of which € 294 directly from Bank of Italy);
- € 242 billion in secured bank bonds;
- € 133 billion in corporate bonds;
- € 25 billion in ABS.

The amount of held assets – which will fall due in 2018 and that will be fully reinvested by the Eurosystem – is equal to € 146 billion, of which approximately 80% is composed of government bonds.

Among the direct impacts of these monetary choices on the market, it must be noted that:

- Credit to non-financial companies in the Euro Zone has registered a growth (+ 5.2% yearly on data as at November 2017), with a particularly strong upward trend in France and Germany;
- Loans to families increased in all the Euro Zone countries, with the sole exception of Spain;
- The cost of financing to businesses and families for home purchase purposes has remained limited;
- The dispersion of interest rated between Euro Zone countries is limited and stable.

In fact, as regards this last issue, it bears noting that the differentials recorded between the yields of Italian and German government bonds have further decreased. Specifically, the yield of ten-year BTPs went from an average value of 2.11% to 1.98% (- 13bp), with a recovery in terms of the spread on equivalent Germany bonds of 23bp, with a final differential of approximately 140 bp.

For the duration of the fourth quarter of 2017, the general index of the Italian Stock Market registered a more substantial growth than that of the other main Euro Zone markets (+ 3.2% versus + 2.5%). In our country, the favorable trend of equity securities is mainly attributable to a strong appreciation of the automobile industry index. The already low volatility of stock prices, deduced from the option pricing on the stock exchange index, further decreased.

Despite the drop during the last quarter of 2017, the listings of Italian banks rose an average of 26.5% (actually above the 21.8% targeted by the general index). The downward trend at year's end is mainly due to the widespread drop in expected profits, affected by the inevitable reduction in interest income. Bank credit default swap (CDS) spreads decreased due to improved credit quality, the lesser incidence of non-performing loans (NPL) and improved capital ratios.

The Italian banking system

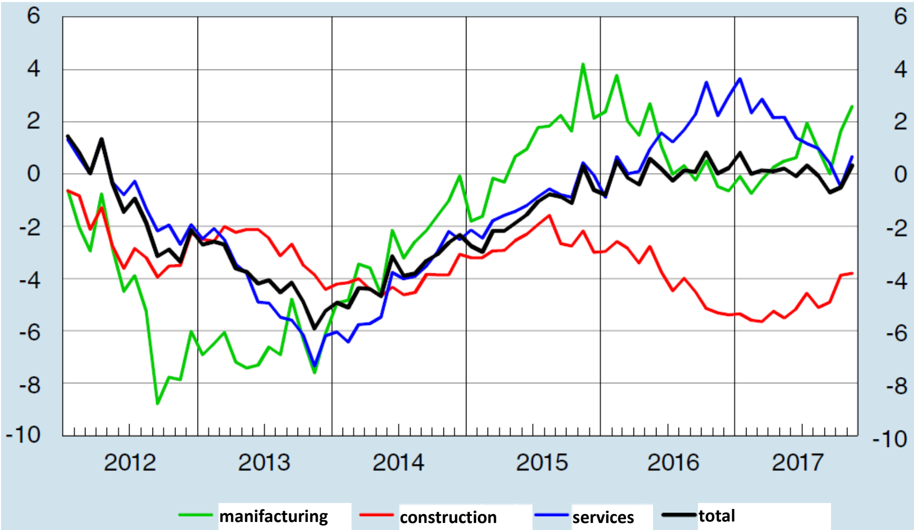
Bank loans to the private sector continued to increase during 2017, with financing requests from businesses supported by the rise in investments and, in part, limited by the ample availability of own resources and by a greater use of corporate bond issuance, Indeed, with respect to other types of financing, loans to non-financial companies grew by a mere 1,1% (+ 2,6% in the manufacturing sector, in strong economic recovery),

As referred to the increase in other lending to customers, it is noted that:

- Loans to the private, non-financial sector have increased by 1.8%;
- The increase in loans to families remained solid (+ 2.8%) both in the home purchase component and in the retail-oriented component.

The above considerations are summarized in the graph below.

Graph n. 6 – Trend of bank loans



Source: Economic bulletin n. 1/2018 published 19 January 2018.

The banking system continues to face an anomalous scenario of negative short-term rates, with a direct impact on profits from interest income both on variable rate credit stock and on new loans, both at fixed and variable rates.

Indeed, overall profitability has increased particularly for groups classified as significant, due to a greater capacity to compensate the decreased interest income with other income, as well as due to extraordinary incomes associated to aggregation transactions. On this point, it must be pointed out that the drop in the number of credit institutions present on the market is continuing, with the resulting concentration of lending and funding on a few, large banking groups. Specifically referring to the primary territory of reference, it must be noted that following the already mentioned "French" purchase of an historical savings bank, aside from Cambiano, Tuscany now counts only 3 independent banks, with respect to extra-regional groups, that is to mean, groups with public share in capital (BP Cortona, BP Lajatico and Ca.Ri. Volterra).

The quality of bank credit has improved, favored by the consolidation of the economic recovery. Specifically:

- In incoming flow of new impaired receivables on total funding has dropped to 1.7%, as a result of a reduction to 2.6% of the entry rate for businesses and a decrease to 1.2% of the entry rate for families;
- The incidence of NPLs on bank balance sheets has decreased, also due to significant transfers of impaired receivables to specialized investors.

Despite the aforementioned drop, risks connected to the elevated number of impaired receivables in the balance sheets of Italian banks (that continue to constitute an obstacle for loan offers) and the low profitability prospects in an economic growth setting that is still weak.
Compared to the European scenario, Italian banks have an incidence of impaired receivables on overall credit exposure that is among the highest. This problem has for some time now been drawing attention from the market and from regulatory bodies, who ask that Italian banks undertake measures to reduce non-performing loans, with the aim of re-aligning the index for impaired receivables with the European average. On the other hand, the Italian banking system continues to be substantially adverse to assuming risks in derivatives, whereas this component is significant in other European banking systems (for example, Germany).
In this regard, in March 2017, the European Central Bank issued the final version of the document entitled «Guidance to banks on non-performing loans», which provides indications regarding what the ECB considers the *best market practices* in terms of managing all impaired credit positions.
The guidelines contained in the ECB document are for all so-called "*High NPL Banks*", credit institutions that present high levels of impaired receivables, higher than the EU average (Gross NPL ratio > 7%), but may nonetheless also be applied to institutions with a Gross NPL ratio lower than 7%, in the presence of elevated flows of incoming non-performing loans, elevated forbearance and elevated foreclosed asset levels, reduced coverage or a high Texas ratio.

Specifically, the ECB guidelines are composed of 6 sections, the contents of which are summarized here following:

1) **NPL management strategy:** banks are encouraged to implement a strategy and operational plan to manage NPLs, to be integrated into the industrial plan;
2) **Governance operational frame work of NPL management:** the bank administrative organ must approve the strategy and operational plan and monitor strategy implementation. Banks must create a special unit dedicated to NPL management, with KPI and Early Warning systems;
3) **Forbearance:** the European Central Bank's focus is on the sustainability of assignment measures. In addition to evaluating borrower creditworthiness, banks are encouraged to divulge the quality of assigned credits and the impact on the actual net value;
4) **Detection of NPLs:** banks are encouraged to apply the definitions of Non Performing Exposure elaborated by the EBA, align regulatory definitions to accounting definitions and provide adequate information;
5) **Provision and cancellation policies for NPLs:** in the estimates for provisions, banks are encouraged to take a conservative approach in estimating cash flows and assessing available collateral. Collective provision estimates must be based on an adequate historical data set;
6) **Assessment of real estate collateral:** banks are encouraged to ensure a solid independent control process for the nomination of appraisers, update all appraisals at least on a yearly basis, base assessments on the market cost and take into account time and costs for liquidation.

As regards these regulatory aspects and how they apply to the Bank, please consult the specifications contained in the section "management of problem loans and de-risking activities".
Lastly, please note that the banking system as a whole registers an improvement in capital ratios, in particular those inherent to higher quality capital (CET1). This condition predominantly regards the segment of so-called *significant* banks, capable of *i)* directly accessing capital markets and *ii)*

rebuilding the consistent group structures, even through disposal of holdings / business branches generating unrealized capital gains (as in the case of Gruppo Unicredit).
The above-illustrated macroeconomic picture, at a European and domestic level, and the observable evolutionary pattern allow for a more correct interpretation of the operating result of Banca Cambiano on the one hand and on the other hand reassure corporate organs as to the coherence of the policies implemented in the Industrial Plan.

Strategic development of the financial year

During the past financial year, which has coincided with the first year of the 2017-2019 Industrial Plan, Banca Cambiano was engaged in an intense technical and organizational repositioning stage, aimed at ensuring integration with former Banca A.G.C.I. and, simultaneously, creating internal conditions favorable to implementation of the main programmed actions.

Hence, activities were aimed at creating the internal conditions, including cultural conditions, required to allow the Bank to meet the principle objectives of the Plan which, consistently with the transformation in progress, move towards creating conditions for growth that are both sustainable and coherent with the new role as joint stock company (Spa), also in view of greater attractiveness for capital markets.

The principle challenge is that of combining tradition and innovation, focusing on a relational and human approach towards customers, without losing sight of the competitive logic of a joint stock company.

Hence, the past financial year was characterized – in line with the objectives of the Industrial Plan – by the careful nurturing of relations and re-modulation of pricing logic, which bore their first significant fruits in terms of deposits.

Simultaneously, numerous measures were undertaken to align the operational machine to the new configuration as a Banking Group, which expanded at the end of the financial year subsequent to the purchase of control of Cabel Leasing Spa and the constitution of Immobiliare 1884 Srl.

As regards NPLs, the Bank launched a series of measures that move in the direction indicated by both Italian and European vigilance authorities in the new guidelines for the management of impaired receivables. The NPL transfer transaction, provided for in the Industrial Plan for the 2017 financial year, will be perfected in 2018, consistently with the opportunities offered to the system by the application of the First Time Adoption (FTA) permitted by the new IFRS 9 accounting principle.

The introduction of the IFRS 9 accounting principle starting 1 January 2018 – that constitutes one of the most significant regulatory novelties for the banking system – was the subject of a specific work project which, during 2017, involved all the Bank's strategic functions, considering the pervasive impacts on the bank balance sheets and on asset classification and evaluation criteria. The project for recognition of historical sets on recovery ratios registered by the Bank to determine the prospective LGD also moves within this same scope.

Within the context set forth above, the principle significant events that took place during the last financial year that, as already said, represents the beginning of a new journey marked by the significant changes resulting from the decision to transform into a joint stock company and the changes in the regulatory scope, are detailed following. Hence, the need to outline the objectives and the steps taken to implement the "way out".

Objectives and steps for implementation of the way out

With Legislative Decree n. 18 of 2016 (subsequently converted with Law n. 49 the same year), Italian legislation intervened profoundly in the laws governing cooperative credit in that it provided that the cooperative credit form of banking business may be carried out only by joining a cooperative banking group (with a share capital equal to or greater than 1 billion Euro), by means of so-called *cohesion contracts.* The final objective of the reform was to increase the stability of cooperative credit banks, within the scope of a broader strategy aimed at consolidating the Italian banking system and strengthening the resilience of the financial sector and its capacity to contribute to economic recovery.

In article 2, sub-section 3-bis of Legislative Decree n. 18 of 14 February 2016, the legislator provided for an alternative route (the so-called "way out") for cooperative credit banks that did not intend to become members of a group, which entailed transferring the banking business, pursuant to article 58 of the Italian Consolidated Banking Act, to an existing or newly created joint stock company, provided that as of 31 December 2015 the net assets were greater than € 200 billion.

The regulations in place for the "way out" provide that, on transfer of the banking business, the transferor cooperative credit bank: a) keep non distributable reserves net of the payment of the 20% tax; b) modifies its corporate purpose, losing the license to carry out banking business; c) maintains the mutualistic clauses as per articles 2514 s.s. of the Italian Civil Code; d) ensures shareholders services to maintain relations with the transferee company, within the scope of the economic program indicated by the regulations.

In line with this regulatory disposition and as it possessed the capital requirements provided for in the law, BCC Cambiano resolved to execute the "way out" operation, transferring its banking business to Banca AGCI Spa which, in so far as already authorized to exercise banking activity as a joint stock company, constituted the so-called "Transferee".

The "way out" operation provided for by Italian legislation represented opportunity for both subjects involved, in that it allowed: *(i)* BCC di Cambiano to carry on the strategic plan effectively pursued since the 1970s by exiting the cooperative credit bank movement and, more than once, the object of considerations regarding the opportunity of evolving towards different corporate forms; *(ii)* Banca AGCI to remain viable in the current regulatory framework and on the market, where stability – and as a result, capital adequacy and risk assumption – appear increasingly more tied to medium and large corporate structures.

With this outlook, the objective of the Transferor and of the Transferee was that of creating – by transferring the assets of the former BCC – a bank in the form of a joint stock company, grounded on solid historical roots, capable of meeting the current needs and requirements for increased capital strength, even raised on capital markets, and simultaneously of being innovative, even vis-à-vis the transferee bank, in terms of strategic vision, financial and organizational resources and the structure of the services offered.

In fact, in terms of strategy, the operation represented an opportunity in terms of:

- Broadening prospects and opportunities for growth (creation of value);
- Strengthening market positioning for internal (corporate solidity) and external (loss of competitiveness of competitor banks) conditions;

- Increased autonomy in the use of technology as a lever of strategic differentiation (see the Cabel-Oracle agreement).

The positive outcome of the initiative was favored by a series of factors, such as: *(i)* expert knowledge of the territory and local economic systems on the part of the "decision-makers"; *(ii)* the uniform features of the two banks involved; *(iii)* the shared technological platform; *(iv)* the affinities in terms of relational approach with shareholders/customers.

With respect to the "way out" operations, sharing the same technological platform granted the advantage of considerably limiting operational expenses and risks typical of integration processes, including those relative to migrating to new information technology systems. Therefore, these aspects considerably reduced the "project risk", in that they allowed speeding up the time required to consolidate the new structure and simplifying the procedural steps.

As known, this operation resulted in the following effects: *i)* by transferring the banking business branch, BCC di Cambiano lost its banking license and, pursuant to article 2, sub-section 3-quater of legislative decreed 18/2016, became a cooperative company, called Ente Cambiano Scpa, that pursues prevalent mutual aid objectives towards its cooperative structure and the territories of reference, as per article 2514 of the Italian civil code; *ii)* following the increase in capital and the acquisition of the controlling share in the Transferee, Ente Cambiano Scpa became, within the aforementioned context of prevalent mutual aid, the Parent Company, as per article 61 Consolidated Banking Act of the Gruppo Bancario Cambiano, formed by the same parent company, as financial company, and Banca Cambiano SpA, subject to direction and coordination activities by Ente Cambiano; *iii)* the banking company, Banca Cambiano 1884 SpA, resulting from the transfer of the former BCC Cambiano business branch, operates as a joint stock company.

The Gruppo Bancario Cambiano further expanded at the end of the 2017 financial year, following acquisition and control by Banca Cambiano 1884 SpA of Cabel Leasing Spa and the constitution of Immobiliare 1884 Srl, fully owned by the same Bank.

<u>The main drivers of the program of activities and the results of the 2017 financial year</u>

In the current Industrial Plan (2017-2019), the mission of Banca Cambiano 1884 SpA is to strengthen its identity – characterized by a constant sense of ethics and transparency of conduct – and follow and evolutionary process with the following distinguishing traits:

- **mix of tradition-innovation:** to grow, reinterpreting market needs through an offer that keeps the traditional banking activity unaltered while meeting needs/opportunities associated to innovations regarding the channel, products and services, in order to offer solutions that are dynamically suited to present and future customer expectations;
- **sociality-market union:** to associate corporate growth with the economic, social, cultural and environmental development of the context in which the Bank operates. Within the concept of the project, this entails focusing, *on the one hand*, on business ethics, transparency and integrity, dialogue and respect, etc. *and on the other hand,* on profit and capital solidity, two aspects that are indispensible to access the capital market through adequate economic and financial recognition for investors.

Within this outlook, the strategic choices made by Banca Cambiano 1884 are framed in the pursuit of the objectives detailed below:

- *adjustment of the management technical balance to the operational logic of a joint stock company bank*, by means of actions aimed at increasing margins through the adoption of pricing policies in line with the model of a joint stock company bank and the enrichment of the product catalogue, especially in terms of financial and investment services, the payment system, and system for placement of pension/insurance products, etc.;
- *strengthening the brand and market positioning*, by revamping the managerial approach and the business model, as made necessary by the evolution of management paradigms entailed in the passage from a cooperative credit institution to a joint stock company bank, interested in attracting new investors to its equity financing.

The strategic path mapped out –necessary also in order to create the conditions needed to access the capital market – has required the simultaneous activation of multiple management levers, among which, those described below:

- ❖ **Strengthening of profits from "core business"**. The essential components of the business model are repositioning: products, customers, method of supply, and pricing.
  In relation to the offer*,* the strategy of enriching the *product catalogue* and the development of commission-type revenue sources are the mechanisms activated to rebalance interest income on operating income, this also due to the effects of the transformation of direct and indirect funding and the passage from cost components (*deposit rates)* to revenues (*commissions on administered/managed funds)*.
  With reference to the *customer target,* this element was recomposed taking into account, on the one hand, our interest in enhancing economic lending with SMEs and family businesses – in order to have access to the benefits / bonuses provided for by the ECB in support of economic development (TLTRO) – in addition to cultivating relations with the private and affluent sectors, for the placement of own and third party asset management products. Also, our propensity towards loans secured by real guarantees pushes towards issuing mortgage loans for primary residences in favor of young families.
  Core business profitability has been planned acting both on the entity of brokered volumes and services and on pricing policies*;* as regards the latter, the Bank has continued to operate, by managerial choice, with favorable rates and economic conditions for customers in terms of active products, while launching initiatives to optimize funding costs.
- ❖ **Improvement of credit quality**. The Bank has always had a resource allocation policy based on rigorous criteria in terms of selecting creditworthiness and acquiring collateral, as also shown by the high recovery rates on NPLs. For this reason, it is believed that continuing with this policy cannot but generate an improvement, even prospective, in the credit portfolio, with relation to the positive forecasts for a real economic recovery in the period in review. Add to this the fact that that several organizational interventions have been implemented to solidify management processes for problematic positions and to start activities for the transfer of shares of non performing loans – to be activated within the first semester of 2018 – aimed at reducing the incidence of impaired receivables on total active lending.

These leverages will also have positive effects on the strategic objective of raising own funds, pursued in the intent of recovering the capital buffer "given" to Federal Revenue following the "way out" operation, with a depletion of approximately 54 billion and a negative impact of 244 bp on the original CET1 ratio (15.03%). Current market conditions seem to favor – with respect to an intervention on corporate capital – the issue of a bond for approximately 50 million Euro during the 2018 financial year, only for institutional investors, which meets inclusion criteria in Tier 2.

Broadening of the business perimeter

In line with the strategic choices outlined in the Industrial Plan for the "way out", the Bank has enriched its product catalogue by purchasing controlling shares (52%) in Cabel Leasing SpA, an acquisition perfected at the end of December 2017.

This operation generates significant strategic and operational synergies and also entails cost savings, some immediately perceptible, others to be valued in the future, based on the method of interaction between the various actors in the Gruppo Cambiano.

In particular, the inclusion of Cabel Leasing in the Gruppo Bancario Cambiano allows:

- Continuing to offer highly specialized products in sectors that, in the current economic scenario, are considered market niches undergoing great expansion and diversification;
- Guiding the Company's growth strategies from the inside, in synergy with the bank's own development objectives;
- Raising process reliability levels, adjusting them to Group standards, with the definition of coordinated risk management policies and more incisive monitoring activities;
- Organizing and broadening the funding structure in a more appropriate manner, in terms of maturity and rates, guaranteeing Cabel Leasing the financial support needed to expand operations, in a Group logic;
- Implementing efficient/synergic measures to manage NPL with real guarantees, also through the real estate company, to facilitate recovery/revaluation processes for real estate properties repossessed by Cabel Leasing.

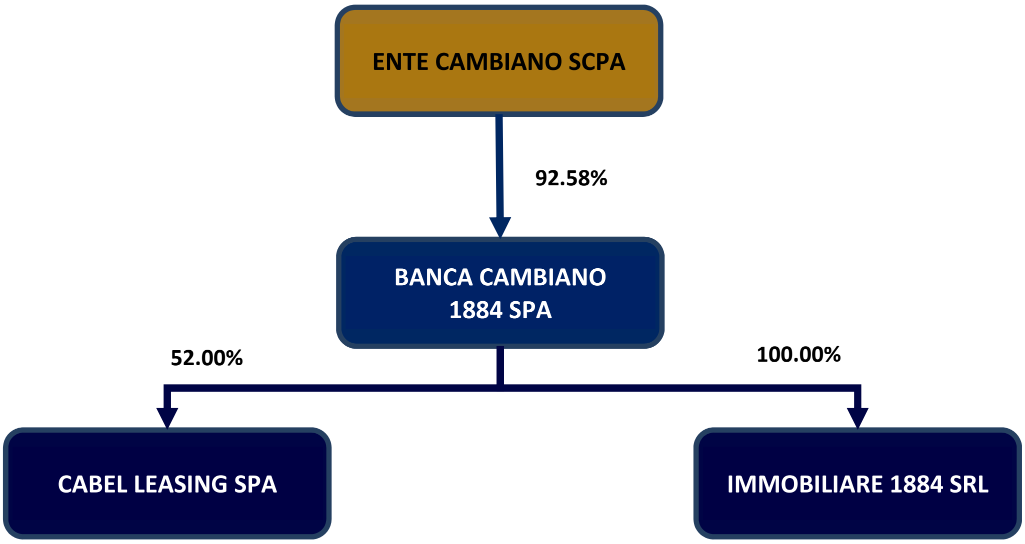
Furthermore, the spectrum of activities was broadened by constituting a real estate company, called Immobiliare 1884 S.r.l., with a business model that includes: *(i)* consulting regarding viable strategic options to maximize the gap between the residual value of the loan and the value of real estate collateral; *(ii)* valuation for asset collateral on non performing loans and/or loans being restructured; *(iii)* investments in real estate with high earning potential, which may be used for purposes instrumental to banking activities (e.g. branches, archives, etc.) and destined to rent (residual activity). The first of the company's investments was the purchase of a property located in Piazza Beccaria in Florence, known as the "Cinema Astra2".

These activities have redrawn the perimeter of the Group, which currently comprises:

- *Ente Cambiano Scpa*, parent company of the Gruppo Bancario Cambiano, which, on the one hand, pursues the mutualistic purposes provided for by article 2, sub-section 3-bis of legislative decree n. 18/2016, and on the other, carries out the direction and coordination activities attributed to parent companies by vigilance regulations regarding banking groups;

- *Banca Cambiano 1884 Spa*, controlled by the parent company with a 92.58% share participation, centered on traditional credit brokering activities, according to the economic program set forth in the 2017-2019 Industrial Plan (annexed to the applications submitted as per articles 19, 56 and 58 of the Consolidated Banking Act);
- *Cabel Leasing Spa*, which operates in the financial leasing sector as a specialized company;
- *Immobiliare 1884 srl*, which prevalently carries out real estate transactions that are auxiliary with respect to the activities of the group of which it is a member.

GRUPPO BANCARIO CAMBIANO



Managing problem loans and de-risking activities

In light of the recent guidelines for l*ess significant* Italian banks on the matter of managing impaired receivables, the Bank has reconsidered its already sound company policies regarding management of NPLs, in order to reposition them within the scope of dutiful, greater prudence. This review falls within the scope of a broader action, in line with the strategic options set forth in the current Industrial Plan, resulting in the creation of a special project to better focus interventions on the NPL portfolio, the main strategic leverages of which are summarized here following:

1. **Restructuring of the organizational model for the credit sector** based on the drivers set forth in the 2018 Credit Plan, approved in December 2017, which indicates the credit policy guidelines for 2018, organizational innovations and the process for credit management (both performing and impaired). In this context, the new “NPL Department” was established within the staff of General Management already starting June 2017. This restructuring is coherent with the above-mentioned guidelines, which underline the need to increase the separation between units dedicated to issuing loans and those dedicated to managing impaired loans, attributing additional, precise responsibilities for credit monitoring, identifying warning signs for impaired receivables and managing problem loans. In order to increase the basket of asset management/recovery instruments, in the second semester of 2017, subsequent to notification to the Bank of Italy, the aforementioned Immobiliare 1884 S.r.l. was constituted, 100% controlled by the Bank;
2. **Consolidation of measures for the development of operational and credit risk monitoring capacities**, by perfecting early warning systems, increasing the efficiency of monitoring processes, adopting analysis and control systems for performance in NPL management, pro-active management of customers that show signs of financial difficulty, etc. Therefore, starting March 2017, the “Easy Credit” application was activated as an instrument of superior quality, and the policy regarding “Rules for the classification and assessment of the credit portfolio – guidelines for management of problem loans” was modified;
3. **Improvement of the NPL database and review of the process for assessment of real estate collateral.** The electronic reorganization of the Bank’s vast electronic database regarding impaired receivables and collateral against loans was carried out with the aim of facilitating information flows between work units involved in loan management, including the aforementioned real estate company, so as to simplify the decision-making process and perfect periodic reporting on the performance of all management activities. As regards the process for the assessment of real estate collateral, the regulations that inform real estate assessment and the selection/interaction with external experts were reviewed;
4. **Management segmentation of problem positions,** to correctly define the operating methods for the management and/or mitigation of the specific weight of NPLs on overall credit assets. On this point, please note that the Bank intends to proceed with the current definition of a management strategy for NPLs outlined based on a careful segmentation of impaired receivables (by type of customer, size, technical form, collateral content, etc.), aimed at assigning the following directives: in-house management (value-increase interventions, forbearance measures, judicial and/or extra-judicial actions, etc.) or *en bloc* sale with accounting and prudential derecognition of sold assets.

In order to reduce the weight of NPLs on total company assets, in any event currently substantially in line with the averages for the Italian banking system ([1]), during 2017 the Bank undertook to assess the economic convenience of the programmed NPL sale transaction, consulting with various market operators potentially interested in purchasing packages of impaired receivables,

Market survey activities and the progressive definition of the regulatory framework for accounting and prudential treatment of NPS sales (new IFRS 9 accounting principle) have induced the Bank to identify the timeline for the above-mentioned sale within the year 2018, in order to be able to maximize the opportunities resulting from the First Time Adoption (FTA) of the aforementioned accounting principle.

As a result of what has been outlined above, a significant de-risking of Bank assets is expected in 2018, also due to one or more sales of impaired receivables.

Relations with the Authorities

The dialogue established with the Vigilance Authority in 2016 continued during the 2017 financial year, on all aspects analyzed during the procedure for authorization of the “way out” operations.

This resulted in a profitable interaction, based on a constant learning process, particularly useful for the Bank’s new path, marked by the aforementioned transformation into a joint stock company. The advice provided by the Vigilance Authority were carefully analyzed and pondered in order to be able to implement them, in compliance with the technical timing requirements, in the shortest time possible.

With Bank of Italy provision dated 30 March 2017 (protocol n. 0422775/17), Banca Cambiano 1884 became a member of the Gruppo Bancario Cambiano, as of 30 March 2017 and is subject to management and coordination by Ente Cambiano.

Shares

The shares held by the Bank are represented by two companies subject to the considerable influence of the Cabel Network (Cabel Holding Spa and Cabel Industry Spa) and the controlled companies Cabel Leasing Spa and Immobiliare 1884 Srl (now within the Gruppo Bancario Cambiano), based on the following scheme:

[1] At 30/06/2017 the entirety of “less significant” banks express an incidence of gross impaired receivables equal to 19.5% as compared to 16.8% for the Bank and respectively of net impaired receivables of 11.4% as compared to 11.3%, this latter also positively influenced by high and timely expected estimated recovery, confirmed empirically by the historical recovery rates registered by Cambiano, better than those of the system, that is to say over 70% as compared to 46.5%.

Table n. 5 – Shares

SHARES						
Name	% share capital held 31/12/2017	Book value 31/12/2017	share capital held 31/12/2016	Book value 31/12/2016	% variation of shares held	Variation in absolute value
1. Cabel Leasing S.p.a.	52.00%	9,780,900	17.40%	3,211,834	34.60%	6,569,066
2. Cabel Holding S.p.a.	49.60%	21,087,639	49.60%	21,800,808	0.00%	- 713,169
3. Cabel Industry S.p.a.	18.00%	1,986,111	6.00%	560,739	12.00%	1,425,372
4. Immobiliare 1884 s.r.l.	100.00%	5,000,000	0.00%	-	100.00%	5,000,000
Totals		37,854,650		25,573,381		12,281,269

In November 2017, with prior notification to Bank of Italy in compliance with Circular n. 285/2013 (Part Three, Chapter I, Section V), the real estate company Immobiliare 1884 Srl was founded. This initiative, as already mentioned, falls within the scope of the strategic options indicated in the Industrial Plan to speed up recovery of impaired receivables and increase efficiency in the management of the Group's real estate holdings. The company is a member of Gruppo Bancario Cambiano starting 23 November 2017.

In December, the Bank increased its holding in Cabel Leasing by 34.6%, acquiring control with an overall shareholding of 52%. This transaction was authorized by Bank of Italy on 22 November 2017 (protocol n. 1387960/17), in compliance with articles 110 and 19 of the Italian Consolidated Banking Act (TUB), resulting in the company becoming a part of Gruppo Bancario Cambiano as of 12 December 2017.

Finally, as regarding the shareholdings in the Cabel network – which remained unvaried during the fiscal year – of significance is the partnership with Oracle (as per the agreement signed in March 2016) and the project for Cabel Industry SpA to localize the Oracle Flexcube Universal Banking platform (the most widely used banking software in the world) for the Italian market. These activities are continuing as scheduled. The launch of a first bank "live" on the new system is planned within the 1st semester of 2018. The entire schedule of activities is supervised by Nolan Norton, a company belonging to Gruppo KPMG, entailing a close interaction between Cabel Industry and Oracle structures. For greater details, please consult Part B of the Explanatory Notes.

Commercial policies

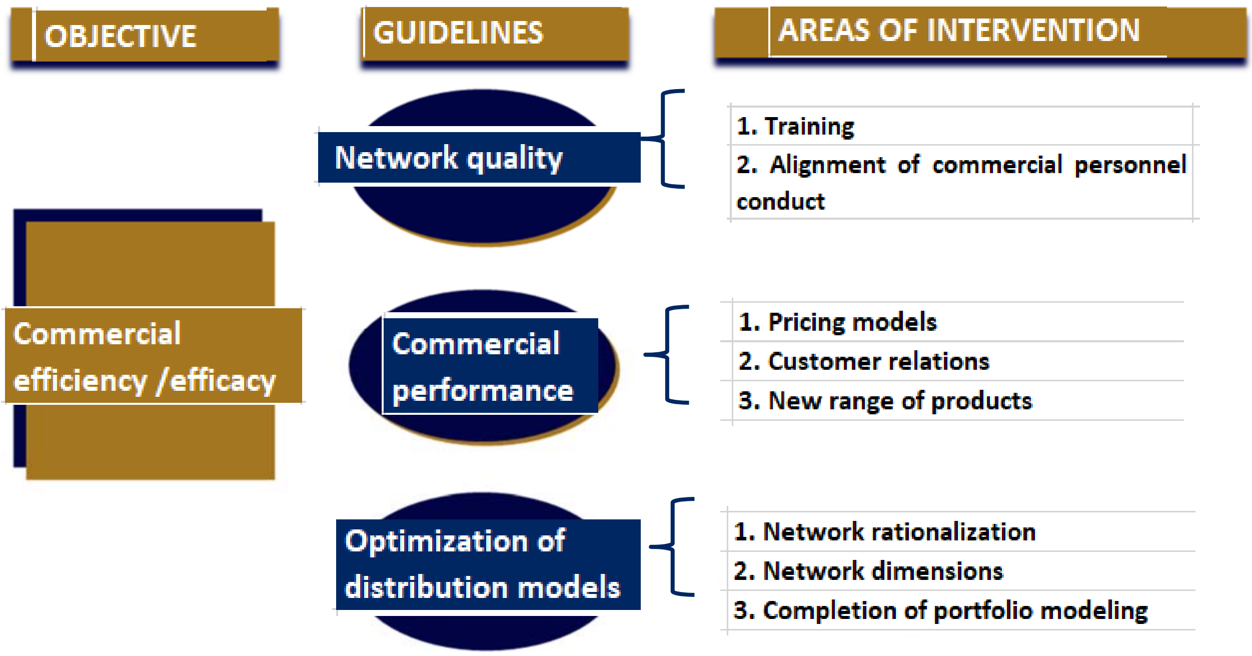
Commercial strategy

As provided for in the Industrial Plan, following completion of the "way out" operation, the Bank immediately began reviewing distribution policies aimed at implementing the programmed changes in the business, or commercial growth, model, particularly as regards product offering, sales activities and methods of interaction with customers.

Restructuring the development model as planned entailed repositioning the organizational structure of the sales department, through various kinds of interventions, aimed at ensuring: *i)* qualitative compliance of the network with the strategic and budget objectives; *ii)* consolidation of the Bank and of the Group in the territories of reference; *iii)* acquisition of new market shares, in respect of customer / product objectives; *iv)* improvement of branch productivity and economic contribution indexes.

The Bank's new commercial approach is illustrated in the Figure below.

Figure n. 1 – Criteria for rationalization of the commercial process



Within this reference frame work, Banca Cambiano 1884 SpA's distribution model is aimed at developing a multi-channel line, integrating the consolidation of the physical network with the implementation of the electronic channel as a tool for transactions, information and offers to customers that is both innovative and with a great added value.

The strategic decision to place Bank products and services also through the digital channel requires raising the level of computerization of the processes dedicated to the specific services of the so-called "on-line Bank", paying maximum attention to security systems and the speed of use of the applications.

The primary objective of the distribution model is to satisfy customer needs, offering bank clientele the possibility of using electronic payment systems, including last-generation ATM machines, POS and internet banking, in addition to the traditional "physical" channel.

From an organizational point of view, the physical network is managed through five territorial areas: an Urban Area (former Banca AGCI branches, located in the cities of Bologna, Rome and Turin), the Florentine Area (the former BCC Cambiano branch in Florence and six agencies) and three extra-urban Areas (ex Cambiano branches/agencies, n. 6 branches and n. 26 agencies), which constitute the structures that integrate and coordinate the branches and markets / channels served by the Bank. All of these have their respective head offices in the largest branch of the territory of reference and are characterized by the presence of a *Development Team*, structured by type of clientele, retail and corporate, and aimed at increasing customer satisfaction.

<u>*Main interventions in 2017*</u>

In 2017, the Bank implemented the following main activities:

- *Within the scope of the planned organizational restructuring:* a) the job profile of *area managers* was reviewed, aiming to ensure that qualitative objectives of coordination of resources allocated to the area, and quantitative objectives, that is meeting the targets, are met; b) the areas of competence of the various branches were identified, to allow for a more orderly and aimed development in the market of reference and to avoid counter-productive commercial overlapping; c) scheduled meetings with the network of branches were intensified, to constantly monitor the progress being made towards meeting assigned objectives and to give value to suggestions made by the network, which tend to ensure that results reflect the local scenario;
- *As regards commercial development,* the objectives for the operational plan, approved in January 2017, were set based on a detailed analysis of the positioning of each branch and a complete examination of the respective clientele; orientation factors were subdivided by customer macro-categories:
    - <u>Businesses</u>: the main lending sectors (Ateco) were selected and evaluated with respect to the trend in the system, analysis of the credit risk, yield and also of the deterioration index. The lending structure was examined in order to establish the product offer that best corresponds to the development logic of the businesses, with the aimed of supporting new production investments, and repositioning the duration of economic lending;
    - <u>Private sector</u>: anagraphical analyses were begun and criteria for a quantitative segmentation of customers were identified. The number of products in the portfolio was carried out in order to improve penetration indexes. Particular attention was given to identifying products that can better meet customer needs. This approach allowed us to achieve constant growth rates in the Bank's product compartment during all of 2017.

The principle interventions regarding the definition of internal transfer rates, the implementation of instruments to monitor results and the enrichment of the product catalogue are illustrated here following.

- *Internal transfer rates*

During 2017, on account of the changes in the economic and geographical structure, the Bank deemed it appropriate to adjust internal transfer rates to the different territories, in analogy with the objectives defined in the commercial plan.
Therefore, the spread applied to the average rate of return on deposits / lending, to calculate the ITR, varies based on the area to which the branch belongs, essentially on the basis of the following factors:

- Strategic plan determined on perfecting of the "way out" operation;

- Market shares in the respective municipalities;
- History of the branches: mature branches (active for over 5 years), growing (1-5 years), new openings;
- Economic trend of the territory and/or of the respective districts;
- Loan deterioration indexes;
- Competitor behavior;
- Direct components in the cost of liquidity.

- *Branch profit and loss account*

In order to better assess the results obtained by the branches, the criteria applied to determine the profit and loss account were reviewed. The scheme selected to determine the return/cost attributable to each branch is based on the application of criteria that allow attributing given cost or revenue items to individual units, taking into account the characteristics of each in terms of size, average volumes, average number of relations and branch employees. The criteria thus determined were ratified by the Board of Directors.

- *Product catalogue*

In line with the objectives of the Industrial Plan, the process of enriching the product catalogue in an effort to consolidate the presence on the market and improve customer relations was launched, focusing on high service standards.

Sales management maintained constant contacts with the main “product houses”, in order to create products best suited to customer profiles. Similar developments are expected for “internal” products.

As regards the most important products, current accounts that constitute the base of the Bank’s product range, confirmed their compliance to the specific needs of various customer segments, registering positive commercial performance rates, in line with the forecasts.

Among funding activities, for the year 2017 deposit accounts proved once again to be a leading product in terms of acquiring new direct deposits and maintaining existing positions, in line with market strategies characterized by a constantly rising competitive pressure exerted by the entire banking system.

As regards lending, 2017 was characterized by an intense financing activity in favor of families, despite external signs associated to the difficult economic situation.

The table below illustrates the first positive results, that bear testimony to the efforts made by management in favor of commercial growth and market positioning in the territories of reference.

Table n. 6 – Market shares on deposits

MARKET SHARES ON DEPOSITS			
Territorial Area	**31/12/2017**	**31/12/2016 (1)**	**Percent variation**
Region of Tuscany	3.143%	2.737%	14.85%
Total Province of Florence	7.489%	6.479%	15.59%
BARBERINO VAL D'ELSA (*)	26.919%	24.891%	8.15%
GAMBASSI TERME (*)	12.565%	12.941%	-2.91%
FIGLINE E INCISA VALDARNO	3.257%	1.880%	73.22%
CASTELFIORENTINO	80.960%	66.971%	20.89%
CERRETO GUIDI	24.108%	26.626%	-9.46%
CERTALDO	52.177%	50.627%	3.06%
EMPOLI	30.069%	28.144%	6.84%
FIRENZE	3.159%	2.323%	35.96%
FUCECCHIO	18.937%	19.575%	-3.26%
GREVE IN CHIANTI	4.037%	1.371%	194.47%
MONTAIONE	42.487%	38.763%	9.61%
MONTELUPO FIORENTINO	31.695%	27.317%	16.02%
MONTESPERTOLI	38.257%	36.760%	4.07%
SCANDICCI	8.545%	7.324%	16.67%
SESTO FIORENTINO	1.057%	0.900%	17.46%
TAVARNELLE VAL DI PESA	7.933%	5.850%	35.60%
VINCI	24.860%	22.643%	9.79%
Total AREZZO:	0.284%	0.275%	3.21%
AREZZO	0,231%		100,00%
SAN GIOVANNI VALDARNO	3,009%	4,484%	-32,89%
Total PISA:	1,640%	1,129%	45,21%
CASTELFRANCO DI SOTTO	50,570%	33,094%	52,81%
SAN MINIATO	3,659%	3,109%	17,71%
Total PISTOIA	1,286%	1,287%	-0,07%
PISTOIA	3,195%	3,198%	-0,07%
Total SIENA:	3,327%	3,158%	5,36%
CASTELLINA IN CHIANTI	34,383%	32,889%	4,54%
COLLE DI VAL D'ELSA	18,451%	19,367%	-4,73%
POGGIBONSI	28,155%	25,924%	8,60%
SAN GIMIGNANO	31,408%	28,549%	10,01%
Metropolitan city of Turin	0,150%	0,096%	55,40%
Metropolitan city of Bologna	0,267%	0,320%	-16,39%
Metropolitan city of Rome	0,007%	0,004%	84,63%
Total Italian banking system	0,151%	0,131%	14,92%

(*) National data available with municipality of ref, with less than 3 tellers.

Table n. 7 – Market shares on lending

MARKET SHARES ON LENDING			
Territorial area	**31/12/2017**	**31/12/2016 (1)**	**Percent variation**
Region of Tuscany	2.102%	1.970%	6.72%
Total Province of Florence	3.608%	3.412%	5.74%
BARBERINO VAL D'ELSA (*)	25.905%	24.995%	3.64%
GAMBASSI TERME (*)	11.941%	11.760%	1.54%
FIGLINE E INCISA VALDARNO	6.148%	4.635%	32.65%
CASTELFIORENTINO	63.205%	60.548%	4.39%
CERRETO GUIDI	19.148%	20.498%	-6.59%
CERTALDO	35.220%	36.137%	-2.54%
EMPOLI	19.206%	17.267%	11.23%
FIRENZE	0.902%	0.832%	8.43%
FUCECCHIO	16.039%	15.349%	4.49%
GREVE IN CHIANTI	7.490%	3.485%	114.91%
MONTAIONE	43.515%	47.920%	-9.19%
MONTELUPO FIORENTINO	23.184%	22.675%	2.24%
MONTESPERTOLI	40.659%	38.938%	4.42%
SCANDICCI	9.752%	9.382%	3.95%
SESTO FIORENTINO	1.250%	0.658%	90.10%
TAVARNELLE VAL DI PESA	15.990%	16.705%	-4.28%
VINCI	17.227%	17.901%	-3.77%
Total AREZZO:	0.813%	0.614%	32.29%
AREZZO	0.357%		100.00%
SAN GIOVANNI VALDARNO	9.645%	9.310%	3.60%
Total PISA:	1.299%	1.270%	2.31%
CASTELFRANCO DI SOTTO	35.143%	35.130%	0.04%
SAN MINIATO	5.148%	4.643%	10.87%
Total PISTOIA	1.848%	1.419%	30.21%
PISTOIA	4.107%	3.154%	30.21%
Total SIENA:	2.535%	2.451%	3.41%
CASTELLINA IN CHIANTI	25.346%	24.373%	3.99%
COLLE DI VAL D'ELSA	18.568%	18.538%	0.17%
POGGIBONSI	18.247%	17.286%	5.56%
SAN GIMIGNANO	24.078%	24.283%	-0.84%
Metropolitan city of Turin	0.040%	0.034%	18.30%
Metropolitan city of Bologna	0.221%	0.179%	23.58%
Metropolitan city of Rome	0.018%	0.014%	32.24%
Total Italian banking system	0.139%	0.129%	7.78%
(*)National data available with municipality of ref. with less than 3 tellers.			

Credit and financial brokerage

The Bank continues to maintain brokerage activities aimed at supporting local industry in the territories of reference. A management decision pursued by means of appropriate products, services and conditions and with organizational and decision-making processes correlated to market requirements and to controlling the risk levels associated to lending activities in the existing context.

The principle aggregates of reference at 31 December 2017 are listed below, compared to the same data for the previous year, appropriately aggregated (always indicated as 31/12/2016) to take into account the known “way out” operation.

Overall deposits, direct deposits, indirect funding

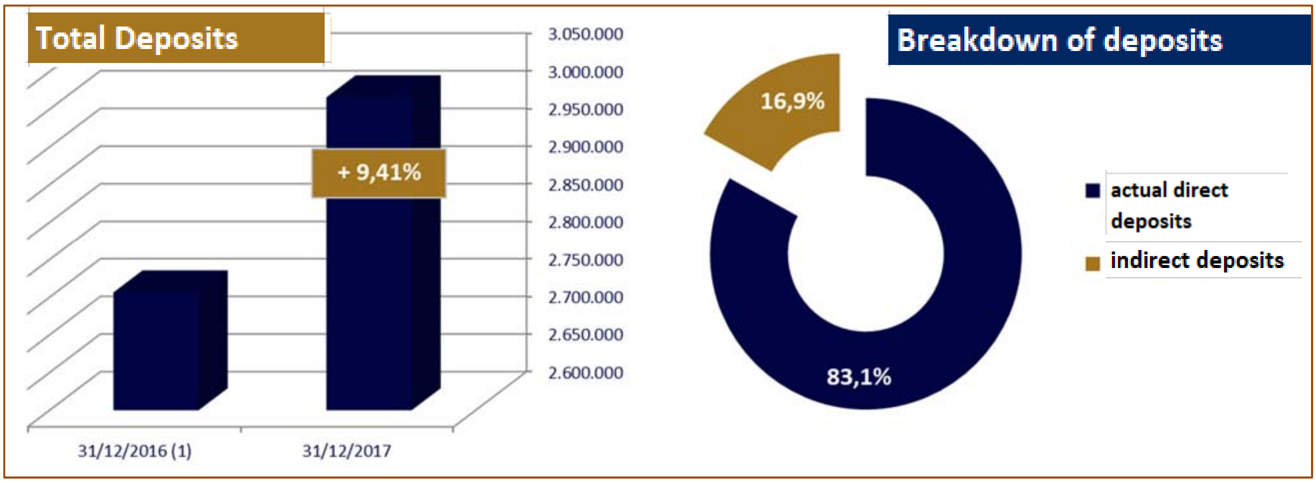
Table n. 8 – Deposits and funding

DEPOSITS AND FUNDING				
Description	**31/12/2017**	**31/12/2016 (1)**	**Absolute Var.**	**% Var.**
Payables to customers	2,305,459	2,124,681	180,778	8.51%
Outstanding securities	251,959	356,768	- 104,809	-29.38%
Direct deposits	2,557,418	2,481,449	75,969	3.06%
“Non actual” direct deposits	- 51,943	- 171,655	119,711	- 69.74%
“Actual” direct deposits	**2,505,474**	**2,309,794**	**195,680**	**8.47%**
Indirect – Administered	172,963	182,852	- 9,889	-5.41%
Indirect - Funds	38,883	26,600	12,283	46.18%
Indirect - GPM	16,351	13,385	2,966	22.16%
Indirect – Insurance sector	282,164	223,741	58,423	26.11%
Indirect funding	**510,361**	**446,579**	**63,782**	**14.28%**
Overall deposits	**3,015,836**	**2,756,373**	**259,463**	**9.41%**

Type of transaction/Values	**31/12/2017**	**31/12/2016 (1)**	**Absolute Var.**	**% Var.**
1. Current accounts	1,899,970	1,609,335	290,635	18.06%
2. Deposits	60,149	61,090	- 941	-1.54%
3. Time deposits	293,397	282,601	10,796	3.82%
4. Liabilities referred to assets transferred	-	-	-	-
5. Repo with ordinary customers	-	-	-	-
6. Deposit certificates	2,396	7,666	- 5,270	- 68.75%
7. Securities	249,563	349,102	- 99,539	- 28.51%
Total actual lending	**2,505,474**	**2,309,794**	**195,680**	**8.47%**
8. Repo with Clearinghouse and Guaranty Fund	39,936	129,624	- 89,689	- 69.19%
9. Funding from Deposits and Loan Fund	12,008	42,030	- 30,022	- 71.43%
Total other lending	**51,943**	**171,655**	**- 119,711**	**- 69.74%**
Total (balance sheet value)	**2,557,418**	**2,481,449**	**75,969**	**3.06%**

Total lending (direct, administered and insurance) was 3,016 million Euro, as compared to 2,756 million Euro in 2016, with an increase of 259 million Euro, equal to 9.41%.

Graph n. 7 – Lending

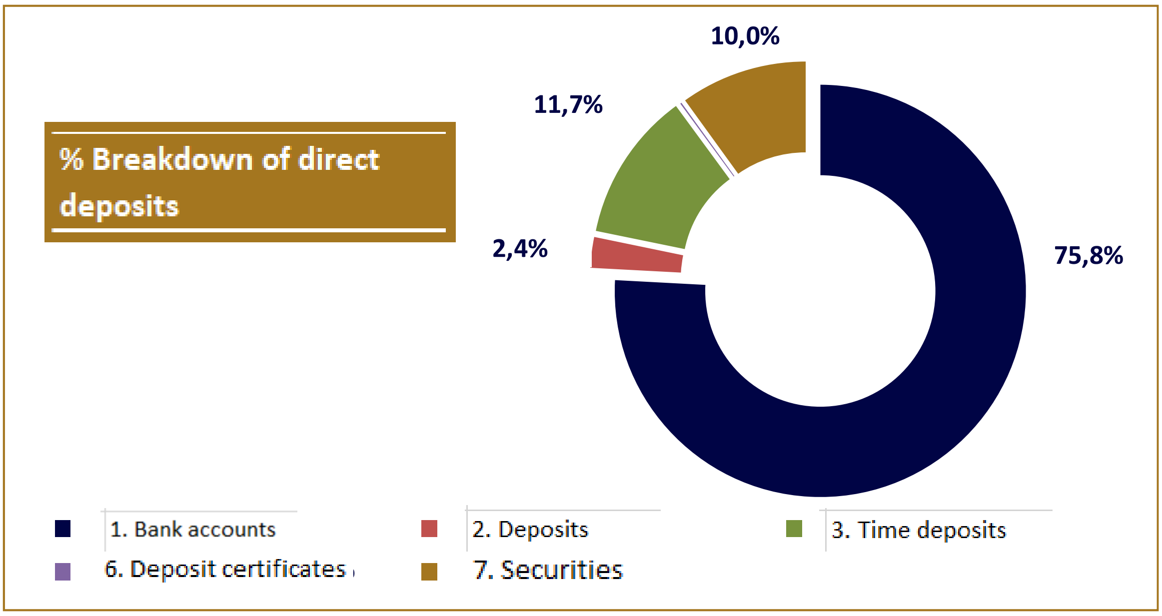


The direct deposits aggregate grew during the year by 8.47%, reaching 2,505.50 million Euro at the end of 2017, net of so-called "non actual lending", relating exclusively to lending with institutional counterparties (Deposits and Loans Fund, Poste Italiane, etc.).
In detail, this variation relates primarily to the performances registered on increases in current accounts and time deposits, capable of both raising the volume of direct deposits and lowering the cost of the same item, also due to their capacity to substitute other type of more costly lending.

In fact, during 2017, direct deposits registered a significant increase in volumes, in line with the reconfirmed company policy aimed at offering favorable conditions to customers, despite having to adjust to current market rates.

The current structure of direct deposits is illustrated as follows:

Graph n. 8 – Breakdown of direct deposits

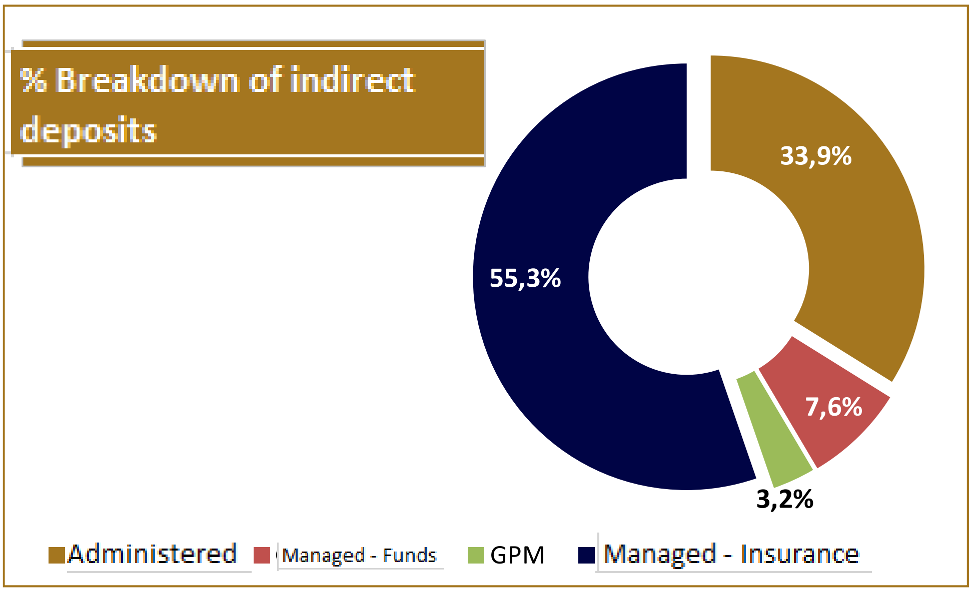


The sum of indirect deposits was 510,40 million Euro, marking a relevant increase, in line with the strategies set forth in the Industrial Plan, equal to 17.68 % above the data for the previous financial year (Euro 433,70 million), appropriately aggregated based on the "way out" operation.

This result follows the enrichment of the range of products offered for the sector where, however, the risk line absolutely in line with customer profiles must be underlined, which has been our most rigorous and essential criterion. For the Bank, the growth in volumes and the fee contributions are not relevant with respect to transparent, honest and proposed long-standing relations with customers. The company policy of risk aversion is reaffirmed, and the strategy followed is that of providing products that have among the main features that of not being sensitive to rate dynamics, of having a guaranteed capital and yield assumptions at the best market levels for the types of products offered. This strategy of protecting customer investments has resulted in the orderly growth of the sector, avoiding increases that are not in line with customer risk profiles. For dynamic management, partnering with leading domestic and international operators has been strengthened: F. Templeton, Jp Morgan, E. Rothschild, Shroders, M&G, Natixis, Pimco, LombardOdier, Anima, Arca, UbiPramerica, and last but not least, our Gp Plus: a range of asset management approaches that combines innovation with the experience of a team of investment experts, fruit of the collaboration between the subsidiary INVEST BANCA S.p.a. and BlackRock's IShares.

The current breakdown of indirect funding is illustrated below.

Graph n. 9 – Breakdown of indirect funding



Lending

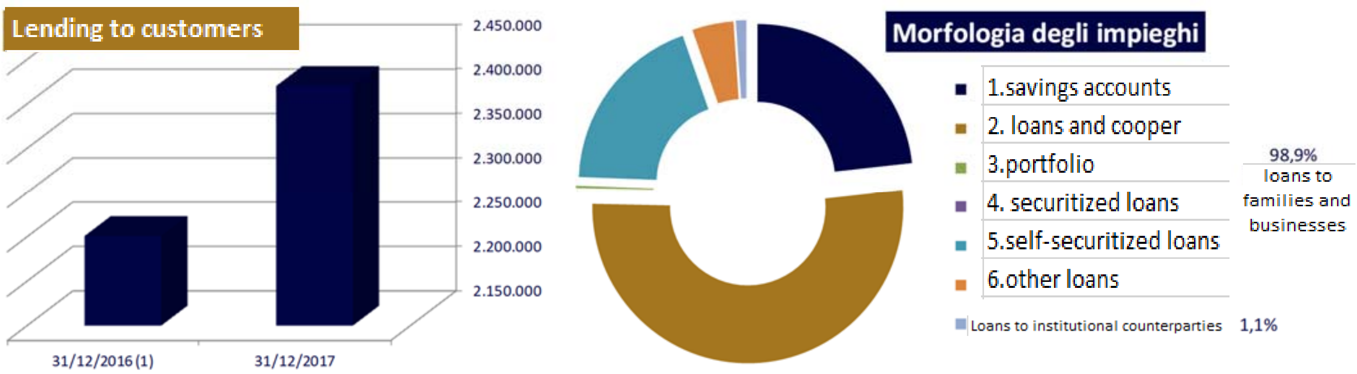
At the end of December, receivables from customers, net of doubtful loans, amounted to 2,445.5 million, an 8.11% increase, equal to 183.4 million Euro, as compared to previous (BCC Cambiano and Banca AGCI) 2016 values. This increase was greater than that of the overall banking system. The effective increase – that is to say, the increase filtered of the component constituted by Poste Italiane S.p.a. (post accounts), the Clearinghouse and Guaranty Fund and the special purpose vehicle society for the securitization transaction, all counterparties that must nonetheless be included in the aggregate for the purposes of the balance sheet – related to businesses and families was equal to € 2,420.2 million which, in relation to the same datum at the end of 2016, equal to € 2,250.8 million, registers an effective net increase of 7.52%.

Table n. 9 – Lending

LENDING				
€/000				
Type of transaction /values	**31/12/2017**	**31/12/2016 [1]**	**Absolute Var.**	**% Var.**
1. Bank accounts	546,123	509,938	36,185	7.10%
2. Mortgage loans and financing	1,223,921	1,463,751	- 239,830	-16.38%
3. Portfolio	5,808	4,238	1,570	37.04%
4. Securitized mortgage loans	-	-	-	
5. Self-securitized mortgage loans	447,355	110,553	336,802	304.65%
6. Other financing	101,198	69,118	32,080	46.41%
7. Gross non-performing loans	263,482	249,473	14,009	5.62%
8. Write-downs on non –performing loans	- 125,684	- 114,528	- 11,156	9.74%
9. Overall write-downs	- 42,003	- 41,711	- 292	0.70%
Total net effective economic lending	**2,420,200**	**2,250,831**	**169,368**	**7.52%**
10. Receivables from Pontormo RMBS	23,827	10,497	13,330	126.99%
11. Receivables from Poste Italiane	284	160	124	77.68%
12. Receivables from Clearinghouse and Guaranty Fund	1,159	620	539	86.81%
13. Receivables from Deposits and Loan Fund	-	-	-	
Total other net economic lending	**25,270**	**11,277**	**13,993**	**124.08%**
Total (balance sheet value)	**2,445,470**	**2,262,109**	**183,361**	**8.11%**

Detailed data from the table above are illustrated in graph form below.

Graph n. 10 – Lending to customers



The impact of net effective economic lending on effective direct deposits by customers is 96.6% as compared to 89.8% for the 2016 fiscal year.

As was the case in previous years as well, the medium-term mortgage loans component comprehensive of self-securitized mortgage loans, registered a significant increase (+ 6.2%). The component referred to short-term mortgage loans and for credit unfreezing is still influenced by the economic context and by market dynamics that, as mentioned, have recorded a vast diffusion of aggressive offers, up to zero percent rates, on the part of other institutions on short-term financing products due to the aforementioned measures to re-align growth parameters on economic lending at the end of January 2018 required for TLTRO transactions. The Bank, without implementing the aggressive measures of its competitors, amply reached the target increase in eligible financing for TLTRO purposes (to SMEs) and, therefore, in 2018 – as will also be expressed in the revenue analysis – will collect the repurchase on the cost of financing, with an economic benefit for the fiscal year 2017 – that cannot be booked in the balance sheet to which this document refers, but is to be wholly recorded in 2018 as a profit– of approximately € 1.9 million.

During the fiscal year in review, in which the economic scenario has shown the first signs of recovery, the Bank has continued its policy of ensuring loans to businesses and families in the territory of reference, in order to both contribute to supporting development and to keep the savings generated in the area. The Bank has also continued credit allocation activities, reinforcing agreements with the main Credit Consortia in the areas of reference, and within this scope has further developed its collaboration with local associations.

On this point, the breakdown of economic lending by economic sector of reference is illustrated in the table below.

Table n. 10 – Lending by economic sector

LENDING BY ECONOMIC SECTOR	
Sector of reference	**Percent**
A AGRICULTURE, FORESTRY AND FISHING	**4.2%**
B MINING AND QUARRYING PRODUCTS	**0.8%**
C MANUFACTURING PRODUCTS	**26.3%**
10 FOOD INDUSTRY	3.5%
11 BEVERAGES INDUSTRY	0.3%
12 TOBACCO INDUSTRY	
13 TEXTILE INDUSTRY	1.4%
14 WEARING APPAREL INCLUDING LEATHER AND FUR	1.3%
15 LEATHER AND RELATED ITEMS	3.0%
16 WOOD AND WOOD AND CORK PRODUCTS (ESCLUSING FUNITURE); ARTICLES MADE OF STRAW AND PLAITING MATERIALS	1.1%
17 PAPER AND PAPER PRODUCTS	1.9%
18 PRINTING AND REPRODUCTION OF RECORDED MEDIA	0.4%
19 COKE AND REFINED PETROLEUM PRODUCTS	
20 CHEMICAL PRODUCTS	0.5%
21 BASIC PHARMACEUTICAL PRODUCTS AND PHARMACEUTICAL PREPARATIONS	0.1%
22 RUBBER AND PLASTIC PRODUCTS	1.3%
23 OTHER NON-METALLIC PRODUCTS	1.0%
24 METAL PRODUCTS	0.9%
25 METAL PRODUCTS (EXCLUSING MACHINERY AND EQUIPMENT)	2.7%
26 COMPUTER, ELECTRONIC AND OPTICAL PRODUCTS; ELECTRO-MEDICAL AND MEASURING EQUIPMENT, WATCHES AND CLOCKS	0.6%

LENDING BY ECONOMIC SECTOR	
Sector of reference	Percent
27 ELECTRICAL EQUIPMENT AND NON-ELECTRIC DOMESTIC APPLIANCES	0.6%
28 MACHINERY AND EQUIPMENT N.E,C,	2.0%
29 MOTOR VEHICLES, TRAILERS, SEMI-TRAILERS	0.1%
30 OTHER TRANSPORT VEHICLES	0.0%
31 FURNITURE MANUFACTURING	0.8%
32 OTHER MANUFACTURING INDUSTRIES	2.3%
33 REPAIR, MAINTENANCE AND INSTALLATION OF MACHINERY AND EQUIPMENT	0.7%
D ELECTRICITY, GAS, STEAM AND AIR-CONDITIONING SUPPLY	**1.1%**
E WATER SUPPLY; SEWAGE SYSTEMS, WASTE MANAGEMENT AND REMEDIATION PRODUCTS	**0.9%**
F BUILDING INDUSTRY	**12.5%**
G WHOLESALE AND RETAIL SALES AND MOTOR VEHICLE AND MOTORCYCLE REPAIRS	**19.9%**
H TRANSPORT AND STORAGE	**1.9%**
I ACCOMODATION AND RESTAURANT SERVICES	**6.4%**
J INFORMATION AND COMMUNICATION SERVICES	**1.1%**
K FINANCIAL AND INSURANCE ACTIVITIES	**0.0%**
L REAL ESTATE ACTIVITIES	**16.2%**
M PROFESSIONAL, SCIENTIFIC AND TECHNICAL ACTIVITIES	**3.9%**
N RENTAL SERVICES, TRAVEL AGENCIES, BUSINESS SUPPORT SERVICES	**1.7%**
O PUBLIC ADMINISTRATION AND DEFENSE, OBLIGATORY SOCIAL INSURANCE	**0.0%**
P SCHOOLING	**0.2%**
Q HEALTHCARE AND SOCIAL SERVICES	**1.3%**
R ARTS, SPORTS, ENTERTAINEMENT AND RECREATION	**0.7%**
S OTHER SERVICES	**1.0%**
T FAMILY AND HOUSEHOLD ACTIVITIES, SUCH AS EMPLOYERS OF DOMESTIC HELP; PRODUCTION OF UNDIVERSIFIED GOODS AND SERVICES FOR PERSONAL USE ON BEHALF OF FAMILIES AND HOUSEHOLDS	**0.0%**
U ORGANIZATIONS AND ORGANISMS OUTSIDE THE TERRITORY	**0.0%**
TOTAL	**100.0%**

The Bank continued to reap the positive effects correlated to the agreement stipulated with the E.I.F. (European Investment Fund), which provides for the issue of guaranty coverage for loans destined to innovation initiatives. These are operations assisted by the "InnovFin" European Community guarantee facility issued by the European Investment Fund, with financial support from the European Union as per the terms defined within the scope of the Horizon 2020 program and the European Fund for Strategic Investments (EFSI). These funds are to be deployed by eligible banks that meet specific size requirements and have organizational intents and set-up coherent with an orientation to research, development and innovation. The operational opportunities that derive from this convention are significant; in 2017 loans covered by InnovFin guaranty were issued for a total of € 36.9 million, with additional transactions in the preliminary stages for € 3.9 million. The potential for development in this sector are important and also supported by the fact that our Bank is among the few at a national level admitted into the agreement, after close assessment on the part of the EIF. This is, for us, a further acknowledgement of our recognized professional quality.

Moreover, both on the basis of activities currently under way and of further micro-analyses carried out territorially, there appears to be good room for growth in customer volumes (in terms of number of relations and value) in the metropolitan areas of reference (Florence, Turin, Bologna and Rome).

Credit quality

In light of the persisting difficult economic context, the Bank has further reinforced risk control both during credit granting and during management and monitoring activities. In line with the intervention program already under way, credit selection and management policies were revised, perfected and codified in a specific company policy, which is currently under review and will be completed also in accordance with the entry into force of the new international accounting principle (IFRS 9). This process will be constantly monitored during the transitional period, identified in the aforementioned regulations as the period lapsing between start up and the choice of the definitive methodology. To this end, numerous key process aspects have been pinpointed, supported by specific IT procedures.

Structurally, an "*NPL area*" has been created, reporting directly back to General Management, with the specific function of monitoring and managing sector assets, with a view to protecting value. Within this scope, activities aimed at the assessment and at setting strategies to reduce NPLs, in compliance with European Central Bank guidelines and with the Bank's strategic plans. Additionally, from a structural point of view, a real estate company was constituted, to allow for more efficient and effective management of real estate stock used as collateral for impaired loans.

The measures implemented to date have impacted the incidence of impaired receivables with respect to total lending in a positive and increasing manner and have improved the recovery process.

The Cambiano share of NPLs is substantially in line with that of so-called *Less Significant* banks. At 30 June 2017 (most recent data available from Bank of Italy), the system registered a NPL level, gross of adjustment, of 19.5% (11.4% of net exposure) as compared to 17.17% for Cambiano (11.56% of net exposure). These indicators, at 31 December 2017 in Cambiano, were respectively 16.8% and 11.3%, showing a slight improvement. As amply illustrated, the weight of non-performing loans is destined to decrease further due to the effect of the programmed transfer transaction during the first semester of 2018.

Despite the fact that the ongoing crisis has further weakened the traditional solidity of small and medium businesses in our territory of competence, Region of Tuscany and metropolitan cities, the Bank has, on the one hand, increased lending based on rigorous credit concession policies and, on the other, reinforced management of NPLs, continuing to achieve NPL recovery rates that are on average higher than those of the banking system; all this, convinced of the importance, also in accordance with the guide lines, of diminishing the current stock of impaired receivables by means of a market sale. On this point, the importance of credit collateral and the quantity/quality of information contained in every single dossier, aimed at limiting imbalances in information generally lamented in investors in NPLs, has made it possible to liaise with numerous potential buyers in a qualified manner.

The results of the careful governance implemented by Bank management on credit quality are the reduction of the incidence of impaired receivables on bank assets (- 0.05%), and the increase in coverage (+ 1.79% on non-performing loans). Specifically, the level of adjustments on receivables is the fruit of expected losses analytically estimated based on criteria that are precisely regulated by policies, and therefore the expected recovery of receivables over time is considered fully adequate, also based on empirical evidence available to the Bank.

The table below contains the summarized data:

Table n. 11 – Credit quality indexes

CREDIT QUALITY INDEXES			
	31/12/2017	31/12/2016 (1)	Variation
% OF NET RECEIVABLES			
% Net non-performing loans on total net receivables	5.63%	5.97%	-0.33%
% Net watchlist on total net receivables	5.06%	4.80%	0.26%
% Gross overdue/overdrawn accounts on total net receivables	0.58%	0.56%	0.02%
% Total net impaired receivables on total net receivables	11.27%	11.32%	-0.05%
% OF GROSS RECEIVABLES			
% Gross non-performing loans on total gross receivables	10.08%	10.32%	-0.23%
% Gross watchlist on total gross receivables	6.12%	5.96%	0.16%
% Gross overdue/overdrawn accounts on total gross receivables	0.60%	0.58%	0.02%
% Total impaired receivables on total gross receivables	16.80%	16.85%	-0.05%
% OF HEDGES			
% Hedges on non-performing loans	47.70%	45.91%	1.79%
% Hedges on other impaired receivables	21.49%	23.35%	-1.86%
% Hedges on total impaired receivables	37.22%	37.16%	0.06%
% Hedges on receivables in bonis	0.20%	0.24%	-0.04%

Property, plant and equipment and intangible assets

As a result of the mentioned *way out* merger operation, property, plant and equipment shows a slight decrease, relative to the parent company Ente Cambiano, while intangible assets increase due to the input of goodwill connected to former Banca AGCI.

Table n. 12 – Tangible and intangibile assets

TANGIBLE AND INTANGIBLE ASSETS			
data in €/000	31/12/2017	31/12/2016 (1)	% Var.
Properties used in operations	43,057	51,523	-16.43%
Properties held for investment	-	-	
Other tangible assets	15,048	15,692	-4.11%
Total tangible assets	**58,105**	**67,216**	**-13.55%**
Goodwill	6,975	2,100	232.13%
Other intangible assets	545	411	32.61%
Total intangible assets	**7,519**	**2,511**	**199.49%**

Incidence of tangible assets on total assets	1,72%	1,97%	-0.25%
Incidence of intangible assets on total assets	0,22%	0,07%	0.15%

Book shareholders' equity

At the end of 2017, book shareholders' equity was equal to 240.0 million of the aggregate value at 13/12/2016 (see the table below), reduced in accordance with the cost associated to payment to the Revenue office of the extraordinary "sum" for the "way out" operation, equal to 54.2 million, calculated – as per specific regulatory provision – as 20% of BCC Cambiano's net equity at 31/12/2015.

The breakdown of book equity was modified as a result of the transfer of the former BCC (Transferor) banking business into the SpA vehicle (Transferee).

Specifically, the following actions were undertaken:

- A capital increase was paid in to BCC di Cambiano, perfected with the transfer of the banking business, equal to 215.5 million (from the transfer of 3,168.9 million in assets and 2,953.4 million Euro in liabilities), so as to reach the final amount of 232.8 million Euro;
- Recording of the accounting items for the changes in equity, among which the redefinition of reserves, including those unavailable typical of the prevalently mutualistic nature of the cooperative business model.

Table n. 13 – Breakdown of statutory equity

BREAKDOWN OF STATUTORY EQUITY					
data in €/000	31/12/2017	31/12/2016 (1)	*31/12/2016 BCC Cambiano*	*31/12/2016 Banca AGCI*	% Var. '16-'17
Capital	232,800	21,864	*3,864*	*1,,000*	964.76%
Issue premiums	803	1,962	*562*	*1,400*	-59.07%
Reserves	3,425	250,613	*25,965*	*- 1,352*	-98.63%
(Own shares)	-	-	-	-	
Valuation reserves	- 1,481	10,104	*12,368*	*- 2,264*	-114.66%
Profit (Loss) for the fiscal year	4,500	5,142	*5,100*	*42*	-12.49%
Net statutory equity	**240,048**	**289,685**	***273,859***	***15,826***	**-17.14%**

	31/12/2017	31/12/2016 (1)	% Var.
Shareholder's equity / Direct deposits from customers (effective)	9.58%	12.54%	-23.6%
Shareholders' equity / Receivables from customers (effective)	9.92%	12.87%	-22.9%
Shareholders' equity / Total assets	7.12%	8.49%	-16.2%

Income trend

The 2017 fiscal year closed with a net profit of 4.5 million Euro.

The principle economic aggregates at 31 December 2017 are provided, compared with the previous year's data, included to take into account the corporate transaction with Banca AGCI.

Interest income

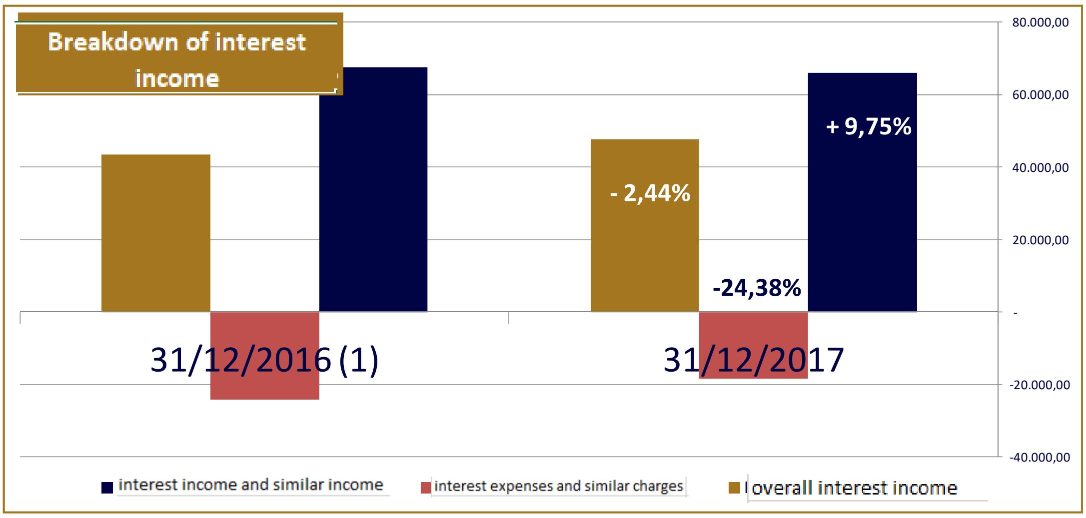
Interest income, for a total of 47.7 million Euro, showed an increase of 9.75%, despite the fact that 2017 was a fiscal year marked by negative short-term interest rates of reference, which compressed the spreads applied by the Bank. Containing the average cost of loans and deposits proved to be an effective management action, which maintained an important interest income value by a reduction of 5.9 million in interest expenses, not unrelated to the growth in volumes.

Furthermore, if the data were to be considered by year of competence, (even if this is not only formally as at 31/12/2017) the obtained ECB *bonus* (TLTRO) deriving from the growth rate of lending to SMEs, already mentioned previously, which will be collected in 2018, the interest income would rise to approximately 49.6 million Euro, registering a growth rate greater than 14%.

Table n. 14 – Interest income

	INTEREST INCOME			
	data in €/000	**31/12/2017**	**31/12/2016 [1]**	**% Var.**
TOTAL	Earned interest and similar income	66,026	67,676	-2.44%
	Interest payable and similar expenses	18,276	24,168	-24.38%
	Total interest income	**47,750**	**43,508**	**9.75%**
With CUSTOMERS	Earned interest and similar income	62,602	62,527	0.12%
	Interest payable and similar expenses	17,479	23,595	-25.92%
	Interest income with customers	**45,122**	**38,932**	**15.90%**
With BANKS	Earned interest and similar income	347	273	27.22%
	Interest payable and similar expenses	188	224	-16.33%
	Interest income with the banking system	**159**	**48**	**229.61%**
on SECURITIES	Earned interest and similar income	2,781	4,117	-32.45%
	Interest payable and similar expenses	-	-	
	Interest income on Securities	**2,781**	**4,117**	**-32.45%**
OTHER	Earned interest and similar income	297	759	-60.95%
	Interest payable and similar expenses	609	349	74.70%
	Residual interest income	**- 312**	**411**	**-176.05%**

Graph n. 11 – Breakdown of interest income



Commission income

Commission income at 31 December 2017 was equal to 25.2 million Euro, with an increase of 10.34% as compared to the previous fiscal year.

Table n. 15 – Commission income

	COMMISSION INCOME			
	data in €/000	31/12/2017	31/12/2016 (1)	% Var.
TOTAL	Commission income	27,281	24,585	10.97%
	Commission expenses	2,070	1,737	19.17%
	Overall commission income	**25,211**	**22,848**	**10.34%**
From management, brokerage and consulting services	Commission income	1,325	1,201	10.34%
	Commission expenses	193	146	32.70%
	Commission income	**1,132**	**1,055**	**7.25%**
From distribution of third party services	Commission income	1,689	1,230	37.24%
	Commission income	**1,689**	**1,230**	**37.24%**
From collection and payment services	Commission income	6,787	6,510	4.25%
	Commission expenses	1,518	1,501	1.13%
	Commission income	**5,269**	**5,009**	**5.19%**
From other services	Commission income	17,479	15,643	11.74%
	Commission expenses	358	90	299.05%
	Commission income	**17,121**	**15,553**	**10.08%**

The increase of commission income is driven by growth of indirect funding, already described in the preceding pages of this document, identified in the +37.24% from commission income from the distribution of third party services as well as +7.25% from Commission income from management, brokerage and consulting services.

Operating income

Operating income at 31 December 2017 was 76.6 million Euro, with a reduction of 2.59% as compared to the aggregate data for 2016.

As is illustrated in the table below, as compared to the better performance shown by the structural components of the banking profit and loss account, interest income and commission income, the drop in operating income is attributable to the lesser result (-6.9 million Euro) achieved in the management of the portfolio of assets available for sale.

Table n. 16 –Operating income

OPERATING INCOME			
data in €/000	**31/12/2017**	**31/12/2016 (1)**	**% Var.**
Overall interest income	**47,750**	**43,508**	**9.75%**
Overall commission income	**25,211**	**22,848**	**10.34%**
Dividends and similar income	2	2	21.46%
Net trading result	296	2,199	-86.56%
Net hedging result	47	- 112	-142.19%
Gains (losses) from the disposal or repurchase of:	3,341	10,242	-67.38%
a) receivables	-	-	
b) financial assets available for sale	3,276	10,177	-67.81%
c) financial assets held through maturity	-	-	
d) financial liabilities	65	65	0.31%
Net income of financial assets and liabilities measured at fair value	-	-	
Operating income	**76,646**	**78,687**	**-2.59%**

Net income from financial assets

Net income from financial assets decreased as compared to December 2016, in line with the results shown for operating income, and was equal to 61.4 million Euro (-2.87%). The economic recovery in the territories of competence, where the rate of new non-performing loans decreased for the entire banking system, is attributable also to the failed increase in adjustments to performing loans.

Table n. 17 – Net income from financial assets

NET INCOME FROM FINANCIAL ASSETS			
data in €/000	31/12/2017	31/12/2016 (1)	% Var.
Operating income	**76,646**	**78,687**	**-2.59%**
Net adjustments/write-backs due to impairment of:	- 15,206	- 15,432	-1.46%
a) receivables	- 13,940	- 15,435	-9.69%
b) financial assets available for sale	-	- 5	-100.00%
c) financial assets held through maturity	-	-	
d) other financial operations	- 1,267	8	-15204.71%
Net income from financial assets	**61,440**	**63,255**	**-2.87%**

Operating costs

As regards operating costs, despite charges associated to the corporate reorganization and market communications related to the "way out" operation, recoveries were approximately 3.0 million Euro, going from 58.2 million Euro in overall costs for 2016 to 55.2 million Euro for 2017, this latter value being actually lower (about -1.0 million Euro) than that estimated in the Industrial Plan (56.2 million Euro). The cost/income ratio showed a significant improvement (from 74.0% at 31 December 2016 to 72.0% at 31December 2017); including the aforementioned ECB bonus in revenues, this ratio would be about 70.3%, a value close to that estimated in the Industrial Plan and in line with the averages registered by main comparables.

Table n. 18 – Operating costs

OPERATING COSTS			
data in €/000	31/12/2017	31/12/2016 (1)	% Var.
Administrative costs:	56,008	58,494	-4.25%
a) personnel costs	24,728	26,766	-7.61%
b) other administrative costs	31,280	31,728	-1.41%
Net allocations to risk and expense funds	- 18	43	-140.63%
Net adjustments/write-backs of value to property, plant and equipment	3,010	3,428	-12.19%
Net adjustments/write-backs of value to intangible assets	127	92	37.33%
Other operating costs/income	- 3,913	- 3,848	1.71%
Operating costs	**55,213**	**58,209**	**-5.15%**

Other income components

Among the other income components for the 2017 fiscal year, please note gains on shareholdings, for a total of 513 thousand Euro, with an addition 2 thousand Euro from the sale of investments. For all the details, please consult the respective section in the Explanatory Notes.

Fiscal year results

Gross results for the 2017 fiscal year amount to 6.7 million Euro (+ 28.53%), while results net of tax amount to 4.5 million Euro, with a 12.49% decrease, also due to the change from the former BCC Cambiano tax regime towards the new tax regime for joint stock companies.

The results in question are in line with the forecasts set forth in the current Industrial Plan (2017-2019).

Table n. 19 – Fiscal year results

GROSS AND NET FISCAL YEAR RESULTS			
data in €/000	**31/12/2017**	**31/12/2016 (1)**	**% Var.**
Profit (loss) on current operations before taxes	**6,742**	**5,246**	**28.53%**
Fiscal year income tax on current operations	2,242	103	2067.53%
Profit (loss) on current operations net of taxes	**4,500**	**5,142**	**-12.49%**

Capital adequacy and regulatory ratios

At December 2017, the capital position shows the following values, always greater than the prudential requirements set forth by sector regulations.

Table n. 20 – Own funds and capital adequacy

OWN FUNDS AND CAPITAL ADEQUACY			
data in €/000	**31/12/2017**	**31/12/2016 (1)**	**% Var.**
Total primary Tier 1 capital (Common Equity Tier 1 - CET1)	232,247	281,050	-17.36%
Total additional Tier 1 capital (Additional Tier 1 - AT1)	-	-	
Total Tier 1 capital (Tier 1 - T1)	**232,247**	**281,050**	**-17.36%**
Total Tier 2 Capital (Tier 2 - T2)	**-**	**-**	
Total own funds (T1 + T2)	**232,247**	**281,050**	**-17.36%**
Total prudential requirements	**153,884**	**152,905**	**0.64%**
Gains (Losses)	**78,364**	**128,145**	**-38.85%**

RISK ACTIVITIES AND VIGILANCE COEFFICIENTS			
Risk-weighted activities (RWA)	1,923,548	1,911,306	0.64%
Primary Tier 1 Capital / Risk-weighted activities (CET1 ratio)	12,07%	14,70%	-2.63%
Tier 1 capital / Risk-weighted activities (Tier1 ratio)	12,07%	14,70%	-2.63%
Own funds/ Risk-weighted activities (Total capital ratio)	12,07%	14,70%	-2.63%

Total own funds at 31 December 2017 were 232.2 million Euro, registering a reduction due to the know devolution of capital for the “way out” operation (- 17.4%).

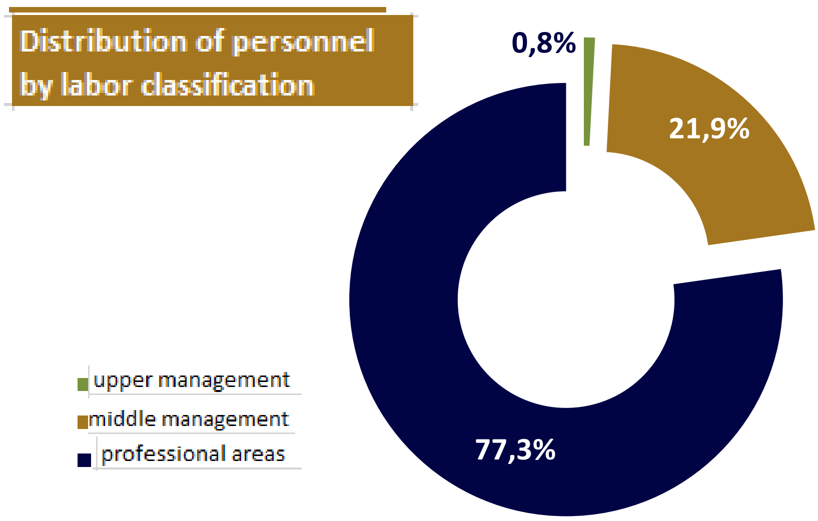
The amount of funds is greater than base capital requirements by 78.4 million Euro. CET 1 and total capital ratios are 12.07%.

Operating structure

As at 31 December 2017, the number of Bank employees was 4% greater than at the end of the previous fiscal year, due to the completion of the “way out” operation, going from 351 in 2016 (of which 327 former Bcc Cambiano and 24 former Banca AGCI) to a total of 365 in 2017; this was due to the employment of an additional 14 qualified employees required to implement strategic projects, as per the guidelines of the Industrial Plan.

As at 31 December 2017, personnel is composed by 0.8 % upper management, 21.9% middle management and 77.3 % employees in the professional areas, as is illustrated in the table below.

Graph n. 12 – Structure of personnel



Data regarding personnel on staff, detailed in the table below, represent a specific expression of:

- A confirmed, significant quota of female employees (with an incidence of 33.7% of total employees, greater than the previous fiscal year, that is 33% at 31.12.2016);
- A significant quota of university graduates (about 41.6%), which confirms the employment of increasingly qualified personnel;
- An average age between 35-45 years and an average length of service of about 15 years.

Table n. 21 – Breakdown of personnel

BREAKDOWN OF PERSONNEL					
BREAKDOWN BY QUALIFICATION	31/12/2017 Banca Cambiano 1884 SpA	31/12/2016	31/12/2016 Of which former BCC Cambiano	31/12/2016 Of which former Banca AGCI	31/12/2017 Personnel in Parent Company Ente Cambiano
Upper management	3	4	3	1	1
Middle management	80	75	66	9	3
Professional areas	282	272	258	14	1
Total	**365**	**351**	**327**	**24**	**5**

BREAKDOWN OF PERSONNEL

BREAKDOWN BY GENDER	31/12/2017 Banca Cambiano 1884 SpA	31/12/2016	31/12/2016 Of which former BCC Cambiano	31/12/2016 Of which former Banca AGCI	31/12/2017 Personnel in Parent Company Ente Cambiano
Females	123	116	102	14	2
Males	242	235	225	10	3
Total	**365**	**351**	**327**	**24**	**5**

BREAKDOWN BY LEVEL OF EDUCATION	31/12/2017 Banca Cambiano 1884 SpA	31/12/2016	31/12/2016 Of which former BCC Cambiano	31/12/2016 Of which former Banca AGCI	31/12/2017 Personnel in Parent Company Ente Cambiano
University degree	152	140	126	14	
High school diploma	203	201	191	10	5
Other	10	10	10		
Total	**365**	**351**	**327**	**24**	**5**

BREAKDOWN BY AGE BRACKET	31/12/2017 Banca Cambiano 1884 SpA	31/12/2016	31/12/2016 Of which former BCC Cambiano	31/12/2016 Of which former Banca AGCI	31/12/2017 Personnel in Parent Company Ente Cambiano
Up to 25 years old	9	5	4	1	
26 - 35 years old	107	109	100	9	
36 - 45 years old	112	109	103	6	1
46 - 55 years old	95	89	81	8	
56 - 60 years old	25	23	23		
Older than 60 years	17	16	16		4
Total	**365**	**351**	**327**	**24**	**5**

BREAKDOWN BY LENGTH OF SERVICE	31/12/2017 Banca Cambiano 1884 SpA	31/12/2016	31/12/2016 Of which former BCC Cambiano	31/12/2016 Of which former Banca AGCI	31/12/2017 Personnel in Parent Company Ente Cambiano
Up to 3 years	85	71	60	11	1
4 - 8 years	55	71	62	9	
9 - 15 years	108	95	91	4	1
16 - 25 years	72	75	75		1
26 - 30 years	25	19	19		
More than 30 years	20	20	20		2
Total	**365**	**351**	**327**	**24**	**5**

FUNCTIONAL DISTRIBUTION	31/12/2017 Banca Cambiano 1884 SpA	31/12/2016	31/12/2016 Of which former BCC Cambiano	31/12/2016 Of which former Banca AGCI	31/12/2017 Personnel in Parent Company Ente Cambiano
Central offices	113	105	94	11	5
Network	252	246	233	13	
Total	**365**	**351**	**327**	**24**	**5**

The training programs conducted during 2017, ongoing with respect to the previous years, reached the objective of favoring the growth of personnel competencies and professional skills, in line with the new corporate structure and the relative professional figures, as well as with new operational and management requirements. Particular care continues to be dedicated to increasing specialized commercial and managerial competencies, through diversified training programs, in accordance with the provisions of personnel development plans.

In addition to increasing skills and competencies, the training programs also focused on regulatory issues, in order to draw personnel attention to the correct application of operative regulations and scrupulous compliance with provisions regarding safeguarding customer interests.
Also, focusing on qualified customer relations, training activities were conducted, in compliance with regulations, aimed at developing greater personnel awareness and qualification, by reinforcing professional skills and increasing knowledge of Bank products and services as well as of legal, technical, economic and relational issues regarding consulting activities.
Participation in the training sessions organized by both the Cabel Network and other qualified training agencies also continued, dealing with various aspects of banking activities such as taxation, accounting, finance, legal, anti-money laundering, and privacy issues. In compliance with the provisions contained in current regulations regarding on-the-job health and safety, various training sessions specifically for personnel designated to fire prevention and workplace evacuation and first aid activities were also organized and carried out.

Moreover, regarding human resource management policies, the passage to the joint-stock company corporate form has not altered the line of conduct followed by both BCC di Cambiano and Banca AGCI, centered on establishing relations based on solid trust, which is essential to creating stable, long-lasting relationships.

In this perspective, human resources constitutes a critical element to reaffirm the Bank in its new dimension as a joint-stock company, the distinctive and qualifying features that have always characterized Bank operations.

The care that the Bank dedicates to its collaborators is correlated to the commitment that they themselves show in carrying on their work and to their sense of belonging. Human resource management and development activities therefore continue to be a priority in strategic and operational planning, with the aim of enhancing the Bank's unique relational qualities.

These human resource management conditions have engendered a positive company environment, also demonstrated by the practically "zero" voluntary dismissals in favor of other bank institutions.

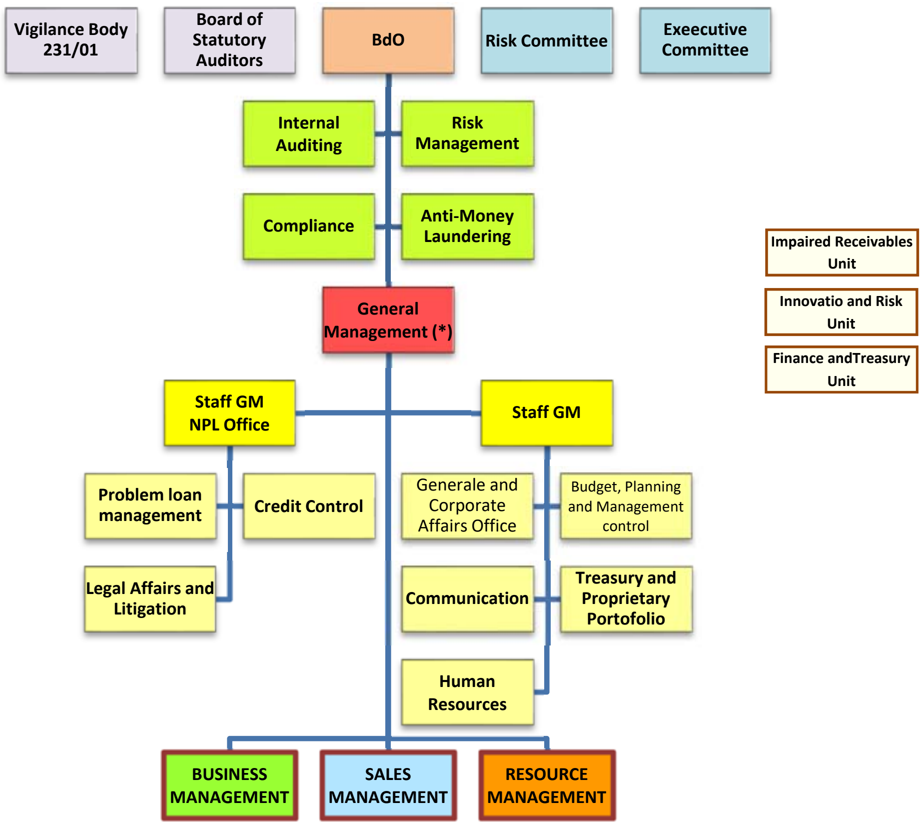
In prospect, this value will continue to bring competitive advantages, as yet not fully assessed by quantitative analysts, lead astray towards large management numbers, often short-lived.

<u>The organizational model</u>

As shown, during the 2017 fiscal year the so-called technical and organization repositioning stage began (see § *Strategic development*), aimed and reinforcing the "operational machine" – already characterized by high reliability levels due to the regulatory and operational compliance processes undertaken by both Banks in recent years – through a series of interventions aimed at increasing strategic coherence, knowing that the organization constitutes an enabling factor that is essential to grow towards more competitive market logics. In this process, *Cabel Industry* became a key *second player*, in terms of quality and timing, in the development and implementation of the adopted solutions.

Specifically, the structural configuration was immediately reviewed with respect to the modifications made to the mission and for the implementation of the new business model.

Figure n. 2 – Staff structure



(*) General Management is composed of a Managing Director and two Vice Managing Directors.

The structural setup takes into account, on the one hand, the strategic choices regarding the nature of Banca SpA (joint stock company), necessarily directed towards market logic, and on the other hand, belonging to a bank group, within the scope of which the Ente Cambiano cooperative company, in its role as parent company, is obliged to direct, coordinate and monitor the controlled Bank.

In this context, the restructuring moves following a process logic and in compliance with principles of differentiation and separateness between *staff* and *line* functions, between production and distribution responsibilities, between preliminary/assessment/decision-making stages, between implementing measures and accounting work and, finally, between operating and control units work units.

In the above staff structure, supervisory functions (*Internal Audit, Risk Management, Compliance*, *Anti-Money Laundering*) are within the staff of the Board of Directors, due to independence requirements and also in recognition of their vast and qualified contribution in terms of information/assessment and monitoring of the various risk categories to which the Bank is exposed. These work units, which represent third and second level control levers, work in close interaction with the parent company's supervisory function (*Auditing and Controls*).

To *General Management* are assigned:

- *in staff*: i) *NPL department*, composed of three structures: NPL Management, Credit Control and Legal Affairs and Litigation, is responsible for identifying, managing, assessing and cancelling NPLs in accordance with ECB guidelines; ii) *General and Corporate Affairs Office, Budget Planning and Management Control, Communication, Treasury and Proprietary Portfolio, Human Resources* – responsible for executing all activities in support of management activities;
- *in line:* i) *Business Management*, responsible for ensuring that objectives are met in terms of credit quality and financial assets, efficacy/efficiency of interventions on the portfolio of impaired receivables, maintaining expected standards for services offered; ii) *Sales Management*, responsible for ensuring objectives are met in terms of positioning of the Bank in the territories of reference, turnover of the various products in the catalogue, application of the pricing system, margin of contribution, on both Bank and territorial levels, customer and cross selling targets; iii) *Resource Management*, responsible for safeguarding the efficient and efficacious management of organizational, human, technical and logistics resources in relation to qualitative and quantitative requirements and to planned corporate objectives, as well as ensuring that management objectives are met in terms of the reliability, functionality (efficiency/efficacy) and compliance of the operational machine.

In order to continue and reinforce a management style based on the principle of collegiality, that is to say, a direct and constant exchange between key positions in the Bank, an *Executive Committee* was formed, to support executive top management in the critical analysis of issues / programs that involve the Bank as a whole, or regarding highly technical and specialized matters, through the so-called *Technical Units*, which actually already existed in the former BCC di Cambiano, called: (i) Innovations and Risks; (ii) Impaired Receivables; (iii) Finance and Treasury.

Processes

In line with strategic planning, the rationalization of the system of Bank processes was begun during 2017, focusing prevalently on business processes, represented by: (i) *the credit process*, to streamline and improve the efficiency of so-called routine activities; (ii) *the finance process*, to enrich the product catalogue, especially as regards administered funds and asset management services; (iii) *the commercial process*, to conform to the changes that will be introduced by the business model.

As regards the new regulations introduced into the national and European regulatory framework, again during 2017, the corporate regulatory system was affected by numerous updating and review interventions.

The most significant issues that inevitably had an effect on corporate process review activities mainly regarded provisions aimed at safeguarding customers and investors, in the majority of cases stemming from European Directives. The main areas of interventions are described here following.

- *Banking compound interest*

During 2017, pursuant to the emanation of Ministerial Decree n. 343 dated 3 August 2016, which amended article 120, sub-section 2 of the Italian Consolidated Banking Act, the regulatory framework regarding banking compound interest was completed. The new regulations set forth procedures and criteria for the production of interest in transactions executed during the exercise of banking activities, introducing, among other measures, the prohibition to capitalize accrued interest payable on customer accounts.

The project to conform to the new regulations required a considerable organizational effort that involved all the Bank structures. In particular, implementation of the plan entailed changes to the banking transparency system and IT procedures that govern the calculation and liquidation of accrued interest on bank accounts.

- *MiFID II*

During 2017, the Bank started the preliminary impact analyses consequent to the entry into force – on 3 January 2018 – of the new regulations regarding investment services (so-called MiFID II).

The complex implementation activities relative to the Mifid 2 regulations were carried out also in collaboration with Cabel, the supplier of the banking application.

As known, the aim of the new directive is to develop a single financial services market on a European level that guarantees transparency and investor safeguarding.

In collaboration with its IT services supplier, and assisted by qualified external consultants and the instrumental commitment of its own internal resources, starting the last semester of 2017, the Bank conducted a series of preliminary activities for the correct implementation of the new regulations, with correlated organizational interventions starting the beginning of 2018.

- *Anti- money laundering*

On 4 July 2017, Legislative Decree n. 90/2017 came into effect, amending anti-money laundering regulations, in compliance with European directives.

The new decree introduces various innovations that principally regard subjects responsible for meeting obligations, recording and signaling suspect transactions, reporting to competent bodies, the notion of ultimate owner, measures for adequate customer verification, obligations regarding data storage and the system of sanctions for failure to meet obligations provided for.

In compliance with directive provisions, a sanctioning system was established, based on effective, proportionate and dissuasive measures to be applied to physical and juridical persons directly responsible for violating the provisions set forth to prevent money laundering and financing of terrorist activities.

Moreover, the main new regulations that most immediately impact customers regarded the prohibitions to issue bearer banking and postal books starting 4 July 2017 and the progressive extinction of all such books by 31 December 2018.

- *Security of Internet payments*

In 2017, the «Guidelines on the security of Internet payments» issued by the European Banking Authority (EBA) were transposed in Memorandum 285/2013.

Operational procedures regarding Internet payment transactions were modified to comply, including: *(i*) upgraded customer identification methods (so-called strong authentication) required to launch payment transactions and to access sensitive data, in line with standards required by the Guidelines; *(ii)* mechanisms to monitor transactions, aimed at preventing, detecting and blocking fraudulent payments, that are triggered before final authorization of the payment service supplier.

In order to guaranty the Strong Authentication, the DRINPASS method (or CALL DROP for MITO&C) was replaced with the generation of a temporary password (O.T.P. - one time password) generated by an APP on smartphones, tablets and PC or through transmission of a SMS.

The information system

As known, the information system is fundamental to the Bank's organizational programming, in that it *(i)* influences strategic choices in terms of the products / services to be offered to customers and the efficiency of operating processes, *(ii)* favors sound and prudent management, to the extent in which it can provide accurate information, in real time, regarding technical management coordinates and risk management, *(iii)* contributes to limiting operational and compliance risks.

The reliability of the Banca Cambiano 1884 IT system is ensured by the over thirty years of experience brought to the field by Cabel Industry; the formula of full outsourcing entails complete management of the CABEL information system in the software and hardware components, that is to say the externalization of facility management, application management and BPO; on this front, it bears noting that the Bank, in light of its shareholdings, is in a condition to provide a significant contribution to the outsourcer's strategic development decisions.

It also bears noting that during 2017 Cabel Industry consolidated its share in the Banking Outsourcer market, recording the highest turnover ever.

New relations with customers have been started and, to date, there are already many contacts in an advanced negotiation stage with multiple "Prospects".

The dynamics that are involving this market are positive for the Cabel network. Activities related to the upgrading of the information system continue, with the ongoing progress of the localization process for the *Oracle Flex cube Universal Banking (the most widespread banking software in the world)* platform for Italy.

This project, in full compliance with the terms set forth with the partner, *Oracle*, contemplates launching the first bank "live" on the new system by the 1st semester of 2018.

As already mentioned, the entire plan of operation is supervised by Nolan Norton, a company belonging to the KPMG Group, and is subject to close interaction with Oracle structures.

Risk management and control

The internal control system

As made explicit in the *way out* procedure provided for by Italian Law n. 49 of 2016, the repositioning of the organizational vehicle necessarily requires reinforcing the governance and control system – also taking into account the new Group perspective – in order to allow it to become an instrument capable of ensuring coherence between corporate activities and Group policies, and of pursuing sound and prudent management objectives.

Into this context fall the adjustment of the Internal Controls System (ICS) to group logic, and the adoption of corporate government mechanisms and appropriate forms of integration and coordination between the parent company and the controlled Bank, which constitute the front line against overall business risk.

Therefore, during 2017, the Bank *centralized* the internal audit system (III level controls) with the parent company, with the aim of creating an integrated Group control model, reinforcing and solidifying the parent company's auditing and control function and creating a center of professional and qualified excellence, with the aim of aggregating risk control know-how for the entire Group.

It follows that the Bank's controls system is composed of: a) all the II level control functions, *Risk Management, Compliance and Anti-Money Laundering*, responsible for monitoring and management of the Bank's risk profile; b) the company Meta srl, which, based on a co-sourcing agreement, integrates the competencies of the Compliance functions and carries out the audits for the parent company; c) the Risk Committee, to which all the activities and responsibilities pursuant to Memorandum 285/2013 are assigned; d) the internal interface for the out-sourced III level control function, who is the so-called *intelligent interface* for the outsourcer and, specifically, identifies the audit plan, monitors activities and evaluates the reports, in relation to the responsibility profiles of the internal audit function, supports the parent company in the exercise of its control activities, verifies compliance with expected service levels, monitors and manages risks associated to out-sourcing.

Risk management

Consistently with its business and operational model, the Bank is exposed to various types of risks that are principally inherent to typical credit and financial trading activities.

In compliance with the regulatory principles of prudential supervision, the risk management system as a whole aims at ensuring that all risks taken on in the various business segments are in line with corporate strategies and policies and governed by principles of sound and prudent management.

The primary responsibility of the risk management system, within the broader scope of reference regarding the overall Internal Controls System, is in the hands of Corporate Bodies, each based on its respective competencies.

The Internal Controls System is made up of the rules, functions, resources and processes that aim at ensuring: *i)* achievement of the following objectives: verifying the implementation of corporate strategies; *ii)* containing and mitigating risks within the scope of overall risk propensity approved by corporate bodies (Risk Appetite Framework– RAF); *iii)* efficacy and efficiency of corporate processes and reliability and safety of information; *iv)* conformity of operations with regulations currently in force.

The main strategic areas that represent the fulcrum of the Risk Appetite Statement are: correct profitability for the risk; internal capital and own funds; liquidity and funding; credit quality of assets; other strategic risk areas.

Corporate bodies, governance committees, upper management and the entire staff are all involved in control activities, in order to fully implement an integrated risk management system that is consistent with the business model of reference and with the risk propensity and tolerance objectives defined in the strategic plan and in the yearly budget.

The risk profile is periodically monitored and reported to the corporate bodies by the competent functions, for timely identification of possible critical points and implementation of appropriate corrective actions.

In addition, to support Corporate Bodies in the autonomous assessment of capital adequacy and current and prospective liquidity (ICAAP and ILAAP), the Risk Management function, that is organizationally separate and independent with respect to operational units designated to risk assumption, ensures the correct implementation of processes regarding:

- Risk management, intended as the process for risk identification, monitoring, measurement, reporting, control and mitigation;
- Monitoring of the evolution of corporate risks and compliance with operational limits.

Internal Capital Adequacy Assessment Process (ICAAP)

In compliance with prudential vigilance provisions for banks (Bank of Italy Memorandum n. 285, CRR, CRD), the Bank performs an annual prudential internal audit (Internal Capital Adequacy Assessment Process – ICAAP) to determine and self-assess capital adequacy, both current and prospective, in relation to current risks and all corporate strategies.

In compliance with the above regulations and within the Banking Group, in April 2017 the Bank prepared and presented the ICAAP report for the fiscal year ending 31 December 2016.

Credit risk

In order to guaranty efficient credit risk management, the Bank has equipped itself with a control system structured on three levels, which defines the responsibilities assigned to the functions responsible for providing the information required for the assessment of the Bank's exposure to credit risk. Line controls represent first level and preliminary monitoring and are assigned to the risk taker units that report back to the business structures. A first level, but second instance control, in compliance with the Bank's "General Regulations", is assigned to the Credit Structures that monitor credit concession processes and portfolios relative to lending assets.

Second and third level controls are carried out, respectively, by the Risk Management Functions and the Internal Auditing Function, which perform the relative control activities based on their respective methods and instruments.

Organizational controls for credit risk are constituted by:

- The procedures that govern credit assessment, concession and management, contained in the Credit Risk Regulations;
- The definition of specific roles and responsibilities within the single business units regarding credit concession, inspired by the principle of the separation between departments;
- The separation of commercial customer management and specific credit management, which is substantially the decision-making power and loan performance monitoring;
- The creation of a system to define risk oriented operational responsibilities relating to credit concession;
- A functional control system and the effective constant management and monitoring of risk positions.

Credit risk management, measurement and controls systems are developed in an organizational framework that involves the entire credit process cycle, from the initial preliminary stage, to the periodical reviews, up to revocation and recovery.

The main levers to mitigate credit risk are the system of guarantees that accompany loan exposure, a limited degree of concentration on specific borrowers, and an adequate level of diversification of loans by type and by industry. In order to mitigate credit risk, the Bank uses collateral security and personal guarantees. In particular, the main types of real guarantees used are mortgages on property and financial pledges.

As regards credit classification, the Bank applies criteria that are conformant to International accounting standards and Vigilance Provisions.

To classify exposures, with specific reference to impaired loans, the Bank refers to regulations issued by the Vigilance Authority, integrated by internal provisions that set forth criteria and regulations for the classification of credits within the scope of the various risk categories.

Market risk

The control system implemented by the Bank, in compliance with the provisions of current prudential regulations, is aimed at sound and prudent management of market risks, ensuring that these risks are correctly identified and measured using formalized methods and procedures.

The Bank has identified a series of risk indicators capable of identifying the main aspects that characterize market risks.

The primary activity of the bank is trading financial instruments exposed to interest rate risk. Trading regards prevalently operations involving bonds.

As regards interest rate risk and price risk management procedures and measurement methods, the Bank has developed the Finance Area Regulations that establish both operating limits (both in terms of portfolio value as well as in terms of the breakdown by type of security) and limits for exposure to interest rate risk (in terms of financial duration).

Interest rate risk mitigation is pursued by means of integrated management of bank assets and liabilities and is aimed at stabilizing interest income and safeguarding the economic value of the bank portfolio.

Operational risk

The main sources of operational risk derive from internal fraud, external fraud, employment relationships and on the job safety, professional obligations towards customers, damage from external events, malfunctioning of information technology systems and the execution, delivery and management of processes.

In order to monitor the possible occurrence of operational risks, the Bank has defined and constantly updated:

- the “Operational Continuity Plan”, aimed at protecting the Bank from critical events that may compromise operations;

- mapping of the main operating processes (credit, finance and teller) with the aim of leveling operator behavior, thereby facilitating the integration of controls.

Particular attention was focused on information technology risks, which are, by definition, included among operational risks, by setting forth regulations and processes for the identification, assessment and limitation of events originating from, or that could originate from, malfunctioning information technology procedures and/or electronic equipment, such as, for example, network crashes, unavailability of internet banking, and imprecise applications for branch operations.

Finally, within the scope of actions implemented in order to ensure full compliance with the new Bank of Italy regulations provided for in Circular 285, the Bank has undertaken important initiatives connected to completing transposition within organizational profiles and internal regulations of the references contained in Chapter IV – Corporate government, internal controls, management risks, Chapter 4 (information system) and 9 (business continuity) of the aforementioned new regulations.

Within this scope, the Bank, acknowledging the importance of managing information technology risks as a tool to guaranty the efficacy and efficiency of measures aimed at safeguarding the Bank’s own information technology systems, has defined, in accordance with the results of the project elaborated within the Cable network and in compliance regulatory principles and provisions currently in force, a method for the analysis of information technology risks and the relative management process that hinges on the Bank’s broader risk management system.

Liquidity risk

In compliance with regulations currently in force (Bank of Italy Memorandum 285/2013), the Bank has set up an adequate liquidity risk governance and management system, with specific processes to measure, control and mitigate this type of risk.

The overall model implemented by the Bank to manage and monitor liquidity risk is divided into three separate sectors, according to the perimeter of reference, the time span and the frequency analysis: *(i)* management of intraday liquidity; *(ii)* management of operating funds; *(iii)* management of structural liquidity.

The Bank has drawn up a liquidity policy that defines, in accordance with the tolerance threshold decided by the Board of Directors, a series of alerts to manage both operating liquidity and structural liquidity.

The Bank also has a "Liquidity Risk Management and Governance Manual", the Recovery Plan provided for by Bank of Italy Order N. 0213179/17 dated 17 February 2017 and a "Contingency Liquidity Plan", as instruments to mitigate liquidity risks. The document details the persons and structures responsible for implementing extraordinary funding policies, as well as any actions to be taken to remedy an extraordinary event situation, in compliance with the regulatory requirements provided for by vigilance regulations.

In the Contingency Liquidity Plan, the Bank has defined a series of risk indicators that are constantly monitored in order to anticipate possible stress or liquidity crisis situations.

The "Liquidity Coverage Ratio" (LCR) is calculated based on the provisions of the EU Delegated Regulation 2015/61 issued to supplement EU Regulation n. 575 dated 26 June 2013 of the European Parliament (CRR Regulations), as well as the additional indications and recommendations of the European Banking Authority on this subject.

In order to improve liquidity management, the Bank adheres to the New Collateralized Interbank market (New MIC).

The Bank set up a self-securitization transaction in order to increase its financing capacity within the system. For detailed information, please refer to Section E of the Explanatory Notes.

Transactions with related parties

For information regarding transactions with related parties, as defined in IAS 24, please refer to "Part H – Transactions with related parties" of the Explanatory Notes. In accordance with prudential regulations regarding risk activities and conflict of interest vis-à-vis connected subjects, please note that no noteworthy transactions were carried out with related parties, pursuant to pertinent regulations and criteria adopted within the scope of implemented policies, regarding which the Independent Director and/or the Board of Statutory Auditors formulated a negative judgment or made observations.

Significant events after the close of the fiscal year

In compliance with regulatory provisions, adequate information regarding significant events subsequent to the close of the fiscal year is provided below.

Mifid II came into effect on 3 January 2018; the new directive aims to create a sole financial services market on a European level thereby ensuring transparency and safeguarding investors. The new directive contains a series of prescriptions specifically aimed at defining the related customer profile as an essential element for correct set up of business relations. In collaboration with its IT services supplier, and assisted by qualified external consultants and the instrumental commitment of its own internal resources, starting the last semester of 2017, the Bank conducted a series of preliminary activities for the correct implementation of the new regulations, with correlated organizational interventions starting the beginning of the current year.

At beginning of the new fiscal year, a plan was launched, to issue a **Tier 2 debenture loan**, for the purpose of reinforcing capital and wishing to reposition indexes in line with those of former BCC Cambiano at the end of 2016, prior to paying Internal Revenue the sum required for the "way out". The above issue, for a planned 50 million Euro and for institutional investors only, will allow an additional increase of loan support to micro, small and medium sized innovative businesses, based on the positive past experience with the innovFin project, managed with the support of the European Investment Fund (EIF).

Finally, by the first semester of 2018, **sale of NPLs** programmed in the plan for the "way out" will be perfected, and it will be implemented, even in more than one stage, within the scope of 100 Million/€.

Foreseeable management trend

With reference to the information to be provided in financial reports on corporate prospects regarding corporate continuity, financial risks, impairment tests on assets and uncertainties in the use of estimates, the Board of Directors is reasonably certain that the bank may continue its operations in the foreseeable future and, therefore, declares that the Financial Statements for the fiscal year in review were prepared with an outlook of corporate continuity. The Bank's equity and financial structure do not contain any elements or signs that may give rise to any doubts whatsoever as to corporate continuity.

The cornerstone on which our business has always rested is true, sound and prudent management. This principle, constantly applied, has allowed us to maintain positive profits even throughout this ten year crisis period, albeit reduced with respect to pre-crisis number due to exogenous variables, such as interest rate trends and the already repeatedly mentioned extraordinary contributions in support of banks in difficulty. The Bank's propensity for maintaining a positive market position should be evaluated alongside its contained risk profile, its nature as a local bank that has distinguished Cambiano even in its pursuit of profits, the number of business relations, and the enrichment of the commercial offer. The Bank's solid image should not and must not be altered *ex abrupto* due to the fact that it has become a joint stock company, but, to the contrary, it must represent an added, distinctive value for the new corporate prospect and, as such, must be preserved despite the new management outlook.

Research and development activities

The Bank has continued activities aimed at accelerating innovative processes and favoring the culture associated to the Bank's transformation into a joint stock format, drawing strength from Cambiano's century-old history to give it new shape in the new context, with the main aim of laying the foundations for our future.

The development plans defined and implemented both through internal actions and interaction with the Cabel network have proven significant. Activities carried out with the participation, also within the offices of the Italian Banking Association, in seminars and conferences to study specific technical and organizational issues have also been intense. It is our firm belief, supported by facts, that only through interaction and exchange with other business may we consolidate our own experience and increase our professional skills, as a solid base for conscientious corporate growth.

Activities aimed at implementing programs with a strong organizational impact absorbed much time and energy in 2017. The aim was to improve and rationalize the Bank's operating procedures, in the face of the more complex structure subsequent to the "way out" operation and the constantly evolving regulatory framework. Regarding this latter, technological research and development activities were conducted on the basis of in-depth feasibility studies carried out by the Cabel network and with important external partners.

Proposal for the allocation of the fiscal year profit

On the basis of what is set forth herein, for the purpose of further strengthening the Bank's capital profile, and with a view to reaching a congruous dividend for Shareholders and for the market in general in the medium term, the Board of Directors proposes to allocate the 2017 fiscal year profit wholly to reserves and specifically to allocate:

- 5% of profits, equal to 225 thousand Euro to Legal Reserves and
- the remaining amount, equal to 4,275 thousand Euro, to Extraordinary Reserves.

Table. N. 22 – Proposal for al location of the 2017 fiscal year profit

PROPOSAL FOR ALLOCATION OF 2017 FISCAL YEAR PROFIT	
	Amount
NET PROFIT TO BE DISTRIBUTED	**4,500,000**
BoD Proposal	
To Legal Reserve (5.00% of profits)	225,000
To Extraordinary Reserve	4,275,000
To Shareholders as dividends	-
Total	**4,500,000**

Esteemed Shareholders,

we wish to conclude with a compassionate thought, affection and deep respect for our sadly departed Paolo Atzori: a sincere and generous friend and valued collaborator who dedicated himself to the Bank and who, unfortunately, has left us prematurely. To Paolo goes our final farewell and to his family our heartfelt condolences and moral support.

Also, a sincere thank you to you, the Shareholders and to our Customers, who have granted us the privilege of their trust, loyalty and devotion, allowing us to create a banking reality that is increasingly appreciated in its market of reference.

In closing, a particular thank you to all those who, with their dedication and professional aptitude, have contributed to this positive closing of the Banca Cambiano S.p.A's first financial year, in view of a solid continuity with the century-long business of BCC di Cambiano and of the younger Banca AGCI. Our thanks essentially go out to:

- Central Management of the Supervisory Authority and to Management of the Florence offices of Bank of Italy, for the ongoing assistance and collaboration provided;
- The Cabel network, for the collaboration afforded and for the commitment dedicated to the Oracle project, which will provide an extremely significant competitive edge;
- To the Board of Statutory Auditors, for the commendable work carried out;
- To the entire structure of the Ente Cambiano parent company, the Bank's General Management and all employees for their dedication and competence in meeting corporate objectives and completing the planned corporate reorganization.

Florence, 9 February 2018

The Board of Directors

Report of the Statutory Auditors

BANCA CAMBIANO 1884

SOCIETÀ PER AZIONI

To the Shareholders,

this report acknowledges the results of the activity performed by the Board of Statutory Auditors during the fiscal year ended 31 December 2016, also with reference to the functions attributed to it by Article19 of Italian Legislative Decree n. 39/2010.

During the fiscal year in review, the Board of Statutory Auditors performer its supervisory activity as required by the Italian Civil Code, Legislative Decrees n. 385/1993 (consolidated law on banking - “TUB”), n. 58/1998 (unified financial services act - “TUF”) and n. 39/2010 (consolidated act on statutory auditing), in statutory regulations, as well as special laws on the subject and pursuant to the provisions set forth by public Authorities in charge of vigilance and control (specifically, Bank of Italy and CONSOB), as well as considering the rules of conduct for the Board of Statutory Auditors recommended by the National Council of Accountants and Accounting Experts

The financial statements were audited by the company Baker Tilly Revisa S.p.A. in accordance with articles 2112 and 2558 of the Italian Civil Code and Consob Circular n. 10121 dated 30/06/1988. As regards the statutory audit, pursuant to article 14 of Legislative Decree n. 39 of 27 January 2010, please refer to their report.

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In accordance with article 2429, sub-section 2 of the Italian Civil Code, specific reference is made to the following issues.

1. Supervisory activity performed in compliance with obligations

During the course of fiscal year 2016 the Board of Statutory Auditors supervised compliance with law and the Articles of Association, as well as compliance with principles of proper administration and sound and prudent management.

The Board, also acting as the “*Internal control and auditing committee*” in accordance with Article 19 of Legislative Decree no. 39 of 27/01/2010, controlled the adequacy of the financial information process, finding it to be adequate to the business activity and regulatory requirements.

As will be set forth in detail below, we also supervised the effectiveness of the internal control system and internal audit system, capable of addressing the risks that arise in the Bank’s activity.

The supervisory and control activity was performed in the different areas noted above, as follows:

1) Participation at meetings of the Board of Directors (n. 24), the Executive Committee (n. 20), the President of the Risk Committee (n. 4) and the Shareholders’ Meeting;

2) Meetings with the company entrusted with the statutory audit;

3) Controls with the managers of the various corporate departments, in particular with the Compliance and Risk Management Department and with the Internal Audit Department, whose activities are carried out in co-sourcing with the company META Srl with offices in Empoli;

4) meetings with the “Supervisory Authority” in accordance with Legislative Decree 231/2001.

By participating at the meetings of the Board of Directors and the Executive Committee, the necessary information was acquired, both to evaluate the Bank’s trend with regard to its overall capital and economic development, as well as to evaluate its most significant operations. The Board of Statutory Auditors can confirm that, to the extent it is aware, management operations were performed in conformity with law and the Articles of Association, were in the Bank's interests, and did not appear to be manifestly imprudent, irrational or reckless in such a way that would compromise the integrity of the Bank's capital, create a conflict of interest, or conflict with the resolutions approved by the Shareholders' Meeting.

Participation at the meetings of the Board of Directors also allowed us to verify that delegated individuals reported on the operations they performed in accordance with the powers attributed to them, the general management trend, and its foreseeable development. The directors also reported any cases of conflict of interest, in accordance with outstanding provisions of the Italian Civil Code in order to allow proper decision-making procedures to be implemented pursuant to Article 136 of the Consolidated Law on Banking, article 2391 of the Italian Civil Code "Interests of the administrators" and the Regulations for Operations with Connected Subjects, adopted to implement the provisions of Supervisory Regulations.

It is noted that the auditors of the Independent Auditor company, with whom the Board of Statutory Auditors exchanged information related to audits of the financial statements and other controls that they performed, did not advise of any circumstances, irregularities or censurable facts that had to be reported to the Supervisory Authority or to the same Board of Statutory Auditors.

With respect to the adequacy of the internal control system, the Board of Statutory Auditors interacted with the Internal Audit function, externalized to the parent company, an autonomous and independent structure, as the recipient of the inspection reports containing the results of the controls that this service carried out during the course of the year, as mentioned, in co-sourcing with the company META Srl in Empoli; this also in reference to the service agreements in force with the Compliance, Risk Management Anti-Money Laundering Departments. The Board of Statutory Auditors also reviewed and approved the 2017-2019 three year plan and the annual auditing plan scheduled by the Internal Audit Department.

With respect to second level controls, the interaction, which has always been successful, regarded:

- the Risk Management Department, that supplied adequate information regarding risks, the object of periodic reports concerning the controls carried out directly, as well as the effectiveness of the departments entrusted with examining and measuring the different types of risks, and the co-ordination of such departments aimed at an overall vision of risks;

- the Compliance Department (compliance to regulations), for the review and assessment of issues regarding the legal framework with which the Bank must comply and for reports regarding the state of company compliance with respect to the areas of the Department's competence; regarding compliance, please note that starting 1 January 2016, this function was strengthened through the activation of a co-sourcing agreement with the company META S.r.l.;

- the Anti-Money Laundering Department, for reports regarding this delicate sector, documents whose level of clarification fully represent, among other things, organization and electronic controls in terms of an adequate control of customers and the supply of information to the Centralized Computer Archive;

- The Budget, Planning and Management Control Office and the Credit Control Office whose reports, shared with Risk Management, provide this Board with adequate information regarding monitored risks pertaining to the specific competence of this function.

On the basis of the above premises, we consider the internal control system – in its entirety - suitable for guaranteeing the control of risks and compliance with applicable regulations and procedures.

During the fiscal year in review, still as regards internal audits, the Board of Statutory Auditors was also able to evaluate the compliance to the provisions of Bank of Italy Circular n. 285 dated 17 December 2013 "Vigilance provisions for Banks" and the continuing conformity of internal regulations.

The Board of Statutory Auditors also assessed and supervised the adequacy of the administrative and accounting system, as well as the latter's reliability in accurately representing management activity, by means of numerous meetings with the Risk Management Office, the review of company documents and, primarily, the ongoing analysis of the results of the work carried out by the Independent Auditor, which was entrusted, as noted, with the specific task of the statutory audit of the accounts.

During the course of the audits and controls conducted, considering the information acquired, including by means of ad hoc reports prepared by the offices entrusted with control functions, no indications appeared of any irregularities in corporate management that would indicate any particular organizational deficiencies.

In conclusion, in consideration of the information obtained during the course of the supervisory activity performed, the Board of Statutory Auditors considers that the organizational structure, internal control system and accounting-administrative structure are consistent with the Bank's size, are adequate for its operating needs and have been timely adjusted/refined based on the evolution of such needs and, specifically, the laws and regulations that regulate the Bank's activity.

During the fiscal year, based on the information obtained by the Board of Statutory Auditors, no atypical and/or unusual operations were performed.

Relationships with related parties took place on the basis of the Regulations approved during the year as implementation of the provisions set forth in the Bank of Italy's Measure *«Risks and conflict of interest with respect to related parties»*. The Board of Statutory Auditors, in its supervisory function, has always found compliance with the regulations on this topic. Indeed, transactions were always in line with market conditions or, where appropriate reference parameters were missing, according to cost and, in any event, on the basis of evaluations of objective reciprocal convenience and correctness. No large transactions were carried out with related parties, pursuant to the regulatory provisions of reference and criteria adopted within the scope of corporate policies, regarding which the Independent Directors and/or the undersigned members of the Board of Statutory Auditors expressed a negative opinion or formulated reports.

The document *"Remuneration policies for directors, employees and collaborators who are independent contractors"* was found to be adequate, consistent with supervisory regulations and in conformity with what was indicated by the Internal Audit department, and the Board found that it was properly applied during the course of the fiscal year. In addition to the financial statements, the Shareholders' Meeting is being provided with the information, duly formulated, and required with respect to the effective manner in which remuneration policies are applied.

On the basis of our control and audit no significant facts emerged that had to be reported to the Bank of Italy.

With respect to the activity performed, the Board of Statutory Auditors wishes to specifically note the following business and corporate circumstances:

- The Board of Statutory Auditors met 4 times during the course of the fiscal year;
- No complaints or allegations were made pursuant to Article 2408 of the Italian Civil Code;
- the Board of Statutory Auditors did not have to issue any opinions required by law as there was no need due to the lack of pre-requisites;
- during the course of the fiscal year, up to 30 June 2017, the Board carried out the activity of Supervisory Body in accordance with Legislative Decree 231/2001. This activity consisted in examining the organizational and management model and the training program for personnel, as well as advising the Bank's managers of the need for ongoing collaboration, useful for allowing full and effective activity to prevent the crimes provided by the above law; starting 30 June 2017, the Supervisory Body, in accordance with Legislative Decree 231/01 was newly constituted in an autonomous form;
- the Board of Statutory Auditors has fully endorsed the objectives and risk profiles contained in the "RAF Regulations" document approved by the Board of Directors, which provides the framework to calculate the Bank's Risk Appetite Framework (RAF), adopted in compliance with Supervisory regulations and with the guidelines approved by the Board of Directors of the parent company in the Group RAF Policy;
- the Board of Statutory Auditors has fully endorsed the activities carried out during 2017 regarding the credit management process, and specifically as regards the creation, in July 2017, of the new " NPLs Department" (within the General Management staff and composed by "Legal Affairs & Litigation" and the functions – previously in staff in Business Management - "Management of Impaired Receivables" and "Credit Control"), to reinforce measures for the development of operating and risk monitoring capacities (by launching the Easy Credit application in March 2017) and to review the assessment process for real estate mortgage guarantees by reviewing the regulations that govern real estate assessments and the selection of and interfacing with external experts;
- the Board of Statutory Auditors has fully endorsed the credit assessment process followed during the current fiscal year as well, this also in consideration of average recovery rates higher than system rates and of actual coverage levels of the Bank's credit portfolio;
- within the scope of its own annual planning and in order to comply with specific Bank of Italy requirements, the Board of Statutory Auditors verified the Anti-Money Laundering Process, and no significant critical profiles emerged, thus confirming that the controls adopted are substantially adequate to the task;
- the procedure for the autonomous assessment of capital adequacy (ICAAP) was further implemented, in accordance with regulatory guidelines; as illustrated by the Bank, the capital is fully adequate for the risks assumed;
- laws regarding the transparency of banking and financial services and transactions were applied;

- in terms of usury, the Bank's operations were conducted in compliance with Law no. 108/1996 and the Implementing Provisions of the Bank of Italy;

- with reference to the law on privacy, the provisions of Legislative Decree 196/2003 were complied with; moreover, activities preliminary to the entry into force of the new European regulations regarding data security are underway;

- as required by Article 136 of the Consolidated Law on Banking, the Board unanimously confirmed the transactions conducted, directly or indirectly, by the Bank's representatives, all approved in accordance with law, including Article 2391 of the Italian Civil Code;

- with reference to the 42 complaints received by the Bank in 2016, compare to the 21 received in 2016, the enquiry procedure and management of such cases was found to be proper; further, it was determined that the parties involved were given a timely and reasoned response and that such complaints were properly represented to the Bank's bodies according to regulatory requirements;

- it is certified that, with the participation required of employees, the necessary training was conducted regarding anti-money laundering, financial consulting, the placement of insurance and financial products, occupational safety, credit, usury, etc.

2. Fiscal year results

The Board of Statutory Auditors has examined the draft financial statements for the fiscal year closed on 31/12/2017 and the management reports, submitted to the same Board by the Board of Directors, within the term required by law.

As the Board of Statutory Auditors is not required to perform the statutory audit of the Financial Statements, the Board has verified the overall layout of the statements, its composition, its structure, the evaluation made of company assets and the management report, in conformity with current laws, provisions of the Supervisory authority and the International IAS/IFRS accounting principles.

The draft financial statements were submitted to review by the company Baker Tilly Revisa Spa, in charge of the statutory audit of accounts. On 12 February 2018, in accordance with articles 14 and 16 of Legislative Decree n. 3972010, the audit company has issued its professional opinion as to the reliability of the financial statements in question, without notes or objections.

The financial statements for the 2017 fiscal year, submitted to your approval, are summarized in the most significant aggregates set forth below, and compared with those of the 2016 financial statements:

	Asset line items	31/12/2017	31/12/2016	Amount variations	% Variations
10	Cash and cash equivalents	11,736,361	10,419,842	1,316,519	12.63%
20	Financial assets held for trading	25,469,718	57,645,960	-32,176,242	-55.82%
30	Financial assets measured at fair value	0	0	0	0
40	Financial assets available for sale	534,579,568	631,706,459	-97,126,892	-15.38%
50	Financial assets held through maturity	0	0	0	0
60	Receivables from banks	183,365,545	171,494,742	11,870,803	6.92%

	Asset line items	31/12/2017	31/12/2016	Amount variations	% Variations
70	Receivables from customers	2,445,469,798	2,136,866,011	308,603,787	14.44%
80	Hedges	0	236,761	-236,761	-100.00%
90	Adjustment of value of generic hedges for financial assets (+/-)	0	0	0	0
100	Equity investments	37,854,650	25,573,381	12,281,269	48.02%
110	Property, plant and equipment	58,105,430	65,841,410	-7,735,980	-11.75%
120	Intangible assets	7,519,409	2,504,246	5,015,164	200.27%
	Of which:				
	- goodwill	6,974,772	2,100,000	4,874,772	232.13%
130	Tax receivables	27,029,642	33,479,266	-6,449,624	-19.26%
	a) current	5,418,324	12,440,647	-7,022,323	-56.45%
	b) pre-paid	21,611,318	21,038,619	572,699	2.72%
	Of which L. 214/2011	19,343,316	19,709,583	-366,267	-1.86%
140	Noncurrent assets and groups of assets in the course of divestment	0	0	0	0
150	Other assets	41,972,572	48,996,206	-7,023,635	-14.34%
	Total assets	**3,373,102,694**	**3,184,764,285**	**188,338,409**	**5.91%**

Note: Comparison data in the table as at 31/12/2016 refer to former Banca di Credito Cooperativo di Cambiano s.c.p.a.

	Liability line items and shareholders' equity	31/12/2017	31/12/2016	Amount variations	% Variations
10	Payables to banks	503,979,961	488,534,471	15,445,490	3.16%
20	Payables to customers	2,305,458,960	1,981,003,632	324,455,328	16.38%
30	Outstanding securities	251,958,911	348,528,372	-96,569,461	-27.71%
40	Financial liabilities from trading	80,079	0	80,079	-
50	Financial liabilities measured at fair value	0	0	0	-
60	Hedges	769,210	427,147	342,063	80.08%
70	Adjustment of value of generic hedges for financial liabilities (+/-)	0	0	0	-
80	Tax liabilities	2,568,255	3,503,753	-935,498	-26.70%
	a) current	276,234	0	276,234	-
	b) deferred	2,292,021	3,503,753	-1,211,732	-34.58%
90	Liabilities associated with assets in the course of divestment	0	0	0	-
100	Other liabilities	64,482,313	84,849,147	-20,366,833	-24.00%
110	Employee severance pay	3,682,338	3,579,535	102,803	2.87%
120	Risk and expense funds	75,164	479,323	-404,159	-84.32%
	a) pensions and similar commitments	0	0	0	-
	b) other funds	75,164	479,323	-404,159	-84.32%
130	Valuation reserves	-1,481,232	12,367,554	-13,848,786	-111.98%
140	Redeemable shares	0	0	0	-
150	Equity instruments	0	0	0	-
160	Reserves	3,425,493	251,964,891	-248,539,398	-98.64%
170	Premiums on issue of new shares	803,240	562,291	240,949	42.85%
180	Share capital	232,800,000	3,864,168	228,935,832	5924.58%
190	Treasury shares (-)	0	0	0	-
200	Fiscal year profit (loss)(+/-)	4,500,000	5,100,000	-600,000	-11.76%
	Total liabilities and shareholders' equity	**3,373,102,694**	**3,184,764,285**	**188,338,409**	**5.91%**

Note: Comparison data in the table as at 31/12/2016 refer to former Banca di Credito Cooperativo di Cambiano s.c.p.a.

	Income statement – Line items	31/12/2017	31/12/2016	Amount variations	% Variations
10	Earned interest and similar income	66,025,702	62,123,279	3,902,422	6.28%
20	Interest payable and similar expenses	18,276,036	21,085,883	-2,809,847	-13.33%
30	**Interest income**	47,749,665	41,037,396	6,712,269	16.36%
40	Commission income	27,280,656	23,097,192	4,183,465	18.11%
50	Commission expenses	2,069,633	1,662,522	407,112	24.49%
60	**Net commissions**	25,211,023	21,434,670	3,776,353	17.62%
70	Dividends and similar income	2,293	1,887	405	21.46%
80	Net trading result	295,605	2,021,615	-1,726,010	-85.38%
90	Net hedging result	47,176	-97,474	144,650	-148.40%
100	Gains (losses) from the disposal or repurchase of:	3,340,666	8,398,629	-5,057,963	-60.22%
	a) receivables	0	0	0	-
	b) financial assets available for sale	3,275,921	8,334,084	-5,058,163	-60.69%
	c) financial assets held through maturity	0	0	0	-
	d) financial liabilities	64,745	64,545	200	0.31%
110	Net income of financial assets and liabilities measured at fair value	0	0	0	-
120	**Operating income**	76,646,428	72,796,723	3,849,705	5.29%
130	Net adjustments/write-backs of value due to impairment of:	-15,206,190	-14,433,281	-772,909	5.36%
	a) receivables	-13,939,630	-14,441,667	502,037	-3.48%
	b) financial assets available for sale	0	0	0	-
	c) financial assets held through maturity	0	0	0	-
	d) other financial operations	-1,266,560	8,385	-1,274,945	-15204.71%
140	**Net income from financial assets**	61,440,238	58,363,442	3,076,796	5.27%
150	Administrative costs:	56,007,946	53,719,286	2,288,661	4.26%
	a) personnel costs	24,728,206	24,919,753	-191,546	-0.77%
	b) other administrative costs	31,279,740	28,799,533	2,480,207	8.61%
160	Net allocations to risk and expense funds	-17,630	3,394	-21,024	-619.49%
170	Net adjustments/write-backs of value to property, plant and equipment	3,009,806	3,180,029	-170,223	-5.35%
180	Net adjustments/write-backs of value to intangible assets	126,542	88,812	37,730	42.48%
190	Other operating costs/income	-3,913,496	-3,662,757	-250,739	6.85%
200	**Operating costs**	55,213,168	53,328,763	1,884,405	3.53%
210	Profit (loss) from equity investments	512,824	199,911	312,913	156.53%
220	Net result of the fair value measurement of property, plant and equipment and intangible assets	0	0	0	-
230	Adjustments to value of goodwill	0	0	0	-
240	Gains (losses) from the disposal of investments	2,401	0	2,401	-
250	**Gains (losses) from current operations before tax**	6,742,295	5,234,589	1,507,705	28.80%
260	Fiscal year income taxes on current operations	2,242,295	134,589	2,107,705	1566.03%
270	**Gains (losses) from current operations before tax**	4,500,000	5,100,000	-600,000	-11.76%
280	Gains (losses) from groups of assets in the course of divestment after tax	0	0	0	-
290	**Fiscal year profit (loss)**	**4,500,000**	**5,100,000**	**-600,000**	**-11.76%**

Note: Comparison data in the table as at 31/12/2016 refer to former Banca di Credito Cooperativo di Cambiano s.c.p.a.

As in the report on management, for the purpose of providing a clearer comparison between Banca di Cambiano S.p.A data for 2017 and the data from the previous fiscal year, the Balance Sheet and Income Statement as at 31 December 2017 compared with the same data as at 31 December 2017 obtained by aggregating the data from former Banca di Credito Cooperativo di Cambiano s.c.p.a. with those from former Banca A.G.C.I. S.p.a. are provided here following.

	Asset line items	31/12/2017 - Banca Cambiano 1884 S.p.a.	31/12/2016 – BCC + AGCI	Amount variations	% Variations
10	Cash and cash equivalents	11,736,361	11,053,049	683,312	6.18%
20	Financial assets held for trading	25,469,718	57,645,960	-32,176,242	-55.82%
30	Financial assets measured at fair value	0	0	0	-
40	Financial assets available for sale	534,579,568	714,777,809	-180,198,242	-25.21%
50	Financial assets held through maturity	0	0	0	-
60	Receivables from banks	183,365,545	182,454,376	911,170	0.50%
70	Receivables from customers	2,445,469,798	2,262,108,568	183,361,230	8.11%
80	Hedges	0	236,761	-236,761	-100.00%
90	Adjustment of value of generic hedges for financial assets (+/-)	0	0	0	-
100	Equity investments	37,854,650	25,573,381	12,281,269	48.02%
110	Property, plant and equipment	58,105,430	67,215,586	-9,110,155	-13.55%
120	Intangible assets	7,519,409	2,510,721	5,008,689	199.49%
	Of which:				
	- goodwill	6,974,772	2,100,000	4,874,772	232.13%
130	Tax receivables	27,029,642	37,314,659	-10,285,017	-27.56%
	a) current	5,418,324	13,649,997	-8,231,673	-60.31%
	b) pre-paid	21,611,318	23,664,662	-2,053,344	-8.68%
	Of which L. 214/2011	19,343,316	21,122,011	-1,778,696	-8.42%
140	Noncurrent assets and groups of assets in the course of divestment	0	0	0	-
150	Other assets	41,972,572	50,494,625	-8,522,053	-16.88%
	Total assets	**3,373,102,694**	**3,411,385,495**	**-38,282,801**	**-1.12%**

	Liability line items and shareholders' equity	31/12/2017 - Banca Cambiano 1884 S.p.a.	31/12/2016 - BCC + AGCI	Amount variations	% Variations
10	Payables to banks	503,979,961	543,480,128	-39,500,167	-7.27%
20	Payables to customers	2,305,458,960	2,124,680,705	180,778,255	8.51%
30	Outstanding securities	251,958,911	356,768,082	-104,809,170	-29.38%
40	Financial liabilities from trading	80,079	0	80,079	-
50	Financial liabilities measured at fair value	0	0	0	-
60	Hedges	769,210	1,284,793	-515,583	-40.13%
70	Adjustment of value of generic hedges for financial liabilities (+/-)	0	0	0	-
80	Tax liabilities	2,568,255	3,527,265	-959,010	-27.19%
	a) current	276,234	23,512	252,722	1074.86%
	b) differed	2,292,021	3,503,753	-1,211,732	-34.58%
90	Liabilities associated with assets in the course of divestment	0	0	0	-

	Liability line items and shareholders' equity	31/12/2017 - Banca Cambiano 1884 S.p.a.	31/12/2016 - BCC + AGCI	Amount variations	% Variations
100	Other liabilities	64,482,313	87,675,708	-23,193,395	-26.45%
110	Employee severance pay	3,682,338	3,764,100	-81,761	-2.17%
120	Risk and expense funds	75,164	519,323	-444,159	-85.53%
	a) pensions and similar commitments	0	0	0	-
	b) other funds	75,164	519,323	-444,159	-85.53%
130	Valuation reserves	-1,481,232	10,103,701	-11,584,933	-114.66%
140	Redeemable shares	0	0	0	-
150	Equity instruments	0	0	0	-
160	Reserves	3,425,493	250,612,803	-247,187,309	-98.63%
170	Premiums on issue of new shares	803,240	1,962,291	-1,159,051	-59.07%
180	Share capital	232,800,000	21,864,168	210,935,832	964.76%
190	Treasury shares (-)	0	0	0	-
200	Fiscal year profit (loss)(+/-)	4,500,000	5,142,430	-642,430	-12.49%
	Total liabilities and shareholders' equity	**3,373,102,694**	**3,411,385,495**	**-38,282,801**	**-1.12%**

	Line items of the income statement	31/12/2017 - Banca Cambiano 1884 S.p.a.	31/12/2016 - BCC + AGCI	Amount variations	% Variations
10	Earned interest and similar income	66,025,702	67,675,991	-1,650,290	-2.44%
20	Interest payable and similar expenses	18,276,036	24,168,354	-5,892,318	-24.38%
30	**Interest income**	47,749,665	43,507,637	4,242,028	9.75%
40	Commission income	27,280,656	24,584,812	2,695,844	10.97%
50	Commission expenses	2,069,633	1,736,649	332,984	19.17%
60	**Net commission income**	25,211,023	22,848,163	2,362,860	10.34%
70	Dividends and similar income	2,293	1,887	405	21.46%
80	Net trading result	295,605	2,199,472	-1,903,866	-86.56%
90	Net hedging result	47,176	-111,831	159,007	-142.19%
100	Gains (losses) from the disposal or repurchase of:	3,340,666	10,241,555	-6,900,889	-67.38%
	a) receivables	0	0	0	-
	b) financial assets available for sale	3,275,921	10,177,010	-6,901,089	-67.81%
	c) financial assets held through maturity	0	0	0	-
	d) financial liabilities	64,745	64,545	200	0.31%
110	Net income of financial assets and liabilities measured at fair value	0	0	0	-
120	**Operating income**	76,646,428	78,686,884	-2,040,456	-2.59%
130	Net adjustments/write-backs of value due to impairment of:	-15,206,190	-15,431,671	225,481	-1.46%
	a) receivables	-13,939,630	-15,435,293	1,495,663	-9.69%
	b) financial assets available for sale	0	-4,764	4,764	-100.00%
	c) financial assets held through maturity	0	0	0	-
	d) other financial operations	-1,266,560	8,385	-1,274,945	-15204.71%
140	**Net income from financial assets**	61,440,238	63,255,212	-1,814,975	-2.87%
150	Administrative costs:	56,007,946	58,493,954	-2,486,008	-4.25%
	a) personnel costs	24,728,206	26,765,519	-2,037,313	-7.61%
	b) other administrative costs	31,279,740	31,728,435	-448,695	-1.41%
160	Net allocations to risk and expense funds	-17,630	43,394	-61,024	-140.63%

	Line items of the income statement	31/12/2017 - Banca Cambiano 1884 S.p.a.	31/12/2016 - BCC + AGCI	Amount variations	% Variations
170	Net adjustments/write-backs of value to property, plant and equipment	3,009,806	3,427,600	-417,793	-12.19%
180	Net adjustments/write-backs of value to intangible assets	126,542	92,143	34,399	37.33%
190	Other operating costs/income	-3,913,496	-3,847,846	-65,651	1.71%
200	**Operating costs**	55,213,168	58,209,244	-2,996,077	-5.15%
210	Profit (loss) from equity investments	512,824	199,911	312,913	156.53%
220	Net results of measurement at fair value of property, plant and equipment and intangible assets	0	0	0	-
230	Adjustments to value of goodwill	0	0	0	-
240	Gains (losses) from the disposal of investments	2,401	0	2,401	-
250	**Gains (losses) from current operations before tax**	6,742,295	5,245,879	1,496,416	28.53%
260	Fiscal year income taxes on current operations	2,242,295	103,449	2,138,845	2067.53%
270	**Gains (losses) from current operations after tax**	4,500,000	5,142,430	-642,430	-12.49%
280	Gains (losses) from groups of assets in the course of divestment after tax	0	0	0	-
290	**Fiscal year profit (loss)**	**4,500,000**	**5,142,430**	**-642,430**	**-12.49%**

The Explanatory Notes contain further information either deemed useful or required by law for a more exhaustive representation of corporate events and a better comprehension of balance sheet data.

The Board of Statutory Auditors also met with the company in charge of the statutory audit of the accounts, thus taking note of the work carried out by the latter and exchanging reciprocal information, as per article 2409-septies of the Italian Civil Code. As regards the items in the draft financial statements submitted to the Shareholders' assembly, the Board of Statutory Auditors has carried out the controls required to be able to provide the following comments.

3. Comments on the financial statements

It is noted as follows:

- The draft financial statements were prepared, as implementation of Legislative Decree n. 38/2005, from a substantive standpoint, in accordance with the Supervisory Regulations contained in Circular n. 262 of 22 December 2005 of the Bank of Italy and in application of the IAS/IFRS international accounting standards issued by the International Accounting Standards Board (IASB), approved by the European Union, and in effect as of the date the financial statements were closed, as well as the related interpretations (SIC/IFRIC). Such accounting standards are reported analytically in part A.1, section 2 of the Explanatory Notes. The above documentation duly considers what is provided in the Joint Document of the Bank of Italy, Consob and Isvap n. 4 of 3 March 2010, on the information to be provided in financial reports on controls of the reduction of value of assets (impairment test), on the contractual clauses of financial liabilities, on debt restructuring and on the "hierarchy of fair value";
- the draft financial statements, as prepared, correspond to the facts and information the Administrative Body was aware of as of the date of their approval;

- The Report on Operations contains the information required by outstanding law and completes, in a clear manner, the content of the fiscal year financial statements; specifically, in the Report on Operations and in the Explanatory Notes, the directors have provided the information required by Document no. 2 of Consob, the Bank of Italy and Isvap of 6 February 2009 on "business continuity" *(going concern)*, and they prepared the financial statements based on an expectation of business continuity. The Board agrees with the judgment expressed and confirms the reasonable expectation that the company will continue operating in the future.

As noted, with respect to the supervisory activity regarding the financial statements for which it is responsible, in addition to the provisions of the Italian Civil Code and provisions of the Supervisory Authority, the Board of Statutory Auditors complied with the rules of conduct established by the National Council of Accountants and Auditors.

In conclusion, the Board of Statutory Auditors approves the 2017 fiscal year financial statements, which were duly made available within the prescribed term.

Specifically, in accordance with article 2426, point 5 of the Italian Civil code, the Board consents to recording multi-year software costs and expenses, amounting to a total of € 544,637.39 in asset line item 120 "intangible assets". The entry is at cost, net of constant rates of amortization over five years. Again with the Board's consent, the expenses for improvements to third party assets corresponding to € 1,355,773.50 were allocated to asset line item 150 "Other assets" and were amortized directly on the basis of the duration of the leases.

Goodwill, recorded in the balance sheet for a total of € 6,974,772.00, refers to the following operations:

a) € 2,100,000.00 regarding the purchase of the company branch from Banca Interregionale Spa which took place on 20 November 2014, effective 1 January 2015;
b) € 4,874,772.00 deriving from the "way-out" operation.

In accordance to the specific policy on Goodwill we have verified that goodwill "value of use" is greater than the "booking value", and therefore the Board consents to recording goodwill amounting to € 4,874,772.00 valued at 1 January 2017 and at keeping the amount of € 2,100,000.00 registered in the previous fiscal years.

Moreover, during the course of the 2017 fiscal year, the Board of Statutory Auditors met with the auditing company Baker Tilly Revisa and exchanged information, as provided for by Italian Legislative Decree n. 39 of 27 January 2010, implementing European Community directives regarding statutory auditing of accounts. In accordance with article 19, sub-section 3 of Italian Legislative Decree n. 39/2010, the auditing company in question also provided the required report on fundamental issues that arose during the statutory audit, in which said company confirmed that from the comparison between the book value and the value in use of the CGUs identified, the results of the tests on goodwill showed a surplus of the value in use.

We confirm that the Directors provided all the indications required by article 10 of Law n. 72 of 19 March 1983 in a specific annex to the financial statements.

We further wish to emphasize, also due to their effect on the economic result, the strict criteria adopted in assessing receivables also in previous years, in assessing receivable in conformity with the internal policy "Rules for classification and assessment of the credit portfolio" approved by deliberation of the Board of Directors on 28/07/2014 and updated with subsequent deliberations on 15/07/2016 and 27/02/2017.

4. Proposals regarding the financial statements and the approval thereof

Upon the conclusion of the specific controls carried out, the Board can certify that the Report on Operations is consistent with the Bank's financial statements as of 31 December 2017 and indicates business performance, its current trend and outlook. This is true with reference both to the financial information, as an analysis of the income, asset and financial situation and indictors of capital adequacy, as well as with respect to other information, such as risks and uncertainties concerning the Bank's activity, its management, human resources, cultural and promotional activities, security, mutual aid activities, and business performance. The significance of credit risk, liquidity risk and market risk was adequately indicated, also in consideration of the strong market tensions. The Explanatory Notes indicate the measurement criteria used and provide all of the information required by laws currently in force, including information on credit risk, market risk, liquidity risk and operational risks.

As conclusion of our report, in repeating that on the basis of the supervisory activity carried out no critical events appeared and no omissions or irregularities were found, the Board of Statutory Auditors expresses its favorable opinion, to the extent of our responsibility, for the approval of the financial statements for fiscal year 2017 and related proposal for the allocation of the fiscal year net profit, which it certifies conforms to law and the Articles of Association and is suitable in view of the Bank's economic and financial situation.

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The Board sincerely thanks all of the Bank's departments for the collaboration provided to the control body during the course of the fiscal year while carrying out its institutional functions.

Florence, 12 February 2018

THE BOARD OF STATUTORY AUDITORS

Prof. Stefano Sanna	CHAIRMAN
Dr. Gaetano De Gregorio	ACTING AUDITOR
Prof.ssa Rita Ripamonti	ACTING AUDITOR

Report of the Independent Auditor

BANCA CAMBIANO 1884
SOCIETÀ PER AZIONI

Report of the Independent Auditor
in accordance with Article 14 of Legislative Decree no. 39 of 27.1.2010
and article 10 of EU Regulations n. 537/2014.

To the Shareholders of Banca Cambiano 1884 S.p.A.

Report on the accounting audit of the financial statements

Opinion

We have audited the fiscal year financial statements of Banca Cambiano 1884 S.p.A. (the Company), consisting of the equity and financial situation as at 31 December 2017, the income statement, the overall income statement, the schedule of variations to shareholders' equity, statement of cash flows for the fiscal year ending on the aforementioned date and by the explanatory notes thereto that also include the summary of the most significant accounting principles applied.

In our opinion, the financial statements represent in a truthful and accurate manner shareholders' equity and the financial situation of the Company as at 31 December 2017, as well as of the economic result and cash flows for the fiscal year closed on the same date, in conformity with the International Financial Reporting Standards adopted by the European Union, as well as with the regulations implementing article 43 of Legislative Decree n. 136/2015.

Basis for the opinion

We conducted the procedures specified in the audit standards (ISA Italia). Our responsibilities pursuant to the aforementioned standards are further described in the section *Responsibility of the Independent Auditors for the audit of financial statements for the fiscal year* in this report. We are independent with respect to the Company, in compliance with regulations and standards regarding ethical principles and independence applicable in Italian Law to audits of financial statements. It is our opinion that we have acquired sufficient and adequate evidence on which to base our opinion.

Key aspects of the audit of accounts

The key aspects of the audit of accounts are those aspects that, in our professional opinion, are of greatest significance within the scope of the audit of accounts for the financial statements in review. This aspects were dealt with within the scope of the audit of accounts and in forming our opinion as to the overall financial statements; therefore, we will not express a separate opinion of such aspects.

<table>
<tr><th>Key aspects</th><th>Auditing procedures in response to key aspects</th></tr>
<tr><td>Evaluation of receivables from customers for financing

Explanatory Notes:

Part B – Information on the balance sheet in section 7 of receivables;

Part C – Information on the income statement in section 8;

Part E – Information on risks and the relative hedging policies

Receivables from customers for financing at 31 December 2017 show a balance of 2.445 million Euro, corresponding to 72% of overall assets in the balance sheet.

Particular attention was given to these receivables during the auditing activity in that the processes and methods for evaluation adopted by the Bank are characterized by high subjectivity and based on processes estimating numerous variables such as, principally, the existence of indicators of possible losses in value, the calculation of expected cash flows and the relative recovery times, the realizable value of collateral, the type of customer and the use of internal and external elements observable at the date of assessment.</td><td>Within the scope of the auditing activities, the following main activities were carried out to analyze this key aspect:
Analysis of company procedures and processes and verification of the operating efficacy of relative controls, for the purpose of the assessment process of receivables from customers for financing;
Comparative analysis procedures with reference to the most significant deviations with respect to data from the previous fiscal year and analysis of results with the company functions involved;
Analysis of the assessment models, both collectively and individually, and verification based on samples of the reasonableness of the variables subject to estimation within the scope of the aforementioned models;
Verifications on a sample basis of evaluation and classification in the financial statements according the categories provided for by the applicable regulatory framework on financial and regulatory information.</td></tr>
<tr><td>Evaluation of the goodwill intangible asset

Explanatory Notes:
Part B – Information on the balance sheet in section 12;
Part G – Information on the income statement in section 3.

Within the scope of our accounting activity, particular attention was paid to the analysis of the evaluation models for goodwill relative to the purchase of the ex-Binter tellers and the branches purchased from Banca A.G.C.I. S.p.A. within the scope of the “way out” operation.</td><td>Within the scope of the auditing activities, the following main activities were carried out to analyze this key aspect:
Analysis of company procedures and processes and verification of the operating efficacy of relative controls for the purpose of the assessment process of the accounting item;
Comparative analysis procedures with reference to the most significant deviations with respect to data from the previous fiscal year and analysis of results with the company functions involved;
Verification of the evaluation models used by the Bank and by the reasonableness of the data and input parameters used, with particular attention paid to the Impairment Test method on the accounting item in question.</td></tr>
</table>

Responsibility of the Directors and of the Board of Statutory Auditors for the financial statements.

The directors are responsible for preparing the financial statements so that they provide a true and correct representation in conformity with the International Financial Reporting Standards adopted by the European Union and with the provisions issued to implement Article 43 of Legislative Decree n. 136/2015 and, to the extent required by law, for those internal controls deemed necessary by the Directors to allow preparing financial statements that do not contain significant errors due to fraud or unintentional conduct or events.

Directors are responsible for assessing the capacity of the Company to continue operating as a working entity and, in preparing the financial results, for the appropriate use of the assumption of corporate continuity as well as for adequate information on this matter. Directors use the assumption of corporate continuity in preparing the financial statements, unless they have assessed the existence of conditions that require liquidation of the Company or interruption of business activities or that there are no realistic alternatives.

The Board of Statutory Auditors is responsible for vigilance, within the terms provided for by law, over the preparation process of the Company's financial information.

Responsibility of the Independent Auditors for the accounting audit of the financial statements

Our objectives are to acquire reasonable certainty that the financial statements contain no significant errors due to fraud or to intentional conduct or to events and to issue an audit report that includes our opinion. Reasonable certainty means a high level of certainty that, nonetheless, is not a guaranty that an accounting audit conducted according to international auditing principles (ISA Italia) will always identify a significant error, should one exist. Errors may derive from fraud or from unintentional conduct or from events and we have informed persons in charge of governance activities, identified at an appropriate level, as required by ISA Italia principles, among other aspects, of the scope and timing planed for the accounting review and of the significant findings thereof, including any significant deficiencies in internal controls observed during the accounting audit.

We have also provided persons in charge of governance activities with a declaration that all regulations and principles regarding ethical conduct and independence were observed, as applicable by Italian law, and have informed them of any situation that may reasonably affect our independence and, where applicable, the respective safeguarding measures.

Among aspects of which governance was informed, we identified those that were most relevant within the scope of the accounting audit of the financial statements for the fiscal year in review, which therefore constituted the key aspects of the audit. These aspects are described in the audit report.

Other information communicated pursuant to article 10 of EU Regulations 537/2014

On 7 May 2011, the Shareholders' Meeting of Banca Cambiano 1884 S.p.A. appointed Baker Tilly Revisa S.p.A. as statutory auditor of the Company's financial statements for the fiscal years from 31 December 2011 to 31 December 2019.

We hereby declare that no services forbidden by article 5, section 1 of EU Regulations 537/2014 were rendered other than the accounting audit and that we remained independent with respect to the Company in the performance of the statutory audit.

We confirm that the opinion expressed in this report on the financial statement is in line with the contents of the additional report sent to the Board of Statutory Auditors in its role as committee for internal control and legal review, pursuant to article 11 of the aforementioned Regulations.

REPORT ON OTHER LAW AND REGULATORY PROVISIONS

Opinion pursuant to article 14, sub-section 2, letter e) of Italian Legislative Decree 39/10

The Directors of Banca Cambiano 1884 S.p.A. are responsible for preparing the report on operations for Banca Cambiano 1884 S.p.A. at 31 December 2017, including its consistency with the respective financial statements for the fiscal year and its conformity to provisions of law.

We conducted the procedures specified in the audit standards (SA Italia) n. 720B for the purpose of expressing an opinion as regards the consistency of the report on operations with the financial statements of the Banca Cambiano 1884 S.p.A. as at 31 December 2017 and on compliance with provisions of law, and to issue a declaration regarding any significant errors.

In our opinion, the report on operations is consistent with the financial statements of Banca Cambiano 18884 S.p.A. as at 31 December 2016 and has been prepared in compliance with all provisions of law.

With reference to the declaration required by article 14, sub-section 2, letter e) of Italian Legislative Decree 39/10, issued based on knowledge and comprehension of the business and of the relative context acquired during auditing activities, we have nothing to report.

Florence, 12 February 2018

BAKER TILLY REVISA S.p.A.

Lucia Caciagli
Executive Partner

BAKER TILLY REVISA

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RELAZIONE DELLA SOCIETA' DI REVISIONE INDIPENDENTE AI SENSI DEGLI ARTT. 14 DEL D.LGS. 27 GENNAIO 2010, N.39 E 10 DEL REGOLAMENTO (UE) N. 537/2014

Agli Azionisti della Banca Cambiano 1884 S.p.A.

RELAZIONE SULLA REVISIONE CONTABILE DEL BILANCIO D'ESERCIZIO

Giudizio

Abbiamo svolto la revisione contabile del bilancio d'esercizio della Società Banca Cambiano 1884 S.p.A. (la Società), costituito dalla situazione patrimoniale-finanziaria al 31/12/2017, dal conto economico, dal conto economico complessivo, dal prospetto delle variazioni del patrimonio netto, dal rendiconto finanziario per l'esercizio chiuso a tale data e dalle note al bilancio che includono anche la sintesi dei più significativi principi contabili applicati.

A nostro giudizio, il bilancio d'esercizio fornisce una rappresentazione veritiera e corretta della situazione patrimoniale e finanziaria della Società al 31/12/2017, del risultato economico e dei flussi di cassa per l'esercizio chiuso a tale data in conformità agli International Financial Reporting Standards adottati dall'Unione Europea nonché ai provvedimenti emanati in attuazione dell'art. 43 del D.Lgs. n. 136/2015.

Elementi alla base del giudizio

Abbiamo svolto la revisione contabile in conformità ai principi di revisione internazionali (ISA Italia). Le nostre responsabilità ai sensi di tali principi sono ulteriormente descritte nella sezione *Responsabilità della società di revisione per la revisione contabile del bilancio d'esercizio* della presente relazione. Siamo indipendenti rispetto alla Società in conformità alle norme e ai principi in materia di etica e di indipendenza applicabili nell'ordinamento italiano alla revisione contabile del bilancio. Riteniamo di aver acquisito elementi probativi sufficienti ed appropriati su cui basare il nostro giudizio.

Aspetti chiave della revisione contabile

Gli aspetti chiave della revisione contabile sono quegli aspetti che, secondo il nostro giudizio professionale, sono stati maggiormente significativi nell'ambito della revisione contabile del bilancio dell'esercizio in esame. Tali aspetti sono stati da noi affrontati nell'ambito della revisione contabile e nella formazione del nostro giudizio sul bilancio d'esercizio nel suo complesso; pertanto su tali aspetti non esprimiamo un giudizio separato.

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Aspetti chiave	*Procedure di revisione in risposta agli aspetti chiave*
Valutazione dei crediti verso la clientela per finanziamenti *Nota integrativa:* *Parte B — Informazioni sullo stato patrimoniale alla sezione 7 dell'attivo;* *Parte C — Informazioni sul conto economico alla sezione 8;* *Parte E - Informazioni sui rischi e sulle relative politiche di copertura.* I crediti verso la clientela per finanziamenti al 31 dicembre 2017 mostrano un saldo pari ad euro 2.445 milioni, corrispondente al 72% del totale dell'attivo del bilancio. A tali crediti è stata dedicata particolare attenzione nell'ambito della nostra attività di revisione in quanto i processi e le modalità di valutazione, adottati dalla Banca, sono caratterizzati da un'elevata soggettività e ricorso a processi di stima di numerose variabili quali, principalmente, l'esistenza di indicatori di possibili perdite di valore, la determinazione dei flussi di cassa attesi ed i relativi tempi di recupero, il valore di realizzo delle garanzie, la tipologia della clientela nonché l'utilizzo di elementi interni ed esterni osservabili alla data di valutazione.	Nell'ambito delle attività di revisione, sono state svolte le seguenti principali attività, al fine di analizzare tale aspetto chiave: • Analisi delle procedure e dei processi aziendali e verifiche sull'efficacia operativa dei controlli rilevanti ai fini del processo di valutazione dei crediti verso la clientela per finanziamenti; • Procedure di analisi comparativa con riferimento agli scostamenti maggiormente significativi rispetto ai dati dell'esercizio precedente ed analisi delle risultanze con le funzioni aziendali coinvolte; • Analisi dei modelli di valutazione, sia su base collettiva che su base individuale, e verifica su base campionaria della ragionevolezza delle variabili oggetto di stima nell'ambito di tali modelli; • Verifiche su base campionaria della valutazione e della classificazione in bilancio secondo le categorie previste dal quadro normativo sull'informazione finanziaria e regolamentare applicabile.
Valutazione dell'attività immateriale dell'avviamento *Nota Integrativa:* *Parte B — Informazioni sullo stato patrimoniale alla sezione 12;* *Parte G — Informazioni sul conto economico alla sezione 3.* Nell'ambito della nostra attività di revisione è stata posta particolare attenzione all'analisi dei modelli di valutazione della posta dell'avviamento relativa all'acquisizione degli sportelli ex Binter e delle filiali acquisite da Banca A.G.C.I. S.p.A., nell'ambio dell'operazione	Nell'ambito delle attività di revisione, sono state svolte le seguenti principali attività, al fine di indirizzare tale aspetto chiave: • analisi delle procedure e dei processi aziendali e verifiche sull'efficacia operativa dei controlli rilevanti ai fini del processo di valutazione della posta contabile; • procedure di analisi comparativa con riferimento agli scostamenti maggiormente significativi rispetto ai dati dell'esercizio precedente e discusso le risultanze con le funzioni aziendali coinvolte; • verifica dei modelli valutativi

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di "way out".	utilizzati dalla Banca e della ragionevolezza dei dati e dei parametri di input utilizzati, con particolare attenzione alla metodologia dell'Impairment Test sulla citata posta contabile.

Responsabilità degli amministratori e del collegio sindacale per il bilancio d'esercizio

Gli amministratori sono responsabili per la redazione del bilancio d'esercizio che fornisca una rappresentazione veritiera e corretta in conformità agli International Financial Reporting Standards adottati dall'Unione Europea nonché ai provvedimenti emanati in attuazione dell'art. 43 del D.Lgs. n. 136/2015 e, nei termini previsti dalla legge, per quella parte del controllo interno dagli stessi ritenuta necessaria per consentire la redazione di un bilancio che non contenga errori significativi dovuti a frodi o a comportamenti o eventi non intenzionali.

Gli amministratori sono responsabili per la valutazione della capacità della Società di continuare ad operare come un'entità in funzionamento e, nella redazione del bilancio d'esercizio, per l'appropriatezza dell'utilizzo del presupposto della continuità aziendale, nonché per una adeguata informativa in materia. Gli amministratori utilizzano il presupposto della continuità aziendale nella redazione del bilancio d'esercizio a meno che abbiano valutato che sussistono le condizioni per la liquidazione della Società o per l'interruzione dell'attività o non abbiano alternative realistiche a tali scelte.

Il collegio sindacale ha la responsabilità della vigilanza, nei termini previsti dalla legge, sul processo di predisposizione dell'informativa finanziaria della Società.

Responsabilità della società di revisione per la revisione contabile del bilancio d'esercizio

I nostri obiettivi sono l'acquisizione di una ragionevole sicurezza che il bilancio d'esercizio nel suo complesso non contenga errori significativi, dovuti a frodi o a comportamenti o eventi non intenzionali, e l'emissione di una relazione di revisione che includa il nostro giudizio. Per ragionevole sicurezza si intende un livello elevato di sicurezza che, tuttavia, non fornisce la garanzia che una revisione contabile svolta in conformità ai principi di revisione internazionali (ISA Italia) individui sempre un errore significativo, qualora esistente. Gli errori possono derivare da frodi o da comportamenti o eventi non intenzionali e

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sono considerati significativi qualora ci si possa ragionevolmente attendere che essi, singolarmente o nel loro insieme, siano in grado di influenzare le decisioni economiche degli utilizzatori prese sulla base del bilancio d'esercizio.

Nell'ambito della revisione contabile svolta in conformità ai principi di revisione internazionali (ISA Italia), abbiamo esercitato il giudizio professionale e abbiamo mantenuto lo scetticismo professionale per tutta la durata della revisione contabile. Inoltre:

- abbiamo identificato e valutato i rischi di errori significativi nel bilancio d'esercizio, dovuti a frodi o a comportamenti o eventi non intenzionali; abbiamo definito e svolto procedure di revisione in risposta a tali rischi; abbiamo acquisito elementi probativi sufficienti ed appropriati su cui basare il nostro giudizio. Il rischio di non individuare un errore significativo dovuto a frodi è più elevato rispetto al rischio di non individuare un errore significativo derivante da comportamenti o eventi non intenzionali, poiché la frode può implicare l'esistenza di collusioni, falsificazioni, omissioni intenzionali, rappresentazioni fuorvianti o forzature del controllo interno;
- abbiamo acquisito una comprensione del controllo interno rilevante ai fini della revisione contabile allo scopo di definire procedure di revisione appropriate nelle circostanze e non per esprimere un giudizio sull'efficacia del controllo interno della Società;
- abbiamo valutato l'appropriatezza dei principi contabili utilizzati nonché la ragionevolezza delle stime contabili effettuate dagli amministratori, inclusa la relativa informativa;
- siamo giunti ad una conclusione sull'appropriatezza dell'utilizzo da parte degli amministratori del presupposto della continuità aziendale e, in base agli elementi probativi acquisiti, sull'eventuale esistenza di una incertezza significativa riguardo a eventi o circostanze che possono far sorgere dubbi significativi sulla capacità della Società di continuare ad operare come un'entità in funzionamento. In presenza di un'incertezza significativa, siamo tenuti a richiamare l'attenzione nella relazione di revisione sulla relativa informativa di bilancio ovvero, qualora tale informativa sia inadeguata, a riflettere tale circostanza nella formulazione del nostro giudizio. Le nostre conclusioni sono basate sugli elementi probativi acquisiti fino alla data della presente relazione. Tuttavia, eventi o circostanze successivi possono comportare che la Società cessi di operare come un'entità in funzionamento;
- abbiamo valutato la presentazione, la struttura e il contenuto del bilancio d'esercizio nel suo complesso, inclusa l'informativa, e se il bilancio d'esercizio rappresenti le operazioni e gli eventi sottostanti in modo da fornire una corretta rappresentazione.

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Abbiamo comunicato ai responsabili delle attività di governance, identificati ad un livello appropriato come richiesto dagli ISA Italia, tra gli altri aspetti, la portata e la tempistica pianificate per la revisione contabile e i risultati significativi emersi, incluse le eventuali carenze significative nel controllo interno identificate nel corso della revisione contabile.

Abbiamo fornito ai responsabili delle attività di governance anche una dichiarazione sul fatto che abbiamo rispettato le norme e i principi in materia di etica e di indipendenza applicabili nell'ordinamento italiano e abbiamo comunicato loro ogni situazione che possa ragionevolmente avere un effetto sulla nostra indipendenza e, ove applicabile, le relative misure di salvaguardia.

Tra gli aspetti comunicati ai responsabili delle attività di governance, abbiamo identificato quelli che sono stati più rilevanti nell'ambito della revisione contabile del bilancio dell'esercizio in esame, che hanno costituito quindi gli aspetti chiave della revisione. Abbiamo descritto tali aspetti nella relazione di revisione.

Altre comunicazioni comunicate ai sensi dell'art. 10 del Regolamento (UE) 537/2014

L'assemblea degli azionisti della Banca Cambiano 1884 S.p.A. ci ha conferito in data 07/05/2011 l'incarico di revisione legale del bilancio d'esercizio della Società per gli esercizi dal 31/12/2011 al 31/12/2019.

Dichiariamo che non sono stati prestati servizi diversi dalla revisione contabile vietati ai sensi dell'art. 5, par. 1, del Regolamento (UE) 537/2014 e che siamo rimasti indipendenti rispetto alla Società nell'esecuzione della revisione legale.

Confermiamo che il giudizio sul bilancio d'esercizio espresso nella presente relazione è in linea con quanto indicato nella relazione aggiuntiva destinata al collegio sindacale, nella sua funzione di comitato per il controllo interno e la revisione legale, predisposta ai sensi dell'art. 11 del citato Regolamento.

RELAZIONE SU ALTRE DISPOSIZIONI DI LEGGE E REGOLAMENTARI

Giudizio ai sensi dell'art. 14, comma 2, lettera e), del D.Lgs. 39/10

Gli amministratori della Banca Cambiano 1884 S.p.A. sono responsabili per la predisposizione della relazione sulla gestione della Banca Cambiano 1884 S.p.A. al 31/12/2017, incluse la sua coerenza con il relativo bilancio d'esercizio e la sua conformità alle norme di legge.

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Abbiamo svolto le procedure indicate nel principio di revisione (SA Italia) n. 720B al fine di esprimere un giudizio sulla coerenza della relazione sulla gestione, con il bilancio d'esercizio della Banca Cambiano 1884 S.p.A. al 31/12/2017 e sulla conformità della stessa alle norme di legge, nonché di rilasciare una dichiarazione su eventuali errori significativi.

A nostro giudizio, la relazione sulla gestione è coerente con il bilancio d'esercizio della Banca Cambiano 1884 S.p.A. al 31/12/2017 ed è redatta in conformità alle norme di legge.

Con riferimento alla dichiarazione di cui all'art. 14, co. 2, lettera e), del D.Lgs. 39/10, rilasciata sulla base delle conoscenze e della comprensione dell'impresa e del relativo contesto acquisite nel corso dell'attività di revisione, non abbiamo nulla da riportare.

Firenze, 12 febbraio 2018

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Lucia Caciagli
Socio Procuratore

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Schedules to the Financial Statements

	BALANCE SHEET (amounts in €) Asset line items	31/12/2017	31/12/2016
10	Cash and cash equivalents	11,736,361	10,419,842
20	Financial assets held for trading	25,469,718	57,645,960
30	Financial assets measured at fair value	0	0
40	Financial assets available for sale	534,579,568	631,706,459
50	Financial assets held through maturity	0	0
60	Receivables from banks	183,365,545	171,494,742
70	Receivables from customers	2,445,469,798	2,136,866,011
80	Hedges	0	236,761
90	Adjustment of value of generic hedges for financial assets (+/-)	0	0
100	Equity investments	37,854,650	25,573,381
110	Property, plant and equipment	58,105,430	65,841,410
120	Intangible assets	7,519,409	2,504,246
	Of which:		
	- goodwill	6,974,772	2,100,000
130	Tax receivables	27,029,642	33,479,266
	a) current	5,418,324	12,440,647
	b) pre-paid	21,611,318	21,038,619
	Of which L. 214/2011	19,343,316	19,709,583
140	Noncurrent assets and groups of assets in the course of divestment	0	0
150	Other assets	41,972,572	48,996,206
	Total assets	**3,373,102,694**	**3,184,764,285**

Note: Comparison data in the schedule at 31/12/2016 are those referring to former Banca di Credito Cooperativo di Cambiano s.c.p.a.

	BALANCE SHEET (amounts in €) **Liability line items and shareholders' equity**	**31/12/2017**	**31/12/2016**
10	Payables to banks	503,979,961	488,534,471
20	Payables to customers	2,305,458,960	1,981,003,632
30	Outstanding securities	251,958,911	348,528,372
40	Financial liabilities from trading	80,079	0
50	Financial liabilities measured at fair value	0	0
60	Hedges	769,210	427,147
70	Adjustment of value of generic hedges for financial liabilities (+/-)	0	0
80	Tax liabilities	2,568,255	3,503,753
	a) current	276,234	0
	b) deferred	2,292,021	3,503,753
90	Liabilities associated with assets in the course of divestment	0	0
100	Other liabilities	64,482,313	84,849,147
110	Employee severance pay	3,682,338	3,579,535
120	Risk and expense funds	75,164	479,323
	a) pensions and similar commitments	0	0
	b) other funds	75,164	479,323
130	Valuation reserves	-1,481,232	12,367,554
140	Redeemable shares	0	0
150	Equity instruments	0	0
160	Reserves	3,425,493	251,964,891
170	Premiums on issue of new shares	803,240	562,291
180	Share capital	232,800,000	3,864,168
190	Treasury shares (-)	0	0
200	Fiscal year profit (loss)(+/-)	4,500,000	5,100,000
	Total liabilities and shareholders' equity	**3,373,102,694**	**3,184,764,285**

Note: Comparison data in the schedule at 31/12/2016 are those referring to former Banca di Credito Cooperativo di Cambiano s.c.p.a.

	INCOME STATEMENT (amounts in €)	**31/12/2017**	**31/12/2016**
10	Earned interest and similar income	66,025,702	62,123,279
20	Interest payable and similar expenses	18,276,036	21,085,883
30	**Interest income**	**47,749,665**	**41,037,396**
40	Commission income	27,280,656	23,097,192
50	Commission expenses	2,069,633	1,662,522
60	**Net commissions**	**25,211,023**	**21,434,670**
70	Dividends and similar income	2,293	1,887
80	Net trading result	295,605	2,021,615
90	Net hedging result	47,176	-97,474
100	Gains (losses) from the disposal or repurchase of:	3,340,666	8,398,629
	a) receivables	-	-
	b) financial assets available for sale	*3,275,921*	*8,334,084*
	c) financial assets held through maturity	-	-
	d) financial liabilities	*64,745*	*64,545*
110	Net income of financial assets and liabilities measured at fair value	-	-
120	**Operating income**	**76,646,428**	**72,796,723**
130	Net adjustments/write-backs of value due to impairment of:	-15,206,190	-14,433,281
	a) receivables	-13,939,630	-14,441,667
	b) financial assets available for sale	0	0
	c) financial assets held through maturity	0	0
	d) other financial operations	-1,266,560	8,385
140	**Net income from financial assets**	**61,440,238**	**58,363,442**
150	Administrative costs:	56,007,946	53,719,286
	a) personnel costs	24,728,206	24,919,753
	b) other administrative costs	31,279,740	28,799,533
160	Net allocations to risk and expense funds	-17,630	3,394
170	Net adjustments/write-backs of value to property, plant and equipment	3,009,806	3,180,029
180	Net adjustments/write-backs of value to intangible assets	126,542	88,812
190	Other operating costs/income	-3,913,496	-3,662,757
200	**Operating costs**	**55,213,168**	**53,328,763**
210	Profit (loss) from equity investments	512,824	199,911
220	Net result of the fair value measurement of property, plant and equipment and intangible assets	0	0
230	Adjustments to value of goodwill	0	0
240	Gains (losses) from the disposal of investments	2,401	0
250	**Gains (losses) from current operations before tax**	**6,742,295**	**5,234,589**
260	Fiscal year income taxes on current operations	2,242,295	134,589
270	**Gains (losses) from current operations after tax**	**4,500,000**	**5,100,000**
280	Gains (losses) from groups of assets in the course of divestment after tax	0	0
290	**Fiscal year profit (loss)**	**4,500,000**	**5,100,000**

Note: Comparison data in the schedule at 31/12/2016 are those referring to former Banca di Credito Cooperativo di Cambiano s.c.p.a.

	SCHEDULE OF OVERALL PROFITABILITY (amounts in €)	31/12/2017	31/12/2016
10	Fiscal year profit (loss)	4,500,000	5,100,000
	Other income components net of tax without reversal to income statement		
20	Property, plant and equipment	0	0
30	Intangible assets	0	0
40	Defined benefit assets	68,151	-15,045
50	Noncurrent assets in course of divestment	0	0
60	Share of valuation reserves of equity investments measured on basis of shareholders' equity	0	0
	Total other income components net of tax without reversal to income statement		
70	Hedging foreign investments	0	0
80	Exchange rate differences	0	0
90	Hedging cash flows	0	0
100	Financial assets available for sale	300,630	-1,301,954
110	Noncurrent assets in course of divestment	0	0
120	Share of valuation reserves of equity investments measured on basis of shareholders' equity	-1,124,908	0
130	Total other income components net of tax	-756,127	-1,316,999
140	**Overall profitability (line items 10+130)**	**3,743,873**	**3,783,001**

Note: Comparison data in the schedule at 31/12/2016 are those referring to former Banca di Credito Cooperativo di Cambiano s.c.p.a.

TABLE OF VARIATIONS TO SHAREHOLDERS' EQUITY AS AT 31/12/2017 (amounts in €)	Amounts as at 31/12/2016	Modification of opening balance	Amounts as at 01/01/2017	Allocation of prior fiscal year result		Fiscal year variations								
							Transactions involving shareholders' equity							
				Reserves	Dividends and other allocations	Variations of reserves	Issue of new shares	Purchase of treasury shares	Distribution of extraordinary dividends	Variations of equity instruments	Derivatives on treasury shares	Stock options	Overall profitability for the fiscal year at 31/12/2017	Shareholders' equity as at 31/12/2017
Share capital:														
a) ordinary shares	3,864,168	228,935,832	232,800,000											232,800,000
b) other shares	0													0
Premiums on issue of new shares	562,291	837,709	1,400,000	-596,760										803,240
Reserves:														
a) from gains	251,964,891	-247,729,309	4,235,582	42,430		-852,519								3,425,493
b) other	0													0
Valuation reserves	12,367,554	-13,092,658	-725,104										-756,127	-1,481,232
Equity instruments	0													0
Treasury shares	0													0
Fiscal year profit (loss)	5,100,000	-5,057,570	42,430	-42,430									4,500,000	4,500,000
Shareholders' equity	273,858,904	-36,105,996	237,752,908	-596,760		-852,519							3,743,873	240,047,502

Detail of modifications of opening balance

Share capital - a) ordinary shares:	**228,935,832**
- Discharge of shares for Way Out referred to Ente Cambiano	-3,864,168
- Charge of shares for Way Out referred to former Banca AGCI now Banca Cambiano 1884 S.p.a.	232,800,000
Premiums on issue of new shares:	**837,709**
- Discharge of premium for Way Out referred to Ente Cambiano	-562,291
- Charge of premium for Way Out referred to former Banca AGCI now Banca Cambiano 1884 S.p.a.	1,400,000
Reserves - a) from gains:	**-247,729,309**
- Discharge of reserves for Way Out referred to Ente Cambiano	-251,964,891
- Charge of contribution reserve for Way Out referred to former Banca AGCI now Banca Cambiano 1884 S.p.a.	4,874,772
- Charge of other contribution reserve for Way Out referred to former Banca AGCI now Banca Cambiano 1884 S.p.a.	720,000
- Charge of previous year deficit from contribution for Way Out referred to former Banca AGCI now Banca Cambiano 1884 S.p.a.	-1,359,190
Valuation reserves:	**-13,092,658**
- Discharge of valuation reserves for Way Out referred to Ente Cambiano	-10,835,907
- Charge AFS Securities fund for Way Out referred to former Banca AGCI now Banca Cambiano 1884 S.p.a.	-2,241,946
- Charge actuarial fund for Way Out referred to former Banca AGCI now Banca Cambiano 1884 S.p.a.	-14,806
Fiscal year profit (loss):	**-5,057,570**
- Discharge of profit for Way Out referred to Ente Cambiano	-5,100,000
- Charge of profit for Way Out referred to former Banca AGCI now Banca Cambiano 1884 S.p.a.	42,430

TABLE OF VARIATIONS TO SHAREHOLDERS' EQUITY AS AT 31/12/2016 (amounts in €)	Amounts as at 31/12/2015	Modification of opening balance	Amounts as at 01/01/2016	Allocation of prior fiscal year result		Fiscal year variations								
							Transactions involving Shareholders' equity							
				Reserves	Dividends and other allocations	Variations of reserves	Issue of new shares	Purchase of Treasury shares	Distribution of extraordinary dividends	Variation of Equity instruments	Derivatives on treasury shares	Stock options	Overall profitability 31/12/2016 fiscal year	Shareholders' equity As at 31/12/2016
Share capital:														
a) ordinary shares	4,075,920		4,075,920				-211,752							3,864,168
b) other shares	0													0
Premiums on issue of new shares	582,455		582,455				-20,163							562,291
Reserves:														
a) from gains	247,700,771		247,700,771	4,264,120										251,964,891
b) other	0													0
Valuation reserves	13,684,553		13,684,553										-1,316,999	12,367,554
Equity instruments	0													0
Treasury shares	0													0
Fiscal year profit (loss)	5,000,000		5,000,000	-4,264,120	-735,880								5,100,000	5,100,000
Shareholders' equity	271,043,698		271,043,698	0	-735,880	0	-231,915						3,783,001	273,858,904

CASHFLOW STATEMENT – INDIRECT METHOD		
	Amounts 31/12/2017	Amounts 31/12/2016
A. OPERATING ASSETS		
1 Operations	**25,934,418**	**23,361,524**
a) Fiscal year result (+/-)	4,500,000	5,100,000
b) Gains/losses on financial assets held for trading and on financial assets / liabilities measured at fair value (+/-)	-428,837	318,952
c) Gains/losses on assets used for hedging (+/-)	-47,176	97,474
d) Adjustments/write-backs of net value due to impairment (+/-)	15,206,190	14,433,281
e) Adjustments/write-backs of net value of property, plant and equipment and intangible assets (+/-)	3,136,348	3,268,841
f) Net allocations to risk and expense funds and other costs/income (+/-)	-17,630	3,394
g) Outstanding taxes (+)	2,242,295	134,589
h) Adjustments/write-backs of net value of groups of assets being divested net of tax (+/-)	0	0
i) Other adjustments (+/-)	1,343,228	4,991
2 Liquidity generated/absorbed by financial assets	**-197,454,671**	**511,802,774**
a) Financial assets held for trading	32,605,080	-57,269,942
b) Financial assets measured at fair value	0	0
c) Financial assets available for sale	97,126,892	672,830,655
d) Receivables from banks: on demand	53,284,625	66,082
e) Receivables from banks: other receivables	-65,155,428	45,000,483
f) Receivables from customers	-322,543,418	-141,399,305
g) Other assets	7,227,578	-7,425,200
3 Liquidity generated/absorbed by financial liabilities	**215,062,980**	**-510,533,233**
a) Payables to banks: on demand	3,258,395	-661,887
b) Payables to banks: other payables	12,187,095	4,938,421
c) Payables to customers	324,455,328	-286,386,867
d) Outstanding Securities	-96,569,461	-184,223,208
e) Financial liabilities from trading	80,079	0
f) Financial liabilities measured at fair value	0	0
g) Other liabilities	-28,348,455	-44,199,691
Net liquidity generated/absorbed by operating assets	**43,542,726**	**24,631,064**
B. INVESTMENT ASSETS		
1 Liquidity generated by	**-17,201,637**	**-14,020,302**
a) Sale of equity investments	0	0
b) Dividends received from equity investments	0	0
c) Sale of financial assets held through maturity	0	0
d) Sale of property, plant and equipment	-17,201,637	-14,020,302
e) Sale of intangible assets	0	0
f) Sale of branches of business	0	0
2 Liquidity absorbed by	**-236,111,010**	**-9,912,951**
a) Purchase of equity investments	-5,751,652	-5,751,652
b) Purchase of financial assets held through maturity	0	0
c) Purchase of property, plant and equipment	-3,471,214	-3,835,339
d) Purchase of intangible assets	-266,934	-325,960

CASHFLOW STATEMENT – INDIRECT METHOD	Amounts 31/12/2017	Amounts 31/12/2016
e) Purchase of branches of business	-226,621,210	0
Net liquidity generated/absorbed by investment assets	-253,312,647	-23,933,253
C. FUNDING ACTIVITIES		
a) Issues/purchases of treasury shares	211,086,440	-231,915
b) Issues/purchases of equity instruments	0	0
c) Distribution of dividends and other purposes	0	-735,880
Net liquidity generated/absorbed by funding activities	211,086,440	-967,795
NET LIQUIDITY GENERATED/ABSORBED DURING THE FISCAL YEAR	**1,316,519**	**-269,984**

Key:
(+) generated
(-) absorbed

RECONCILIATION

LINE ITEMS OF THE FINANCIAL STATEMENTS	Amounts	
	31/12/2017	31/12/2016
Cash and cash equivalents at the beginning of the fiscal year	10,419,842	10,689,825
Total net liquidity generated/absorbed during the fiscal year	1,316,519	-269,984
Cash and cash equivalents: effect of variation of exchange rates	0	0
Cash and cash equivalents at the close of the fiscal year	11,736,361	10,419,842

Explanatory Notes

BANCA CAMBIANO 1884
SOCIETÀ PER AZIONI

EXPLANATORY NOTES

PART A – Accounting policies

A.1 – GENERAL PART

Section 1 – Statement of conformity to International Accounting Standards

Conformity to International accounting standards

Banca Cambiano 1884 S.p.a. declares that these financial statements were prepared in compliance with the international accounting standards in force at 31 December 2017 and approved by the European Commission as set forth by EU regulations n. 1606/2002. The financial statements were prepared based on the instructions issued by Bank of Italy and contained in Circular n. 262/2005 and subsequent amendments and updates, by virtue of the powers conferred thereto by Legislative Decree 38/2005 and subsequent updates.

Structure and contents of the financial statements

The Bank's financial statements for the fiscal year are composed of the balance sheet, the income statement, the schedule of overall profitability, the table of variations to shareholders' equity, the explanatory notes and the relative comparative information, and are also accompanied by a report on operations, on the economic results and on the Bank's equity and financial situation. The schedules to the balance sheet and income statement are drawn up in Euro units and all other schedules and the tables in the explanatory notes are in thousands of Euro.

Please note that the IFRS 3 international accounting principle was applied to the "w*ay out*" operation (see Explanatory Notes, part "G"); therefore, in the financial statements it was treated as a "reverse acquisition", where the purchased party is former Banca AGCI S.p.a. (ABI 03357). In light of this, the data in the "Schedules to the balance sheet" and "Explanatory Notes" referred to the previous fiscal year (T-1) are those of former BCC Cambiano s.c.p.a. Where deemed necessary, in order to provide a more clear and transparent exposure of the balance sheet, additional tables and/or explanatory comments have been included in the document.

Section 2 – General preparation standards

The financial statements are prepared in observance of the following general principles set forth in IAS 1:

- **Going concern** – The financial statements were prepared on a going concern assumption, regarding which there are no uncertainties. On this matter, please note that the administration and control bodies carry out all actions aimed at a careful assessment of corporate prospects, that this assumption is amply pursued and that therefore no detailed analyses are necessary to support this postulate, other than the information that emerges from the contents of the financial statements and the report on operations.
- **Accrual basis accounting** – Revenues and expenses are booked, regardless of their monetary settlement, based on economic accrual and correlation criteria.
- **Coherency in the presentation of the financial statements** – The format and classification of the various items are kept the same from one financial year to the next, in order to guaranty the comparability of the information, save for changes required by an International Accounting

Standard or an interpretation thereof, or even only so that another presentation or classification is deemed more appropriate in terms of relevance and reliability in the representation of the information.

- **Relevance and aggregation**– Each relevant class of similar items is distinctly set out in the financial statements. Items that are dissimilar in terms by nature or destination are presented separately, unless they are irrelevant.
- **No compensation** – Assets, liabilities, expenses and revenues are not compensated the ones with the others, unless required by an International Accounting Standard or by an interpretation or unless where expressly descriptive where this favors better comprehension of the financial statements of reference provided for by statement schedules for banks.
- **Comparative information** – Comparative information is provided for the previous financial period for all data illustrated in the schedules to the financial statements with the exception of those cases in which an International Accounting Standard or interpretation allows otherwise. Commentary information is also provided.

Section 3 – Events subsequent to the date of reference of the financial statements

No company events having relevant consequences on the Bank's financial and economic situation as represented in these financial statements occurred subsequent to 31 December 2017 and up to the date of the approval of this document.

For evidence regarding significant events that occurred after 31 December 2017 and up to the date of approval of these financial statements, please refer to the Report on Operations prepared by the Directors in the section "Significant events after closing of the fiscal year".

Section 4 – Other aspects

The Bank's financial statements were submitted to audit by the company Baker Tilly Revisa s.p.a., in compliance with article 14 of Italian Legislative Decree n. 39/10. Preparation of the financial statements is also based on estimations and assumptions that may have significant effects on the values registered in the income statement, as well as on the information regarding potential assets and liabilities recorded in the financial statements.

Calculating these estimations implicates the use of the information available and the application of subjective evaluations also based on acquired experience, used for the purpose of formulating reasonable assumptions regarding the relevance of management events. By their very nature, the estimations and assumptions used may vary from one period to another; therefore, it is not inconceivable that in subsequent fiscal years the values registered in the financial statements may differ even significantly, following changes in the subjective evaluations applied.

The main items for which the use of subjective evaluations on the part of the Bank is mostly required are:

- The quantification of losses due to reductions in credit values and, in general, other financial assets;

- The determination of the fair value of financial instruments to be used for the purpose of information on the financial statements;
- The use of evaluation models to determine the fair value of financial instruments not traded on an active market;
- The evaluation of the congruity of goodwill values and other intangible assets;
- The quantification of allocations for personnel and for risks and charges;
- Estimations and assumptions regarding the recoverability of deferred tax assets.

The description of the accounting policies applied on the main financial statement aggregates provides the details and information necessary to identify the main subjective assumptions and evaluations used to prepare the fiscal year financial statements. For further detailed information regarding the composition and the relative entry values of the items involved in the aforementioned estimations, please refer to the specific sections of the explanatory notes.

On 22 November 2016, the European Commission approved IFRS 9 "Financial Instruments", applicable starting 1 January 2018. This principle, which replaces IAS 39, first and foremost introduces new criteria for the classification and measurement of financial instruments. The applicable accounting and measurement criteria are derived based on the classification of financial assets. In particular, the number of categories into which financial assets may be classified is reduced: from the current four categories (held to maturity, available for sale, loans and receivables, held for trading) to three classification categories (*held to collect; held to collect and sell; fair value to profit and loss*), each with its own accounting rules (amortized cost, fair value with balancing entry in shareholders' equity or fair value in income statement) and applicable based on the business model adopted for the classification of the various financial assets. Financial assets that meet both the following requirements are classified in the first category (*held to collect*): the asset has the essential characteristics of a loan (cash flows represent only reimbursement quota of nominal value and interest payable at fixed terms) and must be managed based on a business model with the objective of holding financial assets in order to collect contractual cash flows, even if not held to maturity. The second category (*held to collect and sell*) includes financial assets that have the characteristics of a loan, where however sale of the financial asset may occur. The third category (*fair value to profit and loss*) includes financial assets held for trading and equity instruments. Instead, as regards financial liabilities, the principal changes regard recognition of variations in fair value of financial liabilities designated as financial liabilities measured at fair value in the income statement: in this case, variations due to a variation in the creditworthiness of the issuer of a given liability will be recognized in the "Other comprehensive income" schedule and no longer in the income statement. With reference to the impairment model, the new principles require that the estimation of losses on receivables be made based on the expected credit loss model rather than on that of historic incurred loss. This impairment model will be applied to all financial instruments, that is to financial assets measured at amortized cost and those measured at fair value through other comprehensive income. Financial instruments are placed in three management stages that represent increasing levels of credit risk.

A.2 – PART RELATED TO THE PRINCIPAL LINE ITEMS OF THE FINANCIAL STATEMENTS

Section 1 – Financial assets held for trading

Classification criteria

Debt securities, capital securities, certificates of participation in mutual funds purchased for trading, and derivative contracts with positive fair value are allocated to this line item.

Recognition criteria

Financial assets held for trading are initially recognized at fair value, which is generally represented by the amount paid by the Bank, without considering costs or income directly recognized in the income statement. Debt securities and capital securities are recognized at the date of settlement and derivative contracts are recognized at the date of undersigning.

Measurement criteria

Subsequent to initial recognition, financial assets held for trading are valued at fair value, recognizing the variations with a balancing entry in the income statement. If the fair value of a financial asset becomes negative, this entry is usually registered as a financial liability from trading. IFRS 13 defines fair value as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date". The fair value of investments listed in active markets is determined with reference to the listings measured at the date of reference of the financial statements. A market is defined active if prices reflect normal market transactions, are promptly and regularly available and express the price of actual and regular market transactions. In the absence of an active market, estimates and measurement models are used that take into account all the risk factors correlated to the instruments are based on data that can be found in the market. Specifically, the methods used are based on the measurement of listed financial instruments that have analogous characteristics, calculation of discounted cash flows, option pricing models, prices registered in recent similar transactions and other methods commonly used by market operators. If it is not objectively possible to use one of the two methods indicated above, fair value is measured based on estimates and assumptions made by the appraiser based on historical cost and the application of measurement techniques having significant discretional factors.

Derecognition criteria

Financial assets held for trading are derecognized when the asset in question is sold, substantially transfer ring all the relative risks and benefits to the buyer, or when the contractual rights to the associated cash flows expire.

Criteria for recognition of income components

Income components related to financial instruments held for trading are recognized in the income statement in the period in which they appear, on line item "Net trading income". Gains and losses on sales or repayment and unrealized gains and looses deriving from variations of fair value of the trading portfolio, as well as reductions in the value of financial assets measured at cost (impairment), are recognized in the income statement, at line item “Net trading income”. Earned interest and dividends are respectively recognized in the income statement, at line items “Earned interest and similar income” and “Dividends and similar income”.

Section 2 – Financial assets available for sale

Classification criteria

This line item includes all non-derivative financial assets not included among credit portfolios, financial assets held for trading or assets held through maturity. In particular, this line item includes Securities not subject to trading activities and share participations not subject to control, association, joint control or significant influence, and that are not held for trading.

Recognition criteria

Financial assets available for sale are initially entered on the date of subscription at fair value, which is generally represented by the amount paid for execution of the transaction, comprehensive of costs or income referred to the transaction, directly attributable to the instrument itself. Save for the exception provided for by IAS 39, transfers may not be made from the available for sale portfolio to other portfolios and vice versa. If the entry derives from reclassification from “Financial assets held to maturity”, the book value is equal to the fair value of the asset as at the date of transfer.

Measurement criteria

Subsequent to initial recognition, assets available for sale continue to be measured at fair value.

Equity investments not listed on active markets, for which it is not possible to determine fair value in a reliable manner, are maintained at cost and adjusted and recognized in the income statement, upon verification of losses due to a reduction in value.

Share capital in other businesses, other than those controlled, associated or of significant influence, are valued at cost and not at fair value, in that it is deemed that the conditions provided for in paragraph AG80 of Annex A to IAS39 may apply.

On closing of the financial statements, verification of the existence of objective evidence of a non-temporary reduction of fair value is carried out (impairment test). If an asset available for sale is subject to a long-term value reduction, the non realized cumulated loss previously entered in net assets is reversed from net assets and entered in the income statement at line item “adjustments/write-backs of net value due to impairment of financial assets available for sale”.

To assess situations that entail impairment losses and determine the relative amount, the Bank uses all the information available based on past experience and data observable at the date of assessment.

Therefore, a significant or prolonged reduction in the fair value of an asset instrument representative of share capital below its cost is considered objective evidence of impairment loss, unless there is documented evidence of facts that show that the reduction in value is only temporary.

If the motives for impairment loss should cease to exist following an event occurring subsequent to its measurement, a write-back is entered in the income statement, in the case of debt securities, or in net equity, in the case of equity securities. In any event, the value of the write-back cannot exceed the amortized cost that the financial instrument would have had in absence of the previous adjustments.

Impairment testing is carried out at the close of the financial statements

Derecognition criteria

Financial assets are derecognized when contractual rights to the associated cash flows expire, or when the financial asset is sold, substantially transferring all relative risks and benefits to the buyer.

Criteria for recognition of income components

Income components are allocated to the pertinent line items in the income statement based on the criteria described below:

- Earned interest and dividends of securities are respectively allocated to line item 10 of the income statement “Earned interest and similar income” and to line item 70 of the income statement “Dividends and similar income”;
- Gains and losses from trading securities are allocated to line item 100 of the income statement “Gain/loss on disposal or repurchase of financial assets available for sale”: capital gains and capital losses from fair value measurement are directly allocated to shareholders’ equity, Liability line item 130 “Valuation Reserves” (net of pre-paid/deferred taxes), and transferred to the income statement only upon their realization by means of the sale of the securities or subsequent to the recognition of impairment losses;
- Impairment losses and write-backs of values of debt securities are allocated to line item 130 of the income statement “Net adjustments/write-backs of net value due to impairment of financial assets available for sale”. Impairment losses on equity instruments are also allocated to line item 130 of the income statement, whereas eventual write-backs of value from fair value are directly allocated to shareholders’ equity, Liability line item 130 “Valuation Reserves”.

Section 3 – Financial assets held through maturity

The Bank does not currently have “Financial assets held through maturity”, Asset line item 50, in its portfolio.

Section 4 - Receivables

Classification criteria

Receivables include lending to customers and banks, both direct and purchased from third parties, which entail fixed or determinable payments, which are not listed in active markets and have not been classified among the "Financial assets available for sale". This category also includes insurance policies aimed at guaranteeing, on expiry, with payment of a single premium, capital in the amount of the premium paid increased by all revaluations provided for in the terms of the policy, minus any expenses sustained by the insurance company.

Recognition criteria

Receivables are initially entered at the date of subscription of the contract, which usually coincides with the date of disbursement, based on the fair value of the financial instrument. This is equal to the amount disbursed, comprehensive of directly related transaction revenues and costs that are determinable from the transaction start date, even when they are disbursed subsequently. Debt securities are initially entered at the date of subscription.

Measurement criteria

Subsequent to initial recognition, receivables are valued at amortized cost, equal to the value of first recognition, plus or minus principal repayments, adjustments and write-backs and amortization, calculated using the effective interest rate method.

The amortized cost is decreased/increased also by the difference between the amount disbursed and the amount payable on maturity, which typically corresponds to costs and income attributable directly to the loan. The effective interest rate is found by calculating the rate equal to the current value of future cash flows on the loan, both capital and interest, on the sum disbursed, inclusive of costs and income attributable to the loan. Thus, the economic effect of costs and income is distributed along the entire expected residual life of the loan.

The amortized cost method is not used for short-term loans where discounting to present value is deemed to have a negligible effect. These receivables are therefore stated at historical cost. Similar measurement criteria are adopted for receivables without a fixed payment date or which are repayable on demand.

At each date of the financial statements, any objective evidence that a financial asset or group of financial assets may have suffered a loss in value is assessed. This circumstance recurs when it is foreseen that the company may not be able to recover the amount due as per the original contract terms, for example due to:

a) Significant financial difficulties of the issuer or borrower;
b) Breach of contract, such as failure to meet an obligation or missed payment of interest or principal;
c) The fact that the financer, for economic or legal reasons relative to the financial difficulty of the beneficiary, grants a concession to the beneficiary that the financer would not otherwise have taken into consideration;
d) The probability that the beneficiary may declare financial restructuring procedures;
e) The disappearance of an active market of that financial asset due to financial difficulties;

f) Observable data that indicate the existence of a considerable reduction of expected future cash flows for a similar group of financial assets since the moment of initial recognition of those assets, even if the reduction may not yet be identified with the single financial assets making up the group.

The measurement process for receivables follows the following logical steps:

- Identification in the receivables portfolio of those exposures that present objective evidence of impairment;
- Analysis of the significance of individual impaired loans;
- Measurement of impairment loss on an individual basis (analytical measurement) or by homogenous classes of assets (collective measurement).

If objective loss on an individual basis is observed, the receivable is subject to analytical measurement, while in absence of objective evidence of loss of value on an individual basis, the loan is measured collectively. Specifically, analytical measurement was carried out on all impaired receivables. For impaired positions of a non significant amount, there is also the possibility of determining the doubtful analytical outcome through a lump sum-statistical method.

As defined by supervisory regulations, the portfolio of impaired receivables was classified in these different types.

- Non-performing loans;
- Probable non-performing loans;
- Overdue exposures – past due

The amount of the write-down of each non-performing loan is equal to the difference between the balance sheet value of the same loan at the moment of measurement (amortized cost) and the current value of the expected future cash flows, calculated by applying the effective original interest rate. Expected cash flows take into account forecast recovery times, the estimated realizable value of any collateral and the costs expected to be borne to recover the credit exposure.

Criteria used for individual measurement of receivables classified as probably non-performing that exceed the threshold of significance set at 500,000 € are the same as those applied for non-performing loans, in that the discounting cash flows process is also applied. A calibration factor is applied to the aforementioned criteria, to account for the probability that a probable non-performing become a non-performing loan (PD), correlated to the cure rate (*in bonis* return rate in one year).

For certain types of impaired receivables (such as watchlists below 500,000 € for which a lower level of criticality has been estimated and past due exposures) which, following analytical measurement, do not show objective evidence of loss, a lump-sum-statistical write-down is made, applying the PD (average default probability to each exposure and the LGD parameter that represents the rate of loss in the event of default) of receivables belonging to the same portfolio.

The calculation of PD was made on a historical basis, using the previous three year period for each kind of portfolio as a reference, whereas the LGD value was determined to be 45.00%.

In bonis receivables, for which no individual objective evidence of loss has been observed, are subjected to collective measurement of impairment. The respective loss percentages are estimated taking into account historical series that allow valuating the value of the loss of each category of receivable.,

No collective write-downs on receivables from public entities, Poste Italiane s.p.a., Bank for Deposits and Loans s.p.a., Cassa Compensazione & Garanzia s.p.a., Pontormo RMBS s.r.l. (special purpose vehicle), and subsidiaries subject to significant influence were calculated. Subsequent potential write-backs of value cannot exceed the amount of the write-downs from impairment (individual and collective) previously recognized.

Derecognition criteria

Receivables are derecognized from the financial statements where the right to cash flows expires, when substantially all of the risks and benefits associated to the receivables have been transferred to the purchasing counterparties, or in the event that the receivable is considered definitively unrecoverable, after all necessary credit recovery procedures have been completed.

However, if risks and benefits relative to transferred receivables are retained, such receivables continue to be recognized in the financial statements, even if legal ownership has been transferred, registering an amount payable against the payment received from the purchaser.

Securitization transactions completed subsequent to the introduction of International accounting principles, with which receivables are transferred to special purpose vehicles and in which, even in the presence of formal transfer of legal ownership of the credit in question, control of cash flows deriving from the same and risks and benefits are substantially retained, the receivables involved in the transactions are not derecognized.

Therefore, the transferred receivables continue to be recorded in the financial statements, entering a payable in respect of the special purpose vehicle, net of securities issued by the same and repurchased by the transferor. The income statement also reflects the same accounting principles.

Criteria for recognition of income components

Interest deriving from “Receivables from banks and customers” are allocated to “Earned interest and similar income” in the income statement, on an accrual basis, based on the effective interest rate.

Impairment losses are allocated to line item 130 of the income statement “Adjustments to net value due to impairment of a) receivables”, as are recoveries of partial or total amounts subject to previous devaluations. Value write-backs are recorded in respect of improved credit quality, such as to engender the reasonable certainty of timely recovery of capital in accordance with the original terms of contract, both in respect of the gradual loss of discounting, calculated at the time of entry of the value adjustment. In the event of collective measurement, any additional adjustments or write-backs are recalculated separately with reference to the entire credit portfolio.

Gains and losses from the disposal of receivables are allocated to line item 100 a) of the income statement “Gains/losses from the disposal or repurchase of receivables”.

Section 5 – Financial assets measured at fair value

The Bank, not having exercised the fair value option, did not open a portfolio for financial assets measured at fair value.

Section 6 – Hedges

Classification and recognition criteria

The hedge portfolio includes derivative instruments used by the Bank to sterilize losses from hedged assets or liabilities. . In order for a transaction to be recognized as a "hedge", it is necessary that the following conditions be satisfied: a) the hedge relationship must be formally documented; b) the hedge must be effective from the time it initiates and prospectively for its entire duration. Effectiveness is controlled by means of specific instruments and is considered to exist when variations of fair value of the hedged financial instrument almost entirely sterilize the variations of risk of the hedged instrument. A hedge is considered to be highly effective between a range of 80% through 125%. An effectiveness test is conducted at each close of the financial statements or at the time of any six-month interim financial statements. If the effectiveness test indicates an insufficient hedge and the misalignment is considered not to be temporary, the hedged instrument is allocated to the trading portfolio. Hedges are measured according to the principle of "negotiation date".

Derecognition criteria

Hedges are derecognized at the time of their maturity, early closure, or when they fail the effectiveness tests.

Measurement criteria

Hedge instruments are measured at fair value.

The fair value of hedges listed in active markets is taken from the quotations at the close of the markets (fair value hierarchy - level 1), whereas instruments not listed in an active market (over the counter) are measured discounting future cash flows on the basis of the yield curve (fair value hierarchy - level 3). Since they are unlisted, the latter method is used to measure the fair value of all of the Bank's hedges. The hedged accounts are also measured at fair value, limited to variations of value produced by the risks that are the object of the hedge, thus "sterilizing" the risk components that are not directly related to such hedge.

Criteria for recognition of income components

Income components are allocated to the relative line items of the income statement on the basis of what is set forth below.

- The differences matured on hedge instruments for interest rate risk (in addition to the interest of the hedged position) are allocated to line item 10 of the income statement "Earned interest and similar income" or to line item 20 of the income statement "Interest payable and similar expenses";
- Gains and losses deriving from the measurement of the hedge instruments and accounts

that are the object of the hedges are allocated to line item 90 of the income statement "Net hedging result";
- Gains and losses from trading hedge contracts are capitalized on the hedged instrument if it is valued at amortized cost (IAS 39 par. 92), the amount of the premium or discount will be measured in the income statement on the basis of the new effective interest rate of the hedged instrument.

Section 7 – Equity investments

Classification criteria

Shareholdings are allocated to the equity investments portfolio which is subject to control, joint control or significant influence. Control is presumed when more than 50% of the voting rights that can be exercised at shareholders' meetings are held, directly or indirectly. Significant influence is exercised when the shareholder holds, directly or indirectly, a share equal to or greater than 20% of the voting rights. Significant influence is determined even in the case of a holding of less than 20% when the following circumstances exist: a) representation on the board of directors; b) participation in the decision-making process with reference to decisions regarding dividends; c) there are major operations between the investor and the subsidiary. Joint control is when voting rights and control of the subsidiary is shared with other parties.

Recognition criteria

The line item includes equity investments in subsidiaries, jointly held companies or companies subject to significant influence. At the time of initial recognition, such equity investments are recognized at purchase cost, supplemented by directly attributable costs.

Measurement criteria

Equity investments are measured with continuity using the "equity" method. Equity investments in subsidiaries, jointly held companies or companies subject to significant interest are measured at cost, and the accounting value increases or decreases to reflect the share to which to which the shareholder is entitled of profits or losses of the subsidiary realized after the purchase date. The dividends received from a subsidiary reduce the accounting value of the shareholding. Adjustments to the accounting value might be required due to modifications of the share owned by the investor in the subsidiary, deriving from modifications of the shareholders' equity of the subsidiary.

Derecognition criteria

Financial assets are derecognized when the contractual rights to the cash flows deriving from such assets expire or when the financial asset is sold, transferring all of the risks and benefits connected to it.

Criteria for recognition of income components

Dividends paid by the subsidiary generated subsequent to the purchase date are allocated to line item 210 of the income statement "Gains/losses from interest". The results of the measurement of "shareholders' equity" are recognized in line item 210 of the income statement "Gains/losses on equity investments", when they were included in the income statement of the subsidiary; when instead they were not included in the income statement of the subsidiary, they are allocated to Liability line item 130 "Valuation reserves". Gains/losses deriving from the sale of equity investments are recognized in line item 210 of the income statement "Gains/losses on equity investments".

Section 8 – Property, plant and equipment

Classification criteria

This item includes land, property used for operating purposes, installations, vehicles, furniture and decor and any kind of equipment. "Property used for operating purposes" is all property used for the purpose of providing services or for administrative purposes. The value for property, plant and equipment also includes advance payments for the purchase and restructuring of goods not yet a part of the production process, and therefore not yet subject to amortization.

Recognition criteria

Property, plant and equipment are initially recognized at purchase or construction cost, inclusive of accessory charges sustained and directly attributable to when the asset is purchased and put into operation. Extraordinary maintenance costs and costs that result in an increase of future economic benefits are allocated to increases of value of the assets and amortized in relation to residual possibility of use of the same. Costs for repairs, other maintenance or interventions to guaranty regular operation of the assets are instead recognized directly in the income statement of the fiscal year during which they are sustained.

Measurement criteria

After initial recognition, property, plant and equipment are recognized in the financial statements at cost net of accumulated depreciation and losses of value. Assets that have been put into operation are systematically depreciated in each fiscal year, based on their useful life, using the straight-line method.

The following are not subject to depreciation:

- Land, be it purchased separately or incorporated in the value of buildings, in that considered assets with an indefinite useful life. If the value of the land is incorporated in the value of the buildings, it is considered an asset separable from the real properly; the value of the land is separated from the value of the buildings, determined on the basis of specific independent expert appraisals only for "from the earth to the sky" buildings;
- Artwork, which has an indefinite useful life and a value that is generally destined to increase over time.

The depreciation process begins when the asset is available for use, that is, when it is in the place and in the conditions required for use.

Derecognition criteria

Property, plant and equipment are derecognized from the balance sheet at the time they are sold or when their economic function has been entirely exhausted and no future economic benefits are expected.

Criteria for recognition of income components

Periodic depreciation is allocated to line item "Net adjustments/write-backs of value to property, plant and equipment". In the fiscal period in which the asset is recognized for the first time, the depreciation rate applied takes into account the date in which the asset is available for use. Gains and losses deriving from disposal of property, plant and equipment are calculated as the difference between the net sale price and the asset's carrying amount, and are recognized in the income statement at the same date as the write-off from accounts. The line item "Gains/losses on disposal of investments" is the balance, positive or negative, between gains and losses from the disposal of property, plant and equipment.

Section 9 – Intangible assets

Classification criteria

Intangible assets include non-monetary assets without physical substances held to be used for a multi-year or indefinite amount of time, which meet the following characteristics:

- identifiable;
- under control of the company;
- capable of generating probable future economic benefits for the company;

the cost of the asset may be measured reliably.

In absence of one of the aforementioned characteristics, the cost to purchase or generate the same internally is registered as a cost in the fiscal year in which it was sustained. Intangible assets include, in particular application software for multi-year use and other identifiable assets that arise from legal or contractual rights. Expenses for third party assets (branch offices being rented) were recognized in Asset line item 150 "Other assets"; the relative amortization was proportional to the duration of the leases. Within the scope of a company merger, the IFRS3 principle establishes that at the date of purchase of the control, the purchaser must classify or designate the purchased intangible assets. As regards the definition of intangible elements, the principle identifies intangible elements purchased in company merger as identifiable non-monetary assets with no physical substance. Goodwill is represented by the positive difference between the purchase cost and the fair value of assets and liabilities acquired within the scope of the company merger.

Recognition criteria

Intangible assets are recognized at cost, adjusted for accessory costs sustained to prepare for use of the asset. Within the scope of a company merger, the purchaser must classify or designate the intangible assets acquired, and recognize them at fair value. Goodwill, recognized in the assets at the date of purchase, is initially valued at cost. On a yearly basis, or any time there is evidence of impairment, an impairment test will be carried out on the adequacy of goodwill, in conformity with the provisions of IAS n. 36. The amount of the impairment loss is calculated as the negative difference, if any, between the goodwill value recorded and its recoverable amount. This recoverable amount is equal to the greater between the fair value of the cash-generating unit, net sale price of the asset, and its usage value. The resulting value adjustment are recognized in the income statement at item "Adjustments to value of goodwill". Any impairment loss recognized for goodwill cannot be derecognized in the subsequent fiscal year

Measurement criteria

Subsequent to initial recognition, intangible assets of limited duration are recognized at cost, net of accumulated amortization and of accumulated impairment loss. Amortization begins when the asset becomes available for use, that is to say, when it is in the appropriate place and in suitable conditions to operate in the expected manner, and ceases when the asset derecognized. Amortization is calculated using the straight-line method, so as to reflect the multi-year use of the asset based on the estimate made of the residual useful life. At the end of each fiscal year, if there is evidence of impairment, the recoverable value of the asset is estimated. The write-down, recognized in the income statement, is equal to the difference between the asset's carrying amount and its recoverable value.

Derecognition criteria

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

Criteria for recognition of income components

Both amortization amounts and any adjustments/write-backs due to impairment of intangible assets, other than goodwill, are allocated to item "Adjustments/write-backs of net value of intangible assets". Value adjustments for goodwill are allocated to item "Adjustments to value of goodwill". Gains and losses deriving from disinvestment or disposal of intangible assets are calculated as the difference between the asset's net sale price and carrying amount and are recognized in the income statement. The item "Gains (losses) from the disposal of investments includes the balance, positive or negative, between gains and losses from the disposal of investments.

Section 10 – Non-current assets and groups of assets in the course of divestment

This item includes non-current assets destined to be sold. These assets are measured at the lesser value between the booking value and fair value, net of sale expenses. If they have been subject to amortization, this process also ceases with the sale. As they are sold operating elements, balance sheet items and the relative economic results are shown separately in the balance sheet and in the income statement. As at the date of these financial statements, the Bank holds no assets that fall under this category.

Section 11 – Current and deferred taxation

The Bank calculates income taxes, current, differed and pre-paid, based on current rates and they are recognized in the income statement, with the exception of those relative to items that are charged or credited directly to equity. Allocations for income taxes are calculated based on an estimate of the current, pre-paid and deferred tax burden. In particular, pre-paid taxes and deferred taxes are calculated based on the temporary difference – without time limits – between the value attributed to an asset or liability based on civilistic criteria, and the corresponding values for tax purposes. Pre-paid tax assets are recorded in the balance sheet to the extent in which there is a probability they will be recovered, measured on the basis of the capacity of the company in question or the controlling company to continue to generate positive taxable income, taking into account the effect of exercising the option for the so-called “consolidated fiscal regime”. Deferred tax liabilities are recognized in the balance sheet in that the amount of the available taxed reserves is such that it may reasonably be held that transactions which require their taxation will not take place. Pre-paid and deferred tax assets are recorded in the balance sheet, without offsets, respectively as “Tax receivables” and “Tax liabilities”. Assets and liabilities recorded for pre-paid and deferred taxes are measured systematically to take into account any changes in rates or current regulations.

Section 12 – Risk and expense funds

Classification criteria

Risk and expense funds include provisions for current debt securities (legal or constructive) originating from past events or for which an outflow of resources will probably be required to settle the obligation, always provided that the amount can be reliably estimated. No provisions are made for liabilities that are merely potential but not probable.

Recognition criteria

The line sub-item “Other funds” in the liabilities schedule of the financial statements represents provisions for risks and charges made in accordance with the provisions of international accounting principles, with the exception of write-offs due to impairment of issued guarantees, attributable to “Other liabilities”".

Measurement criteria

The amount registered as provision represents the best possible estimate of the resources required to settle the existing obligation as at the date of reference of the financial statements. Where the time element is significant, provisions are discounted using current market rates. Provision funds are periodically re-examined and adjusted as required, to reflect the best possible current estimate. If, subsequent to review, it becomes improbable that the charge will be sustained, the provision is reversed.

Derecognition criteria

If it is no longer likely that an outflow of resources will be required to settle the obligation, the provision must be reversed. A provision may be used solely for those charges for which it has been recognized.

Criteria for the recognition of income components

Provisions are allocated to item "Net allocations to risk and expense funds" in the income statement. This item shows the balance, either positive or negative, between provisions and any reallocations in the income statement of funds deemed excessive. Net provisions also include reductions in the funds due to the effects of discounting, as well as the corresponding increases due to the passage of time (accrual of interest implicit in discounting).

Section 13 – Liabilities and outstanding securities

Classification criteria

The line items "Payables to banks", "Payables to customers" and "Outstanding securities".

Recognition criteria

These financial liabilities are initially recognized on receipt of the sum deposited or on issue of the debt securities. The liabilities are recognized at their fair value, generally equal to the amount collected or the issue price, increased by any additional costs or revenues directly attributable to the issue operation. The initial recognition value does not include all charges subject to refund from the creditor counterparty or that are attributable to in-house administrative costs.

Measurement criteria

After initial recognition, financial liabilities are valued at amortized cost using the effective interest rate method. Liabilities subject to hedges using derivatives in hedge accounting are recognized at the amortized cost adjusted for fair value variations attributable to the covered risk, between the effective date of hedging and the date of closure of the fiscal period.

Derecognition criteria

Financial liabilities are derecognized when settled or expired, or repurchased in the case of previously issued securities. In this latter case, the difference between the book value and the purchase value is recorded in the income statement. The reissue on the market of own repurchased securities is considered a new issue, with recognition at the new issue price, without any effects in the income statement.

Criteria for recognition of income components

Negative income components represented by interest payable are recognized, by competence, in the line items of the income statement that refer to interest. Any difference between the repurchase value of own Securities and the corresponding book value of the liability is booked to the income statement at line item "Gains/losses from the disposal or repurchase of: d) financial liabilities".

Section 14 – Financial liabilities from trading

This line item refers to derivative contracts held for trading with a negative value or used for hedging assets and liabilities classified in the trading portfolio. Recognition, derecognition, measurement and recognition of income components are the same already set forth for assets held for trading.

Section 15 – Financial liabilities measured at fair value

Financial assets measured at fair value include liabilities to which the so-called fair value option applies. The Bank has no financial liabilities measured at fair value.

Section 16 – Operations in foreign currency

Classification criteria

Operations in foreign currency consist of all assets and liabilities denominated in currency other than the Euro.

Recognition criteria

Operations in foreign currency are registered, at the time of initial recognition, in Euro, applying the exchange rate in effect as of the date of the operation to the amount in foreign currency.

Measurement criteria

As of the close of the fiscal year, the conversion of monetary assets and liabilities in foreign currency is done using the spot exchange rate on that date.

Criteria for recognition of income components

Exchange rate differences of operations in foreign currency are recognized in line item 80 of the income statement "Net trading income".

Section 17 – Other information

Balance sheet

Treasury shares

Any treasury shares held in portfolio are recorded as a reduction to shareholders' equity. Similarly, the original cost of treasury shares and gains or losses deriving from the subsequent sale thereof are recorded as movement in shareholders' equity.

Accruals and deferrals

Accruals and referrals, regarding charges and income competence of the fiscal year accrued on assets and liabilities are attributed to adjustment of the assets and liabilities to which they refer; if they cannot be thus allocated, they will be registered as "Other assets" or "Other liabilities".

Employee severance pay

Employee severance pay was recorded based on the actuarial value calculated yearly by an independent accountant. To calculate this value, the projected unit credit method is used, which projects future expenses based on historical, statistical and probabilistic analysis, in addition to applying appropriate demographic techniques, and the rate used is the market interest rate. Contributions paid in each fiscal year are considered separate units and measured individually for the purpose of determining the final amount due. Following entry into force of the supplementary social security/pension scheme plan reform, as per Italian Legislative Decree n.252 of 5 December 2005, the severance pay quotas accrued as at 31 December 2006 remain in the company accounts, while quotas accrued subsequently are either destined to supplementary social security plans or to the INPS Treasury Fund, based on the personal choice of each employee. Starting from the 2012 fiscal year, variations to actuarial components relating to severance pay are booked with an impact on net equity and are therefore shown in the schedule of overall profitability.

Transformation of deferred tax assets (DTA) into tax receivables

Italian Legislative Decree n. 225/2010, amended and converted into Law n. 10/2011, states that, in the presence of specific economical/financial situations, or in the event of losses, companies may convert deferred tax assets registered in the financial statements, into tax credits receivable, only in the following cases:

- Deferred tax assets relative to surpluses in credit write-downs (Article 106 TUIR – Italian Income Tax Consolidation Act);
- Deferred tax assets relative to realignment of intangible assets such as goodwill and trademarks (Articles 15(10), 15(10bis) 15(10ter) Law Decree n. 185/2008).

The aforementioned law was subsequently integrated by Law n. 214/2011, which extended the conversion of DTA (deferred tax assets), albeit with different methods, to tax loss situations, despite profits. The subject matter was reviewed from an accounting point of view by the Document issued jointly by Bank of Italy/CONSOB/ISVAP on 15 May 2012, which states that the above-mentioned fiscal law essentially makes recovery of the DTA “certain”, considering the probability test provided for by IAS 12 par. 24 based on which deferred tax assets may be registered only if it is probable that a taxable income will be realized against which the same DTA may be used, as automatically satisfied for all intents and purposes. Consequently, the effects of the above tax law do not in any way vary the accounting classification of the DTA, which continue to be booked as tax assets for pre-paid taxes until they are converted, at which point they become, in compliance with the provision of Law Decree n. 225/2010, and without impacting the income statement, “current tax assets”.

Valuation of guarantees granted

Provisions on a case-by-case and collective basis, concerning the estimation of possible expenses for the credit risk deriving from guarantees granted and commitments are calculated following the same criteria described for credits. These provisions are recognized at line item “Other liabilities”, offsetting income statement line item “Net adjustments/write-backs of value due to impairment of: other financial operations”.

Income

Revenues are valued at fair value of the amount received or due and are recognized when future benefits are likely to be received and such benefits may be reliably measured. Expenses are recognized when incurred. Expenses that cannot be associated with revenue are immediately recognized in the income statement. Specifically:

- Revenues and expenses directly related to financial instruments measured at amortized cost and determinable from the start, regardless of when they are settled, flow to the income statement by applying the effective interest rate;
- Dividends are recognized in the income statement when they are received;
- Revenues deriving from dealing in trading instruments, representing the difference between the transaction price and the fair value of the instrument, are recognized in the income statement when the transaction is recorded if fair value can be determined with reference to parameters or recent transactions observed on the same market on which the instrument is traded;
- Other fees are recognized on an accruals basis.

Expenses directly related to financial instruments measured at amortized cost and determinable from the start, regardless of when they are settled, flow to the income statement by applying the effective interest rate, for which definition please refer to the paragraph “Loans and Financing”. Impairment losses are immediately recognized in the income statement. Default interest, where provided for by contract, is entered in the income statement only when paid. Losses in value are recognized in the income statement immediately.

Criteria for measurement of fair value of financial instruments

In December 2012, through Commission Regulation (EU) n. 1255/2012, the European Commission approved the new IFRS 13 “Fair Value Measurement” principle, effective as of 1 January 2013. IFRS 13 defines fair value as: “the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date”. As far as financial instruments are concerned, this definition of fair value replaces the previous version contained in IAS 39. As regards financial liabilities, the new definition of fair value provided for by IFRS 13 therefore requires identifying as such the value that would be paid to transfer the liability in question (exit price), as opposed to the value required to settle the same liability (definition contained in IAS 39). This serves to reinforce the theme of the recognition of fair value adjustments of financial liabilities – different from derivatives – attributable to the credit rating of the issuer (Own Credit Adjustment - OCA), with respect to the provisions already set forth on the matter in IAS 39. In particular, as regards calculating the fair value of OTC derivatives under assets in the Balance Sheet, IFRS 13 has confirmed the application of the adjustment relative to counterparty risk (Credit Valuation Adjustment - CVA). As regards financial liabilities represented by OTC derivatives, IFRS 13 introduces the so-called Debit Valuation Adjustment (DVA), which is a fair value adjustment aimed at reflecting own credit risk on such instruments, an issue not explicitly dealt with in IAS 39. The fair value of investments listed in active markets is calculated with reference to market listings on the last day of reference for the financial period. For financial instruments listed on active markets, the fair value assessment is based on the listings on the active market of reference even obtained from international providers and registered on the last day of the financial period. A market is defined as active when the listings reflect standard market transactions, are readily and regularly available and express the price of actual and regular market transactions. If the same financial instrument is listed on more than one market, the listing to be taken into consideration is that on the most advantageous market to which the company has access. The fair value of unlisted financial instruments is calculated by applying valuation methods that aim to determine the price that the instrument would have had on the market at the measurement date in a free exchange motivated by normal commercial considerations. Fair value is obtained using the following methods: use of recent market transactions, reference to the price of financial instruments with the same characteristics as that being measured, and quantitative methods. Specifically, unlisted securities are evaluated by applying models that discount expected future cash flow, using interest rate structures that take into proper consideration the issuer's business sector and, where available, rating class. The fair value of mutual funds that are not traded on active markets is calculated based on the Net Asset Value as published, and adjusted if necessary to take into account possible changes in value occurring between the date of request of redemption and the effective redemption date. Equity and capital shares not traded on an active market, for which the fair value cannot be calculated reliably using the most common methods, are valued at cost, adjusted to take into account possible significant impairment of value. As regards loans and deposits, at sight/revocable, immediate expiry of contract obligations, coinciding with the date of the financial statements, is considered and therefore their fair value is approximated at booking value. Similarly, booking value is considered for short-term loans as well. The fair value of medium to long-term loans to customers is measured by discounting residual contractual cash flows at the effective interest rate, appropriately adjusted to take into account the credit rating of individual borrowers (represented by the probability of default and by the estimated loss in the event of default). The booking value of impaired assets is an approximation of the fair value. For medium to long-term debt positions, represented by securities valued at amortized cost and hedged for interest rate risk, the booking value is adjusted, due to hedging, to fair value attributable to the hedged risk, discounting the respective flows. The fair value of derivative contracts traded on regulated markets is considered the market price of the last listing day of the fiscal period. Over the counter derivative contracts are measured on the basis of a variety of models, based on input factors that affect the relative valuation and taking into account adjustments for counterparty risk. The Bank does not calculate and recognize corrections in fair value of derivatives for CVA and DVA if there are formalized and operative agreements for collateralization of the positions in derivatives with the following characteristics:

- Bilateral and high-frequency exchange of collateral (daily or, at most, mid-week);
- Type of guaranty represented by cash or government bonds with high liquidity and credit quality, subject to an adequate safety margin;
- Absence of a threshold for the fair value of the derivative below which no exchange of guaranty is provided for, or setting of this threshold at a level that allows for an effective and significant mitigation of counterparty risk;
- MTA - Minimum Transfer Amount (that is, the difference between the contract fair value and the value of the guaranty) – below which collateralization of positions is not adjusted, identified by contract at a level that allows for substantial mitigation of counterparty risk.

Hedging derivatives existing as at the date of the financial statements are all collateralized.

Hierarchy of fair value

Hierarchy of fair value, based on the provisions of IFRS 13, must be applied to all financial instruments for which fair value is recognized in the balance sheet. In this regard, for these instruments, maximum priority is given to official prices available on active markets and lower priority to the use of non-observable input, which are more discretional. Consequently, fair value is calculated through the use of prices acquired from financial markets, in the case of instruments listed on active markets or, for other financial instruments, through the use of measurement methods that aim at an estimation of fair value (exit price). The levels used for classifications and referred to hereinafter in the explanatory notes are the following:

- "Level 1": the fair value of the financial instruments is calculated based on price listings observable on active markets (unadjusted) which may be accessed on the date of assessment;
- "Level 2": the fair value of the financial instruments is calculated based on other inputs observable directly or indirectly for the asset or liability, also using measurement techniques;
- "Level 3": the fair value of the financial instruments is calculated based on other input not observable for the asset or liability, also using measurement techniques,

A price listed on an active market provides the most reliable evidence of the fair value and, when available, must be used without adjustments to measure fair value. If there are not price listing on active markets, the financial instruments must be classified in level 2 or 3. Classification in Level 2 as opposed to Level 3 is determined based on the observability on markets of significant inputs used to calculate fair value. Level 2 inputs include:

- prices listed for similar assets or liabilities on non active markets;
- prices listed for identical or similar assets or liabilities on non active markets;
- input other than observable price listings for assets or liabilities (for example, observable interest rates and yield curves at commonly listed intervals, volatility and credit spreads);
- inputs substantiated by the market.

All other variables used in measurement techniques that cannot be substantiated on the basis of observable market data are not considered observable. Level 3 inputs include:

- Issued capital securities and financial liabilities for which, at the measurement date, there are not price listings on active markets and that are measured prevalently using a technique based on non observable market data;
- Over the counter derivative financial instruments stipulated with institutions that are measured based on pricing models analogous to those used for Level 2 inputs, from which they differ in terms of degree of observability of the input data used in the pricing methods;
- Derivative financial instruments stipulated with customers for which the fair value adjustment quota that takes into account default risk is significant with respect to the overall value of the financial instrument;

- Close-ended funds with a fair value that corresponds to the relative NAV published more than monthly;
- Capital securities classified to the AFS portfolio and valued at cost.

The IFRS accounting principle also requires that, for financial assets classified at Level 3, information must be provided regarding the sensitivity of the economic performance following changes to one or more non-observable parameters used in measurement techniques applied to calculate fair value.

Method of calculation of amortized cost

The amortized cost of a financial asset or liability is the amount at which it is measured at initial recognition, less principal repayments, plus or minus overall amortization, calculated using the effective interest method, the difference between the initial value and value at maturity and less any impairment. The effective interest rate is the rate that discounts the current value of a financial asset or liability to the contract cash flows through maturity or the next repricing date. For fixed rate or temporary fixed rated financial instruments, future cash flows are calculated based on the known interest rate during the instruments life. For variable rate financial assets and liabilities, future cash flows are calculated on the basis of the last known rate. At each repricing date, the amortization plan and the effective rate of return are recalculated for the entire useful life of the financial instrument, which is to say up to maturity. The amortized cost is applied for receivables, financial assets held to maturity, those available for sale, debts and outstanding securities. Financial assets and liabilities traded at market conditions are initially recognized at fair value, which usually corresponds to the amount paid or disbursed, comprehensive of directly attributable transaction costs and fees. Transaction costs are in-house marginal costs and revenues attributable at the moment of initial recognition of the financial instrument not recoverable from customers. These accessory components, which must be traced back to the individual asset or liability, impact the effective return and make the effective interest rate different from the contractual interest rate. Therefore, costs and revenue that refer indistinctly to more than one transaction and the correlated components that may be recognized during the life of the financial instruments are excluded. Furthermore, the calculation of amortized cost does not take into consideration costs that the Bank would sustain regardless of the transactions, such as administrative costs, office supply costs, etc.

Mechanism of Resolution and Deposit Guarantee Scheme

Through the single European resolution mechanism, European legislation introduced significant changes to governance of bank crises, aiming to strengthen the unified market and systemic stability. European Union Directive 2014/49 (DGS) harmonized the protection levels offered by national guarantee funds and has introduced changes to the contribution system; for Italian banks, this means passing from an “ex-post” contribution system to a mixed system that entails an advance contribution until a minimum objective equal to 0.8% of guaranteed deposits is reached, within a ten year period. The amount paid in was equal to approximately 1,195,456.89 Euro. Directive 2014/59EU (BRRD) defines the new rules for resolution, to be applied to all European Union banks in financial difficulty. These regulations provide that, under given circumstances, the State’s National Resolution Fund intervenes. The ordinary contribution amounts to 18,408.00 Euro.

Relevant accounting principles in force as of 1 January 2018

IFRS 9 - Financial Instruments

The IFRS 9 accounting principle, approved by the European Commission with Regulations n. 2016/2067 of 22 November 2016, came into force starting 1 January 2018, replacing the IAS 39 standard which had been in force since 31 December 2017, date of reference of the financial statements. Here below are the main areas of intervention of the two principles and the respective differences.

IFRS 9 requires that financial assets be classified in three distinct classes, that is amortized cost, fair value in the statement of overall profitability (under a shareholders’ equity reserve) and fair value in the income statement, based on the business model applied and on the contractual nature of the cash flows of the financial asset. The recognition and derecognition criteria remain substantially unaltered with respect to IAS 39.

The new regulations do not alter the provisions contained in IAS 39 regarding financial liabilities, with the exception of those measured at fair value, for which the variation in fair value attributable to creditworthiness must be booked to the comprehensive income statement (under a shareholders’ equity reserve) and no longer in the income statement (the principles provide for the faculty to implement this disposition in advance starting from the date of approval of the new principle).

As regards impairment, a new model based on expected loss has been introduced, replacing the current incurred loss model provided for by IAS 39. The new principle classifies receivables in three stages, based on the creditworthiness of the counterparty, based on which, for the stage that includes counterparties with the best credit standing the expected loss is at 12 months, while for the other two stages the timeline for determination of expected loss is equal to the residual life of the receivable (“lifetime expected loss”).

As regards hedge accounting, hedging models are generally simplified with respect to current regulations, more strictly tied to risk management methods.

A.3 – INFORMATION ON ASSET TRANSFERS BETWEEN PORTFOLIOS

A.3.1. Reclassified financial assets: balance sheet value, fair value and effects on overall profitability

The Bank has not transferred financial assets between portfolios during the current year.

A.4 INFORMATION ON FAIR VALUE

IFRS 13 requires that assets and liabilities measured at fair value on a recurring basis are those for which the IAS/IFRS accounting principles require or allow measurement at fair value in the balance sheet. Instead, assets and liabilities measured at fair value on a non recurring basis are those for which the IAS/IFRS accounting principles require or allow measurement at fair value in the balance sheet in specific circumstances. For the purpose of improving transparency of information in the balance sheet regarding the measurement of fair value, IASB has introduced the so-called hierarchy of fair value.

A.4.1 Fair value levels 2 and 3: measurement and input techniques used

For a description of the measurement techniques and inputs used, information is provided in Section A.2 of these Explanatory Notes, in the chapter "Hierarchy of fair value".

A.4.2 Measurement processes and sensitivity

As at 31 December 2016, there were no assets classified at level 2 of the Fair Value Hierarchy. Conventionally, Financial Assets Available for Sale referred to capital securities "valued at cost" relative to instrumental capital holdings, for which fair value cannot be determined in a reliable or verifiable manner, are classified at level 3 of the hierarchy of Fair Value.

A.4.3 Hierarchy of fair value

Hierarchy of fair value, based on the provisions of IFRS 13, must be applied to all financial instruments for which fair value is recognized in the balance sheet. In this regard, for these instruments, maximum priority is given to official prices available on active markets and lower priority to the use of non-observable input, which are more discretional. Consequently, fair value is calculated through the use of prices acquired from financial markets, in the case of instruments listed on active markets or, for other financial instruments, through the use of measurement methods that aim at an estimation of fair value. The levels used for classifications and referred to hereinafter in the explanatory notes are the following:

- "Level 1": the fair value of the financial instruments is calculated based on price listings observable on active markets (unadjusted) which may be accessed on the date of assessment;

- "Level 2": the fair value of the financial instruments is calculated based on other inputs observable directly or indirectly for the asset or liability, also using measurement techniques;

- "Level 3": the fair value of the financial instruments is calculated based on other input not observable for the asset or liability, also using measurement techniques.

A price listed on an active market provides the most reliable evidence of the fair value and, when available, must be used without adjustments to measure fair value. If there are no price listings on active markets, the financial instruments must be classified in level 2 or 3. Classification in Level 2 as opposed to Level 3 is determined based on the observability on markets of significant inputs used to calculate fair value.

A.4.4 Other information

Please refer to Section A.2 of these Explanatory Notes, in the chapter "Hierarchy of fair value".

A.4.5 Hierarchy of fair value

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

Financial assets/liabilities measured at fair value	31/12/2017			31/12/2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Financial assets held for trading	13,026	0	12,444	47,334	0	10,312
2. Financial assets measured at fair value	0	0	0	0	0	0
3. Financial assets available for sale	528,405	0	6,175	625,902	0	5,804
4. Hedges	0	0	0	0	0	237
Total	541,431	0	18,618	673,236	0	16,353
1. Financial liabilities held for trading	0	0	80	0	0	0
2. Financial liabilities measured at fair value	0	0	0	0	0	0
3. Hedges	0	0	769	0	0	427
Total	0	0	849	0	0	427

Key:
Level 1 = Fair value of a financial instrument listed in an active market;
Level 2 = Fair value measured on the basis of measurement techniques that use parameters that can be observed on the market, other than the listings of the financial instrument;
Level 3 = Fair value measured on the basis of measurement techniques that use parameters that cannot be observed on the market.

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

Description	FINANCIAL ASSETS			
	Held for trading	Measured at fair value	Available for sale	Hedges
1. Initial value	**10,312**	**0**	**5,804**	**237**
2. Additions				
2.1. Purchases	1,875	0	1,196	0
2.2. Revenues allocated to:				
2.2.1. the income statement	292	0	0	0
- of which capital gains	292	0	0	0

Description	FINANCIAL ASSETS			
	Held for trading	Measured at fair value	Available for sale	Hedges
2.2.2. Shareholders' equity	X	X	182	0
2.3. Transfers from other levels	0	0	0	0
2.4. Other additions	86	0	162	0
3. Reductions				
3.1. Sales	0	0	0	0
3.2. Redemptions	0	0	0	0
3.3. Losses allocated to:				
3.3.1. the income statement	122	0	0	0
- of which capital losses	122	0	0	0
3.3.2. Shareholders' equity	X	X	1,055	0
3.4. Transfers to other levels	0	0	0	0
3.5. Other reductions	0	0	116	237
4. Final values	**12,444**	**0**	**6,175**	**0**

Line item 2.4 "Other additions", column "Available for sale" includes a series of equity securities coming from Banca AGCI S.p.a. (162,043,14) as a result of the "way out" operation.

Line item 3.5 "Other reductions", column "Available for sale" includes a series of equity securities destined to Ente Cambiano s.c.p.a. (115,580,52) as a result of the "way out" operation.

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

Description	FINANCIAL LIABILITIES		
	Held for trading	Measured at fair value	Hedges
1. Initial values	**0**	**0**	**427**
2. Additions			
2.1. Issues	0	0	0
2.2. Losses allocated to:			
2.2.1. income statement	0	0	0
- of which capital losses	0	0	0
2.2.2. Shareholders' equity	X	X	0
2.3. Transfers from other levels	0	0	0
2.4. Other additions	80	0	615
3. Reductions			
3.1. Redemptions	0	0	0
3.2. Repurchases	0	0	0
3.3. Losses allocated to:			
3.3.1. income statement	0	0	0
- of which capital gains	0	0	0
3.3.2. Shareholders' equity	X	X	0
3.4. Transfers to other levels	0	0	0
3.5. Other reductions	0	0	272
4. Final values	**80**	**0**	**769**

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

Line items	31/12/2017				31/12/2016			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Financial assets held through maturity	0	0	0	0	0	0	0	0
2. Receivables from banks	183,366	0	0	183,366	171,495	0	0	171,495
3. Receivables from customers	2,445,470	0	0	2,445,470	2,136,866	0	0	2,136,866
4. Property, plant and equipment held as investments	0	0	0	0	0	0	0	0
5. Noncurrent assets and groups of assets in the course of divestment	0	0	0	0	0	0	0	0
Total	**2,628,835**	**0**	**0**	**2,628,835**	**2,308,361**	**0**	**0**	**2,308,361**
1. Payable to banks	503,980	0	0	503,980	488,534	0	0	488,534
2. Payable to customers	2,305,459	0	0	2,305,459	1,981,004	0	0	1,981,004
3. Outstanding securities	251,959	0	0	251,959	348,528	0	0	348,528
4. Liabilities associated with assets in the course of divestment	0	0	0	0	0	0	0	0
Total	**3,061,398**	**0**	**0**	**3,061,398**	**2,818,066**	**0**	**0**	**2,818,066**

Key: BV= Balance sheet value - L1 = Level 1 - L2 = Level 2 - L3 = Level 3

A.5 – INFORMATION ON SO-CALLED "DAY ONE PROFIT/LOSS"

The Bank does not present transactions for which, at the moment of initial recognition of the financial instruments not listed in active markets, the component relative to the so-called "day one profit/loss" was measured. Consequently, the information required by paragraph 28 of IFRS 7 is not herein provided.

EXPLANATORY NOTES

PART B – Information on the balance sheet

Assets - Section 1 - Cash and cash equivalents – Line item 10

1.1 Cash and cash equivalents: breakdown

Line items	31/12/2017	31/12/2016	Var.	% Var.
a) Cash	11,736	10,420	1,317	12.63%
b) Demand deposits with Central Banks	0	0	0	
Total	**11,736**	**10,420**	**1,317**	**12.63%**

The Line item "Demand deposits with central banks" does not include the regulatory reserve that was noted in Asset line item 60 "Receivables from banks".

Assets – Section 2 - Financial assets held for trading - Line item 20

2.1 Financial assets held for trading: breakdown by type

Line items/values	31/12/2017			31/12/2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. Cash assets						
1 Debt securities	11,126	0	750	47,259	0	0
1.1 Structured securities	0	0	0	0	0	0
1.2 Other debt securities	11,126	0	750	47,259	0	0
2 Equity instruments	1,312	0	0	74	0	0
3 Shares in mutual funds	1,710	0	10,239	0	0	9,947
4 Loans	0	0	0	0	0	0
4.1 Repurchase agreements	0	0	0	0	0	0
4.2 Other	0	0	0	0	0	0
Total A	**14,148**	**0**	**10,989**	**47,334**	**0**	**9,947**
B. Derivative instruments						
1 Financial derivatives:	0	0	332	0	0	365
1.1 from trading	0	0	332	0	0	365
1.2 connected with the fair value option	0	0	0	0	0	0
1.3 other	0	0	0	0	0	0
2 Credit derivatives	0	0	0	0	0	0
2.1 from trading	0	0	0	0	0	0
2.2 connected with the fair value option	0	0	0	0	0	0
2.3 other	0	0	0	0	0	0
Total B	**0**	**0**	**332**	**0**	**0**	**365**
Total (A+B)	**14,148**	**0**	**11,321**	**47,334**	**0**	**10,312**

Assets – Section 2 - Financial assets held for trading - Line item 20

2.2 Financial assets held for trading: break down by borrower/issuer

Line items/values	31/12/2017	31/12/2016	Variation	% variation
A. CASH ASSETS				
1. Debt securities	11,876	47,259	-35,383	0.00%
a) Governments and Central Banks	0	20,043	-20,043	0.00%

Line items/values	31/12/2017	31/12/2016	Variation	% variation
b) Other public entities	0	0	0	
c) Banks	11,126	27,217	-16,091	
d) Other issuers	750	0	750	0.00%
2 Equity instruments	1,312	74	1,238	0.00%
a) Banks	314	0	314	0.00%
b) Other issuers:	998	74	924	0.00%
- Insurance companies	0	0	0	0.00%
- Finance companies	0	0	0	0.00%
- Non finance companies	998	74	924	0.00%
- Other	0	0	0	0.00%
3 Shares in mutual funds	**11,949**	**9,947**	**2,002**	**0.00%**
4 Loans				
a) Governments and central banks	0	0	0	0.00%
b) Other public entities	0	0	0	0.00%
c) Banks	0	0	0	0.00%
d) Other issuers	0	0	0	0.00%
Total (A)	**25,138**	**57,281**	**-32,143**	**0.00%**
B DERIVATIVE INSTRUMENTS				
a) Banks	252	365	-113	0.00%
fair value	252	365	-113	0.00%
b) Customers	80	0	80	0.00%
fair value	80	0	80	0.00%
Total (B)	**332**	**365**	**-33**	**-9.09%**
Total (A+B)	**25,470**	**57,646**	**-32,176**	**-55.82%**

Assets - Section 4 - Financial assets available for sale - Line item 40

4.1 Financial assets available for sale: breakdown by type

Line items/values	Total as at 31/12/2017			Total as at 31/12/2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	528,405	0	2,076	625,902	0	1,289
1.1 Structured securities	21,967	0	0	5,646	0	0
1.2 Other debt securities	506,438	0	2,076	620,256	0	1,289
2, Equity instruments	0	0	2,948	0	0	3,780
2.1 measured at fair value	0	0	1,556	0	0	0
2.2 measured at cost	0	0	1,392	0	0	3,780
3. Shares in mutual funds	0	0	1,151	0	0	735
4. Loans	0	0	0	0	0	0
Total	**528,405**	**0**	**6,175**	**625,902**	**0**	**5,804**

POINT 2.2 – LIST OF AFS SECURITIES MEASURED AT COST AT 31/12/2017

Description	Amount
Fidi Toscana S.p.a.	124
S.w.i.f.t. s.a.	1
Finamca/Az	92
Cooperfidi Soc. Coop. di garanzia collettiva	150
Cabel ricerca e formazione s.c.p.a.	10
Cabel per i pagamenti s.c.p.a.	100
Ente Cambiano s.c.p.a.	0
Fin. P.A.S. s.r.l.	400
Shareholding C.R. Cesena	15
La Merchant S.p.a.	500
Total	**1,392**

POINT 2.1 – LIST OF AFS SECUTIRITIES MEASURED AT FAIR VALUE (SHAREHOLDERS' EQUITY) AT 31/12/2017

Description	Amount
Invest Banca S.p.a.	1,556
Total	**1,556**

Assets - Section 4 - Financial assets available for sale - Line item 40

4.2 Financial assets available for sale: break down by borrower/issuer

Line items/Values	Total as at 31/12/2017	Total as at 31/12/2016	Var.	% Var.
1. Debt securities	**530,481**	**627,191**	**-96,709**	**-15.42%**
a) Governments and central banks	402,298	595,270	-192,972	-32.42%
b) Other public entities	0	0	0	
c) Banks	126,205	30,102	96,104	319.26%
d) Other issuers	1,978	1,819	159	8.74%
2. Equity instruments	**2,948**	**3,780**	**-833**	**-22.03%**
a) Banks	2,120	2,467	-346	-14.03%
b) Other issuers:	827	1,314	-487	-37.05%
- Insurance companies	0	0	0	
- Finance companies	216	324	-108	-33.26%
- Non finance companies	611	990	-379	-38.30%
- Other	0	0	0	#DIV/0!
3. Shares in mutual funds	**1,151**	**735**	**415**	**56.50%**
4. Loans	**0**	**0**	**0**	
a) Governments and central banks	0	0	0	
b) Other public entities	0	0	0	
c) Banks	0	0	0	

Line items/Values	Total as at 31/12/2017	Total as at 31/12/2016	Var.	% Var.
d) Other issuers	0	0	0	
Total	**534,580**	**631,706**	**-97,127**	**-15.38%**

Assets – Section 6 - Receivables from banks - Line item 60

6.1 Receivables from banks: breakdown by type

Type of transactions/Values	Total as at 31/12/2017				Total as at 31/12/2016				Var.	% Var.
	Balance sheet value	Fair value Level 1	Fair value Level 2	Fair value Level 3	Balance sheet value	Fair value Level 1	Fair value Level 2	Fair value Level 3		
A. Receivables from Central Banks										
1. Term deposits	0	0	0	0	0	0	0	0	0	
2. Regulatory reserves	66,692	0	0	66,692	113,872	0	0	113,872	-47,181	-41.43%
3. Repurchase agreements	0	0	0	0	0	0	0	0	0	
4. Other	0	0	0	0	0	0	0	0	0	
B. Receivables from banks										
1. Bank accounts and demand deposits	51,519	0	0	51,519	57,622	0	0	57,622	-6,104	-10.59%
2. Term deposits	65,155	0	0	65,155	0	0	0	0	65,155	
3. Other loans:	0	0	0	0	0	0	0	0	0	
3.1 Repurchase agreements – receivable	0	0	0	0	0	0	0	0		
3.2 Financial leasing	0	0	0	0	0	0	0	0		
3.3 Other	0	0	0	0	0	0	0	0		
4. Debt securities	0	0	0	0	0	0	0	0	0	
4.1 Structured securities	0	0	0	0	0	0	0	0		
4.2 Other debt securities	0	0	0	0	0	0	0	0		
Total (balance sheet value)	**183,366**	**0**	**0**	**183,366**	**171,495**	**0**	**0**	**171,495**	**11,871**	**6.92%**

Assets - Section 7 - Receivables from customers - Line item 70

7.1 Receivables from customers: breakdown by type

Type of transaction/values	Total as at 31/12/2017							Total as at 31/12/2016						
	Balance sheet value			Total	Fair value			Balance sheet value			Total	Fair value		
	In Bonis	Impaired			Level 1	Level 2	Level 3	In bonis	Impaired			Leve l 1	Level 2	Level 3
		Purchased	Other						Purchased	Other				
1. Bank accounts	404,235	0	42,878	447,112	0	0	447,112	354,710	0	41,864	396,575	0	0	396,575
2. Repurchase agreements - receivable	0	0	0	0	0	0	0	0	0	0	0	0	0	0
3. Mortgage loans	1,125,814	0	200,307	1,326,122	0	0	1,326,122	1,051,791	0	180,016	1,231,808	0	0	1,231,808
4. Credit cards, personal loans and salary guaranteed finance	18,959	0	895	19,854	0	0	19,854	17,483	0	831	18,314	0	0	18,314
5. Financial leasing	24,308	0	0	24,308	0	0	24,308	4,914	0	0	4,914	0	0	4,914
6. Factoring	0	0	0	0	0	0	0	0	0	0	0	0	0	0
7. Other transactions	596,492	0	31,581	628,074	0	0	628,074	458,387	0	26,870	485,256	0	0	485,256
8. Debt Securities	0	0	0	0	0	0	0	0	0	0	0	0	0	0
8.1 Structured securities	0	0	0	0	0	0	0	0	0	0	0	0	0	0
8.2 Other debt securities	0	0	0	0	0	0	0	0	0	0	0	0	0	0

Type of transaction/values	Total as at 31/12/2017							Total as at 31/12/2016						
	Balance sheet value			Total	Fair value			Balance sheet value			Total	Fair value		
	In Bonis	Impaired			Level 1	Level 2	Level 3	In bonis	Impaired			Leve l 1	Level 2	Level 3
		Purchased	Other						Purchased	Other				
Total (balance sheet value)	2,169,809	0	275,661	2,445,470	0	0	2,445,470	1,887,285	0	249,581	2,136,866	0	0	2,136,866

In particular, please note that the increase in "impaired receivables" equal to 26,080 thousand Euro, (+10.45%) is attributable in part to impaired receivables purchased from former Banca A.G.C.I. (6,577 thousand) with the "way-out" operation.

In order to better illustrate the variations between 2016 and 2017 on this aggregate, the tables below have been added to the Explanatory Notes.

Type of transaction/Values	Total 2017	Total 2016	Difference 2017/2016	Difference 2017/2016 %
1. Bank accounts	445,669	395,795	49,875	12.60%
2. Cash Clearing and Guarantee Fund	1,159	620	539	86.81%
3. Poste Italiane S.p.a.	284	160	124	77.68%
4. Repurchase agreements – receivable	0	0	0	0.00%
5. Mortgage loans	878,767	1,121,255	-242,488	-21.63%
6. Securitized loans	0	0	0	#DIV/0!
7. Self-securitized loans	447,355	110,553	336,802	304.65%
8. Credit cards, personal loans and salary guaranteed finance	19,854	18,314	1,540	8.41%
9. Financial leasing	24,308	4,914	19,395	394.71%
10. Factoring	0	0	0	0.00%
11. Other transactions	604,246	474,759	129,487	27.27%
12. Bank for Deposits and Loans	0	0	0	0.00%
13. Receivable from the Vehicle Pontormo RMBS	23,827	10,497	13,330	126.99%
14. Debt securities	0	0	0	0.00%
Total (balance sheet value)	**2,445,470**	**2,136,866**	**308,604**	**14.44%**

Not considering the counterparties "Cash Clearing and Guarantee Fund", "Poste Italiane S.p.a.", Bank for Deposits and Loans", and "Pontormo RMBS" as "Receivable from customers", the following variation is noted.

Type of transaction/Value	Total 2017	Total 2016	Difference 2016/2017	Difference 2016/2017%
Receivable from customers – Recalculated values	2,420,200	2,125,589	294,611	13.86%

Breakdown of impaired receivables:

Description	2017	2016
Non-performing loans	137,798	131,848
Doubtful loans	123,766	105,140
Expired loans	14,097	12,593

Description	2017	2016
Total impaired receivables	**275,661**	**249,581**

Assets – Section 7 - Receivables from customers - Line item 70

7.2 Receivables from customer: breakdown by borrower/issuer

Type of transaction/Values	Total as at 31/12/2017			Total as at 31/12/2016		
	Bonis	Impaired		Bonis	Impaired	
		Acquired	Other		Acquired	Other
1. Debt securities						
a) Governments	0	0	0	0	0	0
b) Other public entities	0	0	0	0	0	0
c) Other issuers	0	0	0	0	0	0
- non finance companies	0	0	0	0	0	0
- finance companies	0	0	0	0	0	0
- insurance companies	0	0	0	0	0	0
- other	0	0	0	0	0	0
2. Loans to:						
a) Governments	0	0	0	0	0	0
b) Other public entities	1,960	0	0	2,337	0	0
c) Other borrowers	2,167,849	0	275,661	1,884,948	0	249,581
- non finance companies	1,223,446	0	196,258	1,041,985	0	173,104
- finance companies	101,567	0	915	63,737	0	243
- insurance companies	13,116	0	0	15,514	0	0
- other	829,720	0	78,488	763,713	0	76,234
Total	**2,169,809**	**0**	**275,661**	**1,887,285**	**0**	**249,581**

Assets - Section 7 - Receivables from customers - Line item 70

7.4 Receivables from customers: Financial leasing

This Line item is composed of receivables from customers for finance lease contracts for property purchases; these receivables were valued at amortized cost.

The item went from 4,914 thousand Euro at 31/12/2016 to 24,308 thousand Euro at 31/12/2017, with an increase of 19,395 thousand Euro.

Assets – Section 8 - Hedges - Line item 80

8.1 Hedges: break down by type of hedge and by level

Line items	Fair value 31/12/2017 Level 1	Fair value 31/12/2017 Level 2	Fair value 31/12/2017 Level 3	Notional value 31/12/2017	Fair value 31/12/2016 Level 1	Fair value 31/12/2016 Level 2	Fair value 31/12/2016 Level 3	Notional value 31/12/2016
A. Financial derivatives	**0**	**0**	**0**	**0**	**0**	**0**	**237**	**5,795**
1) Fair value	0	0	0	0	0	0	237	5,795
2) Cash flows	0	0	0	0	0	0	0	0
3) Foreign investments	0	0	0	0	0	0	0	0
B. Credit derivatives	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
1) Fair value	0	0	0	0	0	0	0	0
2) Cash flows	0	0	0	0	0	0	0	0
Total	**0**	**0**	**0**	**0**	**0**	**0**	**237**	**5,795**

The table indicates the positive balance sheet value (fair value) of hedge contracts. The "Fair Value Hedge" accounting model was used. A series of bonds issued by the Bank were hedged using hedge accounting, in order to hedge the relative interest rate risk.

Assets - Section 8 - Hedges - Line item 80

8.2 Hedges: break down by hedged portfolio and by type of hedge

Transactions/Type of hedge	Fair Value						Cash flows		Foreign investments
	Specific					Generic	Specific	Generic	
	Interest rate risk	Exchange rate risk	Credit risk	Price risk	Various risks				
1. Financial assets available for sale	0	0	0	0	0	0	0	0	0
2. Receivables	0	0	0	0	0	0	0	0	0
3. Financial assets held through maturity	0	0	0	0	0	0	0	0	0
4. Portfolio	0	0	0	0	0	0	0	0	0
5. Other transactions	0	0	0	0	0	0	0	0	0
Total assets	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
1. Financial liabilities	0	0	0	0	0	0	0	0	0
2. Portfolio	0	0	0	0	0	0	0	0	0
Total liabilities	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
1. Forecast transactions	0	0	0	0	0	0	0	0	0
2. Portfolio of financial assets and liabilities	0	0	0	0	0	0	0	0	0

Assets - Section 10 - Equity investments - Line item 100

10.1 Equity investments in subsidiaries, jointly held companies or companies subject to significant influence: information on shareholdings

Denomination	Registered office	Operating office	Shareholding %	Votes available %
A. Wholly owned subsidiaries				
1. Cabel Leasing S.p.a. (1)	Empoli	Empoli	52.00%	52.00%
2. Immobiliare 1884 s.r.l.	Firenze	Empoli	100.00%	100.00%
B. Jointly held companies				
C. Companies subject to significant influence				
1. Cabel Holding S.p.a.	Empoli	Empoli	49.60%	49,60%
2. Cabel Industry S.p.a. (2)	Empoli	Empoli	18.00%	18.00%

(1) – The shareholding percent in Cabel Leasing S.p.a. increases to 70.85% due to Cabel Holding S.p.a. equity investments in Cabel Leasing S.p.a. for 38.00%.

(2) – The shareholding percent in Cabel Industry S.p.a. increases to 51.61% due to Cabel Holding S.p.a. equity investments in Cabel Industry S.p.a. for 67.77%,

Assets - Section 10 - Equity investments - Line item 100

10.2 Significant equity investments: balance sheet value, fair value and dividends received

Denomination	Balance sheet value	Fair value	Dividends received
A. Wholly owned subsidiaries	**14,781**	**14,781**	**0**
1. Cabel Leasing S.p.a.	9,781	9,781	0
2. Immobiliare 1884 s.r.l.	5,000	5,000	0
B. Jointly held companies	**0**	**0**	**0**
C. Companies subject to significant influence	**23,074**	**23,074**	**0**
1. Cabel Holding S.p.a.	21,088	21,088	0
2. Cabel Industry S.p.a.	1,986	1,986	0
Total	**37,855**	**37,855**	**0**

The fair value of shareholdings in companies subject to significant interest corresponds to the balance sheet value in that none of the companies in question is listed on a trade market.

Assets - Section 10 - Equity investments - Line item 100

10.3 Significant equity investments: accounting information

Denomination	Cash and cash equivalents	Financial assets	Non financial assets	Financial liabilities	Non financial liabilities	Total revenue	Interest income
A. Wholly owned subsidiaries	6	188,637	6,712	147,431	29,234	4,367	2,487
1. Cabel Leasing S.p.a.	6	188,637	6,712	147,431	29,234	4,367	2,487
2. Immobiliare 1884 s.r.l.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
B. Jointly held companies	0	0	0	0	0	0	0
C. Companies subject to significant influence		25,755	35,593	0	10,901	34,007	
1. Cabel Holding S.p.a.	x	23,798	17,793	0	1,246	5,505	x
2. Cabel Industry S.p.a.	x	1,957	17,799	0	9,655	28,502	x
Total	6	214,392	42,304	147,432	40,135	38,374	2,487

Denomination	Value adj. and write-backs on prop., plant and equip. and intangible assets	Profit (loss) on continuing operations before tax	Profit (loss) on continuing operations after tax	Profit (loss) on groups of assets under divestment, after tax	Fiscal year profit (loss)(1)	Other income components after tax (2)	Overall income (3) = (1) + (2)
A. Wholly owned subsidiaries	**154**	**309**	**230**	**0**	**230**	**0**	**230**
1. Cabel Leasing S.p.a.	154	309	230	0	230	0	230
2. Immobiliare 1884 s.r.l.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
B. Jointly held companies	**0**	**0**	**0**	**0**	**0**	**0**	**0**
C. Companies subject to significant influence		**2,110**	**1,618**	**0**	**1,618**	**0**	**1,618**
1. Cabel Holding S.p.a.	x	947	862	0	862	0	862
2. Cabel Industry S.p.a.	x	1,162	756	0	756	0	756
Total	**154**	**2,419**	**1,848**	**0**	**1,848**	**0**	**1,848**

The above companies carry out activities that are instrumental to Bank activities and perform services that are auxiliary to Bank activities. The values shown in the above table refer to the year 2016 as, at the date of presentation of the financial statements to the BoD for approval, the definitive balance sheet data for 2017 for the companies in question were not available, and were approved subsequently.

The balance sheet value was calculated according to the schedule below.

Denomination	Shareholders' equity	Shareholding %	Purchase/Sale	Dividends received	Balance sheet value
1. Cabel Leasing S.p.a.	18,689	17.40%	6,529	0	9,781
2. Immobiliare 1884 s.r.l.	0	100.00%	5,000	0	5,000
3. Cabel Holding S.p.a.	42,515	49.60%	0	0	21,088
4. Cabel Industry S.p.a.	10,102	6.00%	1,380	0	1,986
Totals	**71,306**		**12,909**	**0**	**37,855**

Assets - Section 10 - Equity investments - Line item 100

10.5 Equity investments: annual variations

Line items	Total as at 31/12/2017	Total as at 31/12/2016
A. Initial value	**25,573**	**19,622**
B. Additions		
B.1 Purchases	12,909	5,752
B.2 Write-backs of value	0	0
B.3 Revaluations	513	200
B.4 Other variations	0	0
C. Reductions		
C.1 Sales	0	0
C.2 Value adjustments	0	0
C.3 Other variations	1,141	0
D. Final value	**37,855**	**25,573**
E. Total revaluations	**12,318**	**12,946**
F. Total adjustments	**0**	**0**

Line B.3 "Revaluations" includes the revaluation of the company Cabel Leasing s.p.a. for 40 thousand Euro, the revaluation of the company for 427 thousand Euro, and the revaluation of the company Cabel Industry S.p.a. for 45 thousand Euro.

Line C.3 “Other variations” includes the use of the equity investment valuation reserve measured at shareholders’ equity, as shown in the “analytical schedule of overall profitability”.

The data from the 2016 financial statements refer to the last financial statements approved by subsidiaries (31/12/2015).

The data from the 2017 financial statements refer to the last financial statements approved by subsidiaries (31/12/2016).

Assets - Section 10 - Equity investments - Line item 100

10.7 Equity investments: investments in companies subject to significant influence

There are no investments that may generate potential liabilities deriving from any joint investment,

Assets - Section 10 - Equity investments - Line item 100

10.8 Equity investments: restrictions

There are no significant restrictions referred to investments in companies subject to significant influence.

Assets - Section 11 - Property, plant and equipment - Line item 110

11.1 Property, plant and equipment: breakdown of assets measured at cost

Assets/values	Total as at 31/12/2017	Total as at 31/12/2016
1. Own assets	**58,105**	**65,841**
a) land	11,081	14,655
b) buildings	31,977	36,869
c) furniture	9,347	9,044
d) electronic equipment	826	689
e) other	4,876	4,585
2. Purchased in financial leasing	**0**	**0**
a) land	0	0
b) buildings	0	0
c) furniture	0	0
d) electronic equipment	0	0
e) other	0	0
Total	**58,105**	**65,841**

All the Bank's property, plant and equipment are measured at cost; the line item "land" indicates the value of the land that is separated from the value of the buildings.

Assets - Section 11 - Property, plant and equipment - Line item 110

11.5 Property, plant and equipment having a functional use: annual variations

Line items	Land	Buildings	Furniture	Electronic systems	Other	Total as at 31/12/2017
A. Initial gross value	14,655	58,519	11,688	2,176	9,122	96,159
A.1 Total net reductions of value	0	21,651	2,644	1,486	4,537	30,318
A.2 Initial net value	14,655	36,869	9,044	689	4,585	65,841
B. Additions:						
B.1 Purchases	0	0	789	436	1,537	2,763
of which: corporate merger operations	0	0	356	78	190	623
B.2 Expenses for capitalized improvements	0	709	0	0	0	709
B.3 Write-backs of value	0	0	0	0	0	0
B.4 Increases of Fair value allocated to:						
a) shareholders' equity	0	0	0	0	0	0
b) income statement	0	0	0	0	0	0
B.5 Positive Exchange rate difference	0	0	0	0	0	0
B.6 Transfers from real property held for investment	0	0	0	0	0	0
B.7 Other additions	0	0	0	0	0	0
C. Reductions:						
C.1 sales	3,574	4,623	0	0	0	8,197
of which: corporate merger operations	3,574	4,623	0	0	0	8,197
C.2 Depreciation	0	977	486	300	1,246	3,010
C.3 Value adjustments from impairment allocated to:						
a) shareholders' equity	0	0	0	0	0	0
b) income statement	0	0	0	0	0	0
C.4 Negative fair value variations allocated to:						
a) shareholders' equity	0	0	0	0	0	0
b) income statement	0	0	0	0	0	0

Line items	Land	Buildings	Furniture	Electronic systems	Other	Total as at 31/12/2017
C.5 Negative exchange rate differences	0	0	0	0	0	0
C.6 Transfers to:						
a) Property, plant and equipment held for investment	0	0	0	0	0	0
b) assets in the course of divestment	0	0	0	0	0	0
C.7 Other variations	0	0	0	0	0	0
D. Final net value	11,081	31,977	9,347	826	4,876	58,105
D.1 Reductions of total net value	0	13,651	3,415	1,938	5,855	24,859
D.2 Final gross value	11,081	45,627	12,762	2,763	10,731	82,964
E. Measurement at cost	0	0	0	0	0	0

Corporate merger operations

Line B.1 "Purchases – of which: corporate merger operations" includes property, plant and equipment once belonging to former Banca A.G.C.I. S.p.a. and purchased with the "way-out" operation.

Line C.1 "Sales" includes property, plant and equipment not transferred to Banca Cambiano 1884 S.p.a. and specifically:

- Line item "Land": the land in Certaldo, Viale Matteotti (1,574 thousand Euro) and in Castelfiorentino, Piazza Giovanni XXIII (2,000 thousand Euro);
- Line item "Buildings": the buildings in Castelfiorentino in Via Dante (386 thousand Euro), Via Piave (1,362 thousand Euro) and Piazza Giovanni XXIII (1,521 thousand Euro) and in Certaldo in Viale Matteotti (1,354 thousand Euro).

Depreciation was measured based on the useful life of the assets, as specified below:

Percent of depreciation	
- Land	0.00%
- Buildings	3.00%
- Artwork	0.00%
- Furniture and various furnishings	12.00%
- AED plants, machinery and equipment	20.00%
- Technical plants, machinery and equipment	15.00%
- Vehicles	20.00%

Assets - Section 12 - Intangible assets - Line item 120

12.1 Intangible assets: break down by type of asset

Assets/values	Total as at 31/12/2017		Total as at 31/12/2016	
	Limited duration	Unlimited duration	Limited duration	Unlimited duration
A.1 Goodwill	0	6,975	0	2,100

Assets/values	Total as at 31/12/2017		Total as at 31/12/2016	
	Limited duration	Unlimited duration	Limited duration	Unlimited duration
A.2 Other Intangible assets				
A.2.1 Assets measured at cost:	545	0	404	0
a) Intangible assets generated internally	0	0	0	0
b) Other assets	545	0	404	0
A.2.2 Assets measured at fair value:	0	0	0	0
a) Intangible assets generated internally	0	0	0	0
b) Other assets	0	0	0	0
Total	**545**	**6,975**	**404**	**2,100**

All of the Bank's intangible assets are measured at cost.

The goodwill booked refers to the following transactions:

1) 2,100 thousand Euro relative to the purchase of n. 2 Banca Interregionale S.p.a. bank tellers. The branches were purchased on operating date 01/01/2015, and they are, specifically, the branch in Pistoia (PT) and the branch in San Giovanni Valdarno (AR).
2) 4,875 thousand Euro relative to the purchase of Banca A.G.C.I. S.p.a. during the "way out operation, on operating date 01/01/2017.

The calculation of the amounts for goodwill is illustrated in "Part G" of these Explanatory Notes.

Assets – Section 12 - Intangible assets - Line item 120

12.2 Intangible assets: annual variations

Line items	Goodwill	other Intangible assets: generated internally		Other Intangible assets: other		Total as at 31/12/2017
		limited duration	unlimited duration	limited duration	unlimited duration	
A. Initial gross value	**2,100**	**0**	**0**	**4,152**	**0**	**6,252**
A.1 Total net reduction of value	0	0	0	3,748	0	3,748
A.2 Initial net value	**2,100**	**0**	**0**	**404**	**0**	**2,504**
B. Additions						
B.1 Purchases	4,875	0	0	267	0	5,142
Of which: corporate merger transactions	4,875	0	0	6	0	4,881
B.2 Increases of internal intangible assets	0	0	0	0	0	0
B.3 Write-backs of value	0	0	0	0	0	0
B.4 Increases of fair value						
- to shareholders' equity	0	0	0	0	0	0
- to the income statement	0	0	0	0	0	0
B.5 Positive exchange rate differences	0	0	0	0	0	0
B.6 Other additions	0	0	0	0	0	0
C. Reductions						
C.1 Sales	0	0	0	0	0	0
C.2 Value adjustments						
- Amortization	0	0	0	127	0	127

Line items	Goodwill	other Intangible assets: generated internally		Other Intangible assets: other		Total as at 31/12/2017
		limited duration	unlimited duration	limited duration	unlimited duration	
- Write-downs						
+ Shareholders' equity	0	0	0	0	0	0
+ income statement	0	0	0	0	0	0
C.3 Reductions of fair value						
- to shareholders' equity	0	0	0	0	0	0
- to the income statement	0	0	0	0	0	0
C.4 Transfers of noncurrent assets in course of divestment	0	0	0	0	0	0
C.5 Negative exchange rate differences	0	0	0	0	0	0
C.6 Other variations	0	0	0	0	0	0
D. Final net value	**6,975**	**0**	**0**	**545**	**0**	**7,519**
D.1 Total net value adjustments	0	0	0	3,874	0	3,874
E. Final gross value	**6,975**	**0**	**0**	**4,419**	**0**	**11,394**
F. Measurement at cost	0	0	0	0	0	0

Other intangible assets consist of the cost of corporate software. Amortization is measured at constant rates based on its useful life, which is estimated to be 5 years.

Corporate merger transactions

Line item B.1 "Purchases – of which corporate merger transactions" also includes intangible assets from former Banca A.G.C.I. S.p.a. purchased with the "way-out" operation.

Specifically:

1) In the "Goodwill" line item, the amount of 4,875 thousand Euro refers to n. 3 bank tellers purchased on operating date 01 January 2017. The branches are in Bologna (2,001 thousand Euro), Rome (1,368 thousand Euro) and Turin (1,505 thousand Euro).

2) In the "Other intangible assets – other": 6 thousand Euro.

Assets - Section 13 – Tax receivables and tax liabilities – Assets line item 130 and Liabilities line item 80

13.1 Assets related to pre-paid taxes: breakdown

Line items/Values	Total as at 31/12/2017	Total as at 31/12/2016
1. Multi-year costs	0	0
2. Personnel costs	0	0
3. Receivables	19,343	19,710
4. Entertainment expenses	0	0
5. Financial instruments (Securities Available for Sale)	1,959	999
6. Tax losses	0	0
7. Other	309	330
Total	**21,611**	**21,039**

The line "Financial instruments" indicates tax receivables related to financial instruments classified in the portfolio of assets available for sale.

Breakdown of assets related to pre-paid taxes point 3. Receivables from the previous table:

Line items/Values	Total as at 31/12/2017	Total as at 31/12/2016
1. Ires (corporate income tax) subdivided into eighteenths	0	0
2. Ires (corporate income tax) subdivided into fifths	0	0
3. Irap (tax on productive activities) subdivided into fifths	0	0
4. Irap (tax on productive activities) scheduled for 2016	0	0
5. Ires (corporate income tax) scheduled for 2016	0	0
6. Irap (tax on productive activities) scheduled for 2017	0	216
7. Ires (corporate income tax) scheduled for 2017	0	1,444
8. Irap (tax on productive activities) scheduled for 2018	294	270
9. Ires (corporate income tax) scheduled for 2018	1,929	1,805
10. Irap (tax on productive activities) scheduled for 2019	353	324
11. Ires (corporate income tax) scheduled for 2019	2,315	2,166
12. Irap (tax on productive activities) scheduled for 2020	353	324
13. Ires (corporate income tax) scheduled for 2020	2,315	2,166
14. Irap (tax on productive activities) scheduled for 2021	353	324
15. Ires (corporate income tax) scheduled for 2021	2,315	2,166
16. Irap (tax on productive activities) scheduled for 2022	353	324
17. Ires (corporate income tax) scheduled for 2022	2,315	2,166
18. Irap (tax on productive activities) scheduled for 2023	353	324
19. Ires (corporate income tax) scheduled for 2023	2,315	2,166
20. Irap (tax on productive activities) scheduled for 2024	353	324
21. Ires (corporate income tax) scheduled for 2024	2,315	2,166
22. Irap (tax on productive activities) scheduled for 2025	147	135
23. Ires (corporate income tax) scheduled for 2025	965	902
Total	**19,343**	**19,710**

Assets - Section 13 – Tax receivables and tax liabilities – Assets line item 130 and Liabilities line item 80

13.2 Liabilities for deferred taxes: breakdown

Line items/Values	Total as at 31/12/2017	Total as at 31/12/2016
1. Property, plant, equipment	1,923	3,247
2. Personnel costs	0	0
3. Former credit risk fund	0	0
4. Equity investments	46	62
5. Financial instruments (securities available for sale)	0	0
6. Goodwill	205	77
7. Other	118	118
Total	**2,292**	**3,504**

Among liabilities for deferred taxes, we note the line "Property, plant and equipment": the tax liability was calculated between the IAS value and the "tax" value of the property, plant and equipment owned.

The line "Equity investments" indicates the tax liability referable to equity investments calculated at the IRES tax rate (27,50) on 5.00% of overall capital gain (3,344 thousand Euro).

The line "Financial instruments" indicates tax liabilities related to financial instruments classified in the portfolio of assets available for sale.

Assets - Section 13 – Tax receivables and tax liabilities – Assets line item 130 and Liabilities line item 80

13.3 Variations of pre-paid taxes (as an offset to the income statement)

Line items	Total as at 31/12/2017	Total as at 31/12/2016
1. Initial value	**19,710**	**20,756**
2. Additions		
2.1 Pre-paid taxes recognized during the fiscal year		
a) related to previous fiscal years	0	0
b) due to change of accounting policies	0	0
c) write-backs of value	0	0
d) other	0	0
e) corporate merger operations	1,412	0,00
2.2 New taxes or increases of tax rates	0	0
2.3 Other additions	0	0
3. Reductions		
3.1 Pre-paid taxes derecognized during the fiscal year		
a) reversals	1,779	1,046
b) write-downs for receivables written off as unrecoverable	0	0
c) change of accounting policies	0	0
d) other	0	0
e) corporate merger operations	0	0,00
3.2 Reductions of tax rates	0	0
3.3 Other reductions		
a) transformation into tax credits pursuant to Law n. 214/2011	0	0
b) other	0	0
4. Final value	**19,343**	**19,710**

The table summarizes all pre-paid taxes which will be absorbed in subsequent fiscal years as offsets to the income.

Assets - Section 13 – Tax receivables and tax liabilities – Assets line item 130 and Liabilities line item 80

13.3.1 Variations of pre-paid taxes as per Law 214/2011 (as offset to the income statement)

Line items	Total as at 31/12/2017	Total as at 31/12/2016
1. Initial value	**19,710**	**20,756**
2. Additions	**1,412**	**0**
2.1 Corporate merger operations	1,412	0,00
3. Reductions	**1,779**	**1,046**
3.1 reversals	1,779	1,046
3.2 transformation into tax credits	0	0
a) deriving from operating losses	0	0
b) deriving from tax losses	0	0
3.3 other reductions	0	0
4. Final value	**19,343**	**19,710**

Assets - Section 13 – Tax receivables and tax liabilities – Assets line item 130 and Liabilities line item 80

13.4 Variations of deferred taxes (as offset in the income statement)

Line items	Total as at 31/12/2017	Total as at 31/12/2016
1. Initial value	**3,442**	**3,522**
2. Additions		
2.1 Deferred taxes recognized during the fiscal year		
a) related to previous fiscal years	0	0
b) due to a change of accounting policies	0	0
c) other	128	40
e) corporate merger operations	0	0
2.2 New taxes or increases of tax rates	0	0
2.3 Other increases	0	0
3. Reductions		
3.1 Deferred taxes derecognized during the fiscal year		
a) reversals	72	120
b) due to a change of accounting policies	0	0
c) other	0	0
e) corporate merger operations	1,252	0
3.2 Reductions of tax rates	0	0
3.3 Other reductions	0	0
4. Final value	**2,246**	**3,442**

The table summarizes all deferred taxes that will be absorbed during subsequent fiscal years as offsets to the income statement.

Assets - Section 13 – Tax receivables and tax liabilities – Assets line item 130 and Liabilities line item 80

13.5 Variations of pre-paid taxes (as an offset to shareholders' equity)

Line items	Total as at 31/12/2017	Total as at 31/12/2016
1. Initial value	**1,329**	**680**
2. Additions		
2.1 Pre-paid taxes recognized during the fiscal year		
a) related to previous fiscal years	0	0
b) due to a change in accounting policies	0	0
c) other	0	649
e) corporate merger operations	1,113	0
2.2 New taxes or increases of tax rates	0	0
2.3 Other additions	0	0
3. Reductions		
3.1 Pre-paid tax derecognized during the fiscal year		
a) reversals	174	0
b) write-downs for receivables written off as unrecoverable	0	0
c) due to a change in accounting policies	0	0
d) other	0	0
e) corporate merger operations	0	0
3.2 Reductions of tax rates	0	0
3.3 Other reductions	0	0
4. Final value	**2,268**	**1,329**

The variations are exclusively due to the pre-paid taxes recorded in movements to the reserves of shareholders' equity related to the financial instruments classified in the portfolio of financial assets available for sale.

Assets - Section 13 - Tax receivables and tax liabilities – Assets line item 130 and Liabilities line item 80

13.6 Variations of deferred taxes (as an offset to shareholders' equity)

Line items	Total as at 31/12/2017	Total as at 31/12/2016
1. Initial value	**62**	**62**
2. Additions		
2.1 Deferred taxes recognized during the fiscal year		
a) related to previous fiscal years	0	0
b) due to a change in accounting policies	0	0
c) other	0	0

Line items	Total as at 31/12/2017	Total as at 31/12/2016
d) corporate merger operations	0	0
2.2 New taxes or increases of tax rates	0	0
2.3 Other additions	0	0
3. Reductions		
3.1 Deferred taxes derecognized during the fiscal year		
a) reversals	16	0
b) due to a change in accounting policies	0	0
c) other	0	0
d) corporate merger operations	0	0
3.2 Reduction of tax rates	0	0
3.3 Other reductions	0	0
4. Final value	**46**	**62**

Assets - Section 13 - Tax receivables and tax liabilities - Assets line item 130 and Liabilities line item 80

13.7 Other information – Assets due to current taxes – Breakdown

Line items	Total as at 31/12/2017	Total as at 31/12/2016
1. Accounts paid to the tax authority	5,195	12,621
2. Tax receivables – principal	268	639
3. Tax receivables – interest	0	3
4. Other withholdings	62	12
Total	**5,525**	**13,276**

Assets due to current taxes in 2017 are shown on a “closed” account basis in the balance sheet and on an “open” account basis in the table above.

Assets - Section 13 - Tax receivables and tax liabilities – Assets line item 130 and Liabilities line item 80

13.7 Other information – Liabilities due to current taxes – Breakdown

Line items	Total as at 31/12/2017	Total as at 31/12/2016
1. Fund for IRES tax	0	85
2. Fund for IRAP tax	383	750
3. Fund for stamp duty	0	0
4. Tax fund – substitute tax Law 244/2007	0	0
5. Tax fund – other	0	0

Total	**383**	**835**

Liabilities for current taxes in 2017 are shown on a "closed" account basis in the balance sheet and on an "open" account basis in the table above.

Assets - Section 15 – Other assets - Line item 150

15.1 Other assets: breakdown

Line items	Total as at 31/12/2017	Total as at 31/12/2016
01. Other debtors	5,662	4,711
02. Entries in transit	3,501	1,919
03. Entries being processes	13,947	23,402
04. Various entries to be settled	1,226	174
05. Stipulated loans to be disbursed	8,874	12,065
06. Checks, bills returned unpaid and protested	163	97
07. Assets sold and not derecognized	0	0
08. Assets for expenses on third party goods	1,356	786
09. Expenses not yet invoiced	73	282
10. Costs to be allocated	288	0
11. Advanced operations on Securities	350	240
12. Various open entries	4,218	4,116
13. Accrued income and prepayments	2,313	1,202
14. Securities to be settled (sales)	0	0
Total	**41,973**	**48,996**

Liabilities – Section 1 - Payables to banks - Line item 10

1.1 Payables to banks: breakdown by type

Type of transactions/Values	Total as at 31/12/2017	Total as at 31/12/2016	Var.	% Var.
1. Payables to central banks	**479,380**	**479,000**	**380**	**0.08%**
2. Payables to banks				
2.1 Bank accounts and demand deposits	10,876	8,319	2,557	30.74%
2.2 Term deposits	321	1,215	-894	-73.55%
2.3 Loans	13,402	0	13,402	
2.3.1 Repurchase agreements - payables	0	0	0	
2.3.2 Other	13,402	0	13,402	
2.4 Liabilities for commitments to repurchase own shares	0	0	0	
2.5 other liabilities	0	0	0	
Total	**503,980**	**488,534**	**15,445**	**3.16%**
Fair value - Level 1	**0**	**0**	**0**	
Fair value - Level 2	**0**	**0**	**0**	
Fair value - Level 3	**503,980**	**488,534**	**15,445**	
Total fair value	**503,980**	**488,534**	**15,445**	**3.16%**

Payables to banks are all measured at cost or at amortized cost.

Liabilities - Section 2 - Payables to customers - Line item 20

2.1 Payables to customers: breakdown by type

Type of transactions/Values	Total as at 31/12/2017	Total as at 31/12/2016	Var.	% Var.
1. Bank accounts and demand deposits	1,761,298	1,579,426	181,871	11.52%
2. Term deposits	491,571	229,483	262,088	114.21%
3. Loans	51,943	171,655	-119,711	-69.74%
3.1 Repurchase agreements - payables	39,936	129,624	-89,689	-69.19%
3.2. Other	12,008	42,030	-30,022	-71.43%
4. Liabilities for commitments to buy back treasury shares	0	0	0	
5. Other liabilities	647	440	207	47.00%
Total	**2,305,459**	**1,981,004**	**324,455**	**16.38%**
Fair value - Level 1	**0**	**0**	**0**	
Fair value - Level 2	**0**	**0**	**0**	
Fair value - Level 3	**2,305,459**	**1,981,004**	**324,455**	
Total fair value	**2,305,459**	**1,981,004**	**324,455**	**16.38%**

Payables to customers are all measured at cost or at amortized cost.

Line item 3.2 "Loans – Other" for 12,008 thousand Euro, includes transactions with the Cassa depositi e Prestiti S.p.a.

Liabilities - Section 3 - Outstanding securities - Line item 30

3.1 Outstanding securities: breakdown by type

Type of security/Values	Total as at 31/12/2017				Total as at 31/12/2016			
	Balance sheet value	Fair value			Balance sheet value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Securities								
1. Securities	249,575	0	0	249,575	346,084	0	0	346,084
1.1 structured	4,824	0	0	4,824	4,986	0	0	4,986
1.2 other	244,751	0	0	244,751	341,098	0	0	341,098
2. Other securities	2,384	0	0	2,384	2,445	0	0	2,445
2.1 structured	0	0	0	0	0	0	0	0
2.2 other	2,384	0	0	2,384	2,445	0	0	2,445
Total	**251,959**	**0**	**0**	**251,959**	**348,528**	**0**	**0**	**348,528**

The table indicates deposits consisting of securities that also include, in addition to bonds, outstanding and matured certificates of deposit to be repaid.

All of the liabilities are measured at cost or at amortized cost, with the exception of entries that are the object of specific hedges of the interest rate risk on which the effect of the Swap was capitalized.

Liabilities are indicated net of repurchased bonds.

The aggregate decreased with respect to the previous fiscal year by 96,569 thousand Euro (-27.71%).

Liabilities - Section 3 - Outstanding securities - Line item 30

3.3 Outstanding securities: Securities subject to specific hedges

Type of transaction/Values	Total as at 31/12/2017	Total as at 31/12/2016
1. Securities subject to specific fair value hedges:		
a) interest rate risk	4,824	4,808
b) exchange rate risk	0	0
c) various risks	0	0
2. Securities subject to specific cash flow hedges:		
a) interest rate risk	0	0
b) exchange rate risk	0	0
c) other	0	0
Total	**4,824**	**4,808**

The table indicates outstanding securities that are object of specific hedges.

Liabilities - Section 4 – Hedges - Line item 40

4.1 Financial liabilities from trading: breakdown by type

Type of transaction / Values	Total as at 31/12/2017					Total as at 31/12/2016				
	Notional value	Fair value			Fair Value (*)	Notional value	Fair value			Fair Value (*)
		Level 1	Level 2	Level 3			Level 1	Level 2	Level 3	
A. Cash liabilities	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
1. Payables to banks	0	0	0	0	0	0	0	0	0	0
2. Payables to customers	0	0	0	0	0	0	0	0	0	0
3. Debt securities	0	0	0	0	0	0	0	0	0	0
3.1 Securities	0	0	0	0	0	0	0	0	0	0
3.1.1 Structured	0	0	0	0	0	0	0	0	0	0
3.1.2 Other securities	0	0	0	0	0	0	0	0	0	0
3.2 Other securities	0	0	0	0	0	0	0	0	0	0
3.2.1 structured	0	0	0	0	0	0	0	0	0	0
3.2.2 other	0	0	0	0	0	0	0	0	0	0
Total A	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
B. Derivative instruments	**0**	**0**	**0**	**80**	**0**	**0**	**0**	**0**	**0**	**0**
1. Financial derivatives	0	0	0	80	0	0	0	0	0	0
1.1 From trading	0	0	0	80	0	0	0	0	0	0
1.2 Connected with the fair value option	0	0	0	0	0	0	0	0	0	0
1.3 Others	0	0	0	0	0	0	0	0	0	0
2. Credit derivatives	0	0	0	0	0	0	0	0	0	0
2.1 From trading	0	0	0	0	0	0	0	0	0	0
2.2 Connected with the fair value option	0	0	0	0	0	0	0	0	0	0
2.3 Others	0	0	0	0	0	0	0	0	0	0

Type of transaction / Values	Total as at 31/12/2017					Total as at 31/12/2016				
	Notional value	Fair value			Fair Value (*)	Notional value	Fair value			Fair Value (*)
		Level 1	Level 2	Level 3			Level 1	Level 2	Level 3	
Total B	**0**	**0**	**0**	**80**	**0**	**0**	**0**	**0**	**0**	**0**
Total A + B	**0**	**0**	**0**	**80**	**0**	**0**	**0**	**0**	**0**	**0**

Key:

FV (*) - fair value measured excluding variations in value due to changes in issuer creditworthiness with respect to the date of issue.

Liabilities - Section 6 - Hedges - Line item 60

6.1 Hedges: breakdown by type of hedge and by hierarchical level

Line items	Fair value 31/12/2017			Notional value 31/12/2017	Fair value 31/12/2016			Notional value 31/12/2016
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
A. Financial derivatives	**0**	**0**	**769**	**25,000**	**0**	**0**	**427**	**10,441**
1) Fair value	0	0	769	25,000	0	0	427	10,441
2) Cash flows	0	0	0	0	0	0	0	0
3) Foreign investments	0	0	0	0	0	0	0	0
B. Credit derivatives	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
1) Fair value	0	0	0	0	0	0	0	0
2) Cash flows	0	0	0	0	0	0	0	0
Total	**0**	**0**	**769**	**25,000**	**0**	**0**	**427**	**10,441**

The table indicates the negative balance sheet value (fair value) of hedge contracts, for hedges using the hedge accounting instrument.

Specifically, a bond issued by the Bank was hedged in order to hedge the relative interest rate risk.

Liabilities - Section 6 - Hedges - Line item 60

6.2 Hedges: breakdown hedged portfolio and by type of hedge

Operations/Type of hedge	Fair Value						Cash flows		Foreign investments
	Specific					Generic	Specific	Generic	
	Interest rate risk	Exchange rate risk	Credit risk	Price risk	Various risks				
1. Financial assets available for sale	615	0	0	0	0	0	0	0	0
2. Receivables	0	0	0	0	0	0	0	0	0
3. Financial assets held through maturity	0	0	0	0	0	0	0	0	0
4. Portfolio	0	0	0	0	0	0	0	0	0
5. Other transactions	0	0	0	0	0	0	0	0	0
Total assets	**615**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
1. Financial liabilities	0	0	0	0	0	0	0	0	0
2. Portfolio	155	0	0	0	0	0	0	0	0
Total liabilities	**155**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
1. Expected transactions	0	0	0	0	0	0	0	0	0
2. Portfolio of financial assets and liabilities	0	0	0	0	0	0	0	0	0

Liabilities - Section 10 - Other liabilities - Line item 100

10.1 Other liabilities: breakdown

Line items	Total as at 31/12/2017	Total as at 31/12/2016
01. Various tax entries	3,974	4,388
02. Entries in transit	5,550	3,227
03. Differences receivable on offsets of third party portfolios	12,670	12,921
04. Suppliers	3,488	2,895
05. Entries being processed and other creditors	13,169	48,884
06. Accrued liabilities and deferred income	3,466	469
07. Borrower accounts for stipulated loans to be disbursed	8,874	12,065
08. Securities to be settled (purchases)	13,292	0
Total	**64,482**	**84,849**

Liabilities - Section 11 - Employee severance pay - Line item 110

11.1 Employee severance pay: annual variations

Line items	Total as at 31/12/2017	Total as at 31/12/2016
A. Initial value	**3,580**	**3,625**
B. Additions		
B.1 Allocations during the fiscal year	1,032	1,132
B.2 Other variations	279	163
C. Reductions		
C.1 Payments made	143	209
C.2 Other variations	1,065	1,132
D. Final value	**3,682**	**3,580**
Total	**3,682**	**3,580**

Line item B.1 "Allocations during fiscal year" includes severance pay matured during the fiscal year in the amount of 1,032 thousand Euro.
Line item B.2 "Other variations" includes "Interest Cost", for 42 thousand Euro and "Service Cost" for 43 thousand Euro as well as the amount of the Fund acquired through the "Way-out" operation from former Banca AGCI S.p.a. for 185 thousand Euro.
Line item C.1 "Payments made" includes "Benefit Paid" for IAS purposes of employee severance pay for 143 thousand Euro.
Line item C.2 "Other variations" includes employee severance pay transferred to the Supplementary Pension Fund for employees (an external fund) INPS Treasury for 1,032 thousand Euro and "Actuarial gains/losses" for 33 thousand Euro.

Liabilities - Section 12 - Risks and expenses funds - Line item 120

12.1 Risks and expenses funds: breakdown

Line items/Values	Total as at 31/12/2017	Total as at 31/12/2016
1. Funds for company pensions	0	0
2. Other risk and expense funds	75	479
2.1 lawsuits	75	93
2.2 personnel costs	0	270
2.3 other	0	117
Total	**75**	**479**

The table shows a decrease of 404 thousand Euro (-84.32%).

Liabilities - Section 12 - Risks and expenses funds - Line item 120

12.2 Risks and expenses funds: annual variations

Line items	Pension funds	Other funds	Total as at 31/12/2017
A. Initial value	**0**	**479**	**479**
B. Additions			
B.1 Allocation during fiscal year	0	0	**0**
B.2 Additions due to passage of time	0	0	**0**
B.3 Additions due to modifications of the discount rate	0	0	**0**
B.4 Other additions	0	40	**40**
C. Reductions			
C.1 Use during the fiscal year	0	327	**327**
C.2 Reductions due to modifications of the discount rates	0	0	**0**
C.3 Other reductions	0	117	**117**
D. Final value	**0**	**75**	**75**

Corporate merger operations:

Line item “B.4 Other additions” includes the former Banca A.G.C.I. S.p.a. fund purchased through the “way-out” operation.

Line item “C.3 Other reductions” includes the Reserve of profits available to the Board of Directors of former BCC merged into Ente Cambiano s.c.p.a.

Liabilities - Section 14 – Shareholders’ equity - Line items 130, 150, 160, 170, 180, 190 and 200

14.2 Share capital – Number of shares: annual variations

Line items/Type	Ordinary	Other
A. Outstanding shares at the start of the fiscal year	**232,800,000**	**0**
- entirely unrestricted	232,800,000	0
- with restrictions	0	0

Line items/Type	Ordinary	Other
A.1 Treasury shares (-)	0	0
B.2 Outstanding shares: initial value	**232,800,000**	**0**
B. Additions		
B.1 New issues		
- for payment:	0	0
- corporate merger operations	0	0
- conversion of securities	0	0
- exercise of warrants	0	0
- other	0	0
- on a gratuitous basis:	0	0
- to employees	0	0
- to directors	0	0
- other	0	0
B.2 Sale of treasury shares	0	0
B.3 Other variations	0	0
C. Reductions		
C.1 Derecognition	0	0
C.2 Purchase of treasury shares	0	0
C.3 Sale of companies	0	0
C.4 Other variations	0	0
D. Outstanding shares: Final value	**232,800,000**	**0**
D.1 Treasury shares (+)	0	0
D.2 Outstanding shares at the end of the fiscal year	232,800,000	0
- entirely unrestricted	232,800,000	0
- with restrictions	0	0

The number of initial shares is shown as at 1 January 2017 and refers to the new Banca Cambiano 1884 S.p.a.

Liabilities - Section 14 – Shareholders' equity - Line items 130, 150, 160, 170, 180, 190 and 200

14.3 Share capital: other information - annual variations

Line items	Amounts	Number of shares	Number of shareholders
A. Initial value	**232,800**	**232,800,000**	**340**
B. Additions			
B.1 Purchase of shares – new shareholders	0	0	0
B.2 From other additions	0	0	6
C. Reductions			
C.1 Redemptions – extinct shareholders	0	0	0
C.2 From other reductions	0	0	22
D. Final value	**232,800**	**232,800,000**	**324**

The number of shares, the number of shareholders and the initial values are those as at 1 January 2017 referred to the new Banca Cambiano 1884 S.p.a.

Liabilities - Section 14 – Shareholders' equity - Line items 130, 150, 160, 170, 180, 190 and 200

14.4 Retained earnings: other information - breakdown del shareholders' equity

Line items	Total as at 31/12/2017	Total as at 31/12/2016
1. Share capital	232,800	3,864
2. Premiums on issue of new shares	803	562
3. Reserves	3,425	251,965
3.1 Ordinary/extraordinary reserves	0	204,442
3.2 Regulatory reserve	0	47,520
3.3 Reserves - Fist Time Adoption I.A.S.	0	3
3.4 Reserve - Way Out	3,425	0
4. (Treasury shares)	0	0
5. Valuation reserves	-1,481	12,368
5.1 Financial assets available for sale	-3,964	-2,023
5.2 Property, plant and equipment	0	0
5.3 Intangible assets	0	0
5.4 Hedging foreign investments	0	0
5.5 Hedging cash flows	0	0
5.6 Exchange rate differences	0	0
5.7 Noncurrent assets in course of divestment	0	0
5.8 Actuary profit (loss) on defined benefit assets	-816	-869
5.9 Share of valuation reserves of equity investments measured at shareholders' equity	3,298	4,423
5.10 Special revaluation laws	0	10,836
6. Equity instruments	0	0
7. Fiscal year profit (loss)	4,500	5,100
Total	**240,048**	**273,859**

Liabilities - Section 14 - Shareholders' equity - Line items 130, 150, 160, 170, 180, 190 and 200

14.4 Retained earnings: other information – division and use of fiscal year profit

Line items	Amount	Accounting classification of capital
- Legal reserve (5.00% of profit)	225	Increase of Liabilities line item 160 (Cet1)
- Extraordinary reserve (including the reserve pursuant to article 6 Legislative Decree 368/2005 for 505,772.41 Euro)	4,275	Increase of Liabilities line item 160 (Cet1)
- Shareholders for dividends	0	
Total	**4,500**	

Liabilities - Section 14 - Shareholders' equity - Line items 130, 150, 160, 170, 180, 190 and 200

14.6 - Other information – Schedule regarding the origin, level of availability and potential distribution of line items of shareholders' equity (art. 2427, sub-section 1 n. 7 bis Italian Civil Code)

In accordance with art. 2427, sub-section 7-bis of the Italian Civil Code, the table below indicates the breakdown of shareholders' equity according to the origin and level of availability and potential distribution of the various entries.

Line items	Amount	Possibility of use	Available share	Summary of uses made in the last three fiscal years	
				To cover losses	For other purposes
Share capital	232,800	B - C	232,800		0
Share premium reserve	803	B - C	803		0
Fund for general bank risks	0		0		
Valuation reserves:					
- revaluation reserve pursuant to Law 576/75	0	A - B - C	0		
- revaluation reserve pursuant to Law 72/83	0	A - B - C	0		
- revaluation reserve pursuant to Law 413/91	0	A - B - C	0		
- securities Available for Sale revaluation reserve	-3,964	B	-3,964		
- reserve from equity investments	3,298	B	3,298		
Retained earnings:					
- undividable legal/regulatory reserve	3,425	B	3,425		
- reserve from transition to international accounting standards	0	B	0		
Total	**236,363**		**236,363**		
Non distributable share			236,363		
Residual distributable share			0		

Key: A = to increase share capital - B = to cover losses - C = to distribute to shareholders

Other information

1. Guarantees given and commitments

Operations	Amount as at 31/12/2017	Amount as at 31/12/2016
1) Financial guarantees given to	70,903	89,052
a) Banks	220	16,439
b) Customers	70,683	72,612
2) Commercial guarantees given to	21,068	18,060
a) Banks	1,912	2,219
b) Customers	19,155	15,841

Operations	Amount as at 31/12/2017	Amount as at 31/12/2016
3) Irrevocable commitments to disburse funds given to	34,663	26,668
a) Banks	21	0
i) for certain use	21	0
ii) for uncertain use	0	0
b) Customers	34,642	26,668
i) for certain use	3,089	0
ii) for uncertain use	31,552	26,668
4) Underlying commitments for credit derivatives: sales of protection	0	0
5) Assets pledged as collateral for third party obligations	0	0
6) Other commitments	0	20
Total	**126,633**	**133,800**

Other information

2. Assets pledged as collateral for own liabilities and commitments

Portfolios	Amount as at 31/12/2017	Amount as at 31/12/2016
1. Financial assets held for trading	0	0
2. Financial assets measured at fair value	0	0
3. Financial assets available for sale	181,848	571,195
4. Financial assets held through maturity	0	0
5. Receivables from banks	0	0
6. Receivables from customers	243,376	0
7. Property, plant and equipment	0	0

List of securities pledged as collateral for repurchase agreements

Description	Isin	Par value	Balance sheet value
CTZ 30,05,2019	IT0005256471	40,000	40,120
Total		**40,000**	**40,120**

List of securities pledged as collateral for Eurosystem transactions

Description	Isin	Par value	Balance sheet value	Attributed value
BMPS 17-18 0.5%	IT0005240491	80,000	80,190	69,741
BANCO POPOLARE 14-18 2.375%	XS1070681397	1,000	1,024	890
ICCREA/IND 20180320	IT0004897200	7,135	7,128	6,206
BANCO POPOLARE 15-20 TV	IT0005144677	11,466	11,101	7,776
BANCO BPM 15-21 TV	IT0005158677	3,858	3,738	2,627

Description	Isin	Par value	Balance sheet value	Attributed value
BTP 01,04,2022 1.2%	IT0005244782	5,000	5,151	4,681
BTP 01,03,2032 1.65%	IT0005094088	12,500	11,420	9,974
BTP 01,06,2026 1.6%	IT0005170839	3,400	3,363	2,995
BTP 01,12,2026 1.25%	IT0005210650	2,500	2,390	2,127
CCTEU 15,07,23 TV	IT0005185456	500	506	477
Total		**127,359**	**126,010**	**107,493**

The following notes are to be added to the above listed securities:

- Pontormo RMBS Class A2 Notes - Isin IT0005315228 par value € 360,925,000.00 with a value attributed by the ECB of € 327,690,170.40, and a Credit Line of € 73,432,196,82.
- Collateralized loans for a total of € 243,375,567.73 with a value attributed by the ECB of € 104,651,494.12. The overall value attributed to collateral Securities in ECB is equal to € 552,432,196.82. The overall value used was € 479,000,000 with a residual credit line of € 73,432,496.82.

Other information

4. Management and trading on behalf of others

Type of service	Amount
1. Trading financial instruments on behalf of customers	**0**
a) purchases	0
settled	0
not settled	0
b) sales	0
settled	0
not settled	0
2. Asset management	**16,349**
a) individual	16,349
b) collective	0
3. Custody and management of securities	**2,221,244**
a) third party securities in deposit: related to bank performance as depository bank (excluding asset management)	0
1. securities issued by the bank that prepares the balance sheet	0
2. other securities	0
b) third party securities on deposit (excluding asset management): other	609,890
1. securities issued by the bank that prepares the balance sheet	479,830
2. other securities	130,060
c) third party securities deposited with third parties	603,812
d) treasury securities deposited with third parties	1,007,542
4. Other transactions	**0**

Other information

5. Financial assets object of on-balance sheet netting or subject to master netting agreements or similar agreements

Technical forms	Gross amount of financial assets (a)	Gross amount of financial liabilities netted on balance sheet (b)	Net amount of financial assets registered in the balance sheet (c = a - b)	Correlated amounts not netted on-balance sheet		Net amount as at 31/12/2017 (f = c - d - e)	Net amount as at 31/12/2016
				Financial instruments (d)	Cash deposits received as collateral (e)		
1. Derivatives	246	0	246	0	0	**246**	**365**
2. Repurchase agreements	0	0	0	0	0	**0**	**0**
3. Loan securities	0	0	0	0	0	**0**	**0**
4. Other	0	0	0	0	0	**0**	**0**
Total as at 31/12/2017	**246**	**0**	**246**	**0**	**0**	**246**	**0**
Total as at 31/12/2016	**365**	**0**	**365**	**0**	**0**		**365**

Financial assets – List of transactions subject to netting agreements - Derivatives:

Counterparty	Derivative used	Deposit received	Net amount
Banca IMI S.p.a.	246	380	**-134**
Total	**246**	**380**	**-134**

Other information

6. Financial liabilities subject to on-balance sheet netting, or subject to master netting agreements or similar agreements

Technical forms	Gross amount of financial liabilities (a)	Amount of financial liabilities netted on-balance sheet (b)	Net amount of financial assets registered in the balance sheet (c = a - b)	Correlated amounts not netted on-balance sheet		Net amount as at 31/12/2017 (f = c - d - e)	Net amount as at 31/12/2016
				Financial instruments (d)	Cash deposits received as collateral (e)		
1. Derivatives	769	0	769	0	0	**769**	**187**
2. Repurchase agreements	0	0	0	0	0	**0**	**0**
3. Loan securities	0	0	0	0	0	**0**	**0**
4. Other	0	0	0	0	0	**0**	**0**
Total as at 31/12/2017	**769**	**0**	**769**	**0**	**0**	**769**	
Total as at 31/12/2016	**187**	**0**	**187**	**0**	**0**		**187**

Financial liabilities – List of transactions subject to netting agreements- Derivatives:

Counterparty	Derivatives used	Deposit received	Net amount
Banca MPS S.p.a.	155	210	**-55**
Iccrea Banca S.p.a.	615	680	**-65**
Totals	**769**	**890**	**-121**

EXPLANATORY NOTES

PART C – Information on the income statement

Section 1 - Interest - Line items 10 and 20

1.1 Earned interest and similar income: breakdown

Line items/Technical forms	Debt securities	Loans	Other transactions	Total as at 31/12/2017	Total as at 31/12/2016	Var.	% Var.
1. Financial assets held for trading	189	0	0	189	104	85	81.08%
2. Financial assets available for sale	2,591	0	0	2,591	3,372	-781	-23.15%
3. Financial assets held through maturity	0	0	0	0	0	0	
4. Receivables from banks	0	347	0	347	121	226	187.57%
5. Receivables from customers	0	62,602	0	62,602	57,767	4,835	8.37%
6. Financial assets measured at fair value	0	0	0	0	0	0	
7. Hedges	0	0	0	0	126	-126	-100.00%
8. Other assets	0	0	297	297	634	-337	-53.21%
Total	**2,781**	**62,949**	**297**	**66,026**	**62,123**	**3,902**	**6.28%**

The column "Loans", line item 5 "Receivables from customers" includes earned interest and similar income matured during the fiscal year referring to impaired exposures as of the balance sheet reference date for a total of 5,723 thousand Euro.

Section 1 - Interest - Line items 10 and 20

1.2 Earned interest and similar income: differences related to hedges

Line items	Total as at 31/12/2017	Total as at 31/12/2016
A. Positive differences relating to hedges:	0	174
B. Negative differences relating to hedges:	0	48
C. Balance (A-B)	**0**	**126**

Section 1 – Interest - Line items 10 and 20

1.3 Earned interest and similar income: other information

1.3.1 Earned interest on financial assets in foreign currency

Line items/Values	Total as at 31/12/2017	Total as at 31/12/2016
Earned interest on financial assets in foreign currency	318	198

Section 1 - Interest - Line items 10 and 20

1.3 Earned interest and similar income: other information

1.3.2 Earned interest financial leasing transactions

Line items/Values	Total as at 31/12/2017	Total as at 31/12/2016
Earned interest on financial leasing transactions	287	36

Section 1 - Interest - Line items 10 and 20

1.4 Interest payable and similar expenses: breakdown

Line items/Technical forms	Liabilities	Securities	Other transactions	Total as at 31/12/2017	Total as at 31/12/2016	Var.	% Var.
1. Payables to central banks	0	0	0	0	-157	157	-100.00%
2. Payables to banks	-188	0	0	-188	-7	-181	2596.53%
3. Payables to customers	-9,563	0	0	-9,563	-8,863	-699	7.89%
4. Outstanding securities	0	-7,916	0	-7,916	-11,905	3,988	-33.50%
5. Financial liabilities from trading	0	0	0	0	0	0	
6. Financial liabilities measured at fair value	0	0	0	0	0	0	
7. Other liabilities and funds	0	0	-289	-289	-153	-136	
8. Hedges	0	0	-320	-320	0	-320	
Totals	**-9,751**	**-7,916**	**-609**	**-18,276**	**-21,086**	**2,810**	**-13.33%**

Section 1 - Interest - Line items 10 and 20

1.5 Interest payable and similar expenses: difference related to hedges

Line items	Total as at 31/12/2017	Total as at 31/12/2016
A. Positive differences related to hedges:	47	0
B. Negative difference related to hedges:	367	0
C. Balance (A-B)	**-320**	**0**

Section 1 - Interest - Line items 10 and 20

1.6 Interest payable and similar expenses: other information

1.6.1 Interest payable on liabilities in foreign currency

Line items/Values	Total as at 31/12/2017	Total as at 31/12/2016
Interest payable on financial liabilities in foreign currency	-74	-28

Section 2 - Commissions - Line items 40 and 50

2.1 Commission income: breakdown

Type of services/Values	Total as at 31/12/2017	Total as at 31/12/2016	Var.	% Var.
a) guarantees given	439	301	138	45.92%
b) credit derivatives	0	0	0	
c) management, intermediation and consulting services:	3,014	2,428	586	24.16%
1 trading financial instruments	0	0	0	
2 trading foreign currencies	661	598	62	10.43%
3 asset management	164	108	56	51.70%
3.1 individual	164	108	56	51.70%

Type of services/Values	Total as at 31/12/2017	Total as at 31/12/2016	Var.	% Var.
3.2 collective	0	0	0	
4 custody and management of securities	86	87	-1	-1.10%
5 depository bank	0	0	0	
6 securities placement	286	250	37	14.76%
7 receipt and transmission of orders	129	154	-26	-16.72%
8 consulting activity	0	0	0	
8.1 on investments	0	0	0	
8.2 on financial structure	0	0	0	
9 distribution of third party services	1,689	1,230	458	37.24%
9.1 asset management	0	0	0	
9.1.1 individual	0	0	0	
9.1.2 collective	0	0	0	
9.2 insurance products	1,361	995	365	36.71%
9.3 other products	328	235	93	39.52%
d) collection and payment services	6,787	6,345	442	6.96%
e) servicing for securitizations	72	56	16	28.07%
f) factoring services	0	0	0	
g) fiscal year tax collection and payee services	0	0	0	
h) asset management of multilateral exchange systems	0	0	0	
i) maintenance and management of bank accounts	15,586	12,831	2,756	21.48%
j) other services	1,382	1,137	246	21.60%
Totals	**27,281**	**23,097**	**4,183**	**18.11%**

Section 2 - Commissions - Line items 40 and 50

2.2 Commission income: distribution channels for products and services

Channels/Values	Total as at 31/12/2017	Total as at 31/12/2016
a) at its own branches:	**2,139**	**1,588**
1. asset management	164	108
2. securities placement	286	250
3. third party services and products	1,689	1,230
b) off-site offer:	**0**	**0**
1. asset management	0	0
2. securities placement	0	0
3. third party services and products	0	0
c) other distribution channels	**0**	**0**
1. asset management	0	0
2. securities placement	0	0
3. third party services and products	0	0

Section 2 - Commissions - Line items 40 and 50

2.3 Commission expenses: breakdown

Services/Values	Total as at 31/12/2017	Total as at 31/12/2016	Var.	% Var.
a) guarantees received	-358	-88	-271	
b) credit derivatives	0	0	0	
c) management and intermediation services:	-193	-129	-65	50.22%
1, trading financial instruments	-1	0	-1	
2, trading foreign currency	-115	-81	-34	42.25%
3, asset management	-78	-48	-30	61.97%
3,1 own portfolio	0	0	0	
3,2 delegated by third parties	-78	-48	-30	61.97%
4, custody and management of securities	0	0	0	
5, placement of financial instruments	0	0	0	
6, off-site offer of financial instruments, products and services	0	0	0	
d) collection and payment services	-1,518	-1,446	-72	4.97%
e) other services	0	0	0	
Totals	**-2,070**	**-1,663**	**-407**	**24.49%**

Section 3 - Dividends and similar income - Line item 70

3.1 Dividends and similar income: breakdown

Line items/Income	Total as at 31/12/2017		Total as at 31/12/2016	
	Dividends	Income from shares in mutual funds	Dividends	Income from shares in mutual funds
A. Financial assets held for trading	0	0	1	0
B. Financial assets available for sale	2	0	1	0
C. Financial assets measured at fair value	0	0	0	0
D. Equity investments	0	0	0	0
Totals	**2**	**0**	**2**	**0**

Section 4 - Net trading result - Line item 80

4.1 Net trading result: breakdown

Operations/Income components	Capital gains (A)	Trading profits (B)	Capital losses (C)	Trading losses (D)	Net income [(A+B) - (C+D)]
1. Financial assets from trading	**0**	**814**	**0**	**400**	**414**
1.1 Debt securities	0	814	0	0	814
1.2 Equity instruments	0	0	0	0	0
1.3 Shares in mutual funds	0	0	0	0	0
1.4 Loans	0	0	0	0	0
1.5 Other	0	0	0	400	-400

Operations/Income components	Capital gains (A)	Trading profits (B)	Capital losses (C)	Trading losses (D)	Net income [(A+B) - (C+D)]
2. Financial liabilities from trading	**0**	**0**	**0**	**0**	**0**
2.1 Debt securities	0	0	0	0	0
2.2 Liabilities	0	0	0	0	0
2.3 Other	0	0	0	0	0
3. Financial assets and liabilities: exchange rate differences	**0**	**0**	**0**	**0**	**0**
4. Derivative instruments	**0**	**0**	**0**	**119**	**-119**
4.1 Financial derivatives	0	0	0	119	-119
- on debt securities and interest rates	0	0	0	119	-119
- on equity instruments and equity indexes	0	0	0	0	0
- on foreign currencies and gold	0	0	0	0	0
- other	0	0	0	0	0
4.2 Credit derivatives	0	0	0	0	0
Totals	**0**	**814**	**0**	**519**	**296**

The table indicates the economic result from the portfolio of assets held for trading.

Section 5 - Net hedging result - Line item 90

5.1 Net hedging result: breakdown

Income components/Values	Total as at 31/12/2017	Total as at 31/12/2016
A. Income related to:		
A.1 Hedges of fair value	47	186
A.2 Hedged financial assets (fair value)	0	0
A.3 Hedged financial liabilities (fair value)	0	0
A.4 Hedges of cash flows	0	0
A.5 Assets and liabilities in foreign currency	0	0
Total income from pledged assets (A)	**47**	**186**
B. Expenses related to:		
B.1 Hedges of fair value	0	0
B.2 Hedged financial assets (fair value)	0	0
B.3 Hedged financial liabilities (fair value)	0	-284
B.4 Hedges of cash flows	0	0
B.5 Assets and liabilities in foreign currency	0	0
Total expenses of hedged assets (B)	**0**	**-284**
C. Net hedging income (A-B)	**47**	**-97**

The table indicates the net income from hedges. Therefore, the gross income components recognized in the income statement are indicated that derive from the measurement of the difference between the liabilities that are hedged and the relative hedging contract.

Section 6 - Gains (Losses) from disposal/repurchase - Line item 100

6.1 Gains (Losses) from disposal/repurchase: breakdown

Line items/Income components	Total as at 31/12/2017			Total as at 31/12/2016		
	Gains	Losses	Net income	Gains	Losses	Net income
Financial assets						
1. Receivables from banks	0	0	0	0	0	0
2. Receivables from customers	0	0	0	0	0	0
3. Financial assets available for sale	3,276	0	3,276	8,334	0	8,334
3.1 Debt securities	3,276	0	3,276	8,334	0	8,334
3.2 Equity instruments	0	0	0	0	0	0
3.3 Shares in mutual funds	0	0	0	0	0	0
3.4 Loans	0	0	0	0	0	0
4. Financial assets held through maturity	0	0	0	0	0	0
Total assets	**3,276**	**0**	**3,276**	**8,334**	**0**	**8,334**
Financial liabilities						
1. Payables to banks	0	0	0	0	0	0
2. Payables to customers	0	0	0	0	0	0
3. Outstanding securities	65	0	65	65	0	65
Total liabilities	**65**	**0**	**65**	**65**	**0**	**65**

The table indicates the economic result deriving from the divestment of financial assets other than those held for trading.

With respect to assets available for sale in line item 3.1, there was a net positive income of 3,276 thousand Euro, of which gains on Italian Government securities for 2,740 thousand Euro, and gains on other securities in the amount of 536 thousand Euro.

The gains deriving from the repurchase of outstanding Securities, point 3 of Financial Liabilities, in the amount of 65 thousand Euro originates from the repurchase of own bonds.

Section 8 – Net adjustments/write-backs of value due to impairment - Line item 130

8.1 Net adjustments of value due to impairment: breakdown

Operations/Income components	Value adjustments			Write-backs of value				Total as at 31/12/2017	Total as at 31/12/2016
	Specific		From portfolio	Specific		From portfolio			
	Derecognition	Other		From interest	Other write-backs	From interest	Other write-backs		
A. Receivables from banks									
- loans	0	0	0	0	0	0	0	**0**	**0**
- debt securities	0	0	0	0	0	0	0	**0**	**0**
Impaired receivables purchased									
- loans	0	0	0	0	0	0	0	**0**	**0**
- debt securities	0	0	0	0	0	0	0	**0**	**0**
Other receivables									

Operations/Income components	Value adjustments			Write-backs of value				Total as at 31/12/2017	Total as at 31/12/2016
	Specific		From portfolio	Specific		From portfolio			
	Derecognition	Other		From interest	Other write-backs	From interest	Other write-backs		
- loans	0	-30,498	0	0	16,039	0	520	**-13,940**	**-14,442**
- debt securities	0	0	0	0	0	0	0	**0**	**0**
C. Total	**0**	**-30,498**	**0**	**0**	**16,039**	**0**	**520**	**-13,940**	**-14,442**

The table summarizes value adjustments and write-backs of value recognized due to the impairment of receivables from customers.

In particular, the column "Other" includes specific write-downs of impaired receivables subject to "analytical" measurement, while the column "From portfolio" includes adjustments quantified exclusively on receivables in bonis.

Description of the portfolio	Type	Method	2017 Amount	2016 Amount
Non-performing loans – Net value of adjustments/write-backs	Specific	Analytical	-13,755	-10,460
Watchlist- Net value of adjustments/write-backs	Specific	Analytical	1,669	-6,137
Watchlist- Net value of adjustments/write-backs	Specific	Flat-rate	-2,224	1,125
Restructured – Net value of adjustments/write-backs	Specific	Analytical	0	0
Restructured – Net value of adjustments/write-backs	Specific	Flat-rate	0	0
Overdue/overdrawn – Net value of adjustments/write-backs	Specific	Flat-rate	-149	944
In Bonis – Net value of adjustments/write-backs	Portfolio	Flat-rate	520	86
Total – Net value of adjustments/write-backs			**-13,940**	**-14,442**

Section 8 – Net value of adjustments/write-backs due to impairment - Line item 130

8.4 Net impairment adjustments to other financial transactions: breakdown

Transactions/Income components	Value adjustments			Write-backs of value				Total as at 31/12/2017	Total as at 31/12/2016
	Specific		From portfolio	Specific		From portfolio			
	Derecognition	Other		From interest	Other write-backs	From interest	Other write-backs		
A. Guarantees issued	0	-1,312	0	0	46	0	0	-1,267	8
B. Credit derivatives	0	0	0	0	0	0	0	0	0
C. Commitments to lend funds	0	0	0	0	0	0	0	0	0
D. Other transactions	0	0	0	0	0	0	0	0	0
E. Total	**0**	**-1,312**	**0**	**0**	**46**	**0**	**0**	**-1,267**	**8**

Adjustments of guarantees given as per point "A" refer to actions resolved up to 31 December 2016, but required in 2017, from the BCC Guaranty Fund of Cooperative Credit Depositors and from the actions requested from 1 January 2017 from the Interbank Deposit Protection Fund.

Section 9 - Administrative costs - Line item 150

9.1 Personnel costs: breakdown

Type of expense/Values	Total as at 31/12/2017	Total as at 31/12/2016
1) Employees	-24,173	-23,961
a) salaries and wages	-16,867	-17,105
b) social security contributions	-4,432	-4,194
c) severance pay	0	0
d) pension costs	0	0
e) allocation to employee severance pay	-1,160	-1,126
f) allocation to pension fund and similar obligations:	0	0
- to a defined contribution plan	0	0
- to a defined service plan	0	0
g) payments to external complementary pension funds	-686	-721
- to a defined contribution plan	-686	-721
- to a defined service plan	0	0
h) costs deriving from payment agreements based on own equity instruments	0	0
i) other employee benefits	-1,028	-816
2) Other personnel	-305	-582
3) Directors and Statutory Auditors	-356	-376
4) Retired personnel	0	0
5) Recovery of expenses for personnel temporarily transferred to other companies	105	0
6) Recovery of expenses for third party personnel temporarily transferred to the company	0	0
Total	**-24,728**	**-24,920**

The table indicates a reduction of the aggregate in the amount of 192 thousand Euro (-0.77%).

Section 9 - Administrative costs - Line item 150

9.2 Average number of employees by category

Description	Values as at 31/12/2017	Values as at 31/12/2016
Employees	**346**	**310**
a) Managers	3	3
b) Middle management	78	73
c) Remaining employees	265	234
Other personnel	**7**	**12**
Total	**353**	**322**

Precise number of employees by category

Description	Values as at 31/12/2017	Values as at 31/12/2016
Employees	**354**	**323**
a) Managers	3	3
b) Middle management	75	65
c) Remaining employees	276	255
Other personnel	**11**	**3**
Total	**365**	**326**

Section 9 - Administrative costs - Line item 150

9.4 Personnel costs: other employee benefits

Type of expense/Values	Total as at 31/12/2017	Total as at 31/12/2016
1) Meal vouchers for employees	-558	-477
2) Loyalty bonus for employees	0	-28
3) Other employee costs	-470	-311
Total	**-1,028**	**-816**

Section 9 - Administrative costs - Line item 150

9.5 Other administrative costs: breakdown

Line items/Values	Total as at 31/12/2017	Total as at 31/12/2016	Var.	% Var.
1. Insurance and security	-1,269	-1,289	20	-1.56%
2. Advertising and entertainment	-1,748	-1,864	115	-6.19%
3. Rent for real property	-2,481	-1,238	-1,243	100.46%
4. Maintenance, repairs, transformation of real and personal property	-4,069	-3,242	-827	25.51%
5. Electricity, heating and cleaning services	-1,083	-1,101	18	-1.64%
6. Telex, telephone and postage	-1,124	-1,126	2	-0.14%
7. Costs for data processing	-3,187	-3,084	-103	3.33%
8. Stamped paper and stationary	-528	-320	-208	64.94%
9. Fees to outside professionals	-2,082	-1,307	-776	59.37%
10. Expenses for write-backs of receivables	0	0	0	0.00%
11. Technical assistance and maintenance of software products	-2,249	-2,551	302	-11.84%
12. Information and registry searches	-1,985	-2,004	19	-0.95%
13. Charitable contributions allocated to the income statement	-15	0	-15	
14. Expenses for treasury assets	-50	-71	21	-29.01%
15. Travel and transportation expenses	-765	-609	-156	25.65%
16. Indirect taxes	-4,513	-4,239	-274	6.46%
17. Other costs	-4,131	-4,756	625	-13.14%
Total	**-31,280**	**-28,800**	**-2,480**	**8.61%**

The line item "Other costs" includes:

Line items/Values	Total as at 31/12/2017	Total as at 31/12/2016
Contribution in favor of the Resolution fund – Ordinary	18	940
Contribution in favor of the resolution fund – Extraordinary	0	1,885
Contribution to the DGS fund	1,195	1,010
Expenses for Internal Audit service (Cambiano Group)	183	0
Management and coordination expenses (Cambiano Group)	1,403	0
Total	**2,800**	**3,834**

Management and Coordination expenses and Internal Audit expenses refer to the cost invoiced by the parent company (Ente Cambiano s.c.p.a.) for services rendered to Banca di Cambiano S.p.a.

Rent for real property expenses includes rent paid for the 3 branches (Bologna, Rome and Turin) acquired from former Banca A.G.C.I. S.p.a. pursuant to the “way-out” operation, as well as the rent for the buildings destined to Ente di Cambiano s.c.p.a.

Section 10 - Net allocations to risk and expense funds - Line item 160

10.1 Net allocations to risk and expense funds: breakdown

Line items/Values	Total as at 31/12/2017	Total as at 31/12/2016
1. Allocations to pending litigation	0	-3
2. Allocations to interest expenses on IRES for taxation year 2009	0	0
3. Other allocations	0	0
4. Write-backs of provisions for pending disputes	18	0
Total	**18**	**-3**

Section 11 - Net adjustments/write-backs of value for property, plant and equipment - Line item 170

11.1 Net adjustments of value for property, plant and equipment: breakdown

Asset/Income component	Depreciation (a)	Value adjustments due to impairment (b)	Write-backs of value (c)	Net income (a+b-c)
A. Property, plant and equipment				
A.1 Owned	-3,010	0	0	**-3,010**
- for functional use	-3,010	0	0	**-3,010**
- for investment	0	0	0	**0**
A.2 Purchased in financial leasing	0	0	0	**0**
- for functional use	0	0	0	**0**
- for investment	0	0	0	**0**
Totals	**-3,010**	**0**	**0**	**-3,010**

Section 12 - Net adjustments/write-backs of value to intangible assets - Line item 180

12.1 Net value adjustments to intangible assets: breakdown

Asset/Income component	Amortization (a)	Value adjustments due to impairment (b)	Write-backs of value (c)	Net income (a+b-c)
A. Intangible assets				
A.1 Owned	-127	0	0	**-127**
- Generated internally by the company	0	0	0	**0**

Asset/Income component	Amortization (a)	Value adjustments due to impairment (b)	Write-backs of value (c)	Net income (a+b-c)
- Other	-127	0	0	**-127**
A.2 Purchased in financial leasing	0	0	0	**0**
Totals	**-127**	**0**	**0**	**-127**

Section 13 – Other management income and expenses - Line item 190

13.1 Other management expenses: breakdown

Line items/Values	Total as at 31/12/2017	Total as at 31/12/2016
1. Contingent liabilities and non-existent assets	-92	-126
2. Use of the Guarantee Fund for BCC depositors	0	0
3. Depreciation of third party assets	-407	-174
Totals	**-499**	**-300**

Section 13 - Other management income and expenses - Line item 190

13.2 Other management income: breakdown

Line items/Values	Total as at 31/12/2017	Total as at 31/12/2016
1. Recovery of expenses	4,016	3,621
4. Contingent assets and non-existent liabilities	346	268
5. Other income	50	73
Total	**4,413**	**3,963**

Section 14 – Gains (losses) from equity investments - Line item 210

14.1 Profit (losses) from equity investments: breakdown

Income component/Values	Total as at 31/12/2017	Total as at 31/12/2016
A. Income		
1. Revaluations	513	200
2. Gains from disposal	0	0
3. Write-backs of value	0	0
4. Other income	0	0
B. Expenses		
1. Write-downs	0	0
2. Value adjustments from impairment	0	0
3. Losses from disposals	0	0
4. Other expenses	0	0
Net income	**513**	**200**

Line A.1 "Revaluations" includes the following transactions:

- Revaluation of Cabel Leasing S.p.a. in the amount of 40 thousand Euro for the fiscal year profit achieved by the subsidiary;
- Revaluation of Cabel Holding S.p.a. in the amount of 427 thousand Euro, for the fiscal year profit achieved by the subsidiary;
- Revaluation of Cabel Industry S.p.a. in the amount of 45 thousand Euro, for the fiscal year profit achieved by the subsidiary.

Section 17 - Gains (losses) from the disposal of investments - Line item 240

17.1 Gains (losses) from the disposal of investments: breakdown

Income component/ Values	Total as at 31/12/2017	Total as at 31/12/2016
A. Property, plant and equipment		
- Gains from disposal	0	0
- Losses from disposal	0	0
B. Other assets		
- Gains from disposal	2	0
- Losses from disposal	0	0
Net income	**2**	**0**

Section 18 - Fiscal year income taxes on current operations - Line item 260

18.1 Fiscal year income taxes on current operations: breakdown

Income components/Values	Total as at 31/12/2017	Total as at 31/12/2016
1. Current taxes (-)	-383	832
2. Variation of current taxes of previous fiscal years (+/-)	0	0
3. Reduction of current taxes for fiscal year (+)	0	0
3 bis. Reduction of current taxes for fiscal year for tax credits as per Law n. 214/2011 (+)	0	0
4. Variation of pre-paid taxes (+/-)	-1,804	-1,046
5. Variation of deferred taxes (+/-)	-56	80
6. Fiscal year income taxes (-) (1+/-2+3+/-4+/-5)	**-2,242**	**-135**

Current taxes are measured in accordance with current tax legislation.

Summary of fiscal year income taxes, by type of tax

Income components/Values	Total as at 31/12/2017
- Ires	-1,613
- Irap	-630
- Other taxes	0
Total	**-2,242**

Section 18 - Fiscal year income taxes on current operations - Line item 260

18.2 Reconciliation between theoretical tax burden and effective tax burden on the balance sheet

Line items/Values	Ires	Tax rate	Irap	Tax rate
(A) Gain (Loss) from current operations before taxes	6,742		6,742	
(B) Income taxes – Theoretical burden	1,854	27.50%	376	5.57%
Reductions of tax base	8,217	27.50%	4,257	5.57%
Additions to tax base	1,474	27.50%	4,385	5.57%
Tax base	0		6,870	
Income taxes – effective tax burden	0	27.50%	383	5.57%
Pre-paid/deferred taxes	1,613	27.50%	247	5.57%
Total taxes	**1,613**		**630**	
Overall tax	**2,242**			
Effective tax rate	**33.26%**			

EXPLANATORY NOTES

PART D – Overall Profitability

ANALYTICAL SCHEDULE OF OVERALL PROFITABILITY - YEAR 2016

	Line items	Gross amount	Income tax	Net amount
10	**Fiscal year profit (loss)**	**X**	**X**	**5,100**
	Other income components without reversal to income statement			
20	Property, plant and equipment	0	0	0
30	Intangible assets	0	0	0
40	Defined benefit assets	-21	-6	-15
50	Noncurrent assets in course of divestment	0	0	0
60	Share of valuation reserves from measurement of equity investments	0	0	0
	Other income components with reversal to income statement			
70	Hedging foreign investments:	0	0	0
	a) variations fair value	0	0	0
	b) reversal to the income statement	0	0	0
	c) other variations	0	0	0
80	Exchange rate differences:	0	0	0
	a) variations of value	0	0	0
	b) reversal to the income statement	0	0	0
	c) other variations	0	0	0
90	Hedging cash flows:	0	0	0
	a) variations of fair value	0	0	0
	b) reversal to the income statement	0	0	0
	c) other variations	0	0	0
100	Financial assets available for sale:	-1,945	-643	-1,302
	a) variations of fair value	-2,768	-916	0
	b) reversal to the income statement:	823	272	0
	- adjustment due to impairment	0	0	0
	- gains/losses from use	823	272	0
	c) other variations	0	0	0
110	Noncurrent assets in course of divestment:	0	0	0
	a) variations of fair value	0	0	0
	b) reversal to the income statement	0	0	0
	c) other variations	0	0	0
120	Share of valuation reserves from measurement of equity investments	0	0	0
	a) variations of fair value	0	0	0
	b) reversal to the income statement:	0	0	0
	- adjustments due to impairment	0	0	0
	- gains/losses from use	0	0	0

	Line items	Gross amount	Income tax	Net amount
	c) other variations	0	0	0
130	**Total other income components**	**-1,966**	**-649**	**-1,317**
140	**Overall profitability (Line item 10 + 130)**			**3,783**

ANALYTICAL SCHEDULE OF OVERALL PROFITABILITY – YEAR 2017

	Line items	Gross amount	Income tax	Net amount
10	**Fiscal year profit (loss)**	**X**	**X**	**4,500**
	Other income components without reversal to the income statement			
20	Property, plant and equipment	0	0	0
30	Intangible assets	0	0	0
40	Defined benefit assets	94	26	68
50	Noncurrent assets in course of divestment	0	0	0
60	Share of valuation reserves from measurement of equity investments	0	0	0
	Other income components with reversal to the income statement			
70	Hedging foreign investments:	0	0	0
	a) variations of fair value	0	0	0
	b) reversal to the income statement	0	0	0
	c) other variations	0	0	0
80	Exchange rate differences:	0	0	0
	a) variations of value	0	0	0
	b) reversal to the income statement	0	0	0
	c) other variations	0	0	0
90	Hedging cash flows:	0	0	0
	a) variations of fair value	0	0	0
	b) reversal to the income statement	0	0	0
	c) other variations	0	0	0
100	Financial assets available for sale:	449	149	301
	a) variations of fair value	-435	-144	0
	b) reversal to the income statement:	885	293	0
	- adjustments due to impairment	0	0	0
	- gains/losses from use	885	293	0
	c) other variations	0	0	0
110	Noncurrent assets in course of divestment:	0	0	0

	Line items	Gross amount	Income tax	Net amount
	a) variations of fair value	0	0	0
	b) reversal to the income statement	0	0	0
	c) other variations	0	0	0
120	Share of valuation reserves from measurement of equity investments	-1,141	-16	-1,125
	a) variations of fair value	0	0	0
	b) reversal to the income statement:	0	0	0
	- adjustments due to impairment	0	0	0
	- gains/losses from use	0	0	0
	c) other variations	-1,141	-16	0
130	**Total other income components**	**-597**	**159**	**-756**
140	**Overall profitability (Line item 10 + 130)**			**3,744**

International accounting standards allow allocating financial instruments to different portfolios to which accounting standards are applied that result in the allocation of costs or income directly to special reserves of shareholders' equity without going through the income statement. The chart shows the overall result, considering income items matured and realized in the fiscal year that were recognized directly in shareholders' equity, sterilizing the components that already matured and thus which had been recognized in shareholders' equity in previous fiscal years, but which are the object of a second and definitive allocation to the income statement (reversal) at the time effectively realized.

EXPLANATORY NOTES

PART E – Information on risks and the relative hedging policies

Introduction

The Bank carries out its activities according to sound and prudent management principles, with a moderate risk propensity, in respect of stability requirements connected to the banking business.

Overall risk propensity is measured synthetically by identifying, within the scope of the Bank's asset resources ("own funds"), a capital component that is not eligible for risk assumption (unexpected losses), held for medium-long term to cover capital against impact in the event of unexpected stress events.

The Bank's internal control system ensure implementation of corporate strategies and policies and is composed of all the regulations, procedures and organizational structures aimed at compliance with sound and prudent management principles.

Corporate Bodies have the primary responsibility for ensuring, in line with their respective specific competencies, the completeness, adequacy, efficiency and reliability of the internal control system.

The Bank has implemented a traditional type of governance model that entails a Board of Directors, a Board of Statutory Auditors and General Management.

The Board of Directors is responsible for Bank strategic supervision and management, along with General Management, and the Board of Statutory Auditors is responsible for monitoring activities.

The Board of Directors defines the business model by approving an annual strategic business plan and budget, aware of the risks to which this model exposes the Bank and comprehending the processes by means of which such risks are identified and measured. The Board of Directors defines and approves strategic policies and periodically reviews them, decides on risk propensity and the relative tolerance levels as well as the risk management policies, ensuring that the Bank's structure is consistent with the business carried out and with the business model adopted.

Risk government policies are set forth in specific regulations/policies that are subject to approval by the Board of Directors.

Uptake of new products and services, launching of new activities, introduction into new markets and, in general, all more significant activities are always subject to approval by the Board of Directors.

Periodically, the Board of Directors verifies that the risks assumed by the Bank in terms of capital adequacy, liquidity and risk-return ratio for management activities are consistent with the risk propensity defined in strategic planning and with regulatory levels.

Furthermore, the Board of Directors verifies compliance with operating limits defined for the assumption of the various Types of risk. The Board of Directors ensures consistency between the strategic plan, the business model, the Risk Appetite Framework, the ICAAP process, the Budget and the corporate organization and the internal control system, taking in consideration the evolution of the internal and external conditions within which the Bank operates.

The Board of Directors is aided by the Risk Committee, a committee within the Board itself that provides the Board with advisory support and proposal regarding risks and the internal control system.

General Management fully comprehends corporate risks and is responsible for implementing the strategic policies and risk management policies defined by the Board of Directors. In particular, General Management proposes the operating limits with respect to the assumption of the various Types of risk, taking into account the stress tests carried out by the various designated function, in accordance with the Bank's internal policies.

For the purpose of facilitating the development and awareness at all company levels, of a risk control culture, General Management plans training programs for Bank personnel, based on the proposals made.

The Board of Statutory Auditors carries out periodical inspections to ascertain the completeness, adequacy, efficiency and reliability of the internal control system.

In carrying out its tasks, the Board of Statutory Auditors is provided with appropriate information from the other Corporate Bodies and control functions. The regular presence of the Board of Statutory Auditors at BoD meetings, which are held twice weekly, represents a guarantee with respect to timely information of the Control Body regarding management issues.

Sound and prudent bank management is censure by an appropriate corporate organization that provides for a complete and functional internal control system.

In particular, the Bank's internal control system is composed of three different levels:

- First level controls (line): aimed at ensuring that operations are carried out correctly. These controls are performed by operating structures or incorporated into the procedures and information technology systems, or carried out during back office activities,
- Second level controls on risks and conformity, also aimed at ensuring, among other things:
  - correct implementation of the risk management process;
  - respect of operating limits assigned to the various functions;
  - conformity of corporate operations to standards, including self-governance regulations.

Second level controls as assigned to the Risk Management Service, the Compliance Service and the Anti-Money Laundering Service. Given the size and in compliance with the "principle of proportionality", the Compliance function is carried out in co-sourcing with META Srl, a company that meets all the prerequisites in terms of professional qualification and independence. The functions designated to controls are separate from production functions; they contribute to defining the risk management policies and the risk management process.

-Third level controls (internal auditing): aimed at identifying violations of procedures and regulations, and at periodically evaluating the completeness, adequacy, efficiency and reliability of the internal control system and the information technology system.

This activity is carried out by the Internal Audit Service based on the yearly auditing plan approved by the Board of Directors or through spot checks on the operations of the functions involved, requested during the year. Within the larger scope of the reference framework relative to the overall Group Internal Controls System, the Bank has undersigned an outsourcing contract with the Parent Company for the use of the relative Internal Auditing Functions, maintaining only an internal reference function (so-called link auditor). Given the size and in compliance with the "principle of proportionality", the internal auditing function is carried out in co-sourcing with META Srl, a company that meets all the prerequisites in terms of professional qualification and independence.

Corporate control functions in charge of second and third level controls have the authority, resources and competencies required to carry out their tasks.

In conformity with Vigilance provisions, the company organizational structure requires that company control functions report back to the Board of Directors in terms of both hierarchy and functions.

Control functions have access to all the activities carried out by the Bank, both in the central offices and in peripheral offices, as well as to any information relevant to carry out controls.

In accordance with Law 231/01, there is a Vigilance Committee, which is a collective body in charge of assessing the efficiency of organizational measures adopted by the Bank to avoid involvement in sanctionable actions pursuant to Law 231 of 2001.

As set forth in the Organizational Model, the committee periodically reports to the Board of Directors.

Section 1 – Credit risk

Qualitative information

1. General information

The Bank's business model has always been based prevalently on credit intermediation activities and aimed at supporting families and businesses in local areas, in accordance with the management policies defined by the Board of Directors and in respect of the provisions of the Articles of Association.

The Board of Directors defines credit policies to safeguard the quality of lending both during the first approval for disbursement and during subsequent management of the relationship, taking into due account the Bank's economic/financial situation and the economic context of reference.

The policies adopted over the last years have been strategically oriented towards fractioning of credit and diversification of the lending portfolio in order to mitigate the impact of the current economic crisis on the Bank's overall credit risk.

The credit policies adopted by the Board of Directors have contributed to the implementation, on the part of designated structures, of greater accuracy both when opening a credit line and when subsequently managing the credit relationship.

During the initial stage, particular attention is paid to the quality of the business projects underlying the loan request; in particular, the company's income generating prospects and the consequent capacity to repay are evaluated.

Management and monitoring of disbursed loans are aimed at timely re-modulation of the loan agreement based on variations in the economic and financial situations of the counterparties and the identification of possible trend anomalies. Monitoring activities are aimed at preventing the effects of the deterioration of creditworthiness as well as at intervening quickly with corrective actions to remove anomalies (for example, recurrence of overdrafts, increase in unpaid installments, acceptance of portfolios for customers already outstanding). Management of granted loans is based on principles of extreme prudence and therefore, signals of trends that are not in line with correct operation are immediately analyzed, in order to implement necessary measures.

Commercial policies are pursued by the branches, both in the geographical areas where the Bank is traditionally present, in order to constantly consolidate its position, and in new markets, with the aim of acquiring new market shares and facilitating the growth of the credit intermediation activity.

2. Credit risk management policies

2.1 Organizational aspects

The factors that generate credit risk are tied to the possibility that an unexpected variation in the creditworthiness of a counterparty, to which the Bank has an exposure, may generate a corresponding unexpected variation of the current value of the respective credit exposure.

Therefore, credit risk is not limited only to the counterparty's insolvency, but also includes the mere deterioration of its creditworthiness.

Taking on credit risk and risk management are governed by formalizing the underlying process, detailing the roles of the corporate bodies involved, defining the first controls and rendering explicit the roles of all control functions. Starting July 2017, a special "NPL Office" was created within General Management and composed of "Legal and Litigation Services Office" and the "Problem Debts Management Office" and "Credit Control Office", which were once a part of the Business Management office. This new organizational set up aims at increasing the separation between work units dedicated to managing impaired loans and those in charge of granting loans, the latter being organizationally within the Credit Area, and simultaneously achieving greater precision in assigning responsibilities for activities aimed at monitoring, identifying signs of impairment and management of non performing loans. The Problem Debts Management Office manages, at a corporate level and according to methods defined by internal regulations, every single problem debt and loans that present anomalous situations, regardless of their classification as performing or non performing, with the exception of non-performing loans that are managed by the Legal and Litigation Services Office. Problem Debts Management also Supports the Network in carrying out peripheral monitoring activities on single anomalies and problem loans, as well as in defining and implementing corrective actions aimed at ensuring sound administration of the credit process. This activity is aimed at favoring an anticipatory management of credit risk and implementing management strategies aimed at improving the Bank's credit quality. The corporate organization system assigns management of relationships classified as Probable Default and Non-Performing respectively to the Problem Debt Monitoring Office and the Legal and Litigation Services Office. Impaired loans are managed based on Service regulations and in accordance with the specific impaired loan assessment policy. The Credit Control Office oversees the credit risk monitoring process, in order to detect, even in advance, possible critical evolutions; this activity is carried out within the scope of second instance first level controls and with the aim of providing credit manager and the Problem Debt Management function with all the information required to take necessary measures, and the Risk Management function with all the information required to carry out second level control on credit risks.

Within the scope of the risk taking and management procedures adopted, the first safeguard filter takes place in the Branch office, through constant and ongoing dialogue with the customers, by means of both internal and external information sources and with the aid of information technology procedures.

During the credit preliminary assessment and review processes, the Bank analyzes the customer's financial needs and the documents required to carry out an adequate assessment of the creditworthiness. The decision to grant a loan is therefore based both on the analysis of all the information regarding the economic entity, and on the basis of direct knowledge of the customer and the relative economic. All preliminary activities regarding the operational process that lead up to disbursement and periodic review of the loan, are developed with the aim of granting a congruous loan to each individual applicant (and/or group), providing for the most appropriate types of loan and a adequate remuneration for the risk taken.

Within the scope of the "Credit Risk Regulations", the Board of Directors has defined the decision-making autonomy of each body delegated to granting loans. Observance of the powers authorized by the Board of Directors is guaranteed by automatic controls provided for in the IT procedure recently implemented with the new "Easy Loans" application used to manage the preliminary process for loan disbursement.

2.2 Management, measurement and control systems

Risk management, measurement and control systems are developed in an organizational framework that involves the entire credit process cycle, from the initial preliminary stage, to the periodical reviews up to revocation and recovery.

The Bank also carries out quantitative and qualitative analyses for periodic Credit Risk measurement and control. In particular, quantitative assessments make use of various instruments that provide economic, financial and capital information regarding the customer.

The Credit Area ensures supervision and coordination of the operative stages of the credit process, carries out the credit application and decision processes within the scope of its powers, and performs the first level controls within its area of competence. Instead, the NPL department monitors and coordinates all the operational stages of the non performing loan process.

In support of these activities, the Bank has adopted specific procedures for the stages regarding credit application/deliberation, renewal of credit lines and monitoring of credit risk.

In these stages, the Bank uses qualitative and quantitative methods to measure creditworthiness, supported by information technology procedures subject to periodic verification and maintenance.

Line of credit application, deliberation and review processes are regulated by a decision-making process supported by the "Electronic Line of Credit Procedure", which allows verifying (on behalf of all the departments involved in credit management) the status of each borrower or potential borrower. This procedure also allows reconstructing the credit deliberation process by tracking the various steps of the process and the types of analyses carried out.

Two review levels are provided for, in order to keep the procedures slim: one is a simplified review, with limited formalities, which is reserved to the renewal of small credit lines with a regular performance; the other is an ordinary review applied to all other situations.

The definition of classification, measurement and management criteria for impaired positions and of the methods to be implemented to monitor loan performance aims also at implementing a systematic control procedure on loan positions by the Risk Control Office, organizationally within the NPL department, in close collaboration with the branch structure.

This activity is supported by an electronic procedure that allows for periodic extrapolation of all relations that may show signs of anomalous performance, both internally and externally.

Hence, constant monitoring of the reports provided by the procedure, along with the measurement of other types of events allows for rapid intervention as soon as irregular positions arise, in order to take the necessary measures for problem loans.

All trust positions are also subject to periodic review of each individual counterparty or group of connected customers.

The Risk Manager is responsible for second level controls; this function carries out controls aimed at periodically ascertaining that credit granting, monitoring and classification of credit exposures, the process for recovery and calculation of provisions for impaired loans, are all carried out in compliance with internal and supervisory regulations, and that they are efficacious and reliable as regards the capacity for timely detection and notification of problem loans, and for ensuring the adequacy of value adjustments and the relative writing-off.

Credit risk, like other risks, is mapped in the RAF process, defined by specific objectives and tolerance thresholds. Hence, the Risk Management function monitors credit risk management processes, periodically checking and verifying compliance to risk objectives, operating limits and the risk indicators defined by the Board of Directors, according to the methods and schedules defined in the RAF Regulations and in the risk management processes. Furthermore, this function provides advance opinions regarding RAF compliance of significant credit transactions (so-called OMR), as defined in the specific regulations approved by the BoD, requesting, if necessary and based on the nature of the transactions, the opinion of other functions involved in the risk management process. The entire credit and counterparty risk management process (risk measurement, application, disbursement, performance monitoring, exposure monitoring, review of lines of credit, classification of risk positions, actions in the event of problem loans, classification criteria, assessment and management of impaired loans) is formalized in the internal regulations.

The Bank continues to use an “ordinal” classification management system for creditworthiness which, in a nut-shell, aims at attributing an univocal rating to borrowing customers, on the basis of a series of qualitative and quantitative considerations.

On this matter, please bear in mind that the evaluations resulting from the application constitute a limit to the use of powers associated to loan authorizations.

The Bank adopts standards methods to determine the minimum capital requirement for credit risk.

As regards the internal capital adequacy evaluation process (ICAAP), the Bank uses the so-called Granularity Adjustment simplified algorithm (ref. Annex B, Title III, Chapter 1 Circ. 285/2013) to quantify internal capital vis-à-vis concentration risk for exposure to single counterparties or groups of connected customers.

Within the scope of the ICAAP analysis performed on a quarterly basis, the Bank performs stress tests with reference to credit and concentration risks through sensitivity analyses that evaluate the effects of specific events on the same risks. The Bank performs the stress test and, with specific reference to credit risk, recalculates the internal capital required against the new risk level of the loan portfolio redefined on the basis of any increase of the incidence of impaired exposures on company lending. The Bank also determines the impact on overall capital (Own Funds) deriving from the reduction of expected income due to the increase in write-downs of receivables.

With reference to operations on securities markets, the Bank's Finance Area implements measurements and controls both during acquisition of the financial instruments and after, when the composition of the fund is periodically analyzed by asset class / IAS/IFRS portfolio, the specific or counterparty risk level is identified and calculated and compliance with the limits and powers assigned is verified. The results of these analyses are discussed periodically by the Finance Committee within the scope of which the Risk Management Office sets forth its valuations in accordance with the Risk Appetite Framework.

2.3 Techniques for mitigating credit risk

The main levers for mitigating credit risk are represented by the system of guarantees that accompany loan exposure, by a limited degree of concentration on specific borrowers, as well as an adequate level of diversification of loans by type and by industry.

In particular, with reference to concentration risk, please note that within the scope of its "credit policies", the Bank has set forth a series of limits regarding credit exposure towards single counterparties or groups of connected customers and towards counterparties belonging to the same economic sector. These limits are constantly monitored by the Risk Management Services.

The methods used to manage guarantees and the relative operating processes are set forth in the Bank's internal regulations.

The guaranty management process is incorporated in the IT system, which may be accessed to obtain all related information.

In order to mitigate credit risk, the Bank uses collateral security and personal guarantees. In particular, the main types of real guarantees used are mortgages on property and financial pledges.

The IT management application allows monitoring the entire mortgage guarantee acquisition, assessment, verification and realization efficaciously, identifying all inherent information. The procedure also allows periodically "updating" the current value of the guarantee itself and monitoring the consistency of the value of the guaranty with respect to the risk. The ratio between the loan and the value of the collateral property is monitored constantly in order to intervene appropriately in the event of drops in the real estate market.

Loans are also protected against fluctuations in security market prices by various organizational processes and the policies applied to monitoring financial pledges.

Personal guarantees consist mainly of sureties given by individuals or companies, or guarantees issued by specialized bodies (for example, Confidi, a credit guarantee consortium) and by Financial institutes (for example: Government guarantee through Mediocredito Centrale pursuant to Law 662/1996).

To date, the Bank does not use credit derivatives to cover or transfer the risk for credits in portfolio.

The above controls are performed by centralized structures that are separate from those that disburse and review the loan; the Internal Auditing Office ensures that assets are managed properly and prudently by means of periodic controls.

No significant changes were registered with respect to the information provided above during the course of the fiscal year.

2.4 Impaired financial assets

As regards credit classification, the Bank applies criteria that are conformant to international accounting standards and Vigilance Provisions.

To classify exposures, with specific reference to impaired loans, the Bank refers to regulations issued by the Vigilance Authority, integrated by internal provisions that set forth criteria and regulations for the classification of credits within the scope of the various risk categories.

During 2015, Bank of Italy issued the 7th Update of Circular n. 272/2008, which revised previous classifications for impaired credits and introduced the so-called forbearance concept, transposing the definitions introduced by the Implementing Technical Standards (abbreviated to ITS) issued by the European Banking Authority (EBA). The update aims to reduce the existing discretionary margins in accounting and prudential definitions applied in the various member countries, and facilitate data comparability at a EU level.

In particular, the regulations requires the identification, as regards both performing and non-performing loans, call for identification of loan disbursement relations respectively defining the categories of “Forborne performing exposures” (performing loans granted) and “Non-performing exposures with forbearance measures” (impaired loans granted).

The regulations define as “forbearance measures” changes to the original contract terms and conditions or total or partial loan refinancing, granted to a debtor who is or is about to enter into difficulty in terms of respecting financial obligations.

In terms of classification of impaired loans, the Bank has also transposed the changes made to definitions introduced by the 7th Update of Bank of Italy Circular n. 272/2008. Specifically, impaired financial assets are divided into the categories “non-performing”, “probable default” and “overdue/overdrawn exposures”, based on the following criteria:

- **Non-performing loans:** the overall on-balance sheet and off-balance sheet exposures vis-à-vis a customer in a state of insolvency (even if not judicially ascertained) or in essentially comparable situations, regardless of any loss forecasts formulated by the Bank.

- **Watchlist ("unlikely to pay"):** classification in this category is, first of all, the result of the Bank's judgment regarding the unlikeliness that, without recourse to measures such as enforcement of guarantees, the debtor fully pays back the credit (the principal and/or the amount of interest payable). This evaluation must be made aside from the presence of any amounts (or installments) overdue and not paid. Therefore, it is not necessary to wait for an explicit sign of anomaly (failure to pay), if there are elements that imply a situation of probable default on the part of the debtor (for example, a crisis in the debtor's industry sector).

- **Overdue and/or overdrawn exposures:** cash loans, other than those classified as non-performing or probable defaults, which, at the date of reference of the notification have been overdue or overdrawn for over 90 days.

Overdue and/or overdrawn exposures may be determined with reference to either an individual customer or a single transaction; the Bank adopts the "by debtor" approach, as described here below.

Overdue or overdrawn positions must be characterized by the continuity of the condition. In particular, as regards exposures with repayment in installments, the unpaid installment bearing the greatest delay is used for the purpose of the necessary calculations.

If more than one exposure that has been overdue or overdrawn for over 90 days refer to the same customer, the longest overdue position on which calculations are based. As regards the opening of "revocable" current-account credit facilities where the credit ceiling has been exceeded (also due to the capitalization of interest), the days of overdraft are calculated starting from the first day of missed payment of the interest that determines overdraft, or starting from the date of the first request to repay the principal, whichever of the two comes first.

Overall exposure vis-à-vis a debtor must be considered overdue and/or overdrawn if, at the date of reference of the notification, the larger of the two following values is equal to or greater than the 5% threshold:

a) average of the overdue and/or overdrawn amounts on the entire exposure, measured on a daily basis over the last previous quarter;

b) amount overdue and/or overdrawn on the entire exposure referred to the date of reference of the notification.

Within the scope of the three categories of impaired loans, in conformity with the regulations, "Non-performing exposures with forbearance measures" are identified.

Therefore, the classification "forborne non-performing" is not a category of impaired loans in itself, but is instead an additional attribution, applicable to positions in any one of the above-mentioned three categories.

Information regarding impaired loans has been integrated into the information technology system with the aid of specific instruments that support management of irregular exposures and track their conditions.

Based on specific irregularity indicators, monitored by means of both information technology procedures and internal evaluations, and in light of the provisions contained in specific internal regulations that govern exposure classification and variations of the relative exposure "status", the Credit Control Office monitors the risk classification of exposure positions and formulates proposals to the corporate structures of reference for possible status changes or recalculation of loss forecasts.

With respect to *in bonis* loans, for management purposes, the Bank has defined the sub-classes of credits called Bonis C (watch list), Bonis D (forborne performing under probation) and Bonis E (forborne performing under probation, ex cure period), in which exposures showing a not fully regular trend are classified.

The Problem Debts Management Office is responsible for managing positions classified as probable defaults, promoting initiatives aimed at safeguarding the Bank's credit claims.

Non-performing loans are managed by the Legal and Litigation Services office, which evaluate the actions to be taken to maximize credit recovery, also taking action vis-à-vis any guarantors and realizing any guarantees.

The possibility of payment of impaired loans is calculated based on criteria defined by the Board of Directors and contained in the specific evaluation policy.

Quantitative information

A. Credit quality

A.1 Exposure to impaired and in bonis receivables: amounts value adjustments, dynamics, economic and territorial distribution

A.1.1 Distribution of exposure to financial receivables by the portfolio to which they belong and by type of credit quality (balance sheet values)

Portfolio/quality	Non-performing loans	Probable default	Impaired overdue positions	In bonis overdue positions	Not impaired assed	Total as at 31/12/2017
1. Financial assets available for sale	0	0	0	0	530,481	530,481
2. Financial assets held through maturity	0	0	0	0	0	0
3. Receivables from banks	0	0	0	0	183,366	183,366
4. Receivables from customers	137,798	123,766	14,097	53,169	2,116,640	2,445,470
5. Financial assets measured at fair value	0	0	0	0	0	0
6. Financial assets in the course of divestment	0	0	0	0	0	0
Total as at 31/12/2017	**137,798**	**123,766**	**14,097**	**53,169**	**2,830,487**	**3,159,317**
Total as at 31/12/2016	**131,848**	**105,140**	**12,593**	**74,820**	**2,611,150**	**2,935,552**

The table shows the classification by credit quality for the entire portfolio of financial assets, with the exception of equity instruments and of shares in mutual funds, equal to 4,098 thousand Euro.

The values shown are the balance sheet values, therefore, net of the relative write-downs.

A.1.2 Distribution of exposure to financial receivables by the portfolio to which they belong and by credit quality (gross and net values)

Portfolio/quality	Impaired assets			In bonis assets			Total (net exposure)
	Gross exposure	Specific adjustments	Net exposure	Gross exposure	Portfolio adjustments	Net exposure	
1. Financial assets available for sale	0	0	0	530,481	0	530,481	**530,481**
2. Financial assets held through maturity	0	0	0	0	0	0	**0**
3. Receivables from banks	0	0	0	183,366	0	183,366	**183,366**
4. Receivables from customers	439,077	163,416	275,661	2,174,079	4,271	2,169,809	**2,445,470**

Portfolio/quality	Impaired assets			In bonis assets			Total (net exposure)
	Gross exposure	Specific adjustments	Net exposure	Gross exposure	Portfolio adjustments	Net exposure	
5, Financial assets measured at fair value	0	0	0	X	X	0	**0**
6. Financial assets in course of divestment	0	0	0	0	0	0	**0**
Total as at 31/12/2017	**439,077**	**163,416**	**275,661**	**2,887,926**	**4,271**	**2,883,656**	**3,159,317**
Total as at 31/12/2016	**393,999**	**144,417**	**249,581**	**2,689,519**	**3,549**	**2,685,970**	**2,935,552**

The table shows classification by type of receivable of the entire portfolio of financial assets, with the exception of equity instruments and shares of mutual funds amounting to 4,098 thousand Euro.

The values shown are the balance sheet values, therefore, net of the relative write-downs.

A.1.2 Bis Exposure to impaired and in bonis receivables: amount, value adjustments, dynamics, economic and territorial distribution

Distribution of exposure to receivables for assets with poor credit quality

Portfolio/quality	Assets with evidently poor credit quality		Other assets
	Cumulative losses	Net exposure	Net exposure
1. Financial assets held for trading	0	0	24,158
2. Hedges	0	0	0
Total	**0**	**0**	**24,158**

A.1.3 Cash and off balance sheet exposure to banks: gross and net values and exposure ranges

Type of exposure /Values	Gross exposure					Specific value adjustments	Portfolio value adjustments	Net exposure
	Impaired assets				In bonis assets			
	Up to 3 months	From 3 months to 6 months	From 6 months to 1 year	Over 1 year				
A. CASH EXPOSURES								
a) Non-performing loans	0	0	0	0	0	0	0	0
- of which: forbearance	0	0	0	0	0	0	0	0
b) Probable defaults	0	0	0	0	0	0	0	0
- of which: forbearance	0	0	0	0	0	0	0	0
c) Impaired overdue exposures	0	0	0	0	0	0	0	0
- of which: forbearance	0	0	0	0	0	0	0	0
d) In bonis overdue exposures	0	0	0	0	0	0	0	0
- of which: forbearance	0	0	0	0	0	0	0	0
e) Other in bonis exposures	0	0	0	0	320,697	0	0	320,697
- of which: forbearance	0	0	0	0	0	0	0	0
TOTAL A	**0**	**0**	**0**	**0**	**320,697**	**0**	**0**	**320,697**
B. OFF BALANCE SHEET POSITIONS								
a) Impaired	0	0	0	0	0	0	0	0
b) In bonis	0	0	0	0	2,384	0	0	2,384

Type of exposure /Values	Gross exposure					Specific value adjustments	Portfolio value adjustments	Net exposure
	Impaired assets				In bonis assets			
	Up to 3 months	From 3 months to 6 months	From 6 months to 1 year	Over 1 year				
TOTAL B	0	0	0	0	2,384	**0**	**0**	**2,384**
TOTAL A+B	**0**	**0**	**0**	**0**	**323,081**	**0**	**0**	**323,081**

The cash values indicated are taken from the balance sheet, net of relative impaired receivables. In addition to asset line item 60, parts of asset line items 20 and 40 were included, amounting to 137,331 thousand Euro.

A.1.6 Cash and off balance sheet exposure to customers: gross and net values and exposure ranges

Type of exposure /Values	Gross exposure					Specific value adjustments	Portfolio value adjustments	Net exposure
	Impaired assets				In bonis assets			
	Up to 3 months	From 3 months to 6 months	From 6 months to 1 year	Over 1 year				
A. CASH EXPOSURES								
a) Non-performing loans	0	0	0	263,482	0	125,684	0	137,798
- of which: forbearance	0	0	0	0	0	0	0	0
b) Probable defaults	90,012	11,549	23,600	34,866	0	36,261	0	123,766
- of which: forbearance	73,723	9,192	14,851	11,643	0	29,216	0	80,193
c) Impaired overdue exposures	1,410	3,410	9,063	1,686	0	1,471	0	14,097
- of which: forbearance	410	0	336	0	0	71	0	676
d) In bonis overdue exposures	0	0	0	0	53,278	0	109	53,169
- of which: forbearance	0	0	0	0	11,260	0	23	11,237
e) Other in bonis exposures	0	0	0	0	2,525,827	0	4,161	2,521,666
- of which: forbearance	0	0	0	0	68,793	0	141	68,652
TOTAL A	**91,423**	**14,959**	**32,663**	**300,033**	**2,579,106**	**163,416**	**4,271**	**2,850,496**
B. OFF BALANCE SHEET POSITIONS								
a) Impaired	19,253	0	0	0	0	0	0	19,253
b) In bonis	0	0	0	0	103,234	0	0	103,234
TOTAL B	**19,253**					**0**	**0**	**122,487**

The table shows the breakdown of accounts receivable from customers by type of receivable. Specifically all financial assets regarding customers are reported, taken from balance sheet line items "20 - Financial assets held for trading ", "40 - Financial assets available for sale", and "70 - Receivables from customers". Equity instruments and Shares in mutual funds, amounting to 17,359 thousand Euro, and securities issued by Banks, amounting to 137,331 thousand Euro, are excluded.

A.1.7 Cash exposure to customers: dynamics of gross impaired accounts

Variables/Categories	Non-performing loans	Probable defaults	Impaired overdue/overdrawn exposures
A. Initial gross exposure	**240,428**	**139,656**	**13,915**
- of which: accounts disposed of but not derecognized	0	0	0
B. Additions			
B.1 entries from receivables in bonis	15,508	30,456	14,706
B.2 transfers from other categories of impaired accounts	15,534	11,356	1,573
B.3 other additions	10,199	7,636	325
of which: corporate merger operation	9,045	4,836	45
C. Reductions			
C.1 transfers to receivables in bonis	68	7,553	1,802
C.2 derecognition	6,863	3,052	697
C.3 collections	8,897	2,801	0
C.4 income from disposals	0	0	0
C.5 losses from disposals	0	0	0
C.6 transfers to other categories of impaired accounts	2,358	15,670	10,435
C.7 other reductions	0	0	2,018
D. Finals gross exposure	**263,482**	**160,027**	**15,568**
- of which: accounts disposed of but not derecognized	0	0	0

Line item B.4 “Other additions – of which: corporate merger operation” show the gross exposures of former Banca A.G.C.I. S.p.a. acquired as a result of the “way-out” operation.

A.1.7 bis Cash exposure to customers: dynamics of gross forbearance subdivided by credit quality

Variables/Categories	Forbearance: impaired	Forbearance: in bonis
A. Initial gross exposure	**103,556**	**65,232**
- of which: accounts disposed of but not derecognized	0	0
B. Additions		
B.1 entries from receivables in bonis without forbearance	12,779	27,153
B.2 entries from receivables in bonis with forbearance	6,131	0
B.3 entries from impaired receivables with forbearance	0	7,124
B.4 other additions	8,247	7,228
of which: corporate merger operation	2,273	2,028
C. Reductions		
C.1 transfers to receivables in bonis without forbearance	0	0
C.2 transfers to receivables in bonis with forbearance	7,075	0
C.3 transfers to impaired receivables with forbearance	0	6,131
C.4 derecognition	0	0
C.5 collections	12,032	20,553
C.6 income from disposals	0	0
C.7 losses from disposals	0	0
C.8 other reductions	1,449	0
D. Final gross exposure	**110,156**	**80,053**
- of which: accounts disposed of but not derecognized	0	0

Line item B.4 “Other additions – of which: corporate merger operation” show the gross exposures of former Banca A.G.C.I. S.p.a. acquired as a result of the “way-out” operation.

A.1.8 Exposure to customers: dynamics of adjustments to overall value

Variables/Categories	Non-performing loans		Probable defaults		Impaired overdue/overdrawn exposures	
	Total	of which: exposures with forbearance	Total	of which: exposures with forbearance	Total	of which: exposures with forbearance
A. Initial overall adjustments	**108,580**	**0**	**34,516**	**28,229**	**1,322**	**26**
- of which: accounts disposed of but not derecognized	0	0	0	0	0	0
B. Additions						
B.1 value adjustments	22,638	0	5,827	2,123	1,394	14
B.2 losses from disposals	0	0	0	0	0	0
B.3 transfers from other categories of impaired accounts	2,674	0	1,551	8	272	4
B.4 other additions	4,297	0	3,682	1,022	716	220
'of which: corporate merger operation	5,845	0	1,190	747	0	0
C. Reductions	0	0	0	0	0	0
C.1 write-backs of value from measurement	7,738	0	4,765	0	1,061	0
C.2 write-backs of value from collections	1,784	0	507	2,152	184	59
C.3 income from disposals	0	0	0	0	0	0
C.4 derecognition	2,287	0	1,230	0	0	0
C.5 transfers to other categories of impaired accounts	697	0	2,812	14	988	1
C.6 other reductions	0	0	0	0	0	133
D. Final overall adjustments	**125,684**	**0**	**36,261**	**29,216**	**1,471**	**71**
- of which: accounts disposed of but not derecognized	0	0	0	0	0	0

Line item B.4 “Other additions – of which: corporate merger operation” show the gross exposures of former Banca A.G.C.I. S.p.a. acquired as a result of the “way-out” operation.

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

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

Exposures	Class of external rating						Without a rating	Total as at 31/12/2017
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
A. Cash exposure	**0**	**0**	**603,385**	**3,152**	**0**	**0**	**2,564,325**	**3,170,861**
B. Derivatives								
B.1 Financial derivatives	0	0	0	0	0	0	332	**332**
B.2 Credit derivatives	0	0	0	0	0	0	0	**0**
C. Security given	**0**	**0**	**0**	**0**	**0**	**0**	**91,971**	**91,971**
D. Commitments to issue funds	**0**	**0**	**0**	**0**	**0**	**0**	**31,552**	**31,552**
E. Other	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Total	**0**	**0**	**603,385**	**3,152**	**0**	**0**	**2,688,180**	**3,294,716**

Class 1 = AAA/AA-
Class 2 = A+/A-
Class 3 = BBB+/BBB-

Class 4 = BB+/BB-
Class 5 = B+/B-
Class 6 = inferior to B-
The exposure considered was taken from the balance sheets present in the previous tables A.1.3 (exposure to banks) and A.1.6 (exposure to customers), as well as hedges.

A.3 Distribution of secured exposures by type of guarantee

A.3.1 Secured credit exposure to banks - part 1

Line items	Net exposure value	Collateral (1)			
		Real property for mortgage loans	Real property for financial leasing	Securities	Other collateral
1. Secured cash credit exposures					
1.1 totally secured	0	0	0	0	0
- of which impaired	0	0	0	0	0
1.2 partially secured	0	0	0	0	0
- of which impaired	0	0	0	0	0
2. Secured off balance sheet credit exposures:					
2.1 totally secured	0	0	0	0	0
- of which impaired	0	0	0	0	0
2.2 partially secured	0	0	0	0	0
- of which impaired	0	0	0	0	0

A.3.1 Secured credit exposure to banks - part 2

Line items	Personal security (2)									Total (1)+(2)
	Derivatives on receivables					Endorsement receivables				
	CLN	Other derivatives				Governments and central banks	Other public entities	Banks	Other parties	
		Governments and central banks	Other public entities	Banks	Other parties					
1. Secured cash credit exposures:										
1.1 totally secured	0	0	0	0	0	0	0	0	0	**0**
- of which impaired	0	0	0	0	0	0	0	0	0	**0**
1.2 partially secured	0	0	0	0	0	0	0	0	0	**0**
- of which impaired	0	0	0	0	0	0	0	0	0	**0**
2. Secured off balance sheet credit exposures:										
2.1 totally secured	0	0	0	0	0	0	0	0	0	**0**
- of which impaired	0	0	0	0	0	0	0	0	0	**0**

Line items	Personal security (2)									Total (1)+(2)
	Derivatives on receivables					Endorsement receivables				
	CLN	Other derivatives				Governments and central banks	Other public entities	Banks	Other parties	
		Governments and central banks	Other public entities	Banks	Other parties					
2.2 partially secured	0	0	0	0	0	0	0	0	0	**0**
- of which impaired	0	0	0	0	0	0	0	0	0	**0**

A.3.2 Secured credit exposure to customers - part 1

Line items	Net exposure value	Collateral (1)			
		Real property for mortgage loans	Real property for financial leasing	Securities	Other collateral
1. Secured cash credit exposures:					
1.1 totally secured	1,707,527	1,320,849	0	8,940	13,993
- of which impaired	233,521	182,158	0	222	412
1.2 partially secured	131,614	367	0	1,973	2,500
- of which impaired	7,782	318	0	152	30
2. Secured off balance sheet credit exposures:					
2.1 totally secured	41,950	1,403	0	2,635	6,636
- of which impaired	9,368	1,403	0	0	224
2.2 partially secured	21,728	7,175	0	902	167
- of which impaired	2,706	1,744	0	20	0

A.3.2 Secured credit exposures to customers - part 2

Line items	Personal guarantees (2)									Total (1)+(2)
	Derivatives on receivables					Endorsement receivables				
	CLN	Other derivatives				Governments and central banks	Other public entities	Banks	Other parties	
		Governments and central banks	Other public entities	Banks	Other parties					
1. Secured cash credit exposures:										
1.1 totally secured	0	0	0	0	0	5,739	37,883	0	306,292	**1,693,695**
- of which impaired	0	0	0	0	0	70	3,425	0	41,295	**227,582**
1.2 partially secured	0	0	0	0	0	9,880	31,833	0	37,938	**84,491**
- of which impaired	0	0	0	0	0	77	2,494	0	2,830	**5,900**
2. Secured off balance sheet credit exposures:										
2.1 totally secured	0	0	0	0	0	0	548	0	30,573	**41,794**
- of which impaired	0	0	0	0	0	0	235	0	7,351	**9,213**
2.2 partially secured	0	0	0	0	0	0	131	0	10,498	**18,874**
- of which impaired	0	0	0	0	0	0	0	0	939	**2,703**

B. Distribution and concentration of credit exposure

B.1 Sector distribution cash and "off balance sheet" credit exposure to customers (balance sheet value) - part 1

Exposure/Counterparty	Governments			Other public entities		
	Net exposure	Specific value adjustments	Portfolio value adjustments	Net exposure	Specific value adjustments	Portfolio value adjustments
A. Cash exposure						
A.1 Non-performing loans	0	0	0	0	0	0
- of which: forbearance	0	0	0	0	0	0
A.2 Probable defaults	0	0	0	0	0	0
- of which: forbearance	0	0	0	0	0	0
A.3 Impaired overdue exposures	0	0	0	0	0	0
- of which: forbearance	0	0	0	0	0	0
A.4 In bonis exposures	402,298	0	0	1,960	0	4
- of which: forbearance	0	0	0	0	0	0
TOTAL A	**402,298**	**0**	**0**	**1,960**	**0**	**4**
B. "Off balance sheet" exposures						
B.1 Non-performing loans	0	0	0	0	0	0
B.2 Probable defaults	0	0	0	0	0	0
B.3 Other impaired assets	0	0	0	0	0	0
B.4 In bonis exposures	0	0	0	3	0	0
TOTAL B	**0**	**0**	**0**	**3**	**0**	**0**
TOTAL (A+B) 31/12/2017	**402,298**	**0**	**0**	**1,962**	**0**	**4**
TOTAL (A+B) 31/12/2016	**615,313**	**0**	**0**	**2,339**	**0**	**0**

B.1 Sector distribution cash and "off balance sheet" credit exposure to customers (Balance sheet value) - part 2

Exposure/Counterparty	Financial companies			Insurance companies		
	Net exposure	Specific value adjustments	Portfolio value adjustments	Net exposure	Specific value adjustments	Portfolio value adjustments
A, Cash exposure						
A.1Non-performing loans	211	234	0	0	0	0
- of which: forbearance	0	0	0	0	0	0
A.2.Probable defaults	603	319	0	0	0	0
- of which: forbearance	456	248	0	0	0	0
A.3.Impaired overdue exposures	101	11	0	0	0	0
- of which: forbearance	0	0	0	0	0	0
A.4 In bonis exposures	103,767	0	45	13,645	0	27
- of which: forbearance	2,070	0	4	0	0	0
TOTAL A	**104,682**	**564**	**45**	**13,645**	**0**	**27**
B. "Off balance sheet" exposures						
B.1 Non-performing loans	0	0	0	0	0	0
B.2 Probable defaults	0	0	0	0	0	0
B.3 Other impaired assets	0	0	0	0	0	0
B.4 In bonis exposures	1,846	0	0	0	0	0
TOTAL B	**1,846**	**0**	**0**	**0**	**0**	**0**
TOTAL (A+B) 31/12/2017	**106,529**	**564**	**45**	**13,645**	**0**	**27**
TOTAL (A+B) 31/12/2016	**66,553**	**360**	**448**	**16,044**	**0**	**26**

B.1 Sector distribution cash and "off balance sheet" credit exposure to customers (balance sheet value) - part 3

Exposure/Counterparty	Non finance companies			Other parties		
	Net exposure	Specific value adjustments he	Portfolio value adjustments	Net exposure	Specific value adjustments he	Portfolio value adjustments
A. Cash exposure						
A.1 Non-performing loans	98,951	107,914	0	38,636	17,535	0
- of which: forbearance	0	0	0	0	0	0
A.2 Probable defaults	89,531	32,094	0	33,632	3,848	0
- of which: forbearance	61,182	27,032	0	18,555	1,936	0
A.3 Impaired overdue exposures	7,775	811	0	6,221	649	0
- of which: forbearance	126	13	0	551	57	0
A.4 In bonis exposures	1,223,446	0	2,490	829,720	0	1,705
- of which: forbearance	46,655	0	96	31,164	0	64
TOTAL A	**1,419,704**	**140,820**	**2,490**	**908,208**	**22,032**	**1,705**
B. "Off balance sheet" exposures						
B.1 Non-performing loans	6,860	0	0	6	0	0
B.2 Probable defaults	12,185	0	0	165	0	0
B.3 Other impaired assets	14	0	0	23	0	0
B.4 In bonis exposures	88,092	0	0	12,277	0	0
TOTAL B	**107,152**	**0**	**0**	**12,470**	**0**	**0**
TOTAL (A+B) 31/12/2017	**1,526,856**	**140,820**	**2,490**	**920,678**	**22,032**	**1,705**
TOTAL (A+B) 31/12/2016	**1,321,020**	**123,201**	**1,774**	**847,885**	**20,857**	**1,300**

Exposure/Counterparty	Total Net exposure	Total Specific value adjustments he	Total Portfolio value adjustments
A. Cash exposure			
A.1Non-performing loans	137,798	125,684	0
- of which: forbearance	0	0	0
A.2 Probable defaults	123,766	36,261	0
- of which: forbearance	80,193	29,216	0
A.3 Impaired overdue exposures	14,097	1,471	0
- of which: forbearance	676	71	0
A.4 In bonis exposures	2,574,835	0	4,271
- of which: forbearance	79,889	0	164
TOTAL A	**2,850,496**	**163,416**	**4,271**
B. "Off balance sheet" exposures			
B.1 Non-performing loans	6,866	0	0
B.2 Probable defaults	12,350	0	0
B.3 Other impaired assets	37	0	0
B.4 In bonis exposures	102,218	0	0
TOTAL B	**121,471**	**0**	**0**
TOTAL (A+B) 31/12/2017	**2,971,967**	**163,416**	**4,271**
TOTAL (A+B) 31/12/2016	**2,869,154**	**144,417**	**3,549**

The cash exposure for receivables indicated in the table (2,850,496 thousand Euro) is measured in the financial statements net of impaired receivables, and with an indication of specific value adjustments and to the portfolio.

Specifically, it indicates all financial assets regarding customers taken from balance sheet line items "20 - Financial assets held for trading", "40 - Financial assets available for sale", and "70 - Receivables from customers". Equity instruments and shares in mutual funds in the amount of 17,359 thousand Euro, and securities issued by banks in the amount of 137,331 thousand are excluded.

B.2 Territorial distribution of cash and "off balance sheet" exposure to customers (balance sheet value) - part 1

Exposure/Geographical area	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments
A, Cash exposures										
A.1 Non-performing loans	137,779	125,178	19	505	0	0	0	0	0	0
A.2 Probable defaults	123,766	36,261	0	0	0	0	0	0	0	0
A.3 Impaired overdue exposures	14,097	1,471	0	0	0	0	0	0	0	0
A.4 In bonis assets	2,556,155	4,232	5,354	11	12,935	27	223	0	168	0
TOTAL (A)	**2,831,796**	**167,143**	**5,373**	**516**	**12,935**	**27**	**223**	**0**	**168**	**0**
B. "Off balance sheet" exposures										
B.1 Non-performing loans	6,866	0	0	0	0	0	0	0	0	0
B.2 Probable defaults	12,350	0	0	0	0	0	0	0	0	0
B.3 Other impaired assets	37	0	0	0	0	0	0	0	0	0
B.4 In bonis exposures	102,218	0	0	0	0	0	0	0	0	0
TOTAL (B)	**121,471**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
TOTAL (A + B) 31/12/2017	**2,953,267**	**167,143**	**5,373**	**516**	**12,935**	**27**	**223**	**0**	**168**	**0**
TOTAL (A + B) 31/12/2016	**2,864,553**	**147,432**	**4,159**	**533**	**324**	**1**	**118**	**0**	**0**	**0**

Exposure/Geographic area	TOTAL	
	Net exposure	Overall value adjustments
A. Cash exposures		
A.1 Non-performing loans	137,798	125,684
A.2 Probable defaults	123,766	36,261
A.3 Impaired overdue exposures	14,097	1,471
A.4 In bonis assets	2,574,835	4,271
TOTAL (A)	**2,850,496**	**167,687**
B. "Off balance sheet" exposures		
B.1 Non-performing loans	6,866	0
B.2 Probable defaults	12,350	0
B.3 Other impaired assets	37	0
B.4 In bonis exposures	102,218	0
TOTAL (B)	**121,471**	**0**

Exposure/Geographic area	TOTAL	
	Net exposure	Overall value adjustments
TOTAL (A + B) 31/12/2017	**2,971,967**	**167,687**
TOTAL (A + B) 31/12/2016	**2,869,154**	**147,966**

Cash exposures for receivables indicated in the table (2,850,496 thousand Euro) are those measured in the financial statements net of impaired receivables, distributed territorially according to the area of the counterparty's residence.

Specifically, it indicates all financial assets regarding customers taken from line items "20 - Financial assets held for trading", "40 - Financial assets available for sale", and "70 - Receivables from customers". Equity instruments and shares of mutual funds in the amount of 17,359 thousand Euro, and securities issued by banks in the amount of 137,331 thousand Euro are excluded.

B.2 Territorial distribution of cash and "off balance sheet" exposure to customers (balance sheet value) - part 2

Exposure/Geographical areas	NORTHWEST ITALY		NORTH EAST ITALYL		CENTRAL ITALY		SOUTHERNI ITALY AND ISLANDS	
	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments
A. Cash exposures								
A.1 Non-performing loans	1,463	2,412	2,919	8,937	132,603	113,382	794	447
A.2 Probable defaults	2,495	517	2,617	1,409	118,535	34,323	120	13
A.3 Impaired overdue exposures	23	2	11	1	14,048	1,466	15	2
A.4 In bonis assets	53,885	106	60,584	124	2,427,389	3,972	14,296	29
TOTAL (A)	**57,866**	**3,038**	**66,131**	**10,472**	**2,692,574**	**153,143**	**15,225**	**490**
B. "Off balance sheet" exposures								
B.1 Non-performing loans	0	0	111	0	6,755	0	0	0
B.2 Probable defaults	0	0	0	0	12,280	0	70	0
B.3 Other impaired assets	0	0	0	0	37	0	0	0
B.4 In bonis exposures	5,710	0	2,741	0	93,098	0	669	0
TOTAL (B)	**5,710**	**0**	**2,852**	**0**	**112,170**	**0**	**739**	**0**
TOTAL (A + B) 31/12/2017	**63,576**	**3,038**	**68,983**	**10,472**	**2,804,744**	**153,143**	**15,964**	**490**
TOTAL (A + B) 31/12/2016	**30,278**	**902**	**30,056**	**3,021**	**2,791,520**	**143,069**	**12,698**	**440**

Exposures/Geographic areas	TOTAL ITALY	
	Net exposure	Overall value adjustments
A. Cash exposures		
A.1 Non-performing loans	137,779	125,178
A.2 Probable defaults	123,766	36,261
A.3 Impaired overdue exposures	14,097	1,471
A.4 In bonis assets	2,556,155	4,232
TOTAL (A)	**2,831,796**	**167,143**
B. "Off balance sheet" exposures		

Exposures/Geographic areas	TOTAL ITALY	
	Net exposure	Overall value adjustments
B.1 Non-performing loans	6,866	0
B.2 Probable defaults	12,350	0
B.3 Other impaired assets	37	0
B.4 In bonis exposures	102,218	0
TOTAL (B)	**121,471**	**0**
TOTAL (A + B) 31/12/2017	**2,953,267**	**167,143**
TOTAL (A + B) 31/12/2016	**2,864,553**	**147,432**

The cash exposure for receivables indicated in the table (2,831,796 thousand Euro) are those measured in the financial statements net of impaired receivables, distributed territorially according to the area of the counterparty's residence.

Specifically, it indicates all financial assets regarding customers taken from line items "20 - Financial assets held for trading", "40 - Financial assets available for sale", and "70 - Receivables from customers". Equity instruments and shares of mutual funds in the amount of 17,359 thousand Euro, securities issued by banks in the amount of 137,331 thousand Euro, and accounts with "non Italy" customers in the amount of 18,700 thousand Euro are excluded.

B.3 Territorial distribution of cash and "off balance sheet" exposure to banks (balance sheet value) - part 1

Exposure/Geographic areas	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments
A, Cash exposures										
A.1 Non-performing loans	0	0	0	0	0	0	0	0	0	0
A.2 Probable defaults	0	0	0	0	0	0	0	0	0	0
A.3 Impaired overdue exposures	0	0	0	0	0	0	0	0	0	0
A.4 In bonis assets	299,063	0	17,747	0	3,845	0	41	0	0	0
TOTAL (A)	**299,063**	**0**	**17,747**	**0**	**3,845**	**0**	**41**	**0**	**0**	**0**
B. "Off balance sheet" exposures										
B.1 Non-performing loans	0	0	0	0	0	0	0	0	0	0
B.2 Probable defaults	0	0	0	0	0	0	0	0	0	0
B.3 Other impaired assets	0	0	0	0	0	0	0	0	0	0
B.4 In bonis exposures	466	0	1,918	0	0	0	0	0	0	0
TOTAL (B)	**466**	**0**	**1,918**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
TOTAL (A + B) 31/12/2017	**299,529**	**0**	**19,665**	**0**	**3,845**	**0**	**41**	**0**	**0**	**0**
TOTAL (A + B) 31/12/2016	**237,407**	**0**	**7,364**	**0**	**3,103**	**0**	**137**	**0**	**47**	**0**

Exposure/Geographic areas	TOTAL	
	Net exposure	Overall value adjustments
A. Cash exposures		
A.1 Non-performing loans	0	0
A.2 Probable defaults	0	0
A.3 Impaired overdue exposures	0	0
A.4 In bonis assets	320,697	0
TOTAL (A)	**320,697**	**0**
B. "Off balance sheet" exposures		
B.1 Non-performing loans	0	0
B.2 Probable defaults	0	0
B.3 Other impaired assets	0	0
B.4 In bonis exposures	2,384	0
TOTAL (B)	**2,384**	**0**
TOTAL (A + B) 31/12/2017	**323,081**	**0**
TOTAL (A + B) 31/12/2016	**248,058**	**0**

The values of cash exposures to banks (320,697 thousand Euro) are those taken from the balance sheet, net of impaired receivables. In addition to asset line item 60, parts of asset line items 20 in the amount of 11,126 thousand Euro and 40 in the amount of 126,205 thousand Euro were included.

The data are distributed territorially based on the country of residence of the counterparty.

B.3 Territorial distribution of cash and "off balance sheet" credit exposure to banks (balance sheet value) - part 2

Exposures/Geographic areas	NORTHWEST ITALY		NORTHEAST ETALY		CENTRAL ITALY		SOUTHERN ITALY AND ISLANDS	
	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments
A. Cash exposures								
A.1 Non-performing loans	0	0	0	0	0	0	0	0
A.2 Probable defaults	0	0	0	0	0	0	0	0
A.3 Impaired overdue exposures	0	0	0	0	0	0	0	0
A.4 In bonis assets	97,498	0	3,168	0	198,397	0	0	0
TOTAL (A)	**97,498**	**0**	**3,168**	**0**	**198,397**	**0**	**0**	**0**
B. "Off balance sheet" exposures								
B.1 Non-performing loans	0	0	0	0	0	0	0	0
B.2 Probable defaults	0	0	0	0	0	0	0	0
B.3 Other impaired assets	0	0	0	0	0	0	0	0
B.4 In bonis exposures	246	0	0	0	220	0	0	0
TOTAL (B)	**246**	**0**	**0**	**0**	**220**	**0**	**0**	**0**
TOTAL (A + B) 31/12/2017	**97,744**	**0**	**3,168**	**0**	**198,617**	**0**	**0**	**0**
TOTAL (A + B) 31/12/2016	**52,093**	**0**	**8,579**	**0**	**176,736**	**0**	**0**	**0**

Exposures/Geographic areas	TOTAL	
	Net exposure	Overall value adjustments
A. Cash exposures		
A.1 Non-performing loans	0	0
A.2 Probable defaults	0	0
A.3 Impaired overdue exposures	0	0
A.4 In bonis assets	299,063	0
TOTAL (A)	**299,063**	**0**
B. "Off balance sheet" exposures		
B.1 Non-performing loans	0	0
B.2 Probable defaults	0	0
B.3 Other impaired assets	0	0
B.4 In bonis exposures	466	0
TOTAL (B)	**466**	**0**
TOTAL (A + B) 31/12/2017	**299,529**	**0**
TOTAL (A + B) 31/12/2016	**237,407**	**0**

The values of cash exposures (299,063 thousand Euro) are taken from the balance sheet, net of impaired receivables. In addition to asset line item 60, parts of Asset line items 20 and 40 were included in the amounts of 11,126 thousand Euro and 126,205 thousand Euro respectively and net "non Italian" exposure in the amount of 21,634 thousand Euro were excluded.

The data are distributed territorially according to the macro-area of the counterparty's residence.

B.4 Large risks (according to regulatory legislation)

Line items/Values	31/12/2017			31/12/2016		
	Number	Balance sheet value	Weighted value	Number	Balance sheet value	Weighted value
a. Large risks	8	826,385	106,630	6	1,011,399	134,921
b. Zero weighted risks	3	204,577	0	3	876,408	0
Total Large Risks (A-B)	**5**	**621,808**	**106,630**	**3**	**134,992**	**134,921**

E. Sales

Qualitative and quantitative information

E.1 Financial assets sold but not fully derecognized: balance sheet value and entire value - part 1

Technical forms/Portfolio	Financial assets held for trading			Financial assets measured at fair value			Financial assets available for sale		
	recognized in full (balance sheet value)	partially recognized (balance sheet value)	partially recognized (entire value)	recognized in full (balance sheet value)	partially recognized (balance sheet value)	partially recognized (entire value)	recognized in full (balance sheet value)	partially recognized (balance sheet value)	partially recognized (entire value)
A, Cash assets									
1. Debt securities	0	0	0	0	0	0	40,120	0	0
2. Equity instruments	0	0	0	0	0	0	0	0	0
3. O.I.C.R.	0	0	0	0	0	0	0	0	0
4. Loans	0	0	0	0	0	0	0	0	0
B. Derivative instruments	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Total as at 31/12/2017	**0**	**0**	**0**	**0**	**0**	**0**	**40,120**	**0**	**0**
of which impaired	0	0	0	0	0	0	0	0	0
Total as at 31/12/2016	**0**	**0**	**0**	**0**	**0**	**0**	**130,171**	**0**	**0**
of which impaired	0	0	0	0	0	0	0	0	0

E.1 Financial assets sold but not fully derecognized: balance sheet value and entire value - part 2

Technical forms/Portfolio	Financial assets held through maturity			Receivables from banks			Receivables from customers			Total as at 31/12/2017	Total as at 31/12/2016
	recognized in full (balance sheet value)	partially recognized (balance sheet value)	partially recognized (entire value)	recognized in full (balance sheet value)	partially recognized (balance sheet value)	partially recognized (entire value)	recognized in full (balance sheet value)	partially recognized (balance sheet value)	partially recognized (entire value)		
A, Cash assets											
1. Debt securities	0	0	0	0	0	0	0	0	0	41,354	130,171
2. Equity instruments	0	0	0	0	0	0	0	0	0	0	0
3. O.I.C.R.	0	0	0	0	0	0	0	0	0	0	0
4. Loans	0	0	0	0	0	0	0	0	0	0	0
B. Derivative instruments	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Total as at 31/12/2017	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**41,354**	**0**
of which impaired	0	0	0	0	0	0	0	0	0	0	0
Total as at 31/12/2016	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**130,171**
of which impaired	0	0	0	0	0	0	0	0	0	0	0

E.2 Financial liabilities for financial assets sold but not derecognized: balance sheet value

Liabilities/Assets Portfolio	Financial assets held for trading	Financial assets measured at fair value	Financial assets available for sale	Financial assets held through maturity	Receivables from banks	Receivables from customers	Total as at 31/12/2017	Total as at 31/12/2016
1. Payables to customers								
a) for assets recognized in full	0	0	39,936	0	0	0	39,936	129,624
b) for assets partially recognized	0	0	0	0	0	0	0	0
2. Payables to banks								

Liabilities/Assets Portfolio	Financial assets held for trading	Financial assets measured at fair value	Financial assets available for sale	Financial assets held through maturity	Receivables from banks	Receivables from customers	Total as at 31/12/2017	Total as at 31/12/2016
a) for assets recognized in full	0	0	0	0	0	0	0	0
b) for assets partially recognized	0	0	0	0	0	0	0	0
Total as at 31/12/2017	**0**	**0**	**39,936**	**0**	**0**	**0**	**39,936**	
Total as at 31/12/2016	**0**	**0**	**129,624**	**0**	**0**	**0**		**129,624**

E.3 Sales with liabilities that have recourse exclusively on the transferred assets (Part 1)

Technical forms/Portfolio	Financial assets held for trading		Financial assets measured at fair value		Financial assets available for sale		Financial assets held through maturity (fair value)	
	Recognized in full	Partially recognized	Recognized in full	Partially recognized	Recognized in full	Partially recognized	Recognized in full	Partially recognized
A. Cash assets	**0**	**0**	**0**	**0**	**41,354**	**0**	**0**	**0**
1) Debt securities	0	0	0	0	41,354	0	0	0
2) Equity instruments	0	0	0	0	0	0	0	0
3) O.I.C.R.	0	0	0	0	0	0	0	0
4) Loans	0	0	0	0	0	0	0	0
B. Derivative instruments	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Total assets	**0**	**0**	**0**	**0**	**41,354**	**0**	**0**	**0**
C. Associated liabilities	**0**	**0**	**0**	**0**	**39,936**	**0**	**0**	**0**
1) Payables to customers	0	0	0	0	39,936	0	0	0
2) Payables to banks	0	0	0	0	0	0	0	0
Total liabilities	**0**	**0**	**0**	**0**	**39,936**	**0**	**0**	**0**
Net value	**0**	**0**	**0**	**0**	**1,418**	**0**	**0**	**0**

E.3 Sales with liabilities that have recourse exclusively on the transferred assets (Part 2)

Technical forms/Portfolio	Receivables from banks (fair value)		Receivables from customers (fair value)		Total		Total as at 31/12/2017	Total as at 31/12/2016
	Recognized in full	Partially recognized	Recognized in full	Partially recognized	Recognized in full	Partially recognized		
A. Cash assets	**0**	**0**	**0**	**0**	**41,354**	**0**	**41,354**	**130,171**
1) Debt securities	0	0	0	0	41,354	0	41,354	130,171
2) Equity instruments	0	0	0	0	0	0	0	0
3) O.I.C.R.	0	0	0	0	0	0	0	0
4) Loans	0	0	0	0	0	0	0	0
B. Derivative instruments	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Total assets	**0**	**0**	**0**	**0**	**41,354**	**0**	**41,354**	**130,171**
C. Associated liabilities	**0**	**0**	**0**	**0**	**39,936**	**0**	**39,936**	**129,624**
1) Payables to customers	0	0	0	0	39,936	0	39,936	129,624
2) Payables to banks	0	0	0	0	0	0	0	0

Technical forms/Portfolio	Receivables from banks (fair value)		Receivables from customers (fair value)		Total		Total as at 31/12/2017	Total as at 31/12/2016
	Recognized in full	Partially recognized	Recognized in full	Partially recognized	Recognized in full	Partially recognized		
Total liabilities	**0**	**0**	**0**	**0**	**39,936**	**0**	**39,936**	**129,624**
Net value	**0**	**0**	**0**	**0**	**1,418**	**0**	**1,418**	**547**

With reference to receivables from customers and payables to customers, the "fair value" used in the table is equivalent to the amortized cost.

F – Models for measurement of credit risk

For the purpose of accurate management of credit risk, models and procedures aimed at classifying customers into risk classes are used. Such models are not currently used for the purpose of calculating equity coefficients in that, for this purpose the Bank uses standardized methods.

Section 2 – Market risks

2.1 Interest rate risk and price risk – regulatory trading portfolio

Qualitative information

A. General information

The primary activity of the Bank is trading financial instruments exposed to interest rate risk.

The strategy underlying its trading activity corresponds both to treasury needs and to the objective of enhancing the risk/yield profile of portfolio investments in terms of the interest rate risk and the counterparty's credit risk.

Trading regards exclusively operations involving bonds.

B. Management procedures and measurement methods of the interest rate risk and price risk

The Finance Area Regulations establish both operating limits (both in terms of portfolio value as well as the breakdown by type of security) and limits for exposure to interest rate risk (in terms of financial duration).

Quantitative information

D.2.1 Interest rate risk e price risk - regulatory trading portfolio

D.2.1.1 Regulatory trading portfolio: distribution by residual duration (re-pricing date) of cash financial assets and liabilities and financial derivatives – all currencies

Type /Residual duration	On demand	Up to 3 months	Beyond 3 months through 6 months	Beyond 6 months through 1 year	Beyond 1 year through 5 years	Beyond 5 years through 10 years	Beyond 10 years	Indefinite duration	Total
1. Cash assets									
1.1 Debt securities									
- with an early repayment option	0	0	0	0	0	0	0	0	**0**
- other	0	5,017	0	0	6,859	0	0	0	**11,876**
1.2 Other assets	0	0	0	0	0	0	0	0	**0**
2. Cash liabilities									
2.1 Repurchase agreements on debt	0	0	0	0	0	0	0	0	**0**
2.2 Other liabilities	0	0	0	0	0	0	0	0	**0**
3, Financial derivatives									
3.1 With underlying security									
- Options									
+ long-term positions	0	0	0	0	0	0	0	0	**0**
+ short-term positions	0	0	0	0	0	0	0	0	**0**
- Other derivatives									
+ long-term positions	0	0	0	0	0	0	0	0	**0**
+ short-term positions	0	0	0	0	0	0	0	0	**0**
3.2 Without underlying security									
- Options									
+ long-term positions	0	0	0	0	0	0	0	0	**0**
+ short-term positions	0	0	0	0	0	0	0	0	**0**
- Other derivatives									
+ long-term positions	0	0	0	0	0	332	0	0	**332**
+ short-term positions	0	0	0	0	0	332	0	0	**332**

2.2 Interest rate risk and price risk – bank portfolio

Qualitative information

A. General information, management procedures and measurement methods of interest rate risk and price risk

Interest rate risk is created by an imbalance between the due dates (re-pricing) of asset and liability items belonging to the bank portfolio. This latter is composed of all the financial instruments, assets and liabilities, not included in the trading portfolio in accordance with the regulatory provisions outlined in section 2.1.

General Management is responsible for setting forth the guidelines for banking book management, in compliance with the strategic policies defined by the Board of Directors, and monitoring banking book management trends.

The Risk Management proposes possible banking book interest rate risk management and mitigation measures to General Management.

Interest rate risk mitigation is pursued by means of integrated management of bank assets and liabilities and is aimed at stabilizing interest income and safeguarding the economic value of the bank portfolio.

In particular, management of the securities portfolio is based principally on maintaining the Banks liquidity reserves.

The main sources of interest rate risk consist in fixed rate items. Assets are principally represented by securities in the AFS sector (BTP) and mortgage loans.

The interest rate risk inherent in the bank portfolio is monitored by the Bank on a monthly basis.

B. Hedging of fair value

The Bank did not carry out any fair value hedging operations, with the exception of implicit hedging deriving from integrated management of bank assets and liabilities.

C. Hedging of cash flows

The Bank did not carry out any cash flow hedging operations.

D.2.2.1 Bank portfolio: distribution by residual duration (by re-pricing date) of financial assets and liabilities – All currencies

Type/Residual duration	On demand	Up to 3 months	Beyond 3 months through 6 months	Beyond 6 months through 1 year	Beyond 1 year through 5 years	Beyond 5 years through 10 years	Beyond 10 years	Indefinite duration	Total
1. Cash assets									
1.1 Debt securities									
- with an early repayment option	0	0	0	0	0	0	0	0	**0**
- other	0	93,708	29,626	5,326	276,025	114,377	11,420	0	**530,481**
1.2 Loans to banks	51,519	106,796	0	10,010	15,042	0	0	0	**183,366**
1.3 Loans to customers									
- bank accounts	415,144	7,636	7,518	1,132	15,081	402	0	0	**446,913**
- Other loans									
- with an early repayment option	16,043	80,563	8,948	4,992	0	0	0	0	**110,546**
- other	1,378,623	171,225	70,116	49,359	159,066	27,035	32,586	0	**1,888,011**
2. Cash liabilities									
2.1 Payables to customers									
- bank accounts	1,899,621	25,972	27,356	16,168	223,624	0	0	0	**2,192,741**
- other liabilities									
- with an early repayment option	0	0	0	0	0	0	0	0	**0**
- others	72,782	0	0	0	39,936	0	0	0	**112,718**
2.2 Payables to banks									
- bank accounts	11,256	0	0	0	0	0	0	0	**11,256**
- other liabilities	13,402	321	0	0	479,000	0	0	0	**492,724**

Type/Residual duration	On demand	Up to 3 months	Beyond 3 months through 6 months	Beyond 6 months through 1 year	Beyond 1 year through 5 years	Beyond 5 years through 10 years	Beyond 10 years	Indefinite duration	Total
2.3 Debt securities									
- with an early repayment option	0	0	0	0	0	0	0	0	**0**
- other	627	37,183	38,806	28,934	111,258	35,152	0	0	**251,959**
2.4 Other liabilities									
- with an early repayment option	0	0	0	0	0	0	0	0	**0**
- other	0	0	0	0	0	0	0	0	**0**
3. Financial derivatives									
3.1 With underlying security									
- Options									
+ long-term positions	0	0	0	0	0	0	0	0	**0**
+ short-term positions	0	0	0	0	0	0	0	0	**0**
- Other derivatives									
+ long-term positions	0	0	0	0	0	0	0	0	**0**
+ short-term positions	0	0	0	0	0	0	0	0	**0**
3.2 Without underlying security									
- Options									
+ long-term positions	0	0	0	0	0	0	0	0	**0**
+ short-term positions	0	0	0	0	0	0	0	0	**0**
- Other derivatives									
+ long-term positions	0	8,642	23,045	168	5,000	0	0	0	**36,854**
+ short-term positions	0	8,641	8,041	167	20,000	0	0	0	**36,849**
4 Other off balance operations									
+ long-term positions	5,276	5,618	2,186	2,672	15,079	61	662	0	**31,552**
+ short-term positions	31,552	0	0	0	0	0	0	0	**31,552**

Note:
Long-term positions and short-term positions in “other derivatives” at point 3.2 are expressed in notional values.

2.3 Exchange rate risk

Qualitative information

A. General information, management procedures and methods to measure the exchange rate risk

The exchange rate risk represents the risk of suffering losses on operations in foreign currency, due to the effect of negative variations to foreign currencies.

This type of transaction constitutes a profit component; the Bank’s policy is to continuously maintain a foreign currency position that is substantially neutral, in order to minimize the exchange rate risk. The Bank is marginally exposed to the Exchange rate risk due to assets used to serve customers.

Exposure to exchange rate risk is measured using a methodology that faithfully follows what is provided by the Supervisory Regulations.

Measurement is based on the calculation of the “net position in foreign exchanges”, i.e. the balance of all assets and liabilities (in financial statements and “off balance sheet”) related to each foreign currency, including operations in Euro indexed to the exchange rate trend of foreign currency.

The organizational structure provides that the management of the exchange rate risk is delegated to the Foreign Office for assets used to service customers and to the Securities Treasury Office for financial instruments, whereas the measurement of exposure is attributed to the Risk Management Office based on the data provided by the Management Control Office.

B. Hedging of exchange rate risk

Considering the very limited exposure to exchange rate risk, no particular hedging operations have been implemented. In fact, cash exposures and foreign exchange transactions and forward foreign exchange transactions with customers are balanced by opposite transactions with banks.

Furthermore, limits are set by corporate regulations on unmatched foreign currency positions.

Quantitative information

D.2.3 Exchange rate risk

D.2.3.1 Distribution by denominated currency of assets, liabilities and derivatives

Line items	Currency					
	US dollars	Swiss francs	British pound sterling	Japanese yen	Canadian dollar	Other currencies
A. Financial assets						
A.1 Debt securities	0	0	0	0	0	0
A.2 Equity instruments	0	0	0	0	0	0
A.3 Loans to banks	9,849	442	121	129	189	270
A.4 Loans to customers	18,078	0	0	0	0	0
A.5 Other financial assets	0	0	0	0	0	0
B. Other assets	**76**	**13**	**79**	**21**	**13**	**83**
C. Financial liabilities						
C.1 Payables to banks	13,412	0	0	134	0	187
C.2 Payables to customers	10,302	461	142	20	37	109
C.3 Debt securities	0	0	0	0	0	0
C,4 Other financial liabilities	0	0	0	0	0	0
D. Other liabilities	**0**	**0**	**0**	**0**	**0**	**0**
E. Financial derivatives						
- Options						
+ Long-term positions	0	0	0	0	0	0
+ Short-term positions	0	0	0	0	0	0
- Other derivatives						
+ Long-term positions	5,988	0	0	0	0	0
+ Short-term positions	5,789	0	0	0	0	0
Imbalance	**33,991**	**454**	**199**	**150**	**202**	**352**
Total liabilities	**29,503**	**461**	**142**	**154**	**37**	**296**
Unbalance (+/-)	**4,488**	**-6**	**57**	**-4**	**164**	**56**

2.4 Derivative instruments

A. Financial derivatives

D.2.4.A.1 Regulatory trading portfolio: Notional and end period values

Underlying assets/Type of derivative	Total as at 31/12/2017		Total as at 31/12/2016	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates				
a) Options	40,000	0	40,000	0
b) Swap	0	0	0	0
c) Forward	0	0	0	0
d) Futures	0	0	0	0
e) Other	0	0	0	0
2. Equity instruments and equity indexes	0	0	0	0
a) Options	0	0	0	0
b) Swap	0	0	0	0
c) Forward	0	0	0	0
d) Futures	0	0	0	0
e) Other	0	0	0	0
3. Foreign currencies and gold	0	0	0	0
a) Options	0	0	0	0
b) Swap	0	0	0	0
c) Forward	0	0	0	0
d) Futures	0	0	0	0
e) Other	0	0	0	0
4. Goods	0	0	0	0
5. Other underlying assets	0	0	0	0
Total	40,000	0	40,000	0
Average values	**40,000**	**0**	**20,297**	**0**

D.2.4.A.2.1 Bank portfolio: notional values at end period - hedges

Underlying assets/Type of derivative	Total as at 31/12/2017		Total as at 31/12/2016	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates				
a) Options	0	0	0	0
b) Swap	25,000	0	5,000	0
c) Forward	0	0	0	0
d) Futures	0	0	0	0
e) Other	0	0	0	0
2. Equity instruments and equity indexes	0	0	0	0
a) Options	0	0	0	0
b) Swap	0	0	0	0
c) Forward	0	0	0	0
d) Futures	0	0	0	0
e) Other	0	0	0	0
3. Foreign currencies and gold	0	0	0	0
a) Options	0	0	0	0
b) Swap	0	0	0	0
c) Forward	11,777	0	11,236	0
d) Futures	0	0	0	0
e) Other	0	0	0	0
4. Goods	0	0	0	0
5. Other underlying assets	0	0	0	0
Total	**36,777**	**0**	**16,236**	**0**
Average values	**26,507**	**0**	**17,118**	**0**

D.2.4.A.3 Financial derivatives: positive gross fair value – division by product

Portfolios/Type of derivative	Positive fair value			
	Total as at 31/12/2017		Total as at 31/12/2016	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Regulatory trading portfolio				
a) Options	0	0	0	0
b) Interest rate swap	246	0	365	0
c) Cross currency swap	0	0	0	0
d) Equity swap	0	0	0	0
e) Forward	0	0	0	0
f) Futures	0	0	0	0
g) Other	0	0	0	0
B. Bank portfolio - hedges				
a) Options	0	0	0	0
b) Interest rate swap	0	0	0	0

Portfolios/Type of derivative	Positive fair value			
	Total as at 31/12/2017		Total as at 31/12/2016	
	Over the counter	Central counterparties	Over the counter	Central counterparties
c) Cross currency swap	0	0	0	0
d) Equity swap	0	0	0	0
e) Forward	0	0	237	0
f) Futures	0	0	0	0
g) Other	0	0	0	0
C. Bank portfolio - other derivatives				
a) Options	0	0	0	0
b) Interest rate swap	0	0	0	0
c) Cross currency swap	0	0	0	0
d) Equity swap	0	0	0	0
e) Forward	86	0	0	0
f) Futures	0	0	0	0
g) Other	0	0	0	0
Total	**332**	**0**	**602**	**0**

D.2.4.A.4 Financial derivatives: negative gross fair value – division by product

Underlying assets/Type of derivative	Negative fair value			
	Total as at 31/12/2017		Total as at 31/12/2016	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Regulatory trading portfolio				
a) Options	0	0	0	0
b) Interest rate swap	0	0	0	0
c) Cross currency swap	0	0	0	0
d) Equity swap	0	0	0	0
e) Forward	0	0	0	0
f) Futures	0	0	0	0
g) Other	0	0	0	0
B. Bank portfolio – hedges				
a) Options	0	0	0	0
b) Interest rate swap	769	0	197	0
c) Cross currency swap	0	0	0	0
d) Equity swap	0	0	0	0
e) Forward	0	0	231	0
f) Futures	0	0	0	0
g) Other	0	0	0	0
C. Bank portfolio - other derivatives				
a) Options	0	0	0	0
b) Interest rate swap	0	0	0	0
c) Cross currency swap	0	0	0	0
d) Equity swap	0	0	0	0
e) Forward	80	0	0	0

Underlying assets/Type of derivative	Negative fair value			
	Total as at 31/12/2017		Total as at 31/12/2016	
	Over the counter	Central counterparties	Over the counter	Central counterparties
f) Futures	0	0	0	0
g) Other	0	0	0	0
Total	**849**	**0**	**427**	**0**

D.2.4.A.5 Over the counter financial derivatives – trading portfolio: notional values, positive and negative gross fair value by counterparties - contracts that are not part of netting agreements

Contracts that are not part of netting agreements	Governments and central banks	Other public entities	Banks	Finance companies	Insurance companies	Non finance companies	Other parties
1) Debt securities and interest rates							
- notional value	0	0	332	0	0	0	0
- positive fair value	0	0	332	0	0	0	0
- negative fair value	0	0	0	0	0	0	0
- future exposure	0	0	4	0	0	0	0
2) Equity instruments and equity indexes							
- notional value	0	0	0	0	0	0	0
- positive fair value	0	0	0	0	0	0	0
- negative fair value	0	0	0	0	0	0	0
- future exposure	0	0	0	0	0	0	0
3) Foreign currencies and gold							
- notional value	0	0	0	0	0	0	0
- positive fair value	0	0	0	0	0	0	0
- negative fair value	0	0	0	0	0	0	0
- future exposure	0	0	0	0	0	0	0
4) Other values							
- notional value	0	0	0	0	0	0	0
- positive fair value	0	0	0	0	0	0	0
- negative fair value	0	0	0	0	0	0	0
- future exposure	0	0	0	0	0	0	0

D.2.4.A.7 Over the counter financial derivatives - bank portfolio: notional values, positive and negative gross fair value by counterparties - contracts that are not part of netting agreements

Contracts that are not part of netting agreements	Governments and central banks	Other public entities	Banks	Finance companies	Insurance companies	Non finance companies	Other parties
1) Debt securities and interest rates							
- notional value	0	0	0	0	0	0	0
- positive fair value	0	0	0	0	0	0	0
- negative fair value	0	0	0	0	0	0	0
- future exposure	0	0	0	0	0	0	0
2) Equity instruments and equity indexes							
- notional value	0	0	0	0	0	0	0
- positive fair value	0	0	0	0	0	0	0
- negative fair value	0	0	0	0	0	0	0
- future exposure	0	0	0	0	0	0	0

Contracts that are not part of netting agreements	Governments and central banks	Other public entities	Banks	Finance companies	Insurance companies	Non finance companies	Other parties
3) Foreign currencies and gold							
- notional value	0	0	5,988	0	0	5,558	231
- positive fair value	0	0	6	0	0	78	1
- negative fair value	0	0	77	0	0	3	0
- future exposure	0	0	61	0	0	56	2
4) Other values							
- notional value	0	0	0	0	0	0	0
- positive fair value	0	0	0	0	0	0	0
- negative fair value	0	0	0	0	0	0	0
- future exposure	0	0	0	0	0	0	0

D.2.4.A.8 Over the counter financial derivatives - bank portfolio: notional values, positive and negative gross fair value by counterparties - contracts that are a part of netting agreements

Contracts that are not part of netting agreements	Governments and central banks	Other public entities	Banks	Finance companies	Insurance companies	Non finance companies	Other parties
1) Debt securities and interest rates							
- notional value	0	0	25,000	0	0	0	0
- positive fair value	0	0	0	0	0	0	0
- negative fair value	0	0	769	0	0	0	0
- future exposure	0	0	125	0	0	0	0
2) Equity instruments and equity indexes							
- notional value	0	0	0	0	0	0	0
- positive fair value	0	0	0	0	0	0	0
- negative fair value	0	0	0	0	0	0	0
- future exposure	0	0	0	0	0	0	0
3) Foreign currencies and gold							
- notional value	0	0	0	0	0	0	0
- positive fair value	0	0	0	0	0	0	0
- negative fair value	0	0	0	0	0	0	0
- future exposure	0	0	0	0	0	0	0
4) Other values							
- notional value	0	0	0	0	0	0	0
- positive fair value	0	0	0	0	0	0	0
- negative fair value	0	0	0	0	0	0	0
- future exposure	0	0	0	0	0	0	0

D.2.4.A.9 Residual life of over the counter financial derivatives: notional values

Underlying assets/Residual life	Up to 1 year	Beyond 1 year and up to 5 years	Beyond 5 years	Total as at 31/12/2017
A. Regulatory trading portfolio				
A.1 Financial derivatives on debt securities and interest rates	0	0	0	**0**
A.2 Financial derivatives on equity instruments and equity indexes	0	0	0	**0**

Underlying assets/Residual life	Up to 1 year	Beyond 1 year and up to 5 years	Beyond 5 years	Total as at 31/12/2017
A,3 Financial derivatives on exchange rates and gold	0	0	0	**0**
A.4 Financial derivatives on other values	0	0	0	**0**
B. Bank portfolio				
B.1 Financial derivatives on debt securities and interest rates	0	25,000	0	**25,000**
B.2 Financial derivatives on equity instruments and equity indexes	0	0	0	**0**
B.3 Financial derivatives on exchange rates and gold	11,777	0	0	**11,777**
B.4 Financial derivatives on other values	0	0	0	**0**
Total as at 31/12/2017	**11,777**	**25,000**	**0**	**36,777**
Total as at 31/12/2016	**11,236**	**5,000**	**40,000**	**56,236**

Section 3 – Liquidity risk

Qualitative information

A. General information, management procedures and methods to measure liquidity risk

Liquidity risk is managed principally by the Treasury and Own Portfolio Office, the Management Control Office and Risk Management, with the aim of verifying the Bank's capacity to efficiently face liquidity requirements and avoid situations of excessive and/or insufficient liquidity, with the consequent need to invest and/or find funds at unfavorable rates with respect to market rates.

The overall model implemented by the Bank to manage and monitor liquidity risk is divided into three separate sectors, according to the perimeter of reference, the time span and the frequency analysis:

- management of intraday liquidity, that is management of daily adjustment of liabilities and receivables on various settlement, payment and compensations systems in which the Bank participates;

- management of operating funds, that is the management of decidedly unstable events that impact the Bank's liquidity standing, principally with the objective of maintaining the Bank's capacity to meet ordinary and extraordinary payment obligations, in a cost-effective manner;

- management of structural liquidity, that is, management of all the bank portfolio events that impact the Bank's overall liquidity position on the medium-term, aiming primarily to maintain an appropriate balance between assets and liabilities on the medium and long-term.

Significant support for liquidity risk management is provided by the monitoring activities carried out by the Risk Management Office, based on a management model that measures the effect of investment/financing operations based on the distribution by transaction expiry. Operations are measured using Asset and Liability Management methods, which allow evaluating and assessing both Bank cash flow requirements/surplus generated by unbalances between cash inflow and cash outflow, and the structural balance deriving from the correct composition by maturity of cash sources and lending.

In line with domestic and International best practices and in compliance with vigilance provisions, the model adopted by the Bank to manage operating liquidity is based on the “Maturity Mismatch” approach, which presupposes the construction of a “maturity ladder” (a timeframe of maturity dates) and the allocation of sure and estimated flows over the various periods of the ladder, in order to calculate the cumulative gap for each maturity bracket.

Within the scope of its liquidity policy and in accordance with the tolerance threshold decided by the Board of Directors, the Bank has defined a series of alerts to manage both operating liquidity and structural liquidity.

As regards operating liquidity management, the limits are defined in terms of the absolute cumulative gap values on the various maturities.

The Bank continuously monitors the Counterbalancing Capacity (CBC) value, intended as the availability of assets that may be reimbursed, sold or used in refinancing transactions with the interbanking system and that therefore allow generating cash funds rapidly and efficiently.

The limit adopted by the Bank to monitor structural liquidity is instead defined in terms of the ratio between liabilities and assets with maturities in excess of one year. The aim of using this limit is that of guaranteeing a structural liquidity profile that is consistent with the strategy of financing medium/long-term assets with liabilities that have the same duration.

The Bank has also prepared and implemented a “Liquidity Risk Management and Governance Manual” and a “Contingency Liquidity Plan”, which are instruments used to mitigate liquidity risks.

The document details the persons and structures responsible for implementing extraordinary funding policies, as required, as well as any actions to be taken to remedy the extraordinary event situation, in compliance with the regulatory requirements provided for by vigilance regulations.

In the Contingency Liquidity Plan, the Bank has defined a series of risk indicators that are constantly monitored in order to anticipate possible stress or liquidity crisis situations.

The Bank has further implemented the Liquidity Coverage Ratio (LCR) indicator, in accordance with Commission Delegated Regulation (EU) n. 575 dated 26 June 2013 of the European Parliament (CRR Regulations), as well as the additional indications and recommendations of the European Banking Authority on this subject.

As regards the Net Stable Funding Ratio (NSFR), the Bank has implemented a management-type measurement, according to the provisions of the Basel 3 Framework.

As mentioned in other sections of the Explanatory Notes, during 2017 the Bank extinguished the old “Pontormo RMBS 2012” self-securitization transaction and set up a new self-securitization transactions called “Pontormo RMBS 2017”. This transaction was perfected with the intent of obtaining securities that could be lodged with the European Central Bank for refinancing operations. The operation was finalized with the sale of a portfolio of performing real estate mortgage loans by the Bank, and undersigning by the same Bank of the Senior and Junior Notes issued by the special purpose vehicle.

For the sake of completeness of the information provided, the details of the transaction are set forth in the respective section.

Quantitative information

A.1 Time period distribution by residual contract duration of financial assets and liabilities- All currencies

Line items/All currencies	On demand	Beyond 1 Beyond 7 days	Beyond 7 days through 15 days	Beyond 15 days through 1 month	Beyond 1 month up to 3 months	Beyond 3 months through 6 months	Beyond 6 months through 1 year	Beyond 1 year through 5 years	Beyond 5 years	Indefinite duration	Totals
Cash assets											
A.1 Government bonds	0	0	2	0	676	1,313	1,991	259,334	138,981	0	402,298
A.2 Other debt securities	0	0	2	81,248	17,551	5,682	4,623	30,154	800	0	140,060
A.3 Shares of mutual funds	13,100	0	0	0	0	0	0	0	0	0	13,100
A.4 Loans	635,699	26,616	16,344	41,742	183,393	137,499	142,378	677,265	701,192	66,709	2,628,835
- Banks	51,588	20,000	0	399	19,670	0	10,000	15,000	0	66,709	183,366
- Customers	584,111	6,616	16,344	41,343	163,723	137,499	132,378	662,265	701,192	0	2,445,470
Cash liabilities											
B.1 Deposits and bank accounts	1,840,384	579	2,368	2,466	217,954	27,328	16,195	702,165	0	0	2,809,439
- Banks	24,659	0	85	0	236	0	0	479,000	0	0	503,980
- Customers	1,815,725	579	2,282	2,466	217,718	27,328	16,195	223,165	0	0	2,305,459
B.2 Debt securities	638	15	1,387	2,785	33,626	35,638	29,882	114,074	33,914	0	251,959
B.3 Other liabilities	14,006	0	0	0	0	2,514	2,502	526,041	0	0	545,061
“Off balance sheet” transactions											
C.1 Financial derivatives with an exchange of principal	0	-3,023	0	0	-1	4	0	0	0	0	-3,019
- Long-term positions	0	3,458	0	214	5,056	3,045	168	0	0	0	11,940
- Short-term positions	0	6,481	0	214	5,057	3,041	167	0	0	0	14,959
C.2 Financial derivatives without an exchange of principal	246	0	0	0	0	-135	-135	-885	0	0	-908
- Long-term positions	246	0	0	0	0	20	20	119	0	0	406
- short-term positions	0	0	0	0	0	155	155	1,004	0	0	1,313
C.3 Deposits and loans to be received	0	0	0	0	0	0	0	0	0	0	0
- Long-term positions	0	0	0	0	0	0	0	0	0	0	0
- Short-term positions	0	0	0	0	0	0	0	0	0	0	0
C.4 Irrevocable commitments to issue funds	-29,940	0	0	21	52	468	991	16,408	12,000	0	0
- Long-term positions	1,612	0	0	21	52	468	991	16,408	12,000	0	31,552
- Short-term positions	31,552	0	0	0	0	0	0	0	0	0	31,552
C.5 Financial guarantees issued	0	0	0	0	72	224	860	20,611	29,941	0	51,708
C.6 Financial guarantees received	0	0	0	0	0	0	0	0	0	0	0
C.7 Credit derivatives with an exchange of principal	0	0	0	0	0	0	0	0	0	0	0
- Long-term positions	0	0	0	0	0	0	0	0	0	0	0
- Short-term positions	0	0	0	0	0	0	0	0	0	0	0
C.8 Credit derivatives without an exchange of principal	0	0	0	0	0	0	0	0	0	0	0
- Long-term positions	0	0	0	0	0	0	0	0	0	0	0
- Short-term positions	0	0	0	0	0	0	0	0	0	0	0

List of guarantees – Situation with Eurosystem as at 31/12/2017

Isin	Security	Par value	Fair value	ECB Assessment	ECB differences	Specifics
IT0005240491	BMPS 17-18 0.5%	80,000	80,190	69,741	-10,450	On balance sheet
XS1070681397	BANCO POPOLARE 14-18 2.375%	1,000	1,024	890	-134	On balance sheet
XS1696459731	ICCREA 17-22 1.5%	7,000	7,035	5,049	-1,985	On balance sheet

Isin	Security	Par value	Fair value	ECB Assessment	ECB differences	Specifics
IT0005087330	ICCREA 15-18 TV	5,000	5,017	4,360	-658	On balance sheet
IT0004889165	BANCO POPOLARE 13-18 TM	3,654	3,666	3,189	-477	On balance sheet
IT0004897200	ICCREA/IND 20180320	7,135	7,128	6,206	-922	On balance sheet
IT0005144677	BANCO POPOLARE 15-20 TV	11,466	11,101	7,776	-3,324	On balance sheet
IT0005158677	BANCO BPM 15-21 TV	3,858	3,738	2,627	-1,110	On balance sheet
IT0005244782	BTP 01.04.2022 1.2%	5,000	5,151	4,681	-469	On balance sheet
IT0005094088	BTP 01.03.2032 1.65	12,500	11,420	9,974	-1,446	On balance sheet
IT0005170839	BTP 01.06.2026 1.6%	3,400	3,363	2,995	-369	On balance sheet
IT0005210650	BTP 01.12.2026 1.25%	2,500	2,390	2,127	-264	On balance sheet
IT0005185456	CCTEU 15.07.23 TV	500	506	477	-29	On balance sheet
1	Collateralized receivables	243,376	243,376	104,651	-138,724	On balance sheet
IT0005315228	PONTORMO RMBS 17-60 TV CL A2	360,925	360,925	327,690	-33,235	Off balance sheet
	Totals	**747,314**	**746,028**	**552,432**	**-193,596**	
	Refinancing with Eurosystem - Use	479,000		-479,000		
	Credit line			**73,432**		

List of deposits with Eurosystem as at 31/12/2017

Amount	Rate	Maturity
479,000	0.00000	24/06/2020
479,000	**0.00000**	

List of guarantees – Situation with Cassa Compensazione e Garanzia and other parties as at 31/12/2017

Isin	Security	Par value	Fair value
IT0005256471	CTZ 30.05.2019	40,000	40,120
	Totals	**40,000**	**40,120**

INFORMATION ON THE SELF-SECURITIZATION TRANSACTIONS– PONTORMO RMBS 2012

General information and extinction of the transaction

In 2017, the company Pontormo RMBS s.r.l. (hereinafter: Company or SPV) closed its sixth year of activity. The exclusive purpose of the company is the realization of one or more securitizations of receivables by means of the purchase of monetary receivables, both existing as well as future, financed by the issue of securities, in accordance with article 1(1)(b) of Italian Law n. 130/99 (the so-called "Securitization Law").

During its first year of activity, in 2012, the Company, which was incorporated on 20 June 2012 in accordance with the aforementioned Securitization law (and which has been registered since 19 October 2012 at n. 35038.9 in the List of securitization vehicles in accordance with Article 11 of Bank of Italy's Measure of 29 April 2011), realized the "Pontormo RMBS 2012", securitization transaction involving Banca Cambiano 1884 S.p.a. as Servicer, Originator and Note-Holder along with four other banking institutions: Banca di Pisa e Fornacette Credito Cooperativo S.c.p.a ([2]) ("Banca di Pisa e Fornacette"), Banca di Viterbo Credito Cooperativo S.c.p.a. ("Banca Viterbo"), Banca Popolare di Lajatico S.c.p.a. ("BP Lajatico"), Banca di Credito Cooperativo di Castagneto Carducci S.c.p.a. ("BCC Castagneto").

During the 2017 fiscal year, the Pontormo RMBS securitization operation was closed in advance of the set closure date; the main steps of the closure are described below:

- **Written Resolutions**: on 24 October 2017, Banca Cambiano, Banca di Pisa e Fornacette, BP Lajatico, BCC Castagneto and Banca Viterbo (hereinafter collectively referred to as "the Originator Banks"), as holders of the senior and junior notes, undersigned the Written Resolution, authorized the RON (Representative of the Noteholders) to give the consent to sell the portfolios and approved every measure required for early closure of the transaction.
- **Amendment Agreement**: on 24 October 2017, the parties involved in the transaction undersigned an Amendment Agreement to contracts undersigned within the scope of the transactions, in order to make all the amendments required for early redemption of the securities and closure of the transaction.
- **Repurchase Contracts**: on 24 October 2017, the Company and the Originator Banks undersigned the Repurchase Contracts by means of which the Company resells to each Originator, en bloc and without recourse, the respective residual credit portfolio, thereby allowing the Originators to close the operations in compliance with (and according to the waivers agreed upon) the Written Resolution.
- **Early Redemption of the Notes**: on 30 October 2017 (Final Payment Date), the Company proceeded with the early redemption of the notes and carried out all the payments in favor of all the parties involved in the transactions, based on the applicable order of priority of the payments.
- **Termination Agreement**: on 2 November 2017, following Early Redemption of the Notes on the part of the Company and upon completion of the above-mentioned payments, all the parties involved in the transaction undersigned the Termination Agreement by means of

[2] Former "Banca di Credito Cooperativo di Fornacette S.c.p.a.".

which the contracts undersigned within the scope of the transaction are terminated and all guarantees issued pursuant to Italian Law (Deed of Pledge) are released.

- **Deed of release**: subsequent to undersigning of the Termination Agreement, the Company and the Security Trustee undersigned the Deed of Release by means of which all guarantees issued pursuant to British Law (Deed of Charge) are released, thereby definitively relieving the Company of any obligation.

The termination operation (made by way of netting) lead to the purchase of the receivables (residual debt equal to € 99,525,952.50) on the part of Banca Cambiano, to which the following amounts were transferred on closure of the operations:

- 6,061,336.42 Euro as reimbursement of the Cash Reserve (30 October 2017);
- 30,183.27 Euro as reimbursement of the share of the Expenses Account (30 October2017);
- 1,533,095.10 Euro relative to zeroing of the accounts at BNY (reimbursement of bank transfers not relating to the third quarter of 2017 equal to € 1,533,095.09 and reimbursement of residual amounts equal to 0.01 Euro – 31 October 2017).

INFORMATION ON THE SELF-SECURITIZATION TRANSACTION– PONTORMO RMBS 2017

As of end of November 2017, Banca Cambiano is involved as Originator, Servicer and Noteholder in the “Pontormo RMBS 2017” securitization transaction with the special purpose vehicle company Pontormo RMBS s.r.l. The exclusive corporate purpose of the latter company, registered at n. 35038.9 in the list of securitization vehicles, is the realization of one or more securitizations of receivables.

The objectives of the Pontormo RMBS 2017 transactions (hereinafter “the Transaction”), the main characteristics of the issued Notes, a selection of quantitative information regarding the 2017 fiscal year and the description of the booking methods in the Bank balance sheet are illustrated below.

Objectives and structure of the Pontormo RMBS 2017 transactions

The Bank’s objective, in initiating Transaction was to transform part of the assets used (mortgage loans) in an asset backed security type of note (Pontormo RMBS Class A) to be used in a series of activities aimed at further facilitating any needs for liquidity, and specifically:

- Short/medium term liquidity through transactions with the Eurosystem;
- Medium term liquidity through Private REPOs (at 2-3 years);
- Refinancing transactions on the New Collateralized Interbank Market (New Mic);
- If the market opportunity arises, and consistently with the average weighted cost of the Bank’s funding, the sale of the ABS on the market.

The Transaction was concluded obtaining an ABS instrument (with underlying loans issued by the Bank) with a high credit rating: in fact, on issue, the Note had a rating of AA for S&P and AA- for FITCH, higher than the Italian sovereign debt rating (which was, at the same moment, Baa2 for Moody's, BBB for S&P and BBB for Fitch). Therefore, it was possible to transform part of the Bank’s

assets, which were otherwise not liquid (the real estate mortgage portfolio), into a financial instrument with a transparent rating that is potentially eligible and negotiable.
This Transaction stands out due to its "multi-originator" nature, in that in involves the participation of Banca di Pisa e Fornacette Credito Cooperativo ("Banca di Pisa e Fornacette") along with Banca Cambiano. Each Bank, by means of a sales contract stipulated on 14 November 2017, sold a portfolio of loans (each of which was separate and independent with respect to the other) consisting of receivables, in accordance with the Securitization Law, classified as "*in bonis*" in conformity with current supervisory regulations, and deriving from mortgage loans secured by voluntary mortgages on real property. Below are some of the principal general criteria for eligibility of the loans:

- The loans must be in Euros;
- Loans issued to physical persons residing in Italy who, in conformity with the classification criteria adopted by Bank of Italy with Circular. n 140 dated 11 February 1991 (as subsequently amended), fall under one of the following categories for sector of economic activity: n. 600 ("consumer families "); n, 614 ("artisans") or n. 615 ("producer families");
- Mortgage loans secured by voluntary mortgage on one or more real properties located on the Italian territory and with respect to which the real property on which the mortgage is secured (or, in case of one or more mortgages on more than one real property as guarantee for the same loan, the principal real property) is a residential property used as a dwelling;
- None of the borrowers is an employee, manager, statutory auditor or director of the Bank;
- None of the borrowers is a public administration or similar entity, nor a company that is directly or indirectly controlled by a public administration, nor a religious or ecclesiastic entity.

The above-mentioned banks acts as Servicer of their own portfolios transferred to the Vehicle Company.

The SPV paid the selling banks the price of 695,618,219.29 Euro as consideration for the purchase of the receivables, corresponding to the total of the individual purchase prices for the receivables, as specified below:

- Banca di Pisa e Fornacette: € 232,893,077.48;
- **Banca Cambiano: € 462,725,141.81;**

On 27 November 2017, in compliance with articles 1 and 5 of the Securitization Law, the SPV financed the purchase of the portfolio by issuing the classes of Notes specified below:

<u>Senior – (Class "A" Notes)</u>

- € 181,656,000 Class A1;
- **€ 360,925,000 Class A2**;

<u>Junior – (Class "B" Notes)</u>

- € 54,137,000 Class B1;
- **€ 107,562,000 Class B2**;

Subscriber	Isin	Class	Tranching Senior	Rating at issue	Nominal
Banca di Pisa e Fornacette	IT0005315210	Class A1	78.00%	AA / AA-	181,656,000
Banca Cambiano	**IT0005315228**	**Class A2**	**78.00%**	**AA / AA-**	**360,925,000**
		Class A Notes	**78.00%**		**438,700,000**
Banca di Pisa e Fornacette	IT0005315236	Class B1			54,137,000
Banca Cambiano	**IT0005315244**	**Class B2**			**107,562,000**
		Class B Notes			**137,961,000**

Class "A" Notes were listed on the Irish Stock Exchange, while class "B" Notes were neither listed nor given a rating.
Senior Notes generate interest at a Euribor-linked floating interest rate at 1 month (with a 0% floor) increased by a spread equal to 0.45%. Instead, Junior Notes, that do not have a coupon, receive flows other than capital that are due based on the order for each period of reference. Interest and revenue on Notes are paid monthly on the 25th of each month.
The Notes subscribed by Banca Cambiano are Class A2 (senior) and Class B2 (junior) Notes with the following characteristics:

Class A2
Currency: **Euro**
Amount at issue: **360,925,000**
Rate: **Euribor 1M (floor at 0%) + spread 0.45%**
Coupon: **monthly**
Legal Duration: **May 2060**
Redemption**: amortization linked to recovery of underlying receivables**
Rating at issue: **"AA-" by Fitch and "AA" by S&P**
Listing: **Irish Stock Exchange**
ISIN: **IT0005315228**
Applicable law: **Italian law**
Subscriber: **Banca Cambiano**

Class B2
Currency: **Euro**
Amount at issue: **107,562,000**
Rate: N.A.
Coupon: **monthly**
Legal duration: **May 2060**
Redemption**: amortization linked to recovery of underlying receivables**
Rating: **Unrated**
Listing: **Not listed on a stock exchange**
ISIN: **IT0005315244**
Applicable law: **Italian law**
Subscriber: **Banca Cambiano**

The Notes are all managed in dematerialized form by Monte Titoli S.p.a.

The Junior Notes include:

- A cash reserve ("Cash Reserve Amount") equal to 1.50% of the par value of the Senior Note issued (€ 5,413,875 for Banca Cambiano).

Cash Reserve Amount (1.50% of the par value of the issued Senior Note)		
	% of total	€
Banca di Pisa e Fornacette Cash Reserve Amount	33.48%	2,724,840
Banca Cambiano Cash Reserve Amount	66.52%	5,413,875
Total Reserve	**100.00%**	**8,138,715**

- The amount required to fund the reserve for expenses (Retention Amount) which, at the time of issue, corresponded to a share of € 53,216 for Banca Cambiano out of a total amount of € 80,000.00 Euro.

Retention Amount (reserve for expenses at issue)		
	% of total	€
Banca di Pisa e Fornacette	33.48%	26,784
Banca Cambiano	66.52%	53,216
Total	**100%**	**80,000**

The cash reserve, which corresponds to 1.50% of the issued Senior Notes, is a guarantee for Senior note holders (who in this case are the same as the originators and therefore there is also an implicit guarantee in favor of Banca Cambiano, which holds the Class "A2" Notes). An amortization of the cash reserve is also provided for (based on the amount of funds available), which is gradually repaid to the respective bank based on the amortization of the respective Senior Notes, up to a set minimum level (0.8% of the issued nominal value of the Senior Notes). At the moment, it is not possible to use the cash reserve in any way and it is provided that such a reserve remain available to the vehicle in the form of cash, contributing to the amount of available funds, if necessary.
The Retention Amount is an expense fund available to the vehicle, used by the structure for the vehicle's management costs. At each monthly settlement, on the basis of the documented costs sustained, this expense account/fund is replenished until it is the equivalent of the pre-established total amount of 80,000.00 Euro, of which the € 53,216 mentioned above represent the share for which Banca Cambiano was responsible at the time of subscription.
The Notes are repaid on the same date as the payment of interest, in accordance with recovery of the underlying receivables, available funds and the order of priority of payments (illustrated below).
The *interest period* becomes effective starting from a payment date (inclusive) through the following payment date (exclusive) and interest is calculated on the basis of the actual number of days that have passed, divided by 360.

The characteristics of the class "A" notes allow them to be used for loan transactions with the European Central Bank.

Selected quantitative information at 31/12/2017

A selection of some of the principal information of a quantitative nature regarding the operation in review is set forth below. The values, unless otherwise specified, are in Euro and refer to 31 December 2017.

Securitized assets

At the close of 2017, self-securitized assets were equivalent to their purchase price, net of the amounts received as at transfer date of 31 December 2017 and the amounts to be received for collections during the fiscal year but not yet transferred by the Servicers and increased by accrued interest due as at 31 December 2017.

	31/12/2017
Securitized receivables in bonis	672,336,159
Receivables for interest accrued but not yet received	9,451
Total	**672,345,610**

At 31 December 2017, no accounts were classified as "impaired" nor as "probable defaults".
Assets transferred by Banca Cambiano had the following characteristics:

	31/12/2017
Residual capital	447,424,006.71
Number of loans	5,419
Average residual life (years)	16.76
Weighted average rate	2.01%
Average amount of the loans	82,563
Current LTV	0.6313

The table below indicates the outstanding securitized assets as at del 31 December 2017, classified on the basis of their residual life.

	Total Portfolio		Banca Cambiano Portfolio	
	Balance at 31/12/2017	Impact %	Balance at 31/12/2017	Impact %
Up to 3 months	52,415	0.01%	38,415	0.01%
From 3 to 6 months	172,359	0.03%	131,438	0.03%
From 6 to 12 months	673,500	0.10%	465,217	0.10%
From 12 to 60 months	21,495,598	3.20%	15,178,258	3.39%
Over 60 months	649,942,286	96.67%	431,610,679	96.47%
Total	**672,336,159**	**100.00%**	**447,424,007**	**100.00%**

Finally, the table below shows the breakdown of the portfolio subdivided by category, as at 31 December 2017.

	Total Portfolio		Banca Cambiano Portfolio	
	Number of positions	Balance at 31/12/2017	Number of positions	Balance at 31/12/2017
Up to 25,000	1,126	15,452,311	795	10,904,151
From 25,000 to 75,000	2,974	147,614,230	2,090	102,595,617
From 75,000 to 250,000	3,712	457,312,710	2,442	298,123,516
Over 250,000	138	51,956,907	92	35,800,723
Total	**7,950**	**672,336,159**	**5,419**	**447,424,007**

Use of available funds

Description	31/12/2017
Liquidity in BNY bank account n. 6983879780 (Expenses Acc.)	86,293
Liquidity in BNY bank account n. 6983899780 (Banca Cambiano Transitory CR Acc.)	15,999,380
Liquidity in BNY bank account n. 6983919780 (BCC Pisa e Fornacette Transitory CR Acc.)	8,580,304
Liquidity in BNY bank account n. 6983999780 (Banca Cambiano Cash Reserve Acc.)	5,413,875
Liquidity in BNY bank account n. 6984009780 (BCC Pisa e Fornacette Cash Reserve Acc.)	2,724,840
Receivables from Servicers for collections to be received	2,235,770
Accrued interest income on securitized receivables	1,396,072
Prepaid expenses	9,633
Total	**33,313,631**

Interest on issued notes (economic competence)

	31/12/2017
Interest on Class A Notes	237,379
Additional return on Class B Notes	3,276,574

Fees and commissions charged to the transaction

During the 2017 fiscal year, fees and commissions charged to the transaction are composed of the line items detailed in the table below.

Description	31/12/2017
Servicing fees (Banca Pisa)	23,871
Servicing fees (Banca Cambiano)	**41,792**
Computation Agent fee	4,138
Listing Agent fee	208
Representative of the Noteholders fee	889
Account Bank, Cash Manager, Principal Paying Agent fees	7,986
Other	433,208
Total	**505,084**

The line item “Other” includes the expenses for setting up the transaction, equal to € 426,196.00.

Interest generated by securitized assets

As at 31 December 2017, the overall portfolio of self-securitized assets generated the following interest amounts:

	31/12/2017
Interest on securitized receivables	4,024,995
Default interest on securitized receivables	1,311
Interest on early settlement	4,818
Total	**4,031,124**

Section 4 – Operational risks

Qualitative information

A. General information, management procedures and methods to measure operational risk

Operational risk is defined as the possibility of suffering losses deriving from the inadequacy or dysfunction of procedures, human resources and internal systems, or from external factors. This risk is inherent to banking activity and therefore may be generated by and exist in all company processes. In general, the main sources of operational risk derive from internal fraud, external fraud, employment relationships and on the job safety, professional obligations towards customers, damage from external events, malfunctioning of information technology system and the execution, delivery and management of processes.

The Bank has defined a series of organizational processes aimed at monitoring and management operational risks, with the aid of the following specific organizational functions:

- Internal Audit, whose activities are aimed, on the one hand, at controlling the regularity of operations and risks trends, and on the other at assessing the overall efficiency of the internal controls system;
- The Control Body, pursuant to Italian Legislative Decree 231/2001, whose composition and functions are defined in specific regulations, within the scope of the organization, management and control model adopted;
- the Risk Management office, which fulfils the requirement of indentifying and measuring the risks typical of the banking business through the constant monitoring of risks taken and of those potentially generated by investment, lending and service policies;
- the Compliance Office, with the role of monitoring and controlling observance of regulations, and providing support for prevention and management of the risk of incurring judicial or administrative sanctions and/or of incurring significant losses as a consequence of violation of external or internal regulations,

Furthermore, the following documents have been prepared and are constantly updated, to safeguard against the insurgence of operational risks:

- the “Operational Continuity Plan”, aimed at protecting the Bank from critical events that may harm operations;

- mapping of the main operating processes (credit, finance and teller), with the aim of leveling operator behavior thereby facilitating the integration of controls.

Particular attention was focused on information technology risks, which are, by definition, included among operational risks, by setting forth regulations and processes for the identification, assessment and limitation of events originating from, or that could originate from, malfunctioning information technology procedures and/or electronic equipment, such as, for example, network crashes, unavailability of internet banking, and imprecise applications for branch operations. Finally, within the scope of actions implemented in order to ensure full compliance with the new Bank of Italy regulations provided for in Circular 285, the Bank has undertaken important initiatives connected to completing transposition within organizational profiles and internal regulations of the references contained in Chapter IV – Corporate government, internal controls, management risks, Chapter 4 (information system) and 9 (business continuity) of the aforementioned new regulations. Within this scope, the Bank, acknowledging the importance of managing information technology risks as a tool to guaranty the efficacy and efficiency of measures aimed at safeguarding the Bank's own information technology systems, has defined, in accordance with the results of the project elaborated within the Cable network and in compliance regulatory principles and provisions currently in force, a method for the analysis of information technology risks and the relative management process that hinges on the Bank's broader risk management system. In order to calculate capital requirements for operational risks, the Bank has adopted the Basic Indicator Approach (BIA), which entails that capital hedging this type of risk is equal to 15% of the average of the "relevant indicator" over the previous three years, calculated in accordance with articles 315 and 316 of CRR regulations.

Capital absorption for this type of risk at 31 December 2017 was € 10,918,227.36.

Quantitative information

The amount of losses actually verified during the past two fiscal years is set forth below, classified according to the categories provided by regulatory provisions. Their amount, consequent also to the risk assessments conducted on the specific type of risk in review, is not material; in any event there is specific documentation regarding events that resulted in losses.

Type of event resulting in losses			
Categories of the event (Level 1)	**Definition**	**2017**	**2016**
1. Internal fraud	Losses due to unauthorized activities, fraud, embezzlement or violation of laws, regulations or company policy that involve at least one of the Bank's internal resources.	0	7,500
2. External fraud	Losses due to fraud, embezzlement or the violation of laws by parties not employed by the Bank.	41,042	22,177

Type of event resulting in losses			
Categories of the event (Level 1)	**Definition**	**2017**	**2016**
3. Employment and workplace safety	Losses deriving from acts that violate laws or agreements with respect to employment or workplace health or safety, from the payment of damages for personal injuries or episodes of discrimination or the failure to apply equal treatment.	0	0
4. Customers, products and professional practice	Losses due to breaches of professional obligations to customers or from the nature or characteristics of the product or service supplied.	545	0
5. Damages from external events	Losses deriving from external events, such as natural catastrophes, terrorism, or acts of vandalism.	0	0
6. Interruptions of operations and system malfunctions	Losses due to interruptions of operations, to malfunctions or the unavailability of systems.	0	0
7. Performance, delivery and management procedures	Losses due to the failure to complete operations or manage procedures, as well as losses due to relations with commercial counterparties, sellers or suppliers.	46,780	7,703
TOTAL		**88,367**	**37,380**

Publication of public disclosure

Information regarding capital adequacy, risk exposure and the characteristics of the systems implemented to identify, evaluate and manage said risks, as set forth in the “Vigilance Provisions for Banks” (Circular n. 285 of 17 December 2013), under the Heading III “Information to the public”, are published on the Bank’s Internet site: www.bancacambiano.it.

EXPLANATORY NOTES

PART F – Information on capital

Section 1 - Shareholders' equity

B. Quantitative information

One of the Bank's consolidated strategic priorities is represented by the consistency and dynamics of capital resources. Capital constitutes the first defense against risks connected to the Bank's overall activities and is the primary parameter of reference used by the Supervisory Authority to assess bank solidity.

The Bank's shareholders' equity is determined by summing corporate capital, the share premium reserve, retained earnings, valuation reserves and the income for the period, for the amount to the allocated to reserve, as specified in Part B - Section 14 Liabilities of these Explanatory Notes and as illustrated in table B.1 below.

Instead, International accounting principles define shareholders' equity residually, as "that which remains from the business of the company after having deducted all liabilities". Therefore, in a financial context, shareholders' equity represents the monetary entity of the means yielded by ownership or generated by the business.

The concept of capital that the Bank uses in its evaluations is substantially the concept of "own funds", as set forth in Regulation (EU) n. 575/2013 (CRR), in the three components of Common Equity Tier 1 (CET 1), Tier 1 capital, and Tier 2 capital. In fact, in the bank's opinion, capital thus defined represents the best possible reference for effective management, both in terms of strategy and in terms of current operations. It constitutes the main defense against corporate risks, as required by prudential regulatory provisions, in that it is a financial resource capable of absorbing possible losses generated by the Bank's exposure to the aforementioned risks, acting as a guaranty for depositors and creditors in general. In order to ensure correct capital dynamics in regular operating conditions, the Bank mostly counts on self-financing operations, that is reinforcing reserves through the allocation of net income.

Again for the 2017 fiscal year, regulatory provisions require that the Bank maintain additional common equity tier 1 capital resources with respect to the above-mentioned obligatory minimum requirements, destined to be used in adverse market conditions to preserve the minimum capital requirements ("capital conservation buffer, equal to 1.25% of total risk-weighted assets). The 18th update of Circular 285 contains an amendment to the capital conservation buffer requirement in order to align national regulations to those of the majority of Euro Zone countries: therefore, in 2016 this amount, set for individual banks and parent companies of banking groups at 2.5%, dropped to 1.25% in 2017, and will increase in 2019 to 1.875% to return to the full amount of 2.5% in 2019 (so-called, phase-in article 160 CRD IV – Circ. 285 First part, Heading II, Chapter 1, Section II – applied to all banks, both individual and consolidated).

Instead, as regards the countercyclical capital buffer (CCyB) coefficient, based on an analysis of the indicators of reference, Bank of Italy has decided to maintain it at 0% for all of 2017 (ref. Bank of Italy quarterly press releases).

Also, please note that in April 2017 the Bank received a communication from Bank of Italy regarding the outcome of the prudential review procedure (SREP) carried out in accordance with article 97 and subsequent articles of EU Directive n. 36/2013 (CRD IV) and in conformity with the EBA provision contained in the document "Guidelines for common procedures and methodologies for the supervisory review and evaluation process" published on 19 December 2014, regarding the imposition of specific capital requirements in addition to the previously set forth minimum capital requirements.

Aforementioned article 97 of CRD IV sets forth that Bank of Italy must periodically review the organization, strategies, processes and methodologies that supervised banks implement to manage the overall risk to which they are exposed (supervisory review and evaluation process - SREP). Upon completion of this process, Bank of Italy, pursuant to article 104 of CRD IV, has the power – among others – to request additional capital with respect to regulatory minimum capital requirements, in the face of the overall risk level of the intermediary: the capital ratios quantified taking into account additional requirements are therefore binding ("target ratio").

In light of the evaluation carried out, Bank of Italy has set forth that, as of the notifications delivered on 31 March 2017, in accordance with article 53-bis, sub-section 1, letter d) of Legislative Decree n. 385/93 (Consolidated Banking Act), the Bank must adopt the following individual capital coefficients:

- Tier 1 capital ratio requirement (CET 1 ratio) equal to 6%, composed of a binding component of 4.75% (of which 4.50% is the minimum regulatory requirement and 0.25% is the additional requirement deriving from the outcome of the SREP) and the remaining amount as capital conservation buffer;
- Tier 1 capital ratio requirement equal to 7.60%, composed of a binding component of 6.35% (of which 6.00% is the minimum regulatory requirement and 0.35% is the additional requirement deriving from the outcome of the SREP) and the remaining amount as capital conservation buffer;
- Total capital ratio requirement equal to 9.75%, composed of a binding component of 8.50% (of which 8.00% is the minimum regulatory requirement and 0.50% is the additional requirement deriving from the outcome of the SREP) and the remaining amount as capital conservation buffer.

Alongside the above-mentioned obligatory minimum capital requirements against "Pillar I" risks, supervisory regulations also require that the Bank measure its overall current and future capital adequacy using internal methods, as well as the totality of corporate risks, in the hypothesis of a "stress" situation, including, in addition to "Pillar I" risks (credit, counterparty, market, operational) additional risk factors that weigh on corporate business, such as, specifically, concentration risks, interest rate risks, liquidity risks, risk of excessive financial leverage, etc ("Pillar II"). In fact, the existence of "Pillar II" requirements alongside minimum obligatory requirements broadens the concept of capital adequacy, which takes on a more global connotation, aimed at an overall assessment of capital requirements and of possible available sources, in compliance with the Bank's own strategic and development objectives.

The Bank has implemented processes and instruments (Internal Capital Adequacy Assessment ICAAP) to verify the adequate capital level required to sustain all types of risks, within the scope of an assessment of exposure, both current and prospective and in a "stress" situation, which takes into account strategies and the evolution of the context of reference.

Hence, the Bank's objective is to maintain adequate capital coverage in compliance with regulatory requirements; within the scope of the ICAAP process, their evolution is therefore estimated during business programming, in accordance with the objectives set forth by the Board of Directors.

Compliance with regulatory requirements and the consequent capital adequacy is evaluated quarterly. The aspects subject to review are mainly the "ratios" with respect to the Bank's financial structure (lending, non-performing receivables, fixed assets, total assets) and the risk hedging degree.

Current capital complies with the Prudential supervision regulations required for banks.

B.1 Shareholders' equity: breakdown

Line items\Values	31/12/2017 amount	31/12/2016 amount
1. Capital	232,800	3,864
2. Premiums on issue of new shares	803	562
3. Reserves	3,425	251,965
- earnings	3,425	251,965
a) legal	0	160,291
b) statutory	0	47,520
c) treasury shares	0	0
d) other	3,425	44,154
- other	0	0
4. Equity instruments	0	0
5. (Treasury shares)	0	0
6. Valuation reserves	-1,481	12,368
- Financial assets available for sale	-3,964	-2,023
- Property, plant and equipment	0	0
- Intangible assets	0	0
- Hedging foreign investments	0	0
- Cash flow hedges	0	0
- Exchange rate differences	0	0
- Noncurrent assets in course of divestment	0	0
- Actuarial profits (losses) related to defined benefit plans	-816	-869
- Shares of valuation reserves related to subsidiaries measured at shareholders' equity	3,298	4,423
- Special revaluation laws	0	10,836
7. Fiscal year profit (loss)	4,500	5,100
Total	**240,048**	**273,859**

Data as at 31/12/2016 are referred to former Bcc Cambiano.

Variations to shareholders' equity items, in particular as regards capital and retained earnings, are due to the "way-out" operation between former Bcc Cambiano and former Banca Agci, (see the Report on Management).

Section 1 - Shareholders' equity

B. Quantitative information

B.2 Valuation reserves of financial assets available for sale: breakdown

Assets/Values	Total as at 31/12/2017		Total as at 31/12/2016	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	152	3,514	999	3,022
2. Equity instruments	0	589	0	0
3. Shares of mutual funds	4	17	0	0

Assets/Values	Total as at 31/12/2017		Total as at 31/12/2016	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
4. Loans	0	0	0	0
Total	**156**	**4,121**	**999**	**3,022**

Data as at 31/12/2016 are referred to former Bcc Cambiano.

Section 1 - Shareholders' equity

B. Quantitative information

B.3 Valuation reserves of financial assets available for sale: annual variations

Line items	Debt securities	Equity instruments	Shares in mutual funds	Loans
1. Initial value	**-1,979**	**0**	**-43**	**0**
2. Additions	**2,560**	**0**	**31**	**0**
2.1 Increases of fair value	1,968	0	31	0
2.2 Reversal to the income statement of negative reserves:	592	0	0	0
- from impairment	0	0	0	0
- from use	592	0	0	0
2.3 Other additions	0	0	0	0
3. Reductions	**3,943**	**589**	**0**	**0**
3.1 Reductions of fair value	1,701	589	0	0
3.2 Adjustments due to impairment	0	0	0	0
3.3 Reversal to the income statement from positive reserves: from use	0	0	0	0
3.4 Other reductions	2,242	0	0	0
4.Final value	**-3,362**	**-589**	**-13**	**0**

Line item 3.4 "Other variations" includes the value of the negative reserve fund from former Banca AGCI.

Section 2 – Own funds and regulatory ratios

Regulatory framework of reference

Own funds, risk-weighted assets and capital coefficients are calculated based on capital values and on the economic result, calculated by applying the regulations on financial statements provided for by IAS/IFRS International Accounting Standards and considering the regulatory framework composed of EU Regulations n. 575/2013 (CRR) and EU Directive n. 63/2013 (CRD IV), as well as the correlated technical and applicative provisions of the EBA, subject of specific regulations delegated by the European Commission and by Circulars n. 285/2013, 286/2016, 154/1991 and subsequent updates.

A. Qualitative information

Own funds are a result of the sum of positive and negative components, based on their capital quality: positive components must be fully available to the Bank in order to be able to use them to cover the total capital requirements for supervision of risks.

The total of own funds, which constitutes the primary defense in terms of prudential supervisory provisions, is constituted by:

- Common Equity Tier 1 capital (CET1);
- Additional Tier 1 Capital (AT1);
- Tier 2 capital (TIER2 – T2).

The aggregates CET1 and AT1 are the Total Tier 1 capital which, summed with T2 capital, results in the total of Own Funds.

The three aforementioned aggregates (CET 1, AT1 and T2) are the algebraic sum of the positive and negative elements that make them up, considering so-called "prudential filters", which are all those negative and positive adjustment values on equity tier 1 capital introduced by the Supervisory Authority for the precise purpose of reducing potential equity volatility.

As regards prudential filters, please note that, with the issue of Circular n. 285 of 17 December 2013 "Vigilance Provisions for Banks", Bank of Italy had provided for the possibility of exercising the power to derogate from temporary exclusion from CET1 of positive and negative valuation reserves against Notes held by the banks in the portfolio of financial assets available for sale and issued by central Administrations. Banca Cambiano 1884 Spa exercised the above-mentioned option to neutralize the gains/losses on government bonds issued by Central Administrations of European Countries (Bank of Italy provision of 18 May 2010, "Symmetrical Approach"). This derogation comes to an end with the 2017 fiscal year, subsequent to the approval and implementation of IFRS 9 in place of IAS 39, starting 1 January 2018.

Common equity tier 1 capital (CET1)

Common equity tier 1 capital (CET1) which represents the whole of highest quality capital components, is constituted by the following positive and negative elements:

- Corporate capital and relative premiums on issue of new shares;
- Retained earnings;
- Positive and negative valuation reserves ex OCI;
- Other reserves;
- CET1 instruments subject to transitional measures (grandfathering);
- Minority interest;
- Prudential filers;
- Deductions (interim losses, goodwill and other intangible assets, treasury shares held even indirectly and/or synthetically and the relative buy-back obligations, significant and non-significant interest in the capital of other entities in the financial sector held even indirectly and/or synthetically, deferred tax assets, securitization exposures and other exposures ponderable at 1250% and deducted from common equity.

Through the prudential filters, the valuation reserve generated from cash flow hedges and gains/losses deriving from variations in own creditworthiness (liabilities in fair value option and derivative liabilities), mentioned to describe the entire aggregate but that are not significant for Banca Cambiano 1884, are excluded from CET1.

Deductions represent negative elements of CET1, such as goodwill, intangible assets and other booking items that directly reduce tier 1 capital.

Additional tier 1 capital (AT1)

Additional tier 1 capital (AT1) is constituted by the following positive and negative elements:

- Equity instruments and any relative premiums;
- AT1 instruments subject to transitional measures (grandfathering);
- Instruments issued by subsidiaries and included in AT1;
- Deductions.

As at 31 December 2017, Banca Cambiano 1884 issued no amount of AT1 instruments.

Tier 2 capital (T2)

Tier 2 capital (T2) is constituted by the following positive and negative elements:

- Equity instruments, subordinated liabilities and relative premiums;
- T2 instruments subject to transitional measures (grandfathering);
- Instruments issued by subsidiaries and included in T2;
- Generic value adjustments;
- Deductions.

This aggregate is not relevant for Banca Cambiano 1884, in that the Bank has not issued subordinated liabilities with contractual characteristics that classify them as T2 instruments,

2.1 Own funds

Line items	Total as at 31/12/2017	Total as at 31/12/2016
1. Common Equity Tier 1 capital (CET1)	232,247	265,272
2. Additional Tier 1 capital (AT1)	0	0
3. Tier 2 capital (T2)	0	0
Total regulatory own funds	**232,247**	**265,272**

Data at 31 December 2016 refer to former Bcc Cambiano.

The variation in total own funds is ascribable primarily to the "way-out" operation and more marginally to variations in individual components (see the Report on Management).

Section 2 – Own funds and regulatory ratios

B. Quantitative information

Line items	Total as at 31/12/2017	Total as at 31/12/2016
A. Common Equity Tier 1 capital - CET1 before application of prudential filters	229,540	263,748
of which CET1 instruments subject to transitional measures	2,708	1,525
B. CET1 prudential filters (+/-)	0	0
C. CET1 gross of deductions and effects of transitional measures (A +/- B)	229,540	263,748
D. Deductions from CET1	0	0
E. Transitional measures – Impact on CET1 (+/-)	2,708	1,525
F. Total Common Equity Tier 1 capital (CET1) (C - D +/- E)	232,247	265,272
G. Additional Tier 1 capital (AT1) gross of deductions and effects of transitional measures	0	0
of which AT1 instruments subject to transitional measures	0	0
H. Deductions from AT1	0	0
I. Transitional measures – Impact on AT1 (+/-)	0	0
L. Total Additional Tier 1 capital (AT1) (G - H +/- I)	0	0
M. Tier 2 capital (T2) gross of deductions and effects of transitional measures	0	0
of which T2 instruments subject to transitional measures	0	0
N. Deductions from T2	0	0
O. Transitional measures – Impact on T2 (+/-)	0	0
P. Total Tier 2 capital (T2) (M - N +/- O)	0	0
Q. Total own funds (F + L + P)	**232,247**	**265,272**

Data at 31 December 2016 refer to former Bcc Cambiano.

Section 2 – Own funds and regulatory ratios

2.2 Capital adequacy- Quantitative information

Categories/Values	Non weighted amounts		Weighted amounts/requisites	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
A. RISK ASSETS				
A.1 Credit risk and counterparty's credit risk	3,424,771	3,237,313	1,759,951	1,632,506
1. Standard methodology	3,424,771	3,237,313	1,759,951	1,632,506
2. Methodology based on internal ratings	0	0	0	0
2.1 Base	0	0	0	0
2.2 Advanced	0	0	0	0
3. Securitizations	0	0	0	0
B. REGULATORY CAPITAL REQUIREMENTS				
B.1 Credit risk and counterparty risk			140,796	130,600
B.2 Credit value adjustment risk			11	59
B.3 Settlement risk			0	0
B.4 Market risk			2,158	4,188
1. Standard methodology			2,158	4,188
2. Internal models			0	0

Categories/Values	Non weighted amounts		Weighted amounts/requisites	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
3. Concentration risk			0	0
B.5 Operational risk			10,918	9,898
1. Base method			10,918	9,898
2. Standard method			0	0
3. Advanced method			0	0
B.6 Other calculation items			0	59
B.7 Total prudential requirements			**153,883**	**144,746**
C. RISK ASSETS AND REGULATORY RATIOS				
C.1 Risk weighted assets			**1,923,548**	**1,809,319**
C.2 Common equity tier 1 capital/ Risk weighted assets (CET1 capital ratio)			**12,074%**	**14,661%**
C.3 Tier 1 capital / Risk weighted assets (Tier 1 capital ratio)			**12,074%**	**14,661%**
C.4 Total own funds/ Risk weighted assets (Total capital ratio)			**12,074%**	**14,661%**

Data at 31 December 2016 refer to former Bcc Cambiano.

The Bank constantly focuses keen attention on the volume and quality of its capital, to ensure that it is appropriate and adequate with respect to growth objectives and the evolution of risks taken. Compliance with capital adequacy requirements, both in terms of CET 1 and in terms of overall capital, is constantly monitored by the Bank's corporate supervision functions, also through a series of reports supplied by the Risk Management office within the scope of a vaster capital adequacy assessment process. The guidelines on this assessment process are included in the Bank's annual report on capital adequacy (ICAAP), which is periodically sent to the Regulatory Body. These guidelines identify the company functions and assessment methods aimed at measuring and/or monitoring risks on an on-going basis.

The prudential regulatory frame work, based on the Basel Capital Accord (Basel 2) rests on three "Pillars".

The First Pillar attributes relevance to the measurement of risks and capital, providing capital requirements in order to face some of the principal types of risks of banking and financial activity (credit risk counterparty risk, market risk and operational risk). For this purpose, the accord provides for alternative capital requirement calculation methods characterized by different levels of complexity in the measurement of risks and in the organizational monitoring requirements.

The Second Pillar requires financial intermediaries to adopt a strategy and control process for capital adequacy, both current and prospective.

The Third Pillar introduces specific public disclosure requirements with respect to capital adequacy, exposure to credit risk and the general characteristics of the respective management and control systems.

The so-called "Tier 1 capital ratio" is also considerably important in measuring equity strength; this is the ratio between Tier 1 capital and total risk weighted assets.

The prudential ratios as at 31 December 2017 are calculated in compliance with the Basel Capital Accord (Basel 2), adopting the standard method to calculate capital requirements in relation to credit risk and counterparty risk.

To calculate capital adequacy requirements in relation to operational risk, the Bank applies the "basis method", in compliance with article 315 of EU Regulations n. 575 of 2013. Within the scope of this method, the requirement for own funds with respect to operational risk is equal to 15% of the three-year average of the relative indicator provided for in article 316 of the aforementioned Regulations.

As is shown by the breakdown of Own Funds and by the details that follow regarding prudential requirements, the Bank presents a ratio between base equity and risk weighted assets (CET 1 capital ratio) and a ratio between Own Funds and risk weighted assets (Total Capital ratio) that are both equal to 12.074%, 2.58 p.p. lower than the same value for former Bcc Cambiano (14.662% at 31 December 2016), mainly due to the fiscal effects deriving from the so-called "way out" operation, and in any event higher than:

- Minimum regulatory requirements, respectively 4.5% and 8%;
- Overall Capital Requirement values (so-called OCR ratio), respectively 6% and 9.75% resulting following the current Decision on Capital (Srep) at the date these Explanatory Notes were written (see Section 1).

Given all the above factors, the evaluation of capital adequacy and the formulation of the respective judgment are based on the following indicators considered relevant within the scope of the RAF, limited to the capital profile, in order to define the Bank's risk propensity:

a) Common Equity Tier1 Capital Ratio in relation to obligatory capital requirements;
b) Tier1 Capital Ratio in relation to obligatory capital requirements;
c) Total Capital Ratio in relation to obligatory capital requirements;
d) Overall internal capital on Own Funds.

For each indicator, based on the values assumed, both for the current and future periods, a specific "adequacy judgment" is formulated, within the scope of the ICAAP process and the interval defined by the evaluation thresholds identified. For this purpose, obligatory capital requirements are taken into consideration, including the obligation to hold additional reserves for capital conservation and the aforementioned additional requirements (where in excess with respect to the measure of the aforementioned capital conservation buffer).

In particular, for the purpose of attributing the judgment based on the value assumed by the indicator adopted for the current and future periods (during regular business), the bank identifies, for each indicator, the risk tolerance threshold, adopted in the RAF, which discriminates between the judgment of partial adequacy and adequacy. This critical adequacy threshold identifies the value that the indicator adopted must assume to comply with the minimum requirement and fully cover any need identified as a result of the stress test (Overall Capital Requirement).

EXPLANATORY NOTES

PART G – Mergers with companies or branches of business

Section 1 – Operations conducted during the fiscal year – Description and notes regarding the transfer of the banking business of former Banca di Credito Cooperativo di Cambiano s.c.p.a. in former Banca AGCI S.p.a..

Transfer transaction to “Banca A.G.C.I. S.p.a.” of the banking business of “Banca di Credito Cooperativo di Cambiano (Castelfiorentino-Firenze) Società Cooperativa per Azioni”, related to the exercising, on the part of the latter, of the so-called "way out" option provided for in article 2, sub-section 3-bis, Legislative Decree n. 18/2016, converted into Law 49/2016.

The Banca A.G.C.I. S.p.A. (now Banca Cambiano 1884 S.p.A.) ordinary and extraordinary shareholders’ meeting, called on 3 November 2016 by the Board of Directors for 14 December 2016 in first call, and for 15 December 2016 in second call, passed the following resolutions in second call: (i) increase of share capital (paid-in, and with exclusion of the pre-emption right pursuant to article 2441, sub-section 4 of the Italian Civil Code, in that intended to service a contribution in kind), for nominal Euro 215,520,000.00, with concurrent prior realignment; (ii) adoption of the statutory modifications aimed at adapting the contents of the articles of association to the characteristics of the Bank deriving from the “way out” operation and, specifically, the variation of the corporate name from “Banca A.G.C.I. S.p.a.” to “Banca Cambiano 1884 S.p.a.”, the transfer of the registered head offices from Bologna to Florence, the introduction of provisions regarding regulations for banking groups and compliance to regulations, regarding corporate government, pre-existing the new organizational and company set up (iii) nomination of the new Board of Directors and of the new Board of Statutory Auditors, effective starting 00:00 hours on 1 January 2017, effective date of the entire transfer operation, as per article 2, sub-section 3-bis, of Legislative Decree n. 18/2016 (converted in Law n. 49/2016).

The transfer operation and the correlated increase in share capital with the exclusion of the pre-emption right are a part of the broader procedure provided for in aforementioned article 2, sub-section 3 of Law Decree n. 18 of 14 February 2016, amended and converted by Law n. 49 dated 8 April 2016 (hereinafter also referred to as the “way out project” or the “Operation”).

Completion of the steps described above, effective 1 January 2017, lead to the configuration of a banking group, headed by Ente Cambiano S.c.p.a. (hereinafter also referred to as “Ente Cambiano”), as a financial holding company, while Banca Cambiano 1884 S.p.a. (hereinafter also referred to as “Banca Cambiano 1884”) is a subsidiary company, subject to management and coordination by the financial holding company.

On 16 November 2016, Bank of Italy issued a provision by means of which it:

- Authorized the purchase of the banking business branch from former BCC di Cambiano, pursuant to article 58 of the Italian Consolidated Banking Act (TUB);
- Ascertained, in compliance with article 56 of the Italian Consolidated Banking Ace (TUB), that the statutory modifications provided for were not in contrast with the principle of sound and prudent management;
- Acknowledged that the ordinary shares deriving from the increase in share capital complied with the requirements for computability in Tier 1 Capital, pursuant to articles 26 and 28 of EU Regulation n. 575/2013.

Details regarding the net value of assets and liabilities taken on are set forth in the table below.

Asset line items		Fair value at 01/01/2017	Adjustments at 01/01/2017	Total at 31/12/2016
10.	Cash and cash equivalents	633,207		633,207
40.	Financial assets available for sale	83,071,350		83,071,350
60.	Receivables from banks	10,959,634		10,959,634
70.	Receivables from customers	125,242,558		125,242,558
110.	Property, plant and equipment	1,374,175		1,374,175
120.	Intangible assets	4,881,247	4,874,772	6,475
	of which:			
	- Goodwill	*4,874,772*	*4,874,772*	*0,00*
130.	Tax receivables	3,835,393		3,835,393
	a) current	*1,209,350*		*1,209,350*
	b) pre-paid	*2,626,043*		*2,626,043*
	b1) as per Law 214/2011	*1,412,428*		*1,412,428*
150.	Other assets	1,498,418		1,498,418
	Total assets	**231,495,982**	**4,874,772**	**226,621,210**

Liability line items and shareholders' equity		Fair value at 01/01/2017	Adjustments at 01/01/2017	Total at 31/12/2016
10.	Payables to banks	54,945,656		54,945,656
20.	Payables to customers	143,677,072		143,677,072
30.	Outstanding securities	8,239,709		8,239,709
60.	Hedges	857,646		857,646
80.	Tax liabilities	23,512		23,512
	a) current	*23,512*		*23,512*
	b) deferred	-		-
100.	Other liabilities	2,826,562		2,826,562
110.	Employee severance pay	184,564		184,564
120.	Risks and expenses funds:	40,000		40,000
	b) other funds	*40,000*		*40,000*
130.	Valuation reserves	-2,263,853		-2,263,853
160.	Reserves	4,242,684	5,594,772	-1,352,088
170.	Premiums on issue of new shares	1,400,000		1,400,000
180.	Capital	17,280,000	-720,000	18,000,000
200,	Fiscal year profit (loss)(+/-)	42,430		42,430
	Total liabilities and shareholders' equity	**231,495,982**	**4,874,772**	**226,621,210**

All the above values were calculated based on the information provided following:

Cash and cash equivalents

Line items	Fair value at 01/01/2017
a) Cash	633
b) Demand deposits with Central Banks	-
Total	**633**

Sub-line item a) Cash does not include foreign currencies.

Sub-line item b) does not include regulatory reserves, shown in line item 60 of the assets, "Receivables from banks".

Financial assets available for sale

Debt securities represent Securities held by the Bank and classified in the "available for sale" portfolio and are entirely composed of Italian government bonds.

"Equity instruments – valued at cost" include shares in "Cabel Ricerca e Formazione S.c.p.a.", and "Cabel per Pagamenti I.P. S.c.p.a.", which both belong to the Cabel Holding group, as well as the shares in Finamca S.p.a.

"Equity instruments – valued at fair value", include the contribution paid by the Bank to the Voluntary Scheme (SV) of the Interbank Deposit Protection Fund (FITD) to implement interventions in support of banks in crisis conditions. In particular, the contribution was used by the SV to purchase majority shares in Cassa di Risparmio di Cesena.

Financial assets available for sale are detailed in the tables that follow (all values are expressed in thousands of Euro).

Line items/Values	Fair value at 01/01/2017		
	Level 1	Level 2	Level 3
1. Debt securities	82,909		
1.1 Structured securities			
1.2 Other debt securities	82,929		
2. Equity instruments			162
2.1 Valued at fair value			15
2.2 Valued at cost			147
3. Shares in mutual funds			
4. Loans			
Total	**82,909**		**162**

Line items/Values	Fair value at 01/01/2017
1. Debt securities	82,909
a) Governments and central banks	82,909
b) Other public entities	
c) Banks	
b) Other issuers	
2. Equity instruments	162
a) Banks	15
b) Other issuers	147
- Insurance companies	
- Finance companies	*92*
- Non finance companies	*55*
- Other	
3. Shares in mutual funds	
4. Loans	
a) Governments and central banks	
b) Other public entities	
c) Banks	
b) Other parties	

Line items/Values	Fair value at 01/01/2017
Total	**83,071**

Financial assets available for sale with specific fair value hedging have a nominal value of 20 million Euro. The Bank made a value adjustment of 388 thousand Euro to the fair value of financial assets with specific hedging.

Receivables from banks

Considering that receivables from banks are prevalently short-term, the relative fair value is considered as equal to the balance sheet value.

Line item"B1.2 - Term deposits" shows regulatory reserves, paid indirectly, held in the Istituto Centrale delle Banche Popolari Italiane S.p.a., equal to 1,291 thousand Euro.

Receivables from banks are detailed in the table below (all values are expressed in thousands of Euro).

Type of transaction/Values	Balance sheet value	Fair value at 01/01/2017		
		Level 1	Level 2	Level 3
A. Receivables from central banks				
1. Term deposits				
2. Regulatory reserves				
3. Repurchase agreements				
4. Other				
B. Receivables from banks	**10,960**			**10,960**
1. Loans	10,960			
1.1Bank accounts and demand deposits	9,669			
1.2Term deposits	1,291			
1.3Other				
- Repurchase agreements				
- Financial leasing				
- Other				
2. Debt securities				
2.1Structured securities				
2.2Other debt securities				
Total	**10,960**			

Receivables from customers

As regards receivables from customers deriving from the transfer of the assets and liabilities of former Banca A.G.C.I., the relative contribution value at 1 January 2017 was considered representative of the fair value of the same receivables in consideration of the interest rates, prevalently floating and tied to market parameters for short-term transactions, and of the valuation at amortized cost, made by the transferor bank, for medium and long-term transactions.

Transferred impaired receivables were booked at amortized cost, comprehensive of value adjustments calculated at the closing of the transferor bank's closing balance, representative of the fair value of the same exposures.

Receivables from customers are detailed in the tables that follow (all values are expressed in thousands of Euro).

Type of transaction/Values	Total at 01/01/2017						
	Balance sheet value			Total	Fair value		
	In bonis	Impaired			Level 1	Level 2	Level 3
		Purchased	Other				
Loans	**118,456**		**6,577**	**125,032**			**125,033**
1. Bank accounts	27,705		2,521	30,226			30,226
2. Repurchase agreements							
3. Loans	78,126		2,487	80,613			80,613
4. Credit cards, personal loans and salary backed loans	422		3	425			425
5. Financial leasing							
6. Factoring							
7. Other loans	12,203		1,565	13,768			13,768
Debt securities	**210**			**210**	**210**		
8. Debt securities							
9. Other debt securities	210			210	210		
Total	**118,666**		**6,577**	**125,243**	**210**		**125,033**

Type of exposure/Values	Gross exposure	Specific value adjustments	Portfolio value adjustments	Net exposure	% of hedging
Non-performing loans	9,045	5,948		3,097	65.76%
Probable defaults	483	1,081		3,402	24.11%
Impaired overdue exposures	45			45	0.00%
Forborne	2,040	74		1,966	3.63%
In bonis	117,692		1,170	116,522	0.99%
Total	**133,305**	**7,103**	**1,170**	**125,032**	**6.21%**

Property, plant and equipment

Property, plant and equipment are composed of miscellaneous furnishings and plants. Property, plants and equipment are valued at cost.

The details are provided in the table below (all values are expressed in thousands of Euro).

Assets/Values	Total at 01/01/2017
1. Owned assets	1,374
a) land	
b) buildings	
c) furnishings	344
b) electronic equipment	78
d) other	952
2. Assets purchased in financial leasing	
a) land	
b) buildings	
c) furnishings	

Assets/Values	Total at 01/01/2017
b) electronic equipment	
d) other	
Total	**1,374**

Assets/Values	Original cost	Depreciation fund	Net value
Furnishings	624	280	344
Plants	230	151	79
Other	1,321	370	951
Total	**2,175**	**801**	**1,374**

Intangible assets

With reference to the goodwill registered in the balance sheet for a total of 4,874,772 Euro, the amount includes goodwill referred to the Bologna branch for 2,001,492 Euro, goodwill referred to the Turin branch for 1,505,280 Euro and goodwill referred to the Rome branch for 1,368,000 Euro.

The remaining 6 thousand Euro is made up of software user licenses, with a finite useful life, depreciable over a five year period, with a constant depreciation rate of 20%.

Tax receivables

Tax receivables: a) Current

"Tax receivables: a) Current" are composed of advance tax installments paid to the revenue office.

The details are provided in the table below (all values are expressed in thousands of Euro).

Line items	Total at 01/01/2017
Advance withholding tax on interest	110
Advance stamp duties	341
Advance IRES (corporate income tax)	661
Advance IRAP (regional tax)	81
Other advance taxes paid to the tax office	16
Total	**1,209**

Tax receivables: b) Pre-paid

The rate used for valuation of pre-paid taxes for IRES purposes was 27.50%; the rate applied for IRAP purposes was 5.57%.

"Tax receivables: b) Pre-paid" are detailed in the tables below (all values are expressed in thousands of Euro).

Line items	Total IRES at 01/01/2017	Total IRAP at 01/01/2017	Total at 01/01/2017
A. As balancing entry in the income statement	**1,513**		**1,513**
Value adjustments on receivables from customers (Law 214/2011)	1,412		1,412
Net provisions for risks and charged not deducted	13		13
Other line items	88		88
B. As balancing entry in the balance sheet	**926**	**187**	**1,113**

Line items	Total IRES at 01/01/2017	Total IRAP at 01/01/2017	Total at 01/01/2017
Financial assets available for sale	921	187	1,108
Other line items	5		5
Total A+B	**2,439**	**187**	**2,626**

Other assets

The table below shows the breakdown of the line item "Other assets" (all data are shown in thousands of Euro).

Line items	Total at 01/01/2017
Items in progress	733
Accrued income and pre-paid expenses	577
Advance payments and receivables from suppliers	118
Tax credits with the revenue office and other tax authorities for indirect taxes	40
Invoices issued and to be issued	3
Other asset items	127
Total	**1,498**

Payables to banks

The breakdown of the line item "Payables to banks" is shown in the table below (all data are shown in thousands of Euro).

Type of transaction/Values	Total at 01/01/2017
1. Payables to central banks	
2. Payables to banks	54,946
2.1 Bank accounts and demand deposits	2,142
2.2 Term deposits	
2.3 Loans	52,174
2.3.1. Repurchase agreements - payables	*52,174*
2.3.2. Other	
2.4 Liabilities for commitments to buy back treasury shares	
2.5 Other liabilities	630
Total	**54,946**
Fair value – Level 1	
Fair value – Level 2	**630**
Fair value – Level 3	**54,946**
Total fair value	**55,576**

The "repurchase agreements - payables" transactions refer exclusively to transactions with obligation on the part of the transferee to resell the assets involved in the transaction at term, as the bank di not carry out any transactions that did not entail the option for the transferee to resell at term.

Payables to customers

Payables to customers are recorded at nominal value, which represents the fair value.

The breakdown of payables to customers is shown in the table below (all data are shown in thousands of Euro).

Type of transaction/Values	Fair value at 01/01/2017
1. Bank accounts and demand deposits	90,558
2. Term deposits	53,119
3. Loans	
3.1. Repurchase agreements - payables	
3.2. Other	
4. Liabilities for commitments to buy back treasury shares	
5. Other liabilities	
Total	**143,677**
Fair value – Level 1	
Fair value – Level 2	
Fair value – Level 3	**143,677**
Total fair value	**143,677**

Outstanding securities

Outstanding securities are booked at amortized cost, and the same considerations made above for medium and long term receivables at amortized cost hold true. In particular, taking into account the short residual life of the majority of Securities and the conditions of the loans in question that are tied to, or in any event very close to market parameters, the Bank decided not to book a specific value related to these loans. The breakdown of outstanding securities is shown in the table below (all data are shown in thousands of Euro).

Type of transaction/Values	Balance sheet value	Fair value at 01/01/2017		
		Level 1	Level 2	Level 3
A. Securities				
1. Securities	3,029			3,029
1.1 structured				
1.2 other	3,029			3,029
2. Other securities	5,211			5,211
2.1 structured				
2.2 other	5,211			5,211
Total	**8,240**			**8,240**

Sub-line item “A 1.2 Securities – other” is composed of a bond issued by the Bank during 2014, with maturity date 01 April 2017, for a total nominal amount of 3,000,000 Euro, subdivided into n. 300 bonds with a value of 10,000 Euro each, at a 3.80% fixed rate annually.

Hedges

Hedges are booked at fair value.

The breakdown is shown in the table below (all data are shown in thousands of Euro).

Type of transaction/Values	Fair value at 01/01/2017			Notional value
	Level 1	Level 2	Level 3	
A. Financial derivatives			**858**	**20,000**
1. Fair value			858	20,000
2. Cash flows				
3. Foreign investments				
B. Credit derivatives				
1. Fair value				
2. Cash flows				
Total			**858**	**20,000**

Operations/Type of hedge	Fair Value						Cash flows		Foreign invest.
	Specific					Generic	Specific	Generic	
	Rate risk	Exchange rate risk	Credit risk	Price risk	Various risks				
1. Financial assets available for sale	858								
2. Receivables									
3. Financial assets held through maturity									
4. Portfolio									
5. Other transactions									
Total assets	**858**								
1. Financial liabilities									
2. Portfolio									
Total liabilities									
1. Expected transactions									
2. Portfolio of financial assets and liabilities									

Tax liabilities

Tax liabilities: a) Current

Tax liabilities are constituted by the IRAP 2016 balance and amount to 24 thousand Euro.

Other liabilities

The breakdown of line item "Other liabilities" is shown in the table below (all data are shown in thousands of Euro).

Line items	Total at 01/01/2017
Items in transit: banks and customers	1,506
Payables to suppliers	230
Payables to the revenue office and other tax authorities for indirect taxes	416
Adjustments for portfolio non liquid items	210
Payables to social security institutions	74
Other liability items	385
Total	**2,827**

Employee severance pay

Severance pay represents the liability accrued by the transferee bank towards employees. This fund relates to 24 employees for a total of 185 thousand Euro.

The employee severance pay fund (TFR) was booked in compliance with the IAS 19 accounting principle. Therefore, line item D, "Final value" of the booked fund coincides with its Actuarial Vale (Defined Benefit Obligation - DBO).

Risk and expense fund

The breakdown of the risk and expense funds is shown in the table below (all data are shown in thousands of Euro).

Line items/Values	Total at 01/01/2017
1. Company pension funds	
2. Other Risk and expense funds	40
2.1 legal disputes	40
2.2 personnel costs	
2.3 other	
Total	**40**

Shareholders' equity – Line items 130, 160, 170, 180 and 200

The breakdown is shown in the table below (all data are shown in thousands of Euro).

Line items/Values	Total at 01/01/2017
1. Capital **(*)**	17,280
2. Premiums on issue of new shares	1,400
3. Reserves	4,243
- revenue	
a) legal	
b) statutory	
c) treasury shares	
d) other ***(*)***	*(632)*
- other ***(**)***	*4,875*
4. Equity instruments	
5. (Treasury shares)	
6. Valuation reserves	(2,264)
- Financial assets available for sale	*(2,242)*
- Property, plant and equipment	
- Intangible assets	
- Hedging foreign investments	
- Hedging cash flows	
- Exchange rate differences	
- Noncurrent assets in course of divestment	
- Actuarial profit (loss) related to defined benefit social security schemes	*(22)*
- Shares of valuation reserves related to subsidiaries valued at shareholders' equity	
- Special revaluation laws	

Line items/Values	Total at 01/01/2017
7. Fiscal year profit (loss)	42
Total	**20,679**

(*) The transfer to former “Banca A.G.C.I. S.p.a.” of the banking activity of former “Banca di Credito Cooperativo di Cambiano (Castelfiorentino-Firenze) Società Cooperativa per Azioni” in the so-called “way out” operation provided for by article 2, sub-section 3-bis of Legislative Decree 18/2016, converted into Law 49/2016, entailed an increase of share capital (paid-in and excluding pre-emption rights pursuant to article 2441, sub-section 4 of the Italian Civil Code, in that intended to service a contribution in kind) for a nominal value of 215,520,000.00 Euro by former Banca di Credito Cooperativo di Cambiano and subsequent realignment for the purpose of application of the IAS/IFRS accounting principles. The realignment was carried out by means of a voluntary reduction, without reducing company assets, of the share capital of former Banca A.G.C.I. S.p.a. for nominal 720,000.00 Euro, allocated in a special “restricted” fund, not available and non distributable.

(**) See the note for the line item “Intangible assets”.

Section 1 – Operation conducted during the fiscal year – Accounting adjustment at 01/01/2017 from former BCC Cambiano to Banca Cambiano 1884 S.p.a.

The IFRS 3 international accounting principle, applied in the merger operation between BCC Cambiano s.c.p.a. and Banca AGCI S.p.a., provides that every company merger must be booked applying the purchase method. The specific requirements provided for in paragraph n. 4 of IFRS 3 and all the explanatory notes related to our specific case are illustrated below.

- Identification of the purchasing party – In this case, it is evident that the purchaser is the former BCC, now Ente Cambiano s.c.p.a. (92.58% shareholding in Banca Cambiano 1884 S.p.a.), while the purchased party is former Banca AGCI S.p.a. (7.42% shareholding in Banca Cambiano 1884 S.p.a.);
- Definition of the purchase date – In this case, the purchase date is 01/01/2017;
- Measurement and evaluation of the identifiable assets purchased, of the identifiable liabilities assumed and any minority shareholding in the purchased party and the measurement and evaluation of goodwill or a profit deriving from purchase at a favorable price – In this case, we considered that in the merger the purchased party is Banca AGCI S.p.a., and for this reason we booked the relative “Goodwill” for a total of 4,874,772.00 Euro.

Application of the above-mentioned international accounting principle, based on the concept of the prevalence of substance over form, entailed an accounting realignment between the formal juridical fact and its accounting and balance sheet representation. Ultimately, the operation in question is represented as a “reverse acquisition” (see Appendix B from paragraph B19 to paragraph B27 of IFRS 3), where the purchased party issues the equity interests (former Banca AGCI S.p.a.) and the purchasing party subscribes them (former BCC Cambiano s.c.p.a. now Ente Cambiano s.c.p.a.). Therefore, regardless of the juridical actions performed, the adopted accounting treatment is that of the purchase by former BCC di Cambiano s.c.p.a. of former Banca AGCI S.p.a. and the creation of the new Banca Cambiano 1884 S.p.a.

The summary table below traces the accounting stages of the passage from BCC Cambiano s.c.p.a. to Banca Cambiano 1884 S.p.a.

	Asset line items	31/12/2016	01/01/2017	01/01/2017	01/01/2017	01/01/2017	01/01/2017
		BCC Cambiano	Ente Cambiano	Ente Cambiano transf. Imbal.	BCC less Ente Cambiano	Banca AGCI	Banca Cambiano 1884
10	Cash and cash equivalents	10,419,841.54	0.00	0.00	10,419,841.54	633,207.39	11,053,048.93
20	Financial assets held for trading	57,645,960.47	0.00	0.00	57,645,960.47	0.00	57,645,960.47
30	Financial assets measured at fair value	0.00	0.00	0.00	0.00	0.00	0.00
40	Financial assets available for sale	631,706,459.41	115,580.41	0.00	631,590,879.00	83,071,349.78	714,662,228.78
50	Financial assets held through maturity	0.00	0.00	0.00	0.00	0.00	0.00
60	Receivables from banks	171,494,742.15	0.00	0.00	171,494,742.15	10,959,633.60	182,454,375.75
70	Receivables from customers	2,136,866,010.67	0.00	0.00	2,136,866,010.67	125,242,557.68	2,262,108,568.35
80	Hedges	236,760.72	0.00	0.00	236,760.72	0.00	236,760.72
90	Value adjustment of financial assets with generic hedging (+/-)	0.00	0.00	0.00	0.00	0.00	0.00
100	Equity investments	25,573,381.07	0.00	0.00	25,573,381.07	0.00	25,573,381.07
110	Property, plant and equipment	65,841,410.47	8,197,388.27	0.00	57,644,022.20	1,374,175.17	59,018,197.37
120	Intangible assets	2,504,245.70	0.00	0.00	2,504,245.70	4,881,246.92	7,385,492.62
	of which:						
	- goodwill	2,100,000.00	0.00	0.00	2,100,000.00	4,874,772.00	6,974,772.00
130	Tax receivables	33,479,266.32	7,557,547.34	0.00	25,921,718.98	3,835,393.05	29,757,112.03
	a) current	12,440,647.33	7,557,547.34	0.00	4,883,099.99	1,209,349.75	6,092,449.74
	b) pre-paid	21,038,618.99	0.00	0.00	21,038,618.99	2,626,043.30	23,664,662.29
140	Noncurrent assets and groups of assets in the course of divestment	0.00	0.00	0.00	0,00	0.00	0.00
150	Other assets	48,996,206.39	0.00	0.00	48,996,206.39	1,498,418.22	50,494,624.61
	Total assets	**3,184,764,284.91**	**15,870,516.02**	**0.00**	**3,168,893,768.89**	**231,495,981.81**	**3,400,389,750.70**
	Transfer imbalance	**0.00**	**262,456,573.53**	**262,456,573.53**	**0.00**	**0.00**	**0.00**
	Total overall assets	**3,184,764,284.91**	**278,327,089.55**	**262,456,573.53**	**3,168,893,768.89**	**231,495,981.81**	**3,400,389,750.70**

	Liability line items and shareholders' equity	31/12/2016	01/01/2017	01/01/2017	01/01/2017	01/01/2017	01/01/2017
		BCC Cambiano	Ente Cambiano	Ente Cambiano transf. Imbal.	BCC less Ente Cambiano	Banca AGCI	Banca Cambiano 1884
10	Payables to banks	488,534,471.19	0.00	0.00	488,534,471.19	54,945,656.41	543,480,127.60
20	Payables to customers	1,981,003,632.47	0.00	46,869,347.53	2,027,872,980.00	143,677,072.16	2,171,550,052.16
30	Outstanding securities	348,528,372.29	0.00	0.00	348,528,372.29	8,239,709.31	356,768,081.60
40	Financial liabilities from trading	0.00	0.00	0.00	0.00	0.00	0.00
50	Financial liabilities measured at fair value	0.00	0.00	0.00	0.00	0.00	0.00
60	Hedges	427,146.82	0.00	0.00	427,146.82	857,645.76	1,284,792.58
70	Adjustment of value of generic hedges for financial liabilities (+/-)	0.00	0.00	0.00	0.00	0.00	0.00
80	Tax liabilities	3,503,752.56	1,252,001.13	0.00	2,251,751.43	23,512.11	2,275,263.54
	a) current	0.00	0.00	0.00	0.00	23,512.11	23,512.11
	b) deferred	3,503,752.56	1,252,001.13	0.00	2,251,751.43	0.00	2,251,751.43
90	Liabilities associated with assets in the course of divestment	0.00	0.00	0.00	0.00	0.00	0.00
100	Other liabilities	84,849,146.70	3,099,347.29	0.00	81,749,799.41	2,826,561.36	84,576,360.77
110	Employee severance pay	3,579,535.44	146.14	0.00	3,579,389.30	184,564.07	3,763,953.37
120	Risk and expense funds	479,323.20	116,690.75	0.00	362,632.45	40,000.00	402,632.45
	a) pensions and similar commitments	0.00	0.00	0.00	0.00	0.00	0.00
	b) other funds	479,323.20	116,690.75	0.00	362,632.45	40,000.00	402,632.45
130	Valuation reserves	12,367,554.05	12,367,554.05	0.00	0.00	-2,263,852.83	-2,263,852.83
140	Redeemable shares	0.00	0.00	0.00	0.00	0.00	0.00
150	Equity instruments	0.00	0.00	0.00	0.00	0.00	0.00
160	Reserves	251,964,890.93	251,964,890.93	67.226.00	67,226.00	4,242,683.81	4,309,909.81
170	Premiums on issue of new shares	562,291.26	562,291.26	0.00	0.00	1,400,000.00	1,400,000.00

	Liability line items and shareholders' equity	31/12/2016	01/01/2017	01/01/2017	01/01/2017	01/01/2017	01/01/2017
		BCC Cambiano	Ente Cambiano	Ente Cambiano transf. Imbal.	BCC less Ente Cambiano	Banca AGCI	Banca Cambiano 1884
180	Capital	3,864,168.00	3,864,168.00	215,520,000.00	215,520,000.00	17,280,000.00	232,800,000.00
190	Treasury shares (-)	0.00	0.00	0.00	0.00	0.00	0.00
200	Fiscal year profit (loss)(+/-)	5,100,000.00	5,100,000.00	0.00	0.00	42,429.65	42,429.65
	Total liabilities and shareholders' equity	**3,184,764,284.91**	**278,327,089.55**	**262,456,573.53**	**3,168,893,768.89**	**231,495,981.81**	**3,400,389,750.70**

Data for the calculation:	
Share capital assigned to Ente Cambiano s.c.p.a.	215,520,000.00
Net transfer imbalance of Ente Cambiano s.c.p.a.	46,936,573.53
Gross transfer imbalance of Ente Cambiano s.c.p.a.	262,456,573.53
Transfer imbalance (rounding off with shares)	67,226.00
Payment of 20% on BCC equity at 31/12/2015 - Ente Cambiano s.c.p.a.	54,208,740.00
Banca AGCI S.p.a. goodwill	4,874,772.00
Realignment of Banca AGCI S.p.a. share capital	-720,000.00
Realignment of Banca AGCI S.p.a. reserves	720,000.00

The table below compares the income statement of Banca Cambiano 1884 S.p.a. (2017) with the sum of the income statement of former BCC Cambiano s.c.p.a. and former Banca AGCI S.p.a. (2016).

	Line items	31/12/2017	31/12/2016	31/12/2016	31/12/2016	Variations	Variations
		Banca Cambiano 1884 S.p.a.	BCC Cambiano s.c.p.a.	Banca AGCI S.p.a.	BCC + AGCI	Amounts	%
10	Earned interest and similar income	66,025,701.67	62,123,279.37	5,552,712.00	67,675,991.37	-1,650,289.70	-2.44%
20	Interest payable and similar expenses	18,276,036.22	21,085,883.33	3,082,470.63	24,168,353.96	-5,892,317.74	-24.38%
30	**Interest income**	**47,749,665.45**	**41,037,396.04**	**2,470,241.37**	**43,507,637.41**	**4,242,028.04**	**9.75%**
40	Commission income	27,280,656.08	23,097,191.53	1,487,620.50	24,584,812.03	2,695,844.05	10.97%
50	Commission expenses	2,069,633.40	1,662,521.82	74,127.54	1,736,649.36	332,984.04	19.17%
60	**Commission income**	**25,211,022.68**	**21,434,669.71**	**1,413,492.96**	**22,848,162.67**	**2,362,860.01**	**10.34%**
70	Dividends and similar income	2,292.50	1,887.44	0	1,887.44	405.06	21.46%
80	Net trading result	295,605.38	2,021,615.44	177,856.11	2,199,471.55	-1,903,866.17	-86.56%
90	Net hedging result	47,176.03	-97,474.39	-14,356.27	-111,830.66	159,006.69	-142.19%
100	Gains (losses) from the disposal or repurchase of:	3,340,665.95	8,398,628.85	1,842,926.49	10,241,555.34	-6,900,889.39	-67.38%
	a) receivables	0	0	0	0	0	0
	b) financial assets available for sale	3,275,920.87	8,334,083.78	1,842,926.49	10,177,010.27	-6,901,089.40	-67.81%
	c) financial assets held through maturity	0	0	0	0	0	0
	d) financial liabilities	64,745.08	64,545.07	0	64,545.07	200.01	0.31%
110	Net results of financial assets and liabilities measured at fair value	0	0	0	0	0	0
120	**Operating income**	**76,646,427.99**	**72,796,723.09**	**5,890,160.66**	**78,686,883.75**	**-2,040,455.76**	**-2.59%**
130	Net adjustments/write-backs of value due to impairment of:	-15,206,190.20	-14,433,281.49	-998,389.86	-15,431,671.35	225,481.15	-1.46%
	a) receivables	-13,939,630.16	-14,441,666.69	-993,626.26	-15,435,292.95	1,495,662.79	-9.69%
	b) financial assets available for sale	0	0	-4,763.60	-4,763.60	4,763.60	-100.00%
	c) financial assets held through maturity	0	0	0	0	0	0
	d) other financial operations	-1,266,560.04	8,385.20	0	8,385.20	-1,274,945.24	-15204.71%
140	**Net income from financial assets**	**61,440,237.79**	**58,363,441.60**	**4,891,770.80**	**63,255,212.40**	**-1,814,974.61**	**-2.87%**
150	Administrative costs:	56,007,946.38	53,719,285.63	4,774,668.30	58,493,953.93	-2,486,007.55	-4.25%
	a) personnel costs	24,728,206.31	24,919,752.63	1,845,766.32	26,765,518.95	-2,037,312.64	-7.61%
	b) other administrative costs	31,279,740.07	28,799,533.00	2,928,901.98	31,728,434.98	-448,694.91	-1.41%
160	Net allocations to risk and expense funds	-17,630.31	3,393.78	40,000.00	43,393.78	-61,024.09	-140.63%
170	Net adjustments/write-backs of value to property, plant and equipment	3,009,806.15	3,180,029.00	247,570.61	3,427,599.61	-417,793.46	-12.19%
180	Net adjustments/write-backs of value to intangible assets	126,542.01	88,812.31	3,330.35	92,142.66	34,399.35	37.33%

	Line items	31/12/2017	31/12/2016	31/12/2016	31/12/2016	Variations	Variations
		Banca Cambiano 1884 S.p.a.	BCC Cambiano s.c.p.a.	Banca AGCI S.p.a.	BCC + AGCI	Amounts	%
190	Other operating costs/income	-3,913,496.43	-3,662,757.47	-185,088.04	-3,847,845.51	-65,650.92	1.71%
200	**Operating costs**	**55,213,167.80**	**53,328,763.25**	**4,880,481.22**	**58,209,244.47**	**-2,996,076.67**	**-5.15%**
210	Profit (loss) from equity investments	512,823.74	199,911.10	0	199,911.10	312,912.64	156.53%
220	Net result of the fair value measurement of property, plant and equipment and intangible assets	0	0	0	0	0	0
230	Adjustments to value of goodwill	0	0	0	0	0	0
240	Gains (losses) from the disposal of investments	2,400.83	0	0	0,00	2,400.83	0
250	**Gains (losses) from current operations before tax**	**6,742,294.56**	**5,234,589.45**	**11,289.58**	**5,245,879.03**	**1,496,415.53**	**28.53%**
260	Fiscal year income taxes on current operations	2,242,294.56	134,589.45	-31,140.07	103,449.38	2,138,845.18	2067.53%
270	**Gains (losses) from current operations after tax**	**4,500,000.00**	**5,100,000.00**	**42,429.65**	**5,142,429.65**	**-642,429.65**	**-12.49%**
280	Gains (losses) from groups of assets in the course of divestment after tax	0	0	0	0	0	0
290	**Fiscal year profit (loss)**	**4,500,000.00**	**5,100,000.00**	**42,429.65**	**5,142,429.65**	**-642,429.65**	**-12.49%**

Section 3 – Retrospective adjustments – Information required as per Bank of Italy/Consob Isvap joint document n. 4 issued 03/03/2010.

Information regarding goodwill impairment test

As regards booking of corporate merger operations, the IFRS 3 requires registering the new intangible assets and measuring goodwill that may result subsequent to the operation in question.

As provided for by IAS 36, the value of assets measured following the merger, which are characterized by an indefinite useful life, including goodwill, cannot be amortized in accounting but must be subjected to impairment test annually (or at any rate whenever a loss of value is observed) to verify the recoverability of the book value.

The impairment test requires identifying first the unit that generates the cash flows (Cash Generating Unit - CGU) to which goodwill is attributed. A CGU is the smallest group of assets capable of generating cash flows autonomously. When the recoverable value of any single asset cannot be estimated, one must estimate the recoverable of the cash generating unit to which the asset belongs. Seeing that goodwill is not an asset capable of generating cash flow autonomously, for the purpose of the impairment test the CGUs that benefit from the goodwill deriving from a company merger must be identified and the goodwill must be allocated to the CGUs in question.

The impairment test must be conducted comparing the book value of the CGU with the recoverable value of the same CGU, where the recoverable value is the greater value between the fair value net of any sales costs, and the relative value in use. The resulting value adjustments are booked in the income statement.

Goodwill described in this document refers to the following “business combination” transactions in accordance with IFRS 3:

- Purchase by former BCC di Cambiano of two territorial units from former Banca Interregionale Spa - Binter (Pistoia and San Giovanni Val d’Arno branches); this transaction, which was concluded at the beginning of 2015, resulted in booking of goodwill for a total of 2,100,000 Euro;
- transfer, pursuant to Legislative Decree n. 18/2016 (amended and converted into Law n. 49/2016), of the bank business of former BCC di Cambiano to former Banca A.G.C.I. (so-called "way-out” operation, concluded effective 01/01/2017); considering that, pursuant to the IFRS 3 accounting principal, former Banca A.G.C.I. is in substance the purchased party (and, conversely, former BCC di Cambiano is in substance the purchasing party), the

goodwill (equal to 4,874,772 Euro) refers to the valuation of former Banca A.G.C.I., with three territorial units in the cities of Bologna, Rome and Turin.

The test was subject to advance approval on the part of the Board of Directors with respect to the approval of the financial statements for the fiscal year.

Based on the results of the impairment test, there was no need to adjust the booking value of goodwill registered in this document.

Definition of the Cash Generating Units (CGU) and allocation of goodwill

In accordance with IAS 36, if it is not possible to directly calculate the recoverable value of an individual asset entered in the balance sheet, the recoverable value of the cash generating unit (CGU) to which the asset belongs must be calculated.

IAS 36 defines a CGU as "the smallest identifiable group of assets that generates cash inflows that are largely independent of cash inflows generated by other assets or groups of assets".

In order to identify the cash generating units to which the assets subject to impairment tests are to be attributed, the identified CGUs must generate cash inflows that are largely independent of those deriving from other identified units.

With respect to the condition set forth above, for the purpose of the impairment test, the following Cash Generating Units (CGU) were identified:

- with reference to the purchase of territorial units from former Binter by former BCC di Cambiano: Pistoia branch CGU and San Giovanni Val d'Arno branch CGU;
- with reference to the "way-out" operation: Bologna branch CGU, Turin branch CGU, and Rome branch CGU.

Please note that, in accordance with the provisions of IFRS 8, the CGUs identified are not larger than the operational sectors.

The table below illustrates the allocation of goodwill among the CGUs at 31 December 2017 before the impairment test:

CGU		Book value before the impairment test
Purchase of former BINTER tellers	Pistoia branch	1,691,702
	San Giovanni V/A branch	408,298
	TOTAL (A)	**2,100,000**
Branches purchased within the scope of the "way-out" operation	Bologna branch	2,001,492
	Turin branch	1,505,280
	Rome branch	1,368,000
	TOTAL (B)	**4,874,772**
TOTAL (A+B)		**6,974,772**

Criteria used to calculated the recoverable value of the CGU

For the purpose of the impairment test, to calculate the recoverable value reference was made to the value in use based on the evaluation method known as the discounted cash flow method. This method calculates the value in use of an asset by discounting expected cash flows determined based on economic and financial projections elaborated with reference to the asset being evaluated.

The flow from the last analytical forecast is projected perpetually through an appropriate long-term growth rate ("g"), in order to estimate the so-called "Terminal Value".

Future cash flows must be discounted at a rate that reflects the current assessments of the time value of money and the risks specific to the asset. Specifically, the rates to be applied must incorporate current market values referred to the risk free component and risk premium correlated to the share component, observed over a sufficiently long time frame as to reflect different market conditions and economic cycles, and using an appropriate Beta coefficient in consideration of operational risk of the CGUs.

The Discounted Cash Flow financial method, in the so-called "*equity side*" is expressed by the following formula:

$$W = \sum_{i=0}^{n} CF_i(1 + k_e)^{-i} + TV(1 + k_e)^{-n}$$

where:

W = value in use;

CFi = cash flow to time i;

i = year of reference of the flow;

n = time frame covered by financial forecasts;

Ke = discount rate;

TV = Terminal Value, corresponds to the current value of a perpetual source of income calculated based on a cash inflow that is sustainable over the long term with a constant growth rate equal to "g".

Calculation of future cash flows

The value in use of each CGS was calculated by discounting the future cash flows referred to a five year forecasting period, from 2018-2022. Forecasts were elaborated starting from the economic and financial situation of each territorial unit at the end of 2017 (preliminary annual data), following two stages of assessment:

- for 2018, budget data were used;
- for the 2019-2022 period, in order to identify a long-term, sustainable, normalized income, economic and financial forecasts within an inertial growth context were development, considering the expected evolution of the macro-economic, the final position registered by each CGU, on the other hand, without considering the effects of future reorganizations or restructuring.

The table below shows the main assumptions on which the economic and financial forecasts used to estimate value in use were based and, in particular, the average compound annual growth rates (CAGR), the average annual rate variations and the income indexes for the last year of forecasting (2022).

CGU	CAGR 2018-2022				Average annual rate variation (bps)		Income indexes at 2022		
	Lending	Direct deposits	Comm. Income	Comm. Expenses	Economic lending	Direct deposits	Mg, Intermed/ Direct deposits	Cost/ Income	Gross Res./ Direct deposits
Pistoia branch	2.0%	2.0%	3.0%	3.0%	2.5	-2.5	4.8%	62.1%	0.46%
San Giovanni V/A branch	6.0%	6.0%	3.0%	3.0%	3.7	-1.3	7.7%	50.2%	0.62%
Bologna branch	3.0%	3.0%	3.0%	3.0%	-10.0	-7.5	2.3%	63.6%	0.30%
Turin branch	3.0%	3.0%	3.0%	3.0%	-10.0	-13.8	1.7%	78.4%	0.20%
Rome branch	3.0%	3.0%	3.0%	3.0%	-10.0	-10.0	7.0%	51.1%	0.47%

In synthesis, in the specific forecast period, the Prudential forecasts are:

- an average yearly increase (for the 5 years) of economic lending and direct deposits, favored by an, albeit small, recovery of the economic cycle; the growth of the aforementioned components is prudentially estimated in a value that is significantly reduced with respect to the increase registered in 2017;
- a moderate increase of net commission income, favored by greater attention in the development of asset management and insurance products;
- a limited average yearly variation of rates on economic lending and deposits, considering that for the Bologna, Turin and Rome CGUs (so-called metropolitan areas) forecasts take into account the pricing remodulation, that is already underway, respect to pricing applied by former Banca A.G.C.I. In particular, estimated reductions of interest rates payable and receivable meet the strategic objective of developing the presence of Banca Cambiano in the newly acquired urban centers and rebalancing the cost of deposits with respect to both average market rates and those applied by the Bank itself;
- a credit risk cost diversified by lending area, included between 0.5% and 1.25% (average value of 0.90%);
- an increase in operating costs (due to an increase in personnel costs and other administrative costs) that is less than proportional with respect to the growth in operating income, with a progressive improvement of cost/income (again in 2017 on average less than the overall value for the Bank).

The terminal value, that includes the value referring to the period subsequent to that covered by explicit forecasts, was calculated considering a normalized flow resulting from the result expected at the last year of projection (2022) and assuming a nominal long-term growth rate ("g") equal to 1.5%; this "g" rate is in line with the current expected long-term rate of inflation, therefore assuming a real growth equal to zero.

Discount rate

The value in use is estimated by discounting the cash flows at a rate that takes into account current market rates referred to both the time value component and the country risk component, in addition to the specific risks of the asset in question.

The discount rate was estimated using the Capital Asset Pricing Model based on the following formula:

$$ke = Rf + \beta \times (Rm - Rf)$$

where:

Rf = Risk free rate;

(Rm – Rf) = Market Risk Premium;

β = Beta.

The CAPM expresses a linear relation in balanced market conditions between the return of an investment and its systemic risk. In greater detail, the return of an investment is calculated as a sum of the risk free rate (an expression of the time value of money) and the premium for the risk, this latter corresponding to the product between the beta of the security and the premium for overall market risk (so-called "Equity Risk Premium").

The rate used to discount the cash flows (Ke) was equal to 7.03% (in the previous estimation on the values at December 2016, this rate was 2.98%[3]), considering the following parameters:

- Risk Free Rate (Rf): this is the time value of money, corresponding to the return of a risk free investment normally represented by Government Bonds. Basically, the CAPM system refers to a risk free rate, but does not refer to the time period to be considered; therefore, in line with prevailing valuation practices that use long-term Government Bond rates of return and considering the volatility of Italian Government Bond rates of return, the average rates of return five-year treasury bonds was considered (in line with the structure of Bank rates, which are prevalently floating rates), calculated over an observation period of 12 months[4]. The result was a free risk rate equal to 0.82%.
- Market Risk Premium (Rm – Rf): this is the premium for market risk, which is the result of the difference between the return of a diversified portfolio composed of all risky investments available on the market and the return of a risk free asset. Specifically, a 5.13% market risk premium was applied, in line with the valuation practice for the Italian market;
- Beta (β): expresses the specific risk of the investment, represented by the correlation between the returns of a single risky investment and the returns of the market portfolio. Specifically, the Beta – derived from the databases currently used in valuation practices supplied by external providers – for the Italian market is 1.21.

Results of the impairment test

[3] The difference between the two discount rates is tied to the Bank's new legal form as joint-stock company (SpA) resulting from the *way out* operation. For cooperative credit banks, cost of capital is calculated using a simplified approach that does not take into account the Beta correction factor, given that the characteristic features of cooperative credit institutions (mutualistic purpose, one-man-one-vote principle, no listing of capital on official markets, shareholder pre-emption clauses for access to shareholding) indicate that return on invested capital is not among the main objectives of persons deciding to invest in the capital of these institutions. Consequently, for the purpose of the impairment test, the policy in force in former BCC di Cambiano prudentially entailed applying a discount rate equal to the average weighted rate of the Bank's economic lending.

[4] The returns taken into consideration are before tax.

The impairment test requires comparing the recoverable value of the CGU, to which goodwill is allocated, and its book value.

In compliance with the accounting principles, the value of goodwill must be adjusted when the book value of the CGU to which it is allocated is greater than the recoverable value of the same, which, in the case in question, is assumed to be equal to the value in use.

The comparison between the book value and the recoverable value (value in use), calculated as described above, gave the outcomes illustrated below.

CGU	Book value before impairment	Recoverable value (value in use)	Difference
Pistoia branch CGU	1,691,702	4,630,686	2,938,984
San Giovanni V/A branch CGU	408,298	2,089,391	1,681,093
Bologna branch CGU	2,001,492	3,802,136	1,800,644
Turin branch GCU	1,505,280	1,687,127	181,847
Rome branch GCU	1,368,000	2,338,472	970,472
TOTAL	**6,974,772**	**14,547,812**	**7,573,040**

Based on the above evidence, the valuations made do not show a loss in the value of goodwill allocated to the CGUs subjected to the impairment test.

Sensitivity analysis

The main parameters used in the valuation model, such as cash flows and the discount rate, may be influenced, even considerably, by developments in the overall economic context, especially in the current market crisis conditions with prevailing uncertainty regarding future economic prospects. The effects that these changes may have on the calculation of hypothetical cash flows, as well as on the main financial assumptions, could therefore lead to future results that are different from those contained in this document.

For these reasons, a sensitivity analysis was deemed useful in order to evaluate the effects on the estimated values in use, and therefore on the results of the impairment test, of variations in the main parameters at the base of the valuation model. Specifically, the impact on value in use of the following elements was verified:

- +25 b.p. in base cost of capital (from 7.03% to 7.28%);
- -50 b.p. in base long-term growth rate “g” (from 1.5% to 1.0%).

The table below illustrates the value in use of the CGUs resulting from the sensitivity analysis and the percent variation of the same value, with respect to the value obtained using the "base" parameters.

CGU	Increase of Ke(+ 25bps)		Reduction of prospective growth rate (g) - (-50bp)	
	Value in use after sensitivity analysis	Variation of value in use	Value in use after the sensitivity analysis	Variation of value in use
Pistoia branch	4,415,154	-4.7%	4,311,878	-6.9%
San Giovanni V/A branch	1,982,120	-5.1%	1,929,072	-7.7%
Bologna branch	3,623,803	-4.7%	3,537,622	-7.0%
Turin branch	1,570,269	-6.9%	1,507,362	-10.7%
Rome branch	2,243,754	-4.1%	2,200,159	-5.9%

The sensitivity analysis shows decreases in value of use between 4.1% and 10.7%; none of the hypotheses considered results in a value of use for a that is lower than the balance sheet value of the same CGU.

As a further stress test, a variation of the discount rate sufficient to make the value in use of the CGU equal to its book value was taken into consideration, that is to say, the limit value of cost of capital (Ke) beyond which the impairment test on the CGU would show a loss of value.

CGU	Current recoverable value	Balance sheet value	Current Ke	Limit Ke rate (recoverable value = book rate)
Pistoia branch CGU	4,630,686	1,691,702	7.03%	15.12%
San Giovanni V/A branch CGU	2,089,391	408,298		19.75%
Bologna branch CGU	3,802,136	2,001,492		11.36%
Turin branch GCU	1,687,127	1,505,280		7.43%
Rome branch GCU	2,338,472	1,368,000		11.39%

The results of these analyses show a gap between the values used for the impairment test and the satisfactory limit value, therefore also demonstrating the solidity of available value in use margins with respect to adverse dynamics in current market scenarios.

EXPLANATORY NOTES

PART H – Transactions with related parties

Introduction

At 31 December 2017, the Bank belongs to the Gruppo Bancario Cambiano composed of:

- Ente Cambiano Scpa, parent company of the Gruppo Bancario Cambiano,
- Banca Cambiano 1884 Spa,
- Cabel Leasing Spa ,
- Società Immobiliare 1884 Srl.

The types of related parties, as defined by IAS 24, that are significant to the Bank include:

- parent company;
- subsidiaries;
- executives having strategic responsibilities;
- close relations of executives having strategic responsibilities or companies controlled by (or associated to) the same or by (to) close relations.

The information regarding compensation for executives having strategic responsibilities and that regarding transactions with related parties are provided here following.

1. Information on compensation for executives having strategic responsibilities

The definition of executives having strategic responsibilities, according to IAS 24, includes those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly, including the Bank directors.

In conformity with the provision of Bank of Italy Circular n. 262 of 22 December 2005 (4th update of 16 December 2015), the members of the Board of Statutory Auditors are also included among executives having strategic responsibilities.

The table below shows the compensation in 2017 for directors, statutory auditors and executives having strategic responsibilities.

Line items	31/12/2017	31/12/2016	Var.	% Var.
a) Compensation for directors	260	262	-2	-0.81%
b) Compensation for statutory auditors	96	114	-18	-15.93%
c) Compensation for executives	1,260	1,313	-53	-4.04%
Total	**1,616**	**1,690**	**-73**	**-4.34%**

Specifically, the above compensation at if further broken down into the following categories:

Description	Management	Auditors	Executives with strategic responsibilities	Total
Short-term benefits	260	96	1,260	1,616
Benefits subsequent to the work relationship	-	-	-	-
Other long-term benefits	-	-	-	-
Indemnity due at termination of the employment relationship	-		-	-
Payments in shares	-	-	-	-
Totals	**260**	**96**	**1,260**	**1,616**

Key:

- *Short-term benefits*: also include fixed and variable compensation due to management, in that assimilated to labor costs and social security contributions charged to the company for employees;
- *Benefits subsequent to the end of the work relationship:* include the company contribution to pension funds and allocations to the severance fund in the amounts provided for by law and by company regulations;
- *Other long-term benefits*: include estimated allocations for employee seniority bonuses;
- *Indemnity due at termination of employment*: Includes indemnities due by contract for termination of the work relationship;
- *Payments in shares*: this cost includes the quota of the variable part of short/long-term retribution to be paid in Banca Cambiano 1884 Spa shares.

Therefore, as shown in the table above, no long-term benefits, benefits subsequent to the end of the work relationship, indemnity at termination of employment nor payments in shares are due to the members of the Board of Directors and of the Board of Statutory Auditors nor to other Executives with strategic responsibilities.

2. Information on transactions with related parties

The schedule below shows the assets, liabilities, guarantees and commitments as at 31 December 2017, subdivided by the various types of related party, in accordance with IAS 24.

Balance sheet line items	Parent company	Subsidiaries	Directors	Auditors	Managers with strategic responsibilities	Other related parties	Total	% on balance sheet line item
Receivables from banks	0	0	0	0	0	0	0	
Receivables from customers	11,339	54,895	28	0	126	0	66,388	2.71%
Other assets	0	0	0	0	0	0	0	
Total assets	**11,339**	**54,895**	**28**	**0**	**126**	**0**	**66,388**	**1.97%**
Payables to banks	0	0	0	0	0	0	0	
Payables to customers	0	5,000	923	178	1,512	3,338	10,951	0.48%
Financial liabilities held for trading	0	0	0	0	0	0	0	
Total liabilities	**0**	**5,000**	**923**	**178**	**1,512**	**3,338**	**10,951**	**0.32%**

As regards transactions with parties that exercise administrative, management and control functions vis-à-vis the Bank, article 136 of Legislative Decree 385/1993 and article 2391 of the Italian Civil Code apply.

More in general, as regards transactions with related parties, as defined by IAS 24, the provisions for prudential supervision contained in Title V, chapter 5 of the Bank of Italy Circular n. 263/2006 ("Risk activities and conflicts of interest with related parties"), also apply, save for a few cases due to the imperfect coincidence between the fields of application of the two regulations.

Transactions with related parties are regularly carried out at market conditions and always on the basis of evaluations of economic convenience and in compliance with current regulations, appropriately explanation of the convenience in concluding the transaction.

Among the various valid intergroup contracts existing at the close of the fiscal year, please note those:

i. That centralize all government, planning, control, administration and internal audit activities with the Parent Company
ii. Inherent to financing contracts:
    a. Financing for cash flow flexibility related to the financial needs of the Parent Company, for 25 million Euro, granted in the technical form of opening credit in bank accounts, at a rate of 1%
    b. Financing for cash flow flexibility related to the financial needs of Cabel Leasing for 60 million Euro, granted in the technical form of opening credit in bank accounts, at a rate of 1.13%.

Annexes

BANCA CAMBIANO 1884
SOCIETÀ PER AZIONI

a. Schedules to the Financial Statements of Cabel Leasing S.p.a.

CABEL

TECHNOLOGY, FINANCE, SERVICES

CABEL LEASING S.p.A.

Information as at 31 December 2017

- Economic and financial statements

	BALANCE SHEET		
	Asset line items	**31/12/2017**	**31/12/2016**
10	Cash and cash equivalents	3,669	6,433
20	Financial assets held for trading		
30	Financial assets measured at *fair value*		
40	Financial assets available for sale	18,402	18,402
50	Financial assets held through maturity		
60	Receivables	146,637,049	188,618,426
70	Hedges		
80	Adjustment of value of financial assets with generic hedges (+/-)		
90	Equity investments		
100	Property, plant and equipment	6,037,642	5,096,251
110	Intangible assets		
120	Tax receivables		
	a) current	193,147	1,202,875
	b) pre-paid as per Law 214/2011	16,035	20,564
130	Noncurrent assets and groups of assets in the course of divestment		
140	Other assets	601,645	391,857
	TOTAL ASSETS	**153,507,590**	**195,354,809**

	BALANCE SHEET		
	Liability line items and shareholders' equity	**31/12/2017**	**31/12/2016**
10	Payables	128,446,451	147,431,407
20	Outstanding securities		
30	Financial liabilities from trading		
40	Financial liabilities measured at *fair value*		
50	Hedges		
60	Adjustments of value of financial liabilities with generic hedges (+/-)		
70	Tax liabilities		
	a) current	269,535	121,701
	b) deferred	325,050	1,483,202
80	Liabilities associated with assets in the course of divestment		
90	Other liabilities	4,847,556	27,224,239
100	Employee severance pay	164,171	145,297
110	Risks and expenses funds:		
	a) pensions and similar commitments		
	b) other funds	0	260,000
120	Equity	10,000,000	10,000,000
130	Treasury shares (-)		
140	Equity instruments		
150	Premiums on issue of new shares		
160	Reserves	6,890,955	6,660,807
170	Valuation reserves	1,798,009	1,798,009
180	Fiscal year profit (loss)	765,862	230,148
	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**153,507,590**	**195,354,809**

	INCOME STATEMENT		
	Line items	**31/12/2017**	**31/12/2016**
10	Earned interest and similar income	4,436,064	4,253,517
20	Interest payable and similar expenses	-1,572,823	-1,766,198
	INTEREST INCOME	**2,863,240**	**2,487,319**
30	Commission income		
40	Commission expenses	-212,660	-233,885
	COMMISSION INCOME	**-212,660**	**-233,885**
50	Dividends and similar income	259	288
60	Net trading result		
70	Net hedging result		
80	Net income of financial assets and liabilities measured at *fair value*		
90	Gains/losses from the disposal or repurchase of:		
	a) financial assets	-53,836	-265,967
	b) financial liabilities		
	OPERATING INCOME	**2,597,003**	**1,987,755**
100	Net adjustments/write-backs of value due to impairment of:		
	a) financial assets	-395,257	-191,694
	b) other financial operations		
110	Administrative costs:		
	a) personnel costs	-956,681	-964,292
	b) other administrative costs	-517,571	-481,651
120	Net adjustments of value of property, plant and equipment	-200,077	-154,086
130	Net adjustments of value of intangible asset		
140	Net result of the fair value measurement of property, plant and equipment and intangible assets		
150	Net allocations to risk and expense funds		
160	Other operating costs and income	474,036	113,329
	OPERATING INCOME/COSTS	**1,001,452**	**309,360**
170	Profit (loss) from equity investments		
180	Gains (losses) from the disposal of investments		
	GAINS (LOSSES) FROM CURRENT OPERATIONS BEFORE TAX	**1,001,452**	**309,360**
190	Fiscal year income taxes on current operations	-235,590	-79,212
	GAINS (LOSSES) FROM CURRENT OPERATIONS AFTER TAX	**765,862**	**230,148**
200	Gains (losses) from groups of assets in the course of divestment after tax	0	0
	FISCAL YEAR PROFIT (LOSS)	**765,862**	**230,148**

b. Schedules to the financial statements of Immobiliare 1884 S.r.l.

IMMOBILIARE 1884 S.R.L. - Societa' unipersonale

Bilancio di esercizio al 31-12-2017

Dati anagrafici	
Sede in	VIALE ANTONIO GRAMSCI 34 - 50132 FIRENZE
Codice Fiscale	06780730484
Numero Rea	FI 000000655716
P.I.	06780730484
Capitale Sociale Euro	5.000.000
Forma giuridica	Societa' a responsabilita' limitata
Settore di attività prevalente (ATECO)	682001
Società in liquidazione	no
Società con socio unico	si
Società sottoposta ad altrui attività di direzione e coordinamento	si
Denominazione della società o ente che esercita l'attività di direzione e coordinamento	Ente Cambiano S.c.p.A.
Appartenenza a un gruppo	si
Denominazione della società capogruppo	Ente Cambiano S.c.p.A.
Paese della capogruppo	ITALIA

Stato patrimoniale

	31-12-2017	31-12-2016
Stato patrimoniale		
Attivo		
B) Immobilizzazioni		
I - Immobilizzazioni immateriali		
1) costi di impianto e di ampliamento	6.386	0
Totale immobilizzazioni immateriali	6.386	0
Totale immobilizzazioni (B)	6.386	0
C) Attivo circolante		
II - Crediti		
5-bis) crediti tributari		
esigibili entro l'esercizio successivo	71	0
Totale crediti tributari	71	0
Totale crediti	71	0
IV - Disponibilità liquide		
1) depositi bancari e postali	4.999.309	0
Totale disponibilità liquide	4.999.309	0
Totale attivo circolante (C)	4.999.380	0
D) Ratei e risconti	147	0
Totale attivo	5.005.913	0
Passivo		
A) Patrimonio netto		
I - Capitale	5.000.000	0
IX - Utile (perdita) dell'esercizio	(473)	0
Totale patrimonio netto	4.999.527	0
D) Debiti		
7) debiti verso fornitori		
esigibili entro l'esercizio successivo	6.386	0
Totale debiti verso fornitori	6.386	0
Totale debiti	6.386	0
Totale passivo	5.005.913	0

Conto economico

	31-12-2017	31-12-2016
Conto economico		
B) Costi della produzione		
7) per servizi	150	0
14) oneri diversi di gestione	597	0
Totale costi della produzione	747	0
Differenza tra valore e costi della produzione (A - B)	(747)	0
C) Proventi e oneri finanziari		
16) altri proventi finanziari		
d) proventi diversi dai precedenti		
altri	274	0
Totale proventi diversi dai precedenti	274	0
Totale altri proventi finanziari	274	0
Totale proventi e oneri finanziari (15 + 16 - 17 + - 17-bis)	274	0
Risultato prima delle imposte (A - B + - C + - D)	(473)	0
21) Utile (perdita) dell'esercizio	(473)	0

Rendiconto finanziario, metodo indiretto

	31-12-2017	31-12-2016
Rendiconto finanziario, metodo indiretto		
A) Flussi finanziari derivanti dall'attività operativa (metodo indiretto)		
Utile (perdita) dell'esercizio	(473)	0
Interessi passivi/(attivi)	(274)	-
1) Utile (perdita) dell'esercizio prima d'imposte sul reddito, interessi, dividendi e plus /minusvalenze da cessione	(747)	-
2) Flusso finanziario prima delle variazioni del capitale circolante netto	(747)	-
Variazioni del capitale circolante netto		
Incremento/(Decremento) dei debiti verso fornitori	6.386	-
Decremento/(Incremento) dei ratei e risconti attivi	(147)	-
Altri decrementi/(Altri Incrementi) del capitale circolante netto	(71)	-
Totale variazioni del capitale circolante netto	6.168	-
3) Flusso finanziario dopo le variazioni del capitale circolante netto	5.421	-
Altre rettifiche		
Interessi incassati/(pagati)	274	-
Totale altre rettifiche	274	-
Flusso finanziario dell'attività operativa (A)	5.695	-
B) Flussi finanziari derivanti dall'attività d'investimento		
Immobilizzazioni immateriali		
(Investimenti)	(6.386)	-
Flusso finanziario dell'attività di investimento (B)	(6.386)	-
C) Flussi finanziari derivanti dall'attività di finanziamento		
Mezzi propri		
Aumento di capitale a pagamento	5.000.000	-
Flusso finanziario dell'attività di finanziamento (C)	5.000.000	-
Incremento (decremento) delle disponibilità liquide (A ± B ± C)	4.999.309	-
Disponibilità liquide a fine esercizio		
Depositi bancari e postali	4.999.309	0
Totale disponibilità liquide a fine esercizio	4.999.309	0

c. Analytical list of real property with indication of revaluation – Law n. 72 of 19/03/1983, article 10

Description	Historical cost	Rev. Law 576/75	Rev. Law 72/83	Rev. Law 413/91	Rev. From first time adoption IAS 01/01/2005	Total real property at 31/12/2017	Of which land value at 31/12/2017	Of which value of buildings at 31/12/2017	Amortization fund at 31/12/2017	Balance sheet value at 31/12/2017
Barberino V.E. P.za Capocchini, 21/23 - Branch	74,026	0	0	0	475,968	549,993	0	549,993	253,462	296,532
Castelfiorentino – Loc. Cambiano – Mailing Address	1,336	156	12,452	4,523	182,046	200,513	0	200,513	163,826	36,687
Castelfiorentino – Via Carducci 4 - Head Office – Not operative	557,166	0	0	0	0	557,166	0	557,166	0	557,166
Castelfiorentino – Via Carducci, 8/9 - Head Office	1,190,430	0	480,305	63,974	2,409,822	4,144,530	1,800,000	2,344,530	1,681,837	2,462,693
Castelfiorentino – Via Cerbioni - Archive 1	617,658	0	0	0	227,844	845,502	185,000	660,502	359,764	485,738
Castelfiorentino – Via Cerbioni - Archive 2	503,164	0	0	0	98,101	601,265	150,000	451,265	196,771	404,494
Castelfiorentino – Via Gozzoli, 45 – Branch	1,007,905	0	0	0	1,013	1,008,917	250,000	758,917	308,893	700,025
Castelfiorentino – Via Piave, 10 - Head Office – Not operative	239,743	0	0	0	0	239,743	0	239,743	0	239,743
Castelfiorentino – Via Piave, 6 (Garage) – Head Office –Not operative	138,468	0	0	0	0	138,468	0	138,468	0	138,468
Castelfiorentino – Via Piave, 8 - Head Office	30,196	10,641	179,368	42,042	1,258,394	1,520,641	480,000	1,040,641	931,081	589,560
Castelfiorentino – Via Veneto/Via Piave – Head Office – Not operative	8,518,441	0	0	0	-70,200	8,448,241	708,620	7,739,620	0	8,448,241
Cerreto Guidi – Via V. Veneto, 59 – Branch	472,442	0	0	0	216,286	688,728	0	688,728	272,994	415,734
Colle Val d'Elsa – Piazza Arnolfo – Branch – Not operative	1,822,857	0	0	0	0	1,822,857	774,000	1,048,857	0	1,822,857
Empoli - Via Cappuccini, 4 – Branch	44,547	0	0	0	156,468	201,015	0	201,015	93,936	107,079
Empoli - Via Chiarugi, 4 – Branch	4,224,838	0	0	0	2,747,576	6,972,415	2,000,000	4,972,415	3,163,970	3,808,444
Firenze - Via Maggio - Branch	1,558,533	0	0	0	0	1,558,533	0	1,558,533	262,425	1,296,108
Firenze – Viale Gramsci 34 – Head Office	12,091,993	0	0	0	0	12,091,993	1,222,000	10,869,993	970,443	11,121,551
Fucecchio – Piazza Montanelli - Branch	4,853,742	0	0	0	0	4,853,742	900,000	3,953,742	604,397	4,249,346
Gambassi Terme – Via Garibaldi, 16 - Branch	37,565	0	0	0	182,506	220,071	0	220,071	102,007	118,064
Gambassi Terme – Via Garibaldi, 18 - Branch	26,830	1,033	23,241	3,352	153,497	207,952	0	207,952	128,494	79,458
Gambassi Terme – Via Volta, 19/21 – Archive 3	1,691,075	0	0	0	0	1,691,075	552,655	1,138,420	298,775	1,392,300
Greve in Chianti – Piazza Santa Croce - Branch	845,729	0	0	0	0	845,729	73,200	772,529	41,159	804,570
Montespertoli – Via Romita 105 - Branch	252,244	0	0	0	0	252,244	0	252,244	37,562	214,683
Poggibonsi – Via S. Gimignano, 24/26 – Branch	2,272,577	0	0	0	710,082	2,982,659	935,000	2,047,659	1,331,444	1,651,216
San Gimignano – Via dei Fossi - Branch – Not operative	1,364,777	0	0	0	0	1,364,777	1,000,000	364,777	0	1,364,777
San Miniato – Via Tosco Romagnola - Branch	271,697	0	0	0	0	271,697	50,193	221,504	19,967	251,729
Total	44,709,980	11,830	695,366	113,890	8,749,401	54,280,467	11,080,669	43,199,798	11,223,205	43,057,263

d. Fees for statutory audit – sub-section 1, n. 16-bis, article 2427 Italian Civil Code

In compliance with the provisions of article 2427, sub-section 1, n. 16-bis of the Italian Civil Code, below is a detail of the fees for the 2016 fiscal year set forth in the contract with the Auditing Company for the statutory accounting audit and for the performance of other services rendered to the Bank.

Amounts are net of VAT and expenses.

Type of service	Subject performing the service: auditing company / statutory auditor	Total amount of fees (in Euro)
A) Statutory audit	Baker Tilly Revisa S.p.a.	54,454
B) Certification services	Baker Tilly Revisa S.p.a.	800
C) Tax consulting services		0
D) Other services	Baker Tilly Revisa S.p.a.	13,817
Total fees		**69,071**

e. Public disclosure (country by country reporting) with reference to the situation at 31 December 2017 in accordance with vigilance provisions for banks – Bank of Italy Circular n. 285/2013 – Part One – Title III – Chapter 2

Line item	Value
a) Name of established companies and business purpose	*Name* Banca Cambiano 1884 S.p.a.
	Business purpose The company has as its business purpose the collection of savings and the lending of credit services in its various forms. In compliance with current regulations, the company may carry out all banking and financial transactions and services, including acquisition and management of share holdings. It may also carry out any other instrumental operation connected to fulfilling the corporate purpose. In carrying out its business, the company may issue securities, including convertible Securities, in compliance with current regulatory provisions in force and with the articles of association.
b) Turnover ([5])	€ 76,646,428
c) Number of employees on a full-time equivalent basis ([6])	n. 343
d) Pre-tax gains or losses ([7])	€ 6,742,295
e) Tax on gains or losses ([8])	€ 2,242,295
f) Public contributions received ([9])	The Bank received no contributions from Public Administrations during the 2017 fiscal year.

[5] "Turnover" means the operating income as per line item 120 of the income statement.
[6] "Number of employees on a full-time equivalent basis" means the ratio between the total number of hours worked overall by all employees, excluding overtime, and the yearly total provided for by contract for a full-time employee.
[7] "Pre-tax gains or losses" is the sum of line items 250 and 280 (this latter gross of taxes) in the income statement.
[8] "Taxes on gains or losses" are the sum of taxes registered at line item 260 of the income statement and the income tax relative to the groups of assets held for sale.
[9] The item "Public contributions received" must include contributions received directly from public administrations. This item does not include operations carried out by central banks for purposes of financial stability nor operations that have the objective of facilitating the monetary policy transmission mechanism. Similarly, any operations that may be classified as public aid approved by the European Commission are not to be taken into consideration.

Banca Cambiano 1884 Società per Azioni

Head Office: viale Antonio Gramsci, 34 – 50132 Florence
Registered with the Bank of Italy Register of Banks at n. 5667
Share Capital € 232,800,000,00 fully paid-in
Registration number in the Company Register of Florence,
Fiscal code and VAT code: 02599341209
Member of the Gruppo Bancario Cambiano
Subject to management and coordination activities by Ente Cambiano scpa