(Translation from the Italian original which remains the definitive version)

carifermo
cassa di risparmio di fermo s.p.a.

2016 ANNUAL REPORT

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BOARD OF DIRECTORS
Meeting of 29 March 2017

Directors' report

Dear shareholders,

2016 was a challenging and particularly important year for our bank.

First and foremost, the event that directly affected Cassa di Risparmio di Fermo was Alessandro Cohn's retirement after 20 years at the bank's helm and 50 years in the banking sector. During his period with the bank, it maintained its balanced position strengthening its capital structure and its close ties with its local base. The board of directors decided to offer the position to Alessandra Vitali Rosati, who accepted and became the new managing director on 3 May 2016. She was already a director and has had a brilliant career with major Italian and foreign banks.

We would like to warmly thank the former general manager and managing director Mr. Cohn for his expert guidance in extremely difficult and complicated periods during which the bank has overcome the economic and financial crises of the last few years and has successfully maintained and strengthened its position, to the benefit of the local community.

Similarly, we welcome Ms. Vitali Rosati, who kindly accepted to continue Mr. Cohn's leadership and are confident that under her direction the bank will achieve additional great results, garnering greater trust from its customers and leading the bank through the changes required by the current scenario.

We commented on the severe crisis affecting the Italian economy in our report last year, aggravated by its unprecedented length, while the economy of our region, the Marche, seems to be even worse placed than that of other areas of Italy.

Earthquakes devastated the southern part of the region in August and in the following months. In addition to the heavy consequences for the loss of lives and for the sacrifices of the population most directly affected, they made business activities even more arduous, in some cases forcing companies to close. The actions taken in the vast "crater" area obviously adversely affected the already modest results for the region and squashed hopes of a rapid economic recovery.

Confidence in the ECB's ability to stimulate the international economy, where signs of revival are clearly visible, especially in the United States and some of the developing economies, led markets to hope that southern Europe's economy and the financial markets would respond similarly.

One year after these visible and hoped-for signs, the Italian economy did see some signals of an about-turn towards the end of the year. Its GDP even increased to above the government's forecasts, while industrial production showed signs of recovering strength. In addition, corporate and household confidence appears to be slowly picking up.

Unfortunately, our region's situation is still negative, not only as a result of the aforementioned problems in the earthquake-hit areas but also due to the more generalised wariness of change, both in innovation and culture. However, success stories in the more adversely affected areas do materialise, with companies that have managed to find the right approach to organisational and commercial transformation. In addition, Italy's structural problems, which are even more of an issue in the Marche region, are still unresolved, with the result that Italy's growth rate lags behind that of the other EU member states.

The backdrop to this situation is a fragmented Europe, unable to find a shared political vision.

The Eurozone's growth pattern was modest compared to other geographical areas and inflation is slowly increasing (at two different speeds), although it struggles to return to the ECB's hoped-for levels.

The monetary policy is stimulating the Eurozone's economy and all measures available have been taken to achieve the ECB's objectives. After its QE programme and the negative interest rates of 2015, the ECB extended its asset purchase programme in 2016 to include public sector and corporate bonds, propping up EU member state bond prices and encouraging extraordinarily low interest rates while it awaits an upturn in the economy.

2016 saw some unprecedented events which have had an enormous effect on the economy. The markets inevitably suffered from the resulting uncertainties as shown by the sharp increase in volatility close to these events.

In June, the British voted to leave the EU in a completely unexpected decision that neither the markets nor the rest of Europe had foreseen.

In November and contrary to expectations, the United States elected a president whose election campaign hinged on isolation and a very accommodating tax stance. This was followed by the astounding recovery of the US stock exchange indices, which made an about-turn in the Federal Reserve's interest rate policy extremely urgent. In fact, it increased the Fed Funds rate in December.

Finally, in December, the Italian institutional referendum confirmed the Italians' unwillingness to change the Republic's constitution but generated great political uncertainty about the feared intertwining between institutional deadlines, the new electoral law and increasingly narrow political majorities. The resulting slow but inevitable widening in the spread between the Italian BTP and the German Bund demonstrated that the markets perceive this situation to be problematic, generating expectations about a possible rise in portfolio risks.

Both Italian and EU authorities continue to keep a close eye on the domestic banking sector. After the measures adopted at the end of 2015 with the bail-out of the four Italian bad banks through resort to the specially set up Fund (which all the banks were required to contribute to), the actions taken in 2016 successfully resolved other critical situations involving the public and private sectors and the use of various tools such as:

1. the precautionary recapitalisation of Monte dei Paschi di Siena, paid for by the government;
2. private funds set up specifically to purchase NPEs and strengthen banks in difficulties`, used mainly by Banca Popolare di Vicenza and Veneto Banca;
3. the voluntary deposit guarantee funds to assist banks in difficulties when state aid is not possible.

In full compliance with European laws and to ensure financial stability, public funds of up to €20 billion have recently been earmarked to fortify the liquidity and capital of solvable banks that, despite having obtained a satisfactory result in the base scenario stress test, have been found to be weak in a potentially adverse scenario as part of the same test.

The Italian banks saw higher lending volumes in 2016, a sign that the market is reviving. Thanks to the continued positive trend of lending to households, countered however by stagnant corporate lending, loans to the entire private residential sector increased at the end of the year. The Italian Banking Association's (ABI) December forecasts showed a 1.3% year-on-year increase.

Credit quality continued to slowly benefit from the improved economic situation although, as mentioned earlier, the Marche region is still adversely affected by the crisis, which in turn has a significant effect on credit quality.

There were no particular difficulties in the funding business, even though there was a year-on-year decrease of 1.3% according to the ABI's December forecasts, in line with the figures for the last few months of the year. The reduction in bond issues contributed to this result although it was offset by the large increase in current account deposits. Should this trend continue and the ECB be less generous with its funding, it could create liquidity problems given the large gaps between the maturity dates of assets (which become longer) and liabilities (which become shorter).

The bank recorded another increase in its funding, thanks to its direct and facilitated access to household savings, which allow it to continue to bolster the local economy, as part of its mission to be a "local bank".

Carifermo approved its new business plan for the years from 2016 to 2018 during the year and has announced a wide-ranging organisational reshuffle involving both its branches and head office to fully implement the plan.

Its aim, anticipating this reorganisation, is based on its awareness that a bank's competitive edge lies in its ability to invest in the professional growth of its people given the expanding offer of financial services. Bank staff are now required to become customers' private consultants, offering high value added services and leaving the basic services to the technological tools provided at more modest costs.

The bank also rolled out a new service model, with the contribution of all its personnel, emphasising the need to develop an internal culture in which everyone is aware of the importance of their roles.

This model streamlines the distribution organisation with the creation of ten main branches that assist the medium and small branches to make commercial activities more effective and efficient, through the creation of new commercial coordination positions. The bank also defined specific service lines: businesses and households. The specialist roles of the related managers, assisted by training courses, will lead to the steady professional growth of the best resources with a positive fallout on service levels and personal motivation.

Given the continued adverse economic climate, the bank strengthened its controls over credit risk and developed a commercial policy designed to split risk, especially as regards house purchase loans, which have increased by 2.5% on the previous year. Overall, loans grew by 0.10% which was in line with the bank's strategies. Limited resort continues to be made to overdrafts (70%).

The growth rate of net impaired loans has tapered off considerably (2014: 8.4%, 2015: 20.9% and 2016: 8.1%) and they amount to €122.8 million. However, the construction sector's situation continues to be critical as does that of part of the footwear sector, as it is still having difficulties in accessing the Russian and Ukrainian markets. The bank deems that many positions with construction companies could become non-performing because the sector has yet to take decisions encouraging debt restructuring which is significantly affecting these companies.

Once more, investments made a strong contribution to the bank's results. Although affected by the tensions caused by the market's recovery, they benefitted significantly from diversification made possible mainly as a result of the management mandate given to Epsilon SGR, an Intesa San Paolo Group company, agreed to diversify assets in terms of the products used, markets and currencies.

Direct funding improved again, repeating the excellent results of the previous year to reach €1,447.9 million (+2.6%), thanks to customers' confidence in the bank.

Indirect funding also achieved new goals amounting to €1,115.3 million (+4.9% on 31 December 2015), with a 25.4% increase in assets under management.

With respect to interest rates, the market continued to show very little vivacity and negative short-term rates affecting net interest income, which decreased by 7.1% on the previous year, as expected.

During the year, the bank had to make sizeable contributions to the funds set up to assist banks in difficulties (€2 million) and this significantly affected its cost/income ratio. We are seriously concerned about the Italian banking sector as the bank will be asked to make additional large contributions again in 2017 in a situation in which it is increasingly difficult to make a profit.

Despite the continued considerable difficulties encountered by major Italian and international banks in 2016 and the onerous contributions to the Resolution Funds, Carifermo managed to make a profit of more than €5.2 million for the year.

International situation

UNITED STATES

The key event of this year was obviously the presidential elections of November. The outcome was followed by a strong rise in expectations about an expansionary tax policy, which together with conjectures about growth and inflation led to portfolio turnover in the favour of equities and disadvantaging bonds. This triggered a sharp rise in returns, especially in the long-term part of the curve, repeated in the other advanced economies to different extents depending on the similarity of the monetary policies adopted by their central banks.

Real GDP grew at an annualised rate of 1.9% in the fourth quarter of the year, down on the 3.5% of the third quarter and mainly bolstered by consumer spending, the net trade balance and the reversal of stocks' contribution. Despite the political uncertainty, with little information available about the political changes to be introduced by the new administration, the results of the surveys about market confidence published after the elections are positive for the short term.

Labour market conditions confirmed the trend towards 100% employment. The unemployment rate at the end of the year was 4.7%, which encouraged an additional upturn in salaries, with a rise in the average hourly salary of 2.9% on an annual basis.

The year-on-year inflation rate in December, measured using the consumer price index, showed a 2.1% increase with strong growth recorded in December (+0.4%). Core inflation, net of the more volatile food and energy products, increased by 2.2%, confirming the strong rise in prices. After the elections, expectations strengthened about medium to long-term inflation based on financial asset prices.

During its 14 December meeting, the Federal Reserve increased the fed funds rate by 25 basis points from 0.50% to 0.75%, reflecting the labour market data and the rise in inflation. The FOMC[1] members subsequently revised the forecasts for interest rates in the next three years upwards.

The markets raised expectations about rising stock prices, reflecting both the possible expansionary policy of the new administration and the Federal Reserve's steady normalisation of its monetary policy.

CHINA AND EMERGING ECONOMIES

The most recent data for China confirm that the growth rate of its real GDP has stabilised after the 6.7% increase seen in the third quarter of the year on the same period of 2015, achieved partly due to the ongoing tax and monetary stimulus programme. The Chinese central bank, PBoC, continued to inject liquidity into the system through open market operations. However, there is still a risk of a possible downwards correction of real estate prices, which have taken off in the last two years.

The Indian GDP grew again at 7.3% notwithstanding the modest improvement in industrial production. The shock cancellation of the larger-denomination banknotes, introduced without notice at the start of November to combat tax evasion, led to a strong contraction in cash in circulation, slowing down consumption and production activities. The Indian central bank maintained the official rates at their historical lows, after the last cut in October.

Recession retained its stronghold on Brazil with GDP at 2.9% in the third quarter of the year after -3.6% of the previous quarter, while the economic situation continued to be unclear, partly as a result of the very confused political situation. Despite this slowdown, December consumer prices grew by an annualised 6.6%.

As a result, the Brazilian central bank cut the benchmark interest rate three times to 13.0%, although it continues to be at very high levels.

Russia saw an easing in the downwards trend of its GDP, which ended the year at 0.4%, thanks in part to the upturn in oil prices during the year and consolidating expectations about a return to growth.

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[1] the Federal Open Market Committee

The annual inflation rate, measured using the consumer price index, decreased to 2.1% in December. However, producer price inflation grew strongly over the 12 months to 5.5% in December, as a result of the sharp rise in prices of the extraction sector products and energy products. At year end, the Russian central bank did not touch the official interest rates after having cut them to 10% in September.

JAPAN

Japanese GDP grew by 1.3% in the third quarter of the year, compared to the corresponding period of 2015, affected by both the rise in internal demand and net trade balance, which continued to be sluggish despite the expansionary budget policies approved during the summer that were expected to relaunch demand. The Japanese central bank introduced innovative measures to more aggressively stimulate the economy.

The most recent statistics indicate an upturn in exports in real terms while additional progress was seen for industrial production towards the end of the year. Household consumption continues to be weak.

Despite the tense labour market situation, with unemployment steady at 3%, the real salary growth rate was unchanged on an annual basis.

Year-on-year inflation, measured using the consumer price index, increased again in November to 0.5%, although if food and energy products are excluded, this figure decreases to 0.2%.

UK

The Leave campaign won the Brexit referendum held in 2016. The outcome of this decision may have far-reaching effects on not just the UK but also the entire EU, given the envisaged reduction in both of their markets.

The GDP growth rate remained unchanged at 2.4% on a year-on-year basis, despite the abrupt slowdown in the post-referendum period. The available indicators show that economic activities continued to hold their ground in the third quarter of the year as well, thanks in part to the sterling's strong depreciation.

Moreover, the British government decided to ease its tax policy, which had previously been programmed to become tougher, for the next two years given the uncertainty about the country's exit from the EU in the medium term and to bolster the national economy.

Annualised inflation measured using the consumer price index increased to 1.6% in December, partly driven by energy product prices.

EUROZONE

The Eurozone's most important economic indicators were somewhat affected by the effects of Brexit. It is widely felt that the actual effects of the UK's decision will only be seen after the negotiations with the European Union about how this will happen.

The revised growth estimates for the entire Eurozone show a 1.7% increase in GDP on an annualised quarterly basis, with growth from one quarter to another.

Germany recorded an 0.76% increase in its GDP in the third quarter of the year on an annualised quarterly basis, which was a large drop on the 1.65% increase for the second quarter, while France's GDP increased by a very positive 0.8% after the disappointing -0.6% for the previous quarter.

The Eurozone's industrial production grew by 1.5% in November 2016 compared to +0.1% for the previous month and by 3% on an annual basis.

Industrial production increased in Germany and France by 2.3% and 1.9%, respectively, in November 2016 compared to November 2015.

Again in November, new manufacturing orders increased by 2.7% and 2.1% in the Eurozone and Germany, respectively, confirming the downwards trend of most of the Area's economies.

Retail sales in the Eurozone showed year-on-year growth of 1.4% in December, a slight drop on a cyclical basis. They decreased by 1.1% in Germany in the same month compared to a year earlier while they grew by 3.8% in France.

The unemployment rate remained steady at 9.7% in November 2016.

Inflation continued at very modest levels. Consumer prices increased by 0.57% in November 2016, compared to +0.15% in November of the previous year.

Core inflation, net of the more volatile energy and food products, grew 0.7% in November, which was substantially in line with the rate recorded in the last month of the year.

ITALY

Italy's GDP for the fourth quarter of the year, adjusted by calendar effects, increased by 0.2% on the previous quarter and by 2.2% on the same three months of 2015. This increase is the result of the rise in value added in the industry and service sectors and a decrease in the agriculture sector. Internal demand made a positive contribution, unlike the net foreign trade balance.

The industrial production index increased by 1.4% in December compared to November 2016. The average increase for the last quarter of the year was 1.3% on the previous quarter. In December, the sectors showing the most year-on-year growth were electrical energy providers, means of transport and electro-medical equipment manufacturers. The textile, clothing, leather and accessories sectors all saw decreases in their production.

Investments picked up and increased by 0.8%, assisted by purchases of machinery and equipment, as well as, especially, means of transport. Household spending decelerated.

After the stronger performance of imports compared to exports at 0.7% and 0.1%, respectively, the net trade balance decreased GDP by 0.1%.

Value added grew significantly in industry and to a lesser extent in the services sector, where it was particularly affected by the contraction in the financial brokerage and insurance sectors.

Preliminary estimates in December show that the national consumer price increased by 0.4% on the previous month and by 0.5% on an annual basis.

The upturn in inflation in December was mainly a result of the faster growing prices of services compared to transport, energy products and foodstuffs.

Core inflation, i.e., net of the more volatile components, increased to 0.6% in December compared to 0.4% in November.

Industrial activities continued to grow with confirmed signs of stability for the real estate sector, despite the constant very uncertain outlook for the non-residential segment. Business confidence indicators are very positive.

Household consumption increased albeit at a modest pace over the year and continued this trend in the last few months of 2016. The higher disposable income was accompanied by a gradual rise in the propensity to save, which had decreased to rather small levels in 2015. The consumer confidence indicator reversed its downwards trend seen since the start of 2015 in December.

The number of hours worked and total number of employed persons began to stabilise during the summer months with a rise in the number of persons employed with term and open-ended contracts. Labour units increased by 1.4%, with a sharp increase in employees (+2.1%) and a small drop in self-employed people (-0.3%).

Gross per capita salaries increased by 0.7% during the year.

MARCHE REGION

The fourth quarter figures confirm the continued weak economic situation. Similarly to that seen for the first nine months of the year, internal demand was slightly more robust than external demand at the end of the year, although they were both feeble for the food and fashion sectors.

The results of the sectors occupied by small and medium sized enterprises (SMEs) confirm this difficult scenario.

The most recent figures indicate that the regional manufacturing sector will end the year with a modest drop in production output and stable commercial activities compared to the fourth quarter of 2015.

According to the quarterly survey performed by Confindustria Marche's (the regional branch of the General Confederation of Italian Industry) study centre, industrial production decreased slightly by 0.4% in the last quarter of the year compared to the same three months of the previous year, which is not as good a performance as the nation-wide percentage of +0.3%.

A breakdown by sector shows that the negative production trend was seen in the foodstuffs sector and the entire fashion sector, while the other sectors performed better.

Based on the initial data released by Confindustria, the operators confirmed that their performance was not brilliant: those with stationary or contracting production activities amounted to 62% compared to 56% for the previous quarter, while the percentage of companies that recorded increases in their production output decreased to 35% against 42% for the previous quarter.

Overall, commercial activities are stable in the last three months of the year. Sales were in line with the last quarter of 2015 in real terms with a slightly negative performance on the domestic market and a slightly positive one abroad.

Domestic sales decreased by -0.4% compared to the fourth quarter of 2015, with positive results achieved by the wood and furniture, non-metal minerals and - to a very small degree - the mechanical sectors.

Foreign sales showed a modest positive variation of 0.2% on the last three months of 2015. Nearly all the sectors recorded stable or modest increases, excluding the fashion sector, which saw additional contractions.

The weak production and commercial activities were accompanied by very modest prices, with marginal increases on both the domestic and foreign markets. The cost of purchasing raw materials also increased only slightly in both markets.

On average, employment levels for the last quarter of the year recorded a modest but encouraging increase of 0.2%.

Resort to the government-sponsored lay-off scheme continued to be high in the same period but however decreased by 17.2% on the last quarter of 2016 from 8.4 million hours to roughly 7 million. A breakdown shows that utilisation of the ordinary scheme increased from 995 thousand hours for the last three months of 2015 to 1.9 million in the last quarter of 2016 (+95.6%) while utilisation of the extraordinary scheme increased from 2.9 million hours to €4.7 million hours in the same periods (+61.4%).

However, there was a significant reduction in the resort to the special scheme from 4.5 million hours in the last quarter of 2015 to roughly 362 thousand for the same period of 2016 (-92%).

An analysis of the government-sponsored lay-off scheme data by business segment shows that the reduction is due to a large decrease in use of the scheme by the artisans sector (-96%) and commercial sector (-89.1%) while the total hours authorised for the industrial and construction sectors increased (+59.6% and +74%, respectively).

THE ITALIAN BANKING SYSTEM

2016 was another rather difficult year for the Italian banks, whose difficulties reflected and sometimes magnified the adverse situations facing a large part of the Italian production sector.

These economic difficulties were exasperated by the more structural problems arising from the need to recapitalise in order to be able to provide funding to the economy.

The dramatic drop in profit margins over the last few years has reduced the available resources while the worsening credit quality of banks strongly undermines their future ability to adequately support the economy, especially if the hoped-for production relaunch takes place.

Both national and EU authorities are focusing on this issue.

Once again, the Italian banks were required to help other banks in difficulties. In addition to the contribution to the bodies set up by the government for the banking crisis, they were requested to provide additional assistance to the banks covered by the government's measures of 22 November 2015, whose situations had worsened.

The domestic banking sector also bears the high costs of updating its technology and organisations to comply with the continuously evolving legislative and supervisory frameworks.

In addition, the duties imposed on it to combat money laundering, tax evasion and terrorism require the banks to make ongoing large investments in their organisations and structures.

At year end, Euro funding from customers of all the Italian banks (deposits from resident customers and bonds) decreased by roughly €22 billion (-1.3% on an annual basis), confirming the downwards trend seen throughout the year, to €1,667.1 billion.

A breakdown by component shows the clear-cut division between short-term and medium to long-term sources. Deposits from resident customers increased by 4.2% during the year or more than €54.5 billion to €1,367.1 billion at year end.

Bonds decreased by 19.9% on 2015, down nearly €77 billion and amounting to €309 billion at 31 December 2016.

Net foreign funding approximated €112.6 billion at year end, down 13.3% on an annual basis. It covered 6% of the domestic lending while foreign loans amounted to approximately €191.6 billion at the end of the year, financed for 63% by foreign deposits.

The statistics provided by the European System of Central Banks (ESCB) show that the average interest rate on bank funding from customers was 0.97% at year end. The rate applied to Euro deposits by households and non-financial companies was 0.40% while that on bonds was 2.75% and the interest rate on repurchase agreements was 1.18% at year end.

At year end, bank loans were positive: total loans to Italian residents amounted to €1,807.7 billion, up 0.7% on 31 December 2015, recalculated to include securitised loans. At the end of 2017 and, hence, before the global crisis, these loans amounted to €1,673 billion. Therefore, they have increased by more than €134.5 billion from then.

Loans to households and non-financial companies grew by 1.4% to €1,406.5 billion at year end, a faster pace than the 0.8% growth seen in the previous months.

At 31 December 2016, loans to non-financial companies had increased by 0.2% while those to households were up by 1.9%. Total loans to households increased by 1.9% on the end of 2015, confirming this market segment's positive recovery.

An analysis of bank loans by business segment shows that lending to manufacturing companies makes up 23.6% of the total. Loans to commercial companies and the accommodation and catering sector account for roughly 20.6% while the construction and agriculture sectors make up 15.4% and 5%, respectively.

The spread between the average lending rate and that on deposits from households and non-financial companies was 188 basis points at year end compared to 212 bp at the end of 2015.

Non-performing loans, net of impairment losses, amounted to €86.9 billion at 31 December 2016, confirming the slowdown in the reclassification of loans as "bad", with a more than 2% reduction in net non-performing loans compared to the high figure of €89 billion at the end of 2015.

The ratio of net non-performing loans to total loans was 4.89% in December compared to 4.91% in December 2015.

The bank's operations

During the year, the bank focused on its intention to significantly reorganise both its sales network and head office, to boost and streamline its commercial activities.

Over the last few years, the banks' strong dependence on the results of its financing activities and the slow but inevitable decline in net interest income have shown the urgent need to invent recurring sources of income to stabilise their results, as far as possible.

The bank's related project fully complies with its business plan and entails the renovation of its previous distribution model to transform the main branches (hubs) by giving them a greater assistance role to the smaller outlying branches (spokes), which will be reorganised, without however, decreasing in number.

The bank's key objective is to maintain and even strengthen its local roots.

The new distribution model entails a more efficient and flexible distribution structure, poised to fully exploit the various channels and opportunities offered by technological innovation, although the physical network will continue to be upgraded as the reference point for the local community.

The hub branches will gain organisational and decision-making independence. The traditional branch positions will be maintained and staff with specialist expertise will be available to assist both customers and the spoke branches.

In turn, the spoke branches will continue to operate independently while reporting to their hub branch. They will not have all the traditional staff members but will resort to specialists made available by the hub.

In order to introduce this new model, the bank set up many work groups to analyse all management and operating aspects in detail as well as the related implications. Specifically, these work groups included:

1. ***Lending group:*** its main aim was to identify the best organisation of credit granting powers to give the hubs the appropriate skills for their new role;
2. ***Personnel group:*** this group's objective was to select the employees to be assigned to the branches given the new distribution of operating positions and to prepare the training courses for the specialists;
3. ***Commercial group:*** its goal was to identify how to distribute the new positions around the region based on the various customer categories;
4. ***Risks group:*** its objective was to map the specific risks of the hub/spoke set-up and define the most appropriate methods and procedures to contain these risks, issuing the related instructions;
5. ***Organisation group:*** this group's purpose was to check the suitability of the branches' IT procedures and coordinate the technical modifications necessary, working closely with the CSE;
6. ***Layout group:*** its objective was to ensure that the new organisation had the appropriate spaces and coordinate any necessary building maintenance.

The bank's endeavours during the year were extremely significant and important as they led to the opening of the first hub branch in Monte Urano in early 2017. This hub has the largest number of associated spokes.

Following a very positive and successful trial period, the bank has decided on the next openings with completion slated for the end of March 2017.

The bank also complied with the extensive legislative innovations which entailed a costly internal compliance exercise.

The new credit risk controls led to an increase in those procedures to monitor and recover credit as well as deploying greater prudence in approving new loan applications. Significant organisational changes were introduced to ensure orderly operations with the ex ante monitoring of credit to identify any customer difficulties as they arise and, thus, be able to rectify the situation efficiently and in a manner that assists both the bank and the customer.

The changes to the legislative framework often created significant interpretative issues, which increased the difficulties in correctly applying them to the bank's operations.

The related difficulty in managing the bank has required a very specific organisational structure, production processes and policies which comply with the relevant legislation, customers' interests and the business plan.

Specifically, the bank focused on introducing information systems designed to comply with the ongoing changes in the sector regulations. The bank also continued to carry out actions to consolidate and improve its performance.

In particular, it dedicated special attention to the following activities useful and/or necessary to comply with the **anti-money laundering law**:

a. Introduction of enhanced due diligence procedures for transactions performed by customers that may follow cross-border capital movements.
b. Review of the AML controls included in the credit granting and renewal procedures with parties for which the bank has sent a suspicious transaction notice to the Financial Intelligence Unit pursuant to article 41 of Legislative decree no. 231/2007.
c. Compliance with the Financial Intelligence Unit's communication of 18 April 2016 setting out the criteria for the identification of parties and transactions involved in the financing of terrorism.
d. Completion of AML training for all employees using the ABI e-Learning courses (basic AML, due diligences, customer monitoring and communication of suspicious transactions, combating the financing of international terrorism and the proliferation of weapons of mass destruction) and classroom courses with external lecturers for branch managers and deputy managers and internal office heads.

Early in the year, the bank continued to develop its "banca h24" (24 hour bank) project, rolled out some years ago. Its organisational innovation involved the new Macerata branch, transferred from its previous premises, and the new Giulianova branch (a new location for the bank) which houses the previous Bellante branch. This was a great success with full attainment of its objectives.

The preparation of the above branches led to an increase in investments and maintenance costs, as can be clearly seen from the income statement, countered by the reduction in their administrative expenses, thanks to the significant transition to new technologies designed to reduce operating costs.

The bank's treasury and cash service provided to local bodies continued to be very intense and profitable. During the year, it strengthened its traditional role in this segment by obtaining the contract to provide the Pedaso municipality its services.

Again in 2016, the bank encouraged and consolidated collaboration agreements with the local bodies, aimed at exploiting all possible synergies to the advantage of the local communities served. This can be seen by its treasury services, which are now provided to the Pedaso municipality as well.

At year end, the bank managed 24 treasury services and 11 cash services, including for two schools and the Fermo Chamber of Commerce.

The annexes to the financial statements include a list of the bodies to which the bank provides treasury and/or cash services.

Organisation and workforce

The bank's sales network did not undergo change during the year.

At 31 December 2016, considering that the Bellante and Giolianova municipalities were both in the Teramo province, the bank's 60 branches were located in seven provinces and three regions as shown in the following table:

REGION	PROVINCE	No. of branches at 31/12/2016
Marche	Fermo	28
Marche	Ascoli Piceno	11
Marche	Macerata	13
Marche	Ancona	2
Abruzzo	Teramo	2
Abruzzo	Pescara	1
Lazio	Rome	3

In addition to that described about the renovation of the Macerata and Giulianova branches, the property maintenance programme included work to maintain all the bank's properties, both owned and leased, in order to improve their working and comply promptly with the laws about safety in the workplace.

The bank focused on crime prevention measures, also through resort to cutting edge technological solutions to ensure the highest available security standards for its employees and customers.

During the year, the bank agreed a lease for a building in one of the main streets in Porto San Giorgio to house an ATM, which has been used frequently since its activation.

The bank's owned property used for operations has a surface of roughly 26,078 square metres while its leased property has a total surface of roughly 7,035 square metres.

The bank also owns properties which it leases for a total surface of 6,660 square metres.

At year end, the bank had a total workforce of 379 employees, excluding the cleaner, two less than at the end of 2015, as follows:

	31/12/2016	31/12/2015	31/12/2014
Managers:	2	2	2
Junior managers (3rd and 4th level):	42	42	42
Junior managers (1st and 2nd level):	62	58	56
3nd professional area:	270	276	275
2nd professional area:	3	3	3
Total	**379**	**381**	**378**
Cleaning staff	*1*	*1*	*1*

The above workforce did not include employees with term contracts at the year end.

In 2016, four employees left the bank while two people joined it.

The following table summarises changes in the workforce during the year:

Changes in the workforce					
	31/12/2016	**2016 departures**	**2016 entries**	**Changes in employment contracts**	**31/12/2015**
Managers	2	0	0	0	2
Junior managers (3rd and 4th level)	42	1	1	0	42
Junior managers (1st and 2nd level)	62	0	0	4	58
3rd professional area	270	3	1	-4	276
2nd professional area	3	0	0	0	3
Total	**379**	**4**	**2**	**0**	**381**

At year end, the bank had 27 employees with part-time contracts, equal to 7.1% of the total workforce.

Thanks to the containment and streamlining of operating processes associated with the increasingly focused development of IT technologies and the adoption of more efficient organisational models, the bank continued its distribution of human resources with 69.5% at the branches and the other 30.5% at head office.

This distribution, given the bank's status as an independent bank and not part of a banking group, has effectively contributed to the necessary containment of overheads.

The employees' involvement in the bank's objectives, also ensured through ongoing training, is a key HR target as the bank is convinced of the central role played by its employees.

Training activities involved nearly all the professional staff about all relevant issues.

Specific highly renowned training courses were held for staff who sell financial products.

Great importance was thus given to training with most employees participating at internal and external courses. As in the past, courses were held about finance issues, lending and insurance.

The aims were threefold:

1. to provide training to new or recently hired staff and personnel transferred to new positions within the bank;
2. to build up the specific skills of personnel holding particularly important positions, also considering the legislative discontinuities which require ongoing refresher courses;
3. to promote new products and services, especially those of a financial nature, and with a special focus on anti-money laundering.

During the year, training courses also included issues pertinent to the ongoing development of the "banca h24" technology.

Professional training courses were also held about the new distribution model for the employees who will provide customers with increasingly distinctive and qualified services.

The bank also availed of ABI's e-learning platform for on-line courses, used mainly for insurance sector and AML training, which allows employees to consult course materials and monitor scheduled training activities without having to be physically present.

For some time now, its organisational policies have focused on developing the multi-channel tool as the way to reorganise work at the branches in a labour-saving manner.

As a result of these policies, the number of transactions performed using channels other than the sales network has continued to grow, both as a percentage and amount.

The main players are those procedures that use the network to distribute banking services, such as the home banking service, which led to customers trading securities "on line" equal to 70.3% of the total, despite their preference for managed savings products.

The internet banking service, which includes on-line trading, is well met by customers and 20,178 customers had activated the service at year end compared to 17,440 at the end of 2015 (+15.7%).

The bank also provides corporate banking services to businesses alongside its internet banking service, designed for individuals. At 31 December 2016, 5,252 businesses had registered with this service compared to 5,077 at the end of 2015 (+3.4%).

With respect to commercial bill collection presentation requests, 86.8% are performed on-line involving collection order (RIBA), Sepa direct debits (SDD) and payment against notice (MAV) requests.

The ATM service has 1,716 machines compared to 1,570 at the end of 2015 with transaction volumes up 18.3% on an annual basis.

Cash deposits made by customers to the next generation ATMs installed at the h24 branches grew steadily during the year. They may be summarised as follows:

2016 ATM DEPOSITS				
	No. of transactions		**Amount (€'000)**	
	2016	**2015**	**2016**	**2015**
Cash	55,668	45,104	101,178	88,591
Cheques	29,153	27,359	35,339	33,828

Deposits increased by 11.5% to €136.5 million compared to €122.5 million in 2015.

Internal controls

The current system of internal controls is set up in such a way as to ensure appropriate and careful monitoring of the bank's activities and, especially, those subject to the most significant implicit risk.

Pursuant to the prudential supervisory requirements about internal controls, IT systems and business continuity, the bank completed the required self-assessments about its situation considering these new requirements and involving the board of directors.

The controls involve the board of directors, the board of statutory auditors, senior management and all personnel, based on their roles and responsibilities.

Specifically, responsibility for the internal controls lies solely with the board of directors, whose duty it is accordingly to:

- establish guidelines, strategies and risk management policies;
- approve the bank's organisational structure, ensuring duties and responsibilities are allocated clearly and appropriately;
- regularly check the organisational structure's adequacy and effective working;
- ensure that the control units are sufficiently independent of the other units and have the appropriate resources to correctly carry out their duties.

The board of directors also regularly assesses the internal controls' compliance with the bank's business model and their overall functionality, effectiveness and efficiency. It adopts any remedial actions promptly if it identifies weaknesses and/or irregularities during its checks.

The internal controls cover all the bank's operations and are an integral part thereof. They include the following types of control:

- first level controls:
  - line controls, that can be carried out by the production units themselves, included in procedures or performed as part of back office activities;
- second level controls
  - these are carried out by units that define the risk measurement methodologies, check compliance with the limits set by the board of directors on an ongoing basis and compliance with the assigned risk objectives; second level controls also include compliance controls, aimed at ensuring efficient risk management so as to avoid judicial or administrative sanctions, large financial losses or reputation damages due to the violation of external (laws and regulations) or internal rules;
- third level controls (internal audit)
  - their objective is to check the correctness of the bank's operations and adequacy of its risk management procedures.

Specifically, third level controls are carried out by the Inspection Office and the Internal Audit Unit to check the correctness of the bank's operations, the efficiency of its organisation, compliance with proxy limits, the overall working of the internal controls and reliability of the IT systems. These functions are carried out with on-site inspections and distance controls. They cover all the bank's operations, e.g., credit, finance, related services and those issues which are subject to specific regulations such as transparency, usury, anti-money laundering, investment services and others.

In addition to the reports generated automatically by the IT system, which provide daily information useful for control purposes, the Inspection Office and the Internal Audit Unit have IT tools to prepare basic data. Their subsequent combination and application of predefined control parameters allows the faster identification of any irregularities or high risk situations.

Over the last few years, the Inspection and the Internal Audit Office has focused more on audit issues by assessing the bank's internal controls.

When urged to do so by the Inspection Office, senior management takes steps to eliminate any weaknesses, assisted by the relevant office due to the lack of line or second level controls, the related adequacy or inadequacy of organisational processes and any other aspects that could compromise the working of the internal controls as a whole or risk management.

The current credit risk management procedure allows an overall assessment of individual customers or groups of related customers. Compliance with credit limits is checked in real time and unauthorised overspending is identified and communicated to the relevant office which granted the facility.

A specific head office unit, identified by the Internal Services Regulations, checks the correct performance of customers. This is the remit of the Problem Loans Office, which may reclassify credit items to comply with the bank's loans classification and measurement policy with the managing director's approval.

Performing loans are monitored using automated reports to the relevant offices that identify any irregularities.

Given the bank's size and the principle of proportionality, the Risk Governance Office is responsible for monitoring and measuring risks, including the risk of non-compliance with the law. These are second level controls carried out by the Risk Management, Compliance and ALM units.

The Office is sufficiently independent in order to ensure segregation between the risk measuring/control functions from both the operating and internal audit functions.

Risk Management

The Risk Management Unit continued its work aimed at measuring and monitoring the different types of risk in line with the instructions issued by the board of directors and the supervisory authorities. The bank launched a project to complete the operational risks model with Marsh Risk Consulting, whereby the measurement of operational risks will be fine-tuned and the risk exposure and tolerance levels aligned (as defined in the RAF) through a risk self-assessment approach.

Accordingly, it monitors the following risks:

Market risk
Ruling regulations require that the VaR (Value at Risk) method be used to measure market risk. It estimates the potential loss considering market values for a set period of time and a set confidence level at normal market conditions.

The VaR method, developed for management purposes with a special application designed by Promoeteia, based on the variance-covariance method, calculates the maximum potential loss at a confidence level of 99% of the banking book over a time frame of 10 days. It measures the variability of the banking book's value using risk factors, being interest rates, exchange rates and market indexes, without considering the issuer's credit risk.

Liquidity risk
Liquidity risk is measured using an internal model and data provided by the ERMAS application. The board of directors' model is based on the cumulative imbalance between assets and liabilities split by maturity. The bank also regularly monitors the liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR).

Interest rate risk
The model used to measure the banking book's exposure to interest rate risk includes calculation of the risk indicator considering the maturity or repricing of assets and liabilities as per the supervisory authorities' instructions. It gives the bank's net weighted position compared to its own funds. The ERMAS application, provided by the IT outsourcer thanks to the partnership with Prometeia, is again used together with the A2 disclosure base of the accounts matrix.

Credit risk
Systematic application of the CPC (Credit Position Control) model, introduced in 2006, has improved the efficiency levels of monitoring performing loans both at branch and head office

level. Reports are produced regularly on the largest irregularities, broken down by geographical location and customer type.

The credit risk analysis is also based on a counterparty internal rating system. The adopted procedure (S.A.Ra. - automatic rating system) classifies customers by credit risk level and estimates the probability of default (PD) based on the counterparty's performance trends, qualitative information obtained in questionnaires and, for companies, assessments of financial statements and using system analyses.

The Risk Management Unit regularly checks the expected losses on the bank's loans portfolio using the S.A.Ra. application's internal rating system. The loans are grouped by category in terms of their credit risk. Estimated loss rates are applied on a statistical basis and expressed as the probability of default (PD) of the counterparty and the loss rate in terms of loss given default (LGD). The expected loss for these loans is the amount of the loan multiplied by the PD and the LGD.

Loss rates are considered in the calculation of the lump sum impairment of performing loans and, under the new policy, used to measure non-performing loans of less than €50 thousand.

The S.A.Ra. procedure is not used for risk weighing supervisory purposes.

Single-name and geo-business segment concentration risk
The bank's exposure to business and geographical concentration risk is assessed every three months using Bank of Italy's regulatory models.

Compliance Unit

The Compliance Unit assesses the risk of non-compliance of the bank's strategic and operating decisions. It carries out preventive checks and subsequent monitoring of the effectiveness of procedures, mainly to prevent possible violations or infractions of the relevant legislation.

As provided for by the fifteenth update of Bank of Italy's Circular no. 263/06, this Unit manages the risk of non-compliance using a risk-based approach, considering all the pertinent legislation.

Accordingly, it has direct and indirect responsibilities. Specifically, the Unit is directly responsible for management of the risk of non-compliance with the more significant rules related to the "core" scope, such as the performance of banking activities and financial intermediation, management of conflicts of interest, transparency versus customers and, in general, consumer protection laws.

As far as the non-core scope activities are concerned, the Unit's functions are scaled and specialised controls defined for each compliance area.

IT risks

The bank's IT systems are mainly housed on an operating platform supplied and managed by CSE - Consorzio Servizi Bancari Soc. Cons. a r.l. on an outsourcing basis. This guarantees the security, quality and reliability necessary for all the services used.

The bank also uses other application packages, mainly to provide IT support, analysis and control functionalities. They are installed and managed directly by the relevant internal offices.

The bank has drawn up a specific IT security policy, which it updated in 2016, given the fundamental importance of this issue.

The bank's primary objective is the secure processing of personal information and, therefore, the document has been prepared to ensure the correct performance of the internal information system, its correct working and resistance to hacking for the equipment exposed to internet risks.

The relevant internal units perform the related controls at different levels, focusing on checking that the security measures are updated regularly to reflect changes in risks deriving from unauthorised access, changes to personal data or their destruction, either unintentionally or intentionally. To this end, the bank engaged Spike Reply, specialised in IT security, early in 2017 to perform a vulnerability assessment and penetration test of its IT structure during 2017.

As required by law, the outsourcer CSE has a disaster recovery plan which it regularly updates and checks the data in order to combat the significant risk of disaster and/or hacking.

While the currently directly managed application systems do not have any critical aspects, the bank has a backup plan with all the data recovered from the intranet servers, as required by Legislative decree no. 196/03.

In order to reduce the potential risks of on-line connections to the internet, the bank has a special portal and an intranet for internal e-mail management.

All bank employees who handle personal data and use electronic tools undergo training about the related risks and the proper procedures to adopt in order to avoid damaging events.

Business continuity and disaster recovery plans

In accordance with Bank of Italy's instructions, the bank has a business continuity plan prepared with the assistance of its IT outsourcer.

The issue of business continuity includes a purely technological component (disaster recovery) and an organisational aspect, aimed at defining a business continuity plan for emergencies to ensure a return to minimum operations in a short as possible time frame in the case of a disaster.

The plan's objective is to analyse the effects of events that could threaten the continuity of internal operating processes and to design the related preventive and remedial measures as well as any related actions to be taken to restore business operations as quickly as possible.

The bank's business continuity plan is consistent with the business continuity and disaster recovery plans adopted by its IT outsourcer, CSE, which are also regularly updated and checked.

IT Audit

The engagement for the IT audit, i.e., checks of the general controls and security of the CSE IT systems for 2016, was assigned to Deloitte S.p.A. by the bank members of the consortium. The consultants also carried out checks and follow-ups of the main findings of the IT audit of the previous year and specific analysis of the system's vulnerability to threats and external attacks. The audit engagement includes the FOI outsourced to Caricese.

Privacy - Legislative decree no. 196/2003

Pursuant to the Italian Data Protection Authority's measure of 12 March 2011 "Measures for the circulation of information in banks and tracing of bank transactions", the bank has correctly implemented the related trade union agreement and provided the representatives with the relevant information. Moreover, it has adopted a suitable tracking log management system and introduced the necessary organisational procedures.

ISVAP Circular no. 551/d of 1 March 2005 - Instructions about the transparency of life assurance contracts

In accordance with ISVAP Regulation no. 05/2006, the bank sells insurance products solely via its specially trained personnel. This training, required by the above regulation, is mainly provided by its insurance partners.

The documented procedures for contacts/sales are constantly and carefully checked with respect to the completeness of the information provided to customers and employee training.

Law no. 262/2005 - Instructions for savings protection and financial markets regulations

With respect to Law no. 262 of 28 December 2005 and the bank's proper application, on 27 December 2013, Consob approved the bank's prospectus for the issue of bonds as part of the

Issuance Programme approved by the board of directors on 22 October 2013 with its measure no. 10103671.

This prospectus comprises the Filing document, Summary notes and Notes on each type of bond.

All the documentation can be found on the bank's website and downloaded.

Law no. 231/2001 - Companies' administrative liability

Legislative decree no. 231/2001 introduced the administrative liability of companies for unlawful practices carried out by company key personnel in its interests. This decree provides for the non-liability of companies that have previously adopted and implemented an "Organisational model" suitable to prevent the crimes it sets out.

The bank introduced its Organisational model during the year and updated it to include the new crimes, assisted by the supervisory body which checks its working, effectiveness and compliance. The body also ensures that it is up to date.

In 2014, the bank assigned the duties of the supervisory body to the board of statutory auditors which may resort to the Internal Control Unit managers for specific functions.

Law no. 231/2007 - Prevention of the use of the financial system for the purpose of money laundering and terrorist financing

The bank continued its procedures commenced in 2015 to optimise its operating process in place to manage money laundering and terrorist financing risks.

During the year, it also completed the first self-assessment of money laundering and terrorist financing risks required by Bank of Italy in its communication no. 115097/15 of 21 October 2015. This assessment requires banks to identify, assess and understand the money laundering and terrorist financing risks to which they are exposed in order to adopt measures designed to effectively mitigate such risks. It consisted of various stages, documented and described in the Anti-money Laundering Unit's annual report, presented to the board of directors on 29 April 2016. The self-assessment showed a minimum exposure to these risks and the bank's identification of measures to eliminate critical issues identified during the procedure.

THE BANK'S FINANCIAL POSITION

Lending

Breakdown of lending by product

				Half year difference		Annual difference	
	31/12/2016	30/06/2016	31/12/2015	Amount	%	Amount	%
Current accounts	140,423	144,059	155,160	-3,636	-2.5%	-14,737	-9.5%
Postal current accounts	1,218	272	312	946	347.8%	906	290.4%
Financing for advances	137,611	141,535	142,755	-3,924	-2.8%	-5,144	-3.6%
Loans	557,581	552,250	543,969	5,331	1.0%	13,612	2.5%
Subsidies not settled through current accounts	52,291	41,209	48,171	11,082	26.9%	4,120	8.6%
Loans against pledges	63	62	66	1	1.6%	-3	-4.5%
Salary-backed loans	0	2	4	-2	-100.0%	-4	-100.0%
Non-performing loans	54,326	55,324	54,842	-998	-1.8%	-516	-0.9%
Portfolio risk	237	471	258	-234	-49.7%	-21	-8.1%
Treasury transactions	2,811	0	0	2,811	0.0%	2,811	0.0%
Total lending	**946,561**	**935,184**	**945,537**	**11,377**	**1.2%**	**1,024**	**0.1%**
- of which in Euros	945,404	934,501	945,370	10,903	1.2%	34	0.0%
- of which in foreign currency	1,157	683	167	474	69.4%	990	592.8%

Table 1

This business segment's performance cannot be analysed without considering the continued weak economic situation, as described briefly in the introduction to this report.

A quick look at the figures in Table 1 shows the substantial stability of loans, with an about-turn compared to the very negative trend of the last few years, as well as a slight decrease in non-performing loans, positively affected by the better coverage ratios. However, overall, the drop in credit quality lamented by all the Italian banks is confirmed.

This reduction in lending in the first six months and upturn in the second half of the year, have their roots in two factors: the contraction in demand and the rise in riskiness that led the bank to adopt a more prudent lending policy. These factors were not eased by the aggressive contraction in interest rates.

The deterioration of credit quality is worrying as its effects are seen in the short term. The economic crisis has accelerated the chronic under-capitalisation of companies, traditionally over-indebted to banks leaving them without those resources that would have allowed them to better face the crisis.

The probability of default of the bank's performing loans has decreased and the expected loss is now less serious than that identified at the end of 2015.

The bank assessed its problem loans very prudently in line with the policy issued in the previous year.

Therefore, once again in 2016, the bank confirmed its vocation as a reference point for the local households and businesses for which it took all steps possible to ensure that they did not have to do without credit assistance in this very difficult period, compatibly with their individual credit worthiness.

This approach is at the heart of the bank's modus operandi, the thin line between its mission as the key reference bank in its area and the need to manage its operations in a healthy and prudent manner.

As can be seen in the notes to the financial statements and indirectly in the breakdown of lending by product, where loans make up more than 58% of total lending confirming their position as the primary lending product, guarantee levels remained at the usual suitable levels, especially given the current economic climate.

The lending business reversed the downwards trend seen in previous years, with a 0.1% improvement over 2015 compared to the 2.2% decrease seen in that year for a total lending volume of €946,561 thousand compared to €945,537 thousand for 2015 on a consistent basis and net of impairment losses, affected by the general economic performance.

Loan concentration, assessed by borrower, shows its ability to maintain steady credit risk levels by levering on the splitting of loans, carrying on the trend seen in previous years, as shown in the following table:

Loan concentration				
	2016	**2016 1H**	**2015**	**2014**
Top 10 customers	6.73%	7.24%	6.84%	7.04%
Top 50 customers	18.86%	18.80%	18.14%	18.33%
Top 100 customers	26.58%	26.65%	25.70%	25.82%

Table 2

An analysis of lending by product confirms the slowdown in recovery of growth of the longer-term products due to the precise guidelines set out in the commercial policy; they amounted to €557,581 thousand compared to €543,969 thousand at the end of 2015, an increase of €13,612 thousand or 2.5%.

Renegotiated performing loans, as part of collective agreements, amounted to €3,207 thousand at year end compared to the 31 December 2015 balance of €2,017 thousand.

Current account balances amounted to €140,423 thousand at year end, a decrease of 9.5% on an annual basis, reflecting weak demand, mostly from businesses.

Advances decreased from €142,755 thousand at 31 December 2015 to €137,611 thousand, down 3.6%, entirely due to the negative economic situation which penalises companies' turnover. Statistics for bills presented for collection or under reserve show a similar annual increase of 6.07% (number of transactions) and by 7.6% (amounts involved).

Subsidies not settled through current accounts increased to €52,291 thousand compared to €48,171 thousand at the end of 2015.

The bank did not use derivatives to hedge interest rate risks on fixed rate loans during the year, also because of perceived stability of the very low rates over time and the related small probability of their large, immediate rise.

Its credit risk controls entailed the careful monitoring of non-current assets, both with respect to their financing and the risk that the repayment dates may be extended.

The Risk Management Unit kept general management up to date on developments with respect to the risk of repayment date extensions and the interest rate risk.

Table 3 provides a breakdown of the loans at their carrying amount for the ten most used ATECO codes.

ATECO		Companies	Family businesses	Total
412000	Construction of residential and non-residential buildings	68,122	4,868	72,990
681000	Buying and selling of own real estate	45,094	292	45,386
682001	Property leases	35,945	149	36,094
152000	Footwear	23,896	243	24,139
152010	Footwear	22,231	1,701	23,932
551000	Hotels and similar structures	11,934	922	12,856
152020	Leather parts for footwear	10,510	4,342	14,852
471120	Supermarkets	9,635	117	9,752
462410	Wholesale of leather and raw and worked skins (excluding fur skins)	7,672	337	8,009
561011	Catering	7,025	1,830	8,855
	Total 10 business sectors	**242,064**	**14,801**	**256,865**

Table 3

Credit quality showed the generalised difficult situation for all Italian banks, which is steadily worsening.

Doubtful loans, net of impairment losses, which include non-performing, unlikely to pay and past due loans, increased by 8.07% to €122,867 thousand over 31 December 2015, equal to 12.9% of total loans.

Gross past due positions increased from €2,073 thousand at the end of 2015 to €7,670 thousand at year end, with impairment losses of €749 thousand, covering 9.8% of the loans.

Unlikely to pay exposures, including estimated losses, came to €76,180 thousand compared to €68,470 thousand at 31 December 2015. The related impairment losses amounted to €14,561 thousand, equal to 19.1% of the loans compared to 16.8% at the end of 2015.

Non-performing exposures amounted to €116,078 thousand at 31 December 2016 compared to €111,912 thousand at the end of 2015, including estimated losses, while impairment losses came to €61,749 thousand, equal to 53.2% of the non-performing loans.

An analysis of irregular loans shows that the percentage of new exposures reclassified as non-performing decreased considerably during the year and amounted to €10,487 thousand, including €7,361 thousand of loans previously classified as unlikely to pay.

On the other hand, collections received during the year increased significantly to €6,322 thousand compared to €4,358 thousand at 31 December 2015, directly offsetting non-performing loans.

The following table shows the performance of irregular loans and the bank's coverage ratio:

LOANS AND RECEIVABLES WITH CUSTOMERS - NPE						
			31/12/2016	31/12/2015	Difference amount	Difference %
IMPAIRED EXPOSURES		Gross amount	199,926	182,455	17,471	9.58%
		Impairment losses	77,059	68,760	8,299	12.07%
		Carrying amount	**122,867**	**113,695**	**9,172**	**8.07%**
	coverage rate		38.54%	37.69%		
Non-performing		Gross amount	116,076	111,912	4,164	3.72%
		Impairment losses	61,749	57,071	4,678	8.20%
		Carrying amount	**54,327**	**54,841**	**-514**	**-0.94%**
	coverage rate		53.20%	51.00%		
Unlikely to pay		Gross amount	76,180	68,470	7,710	11.26%
		Impairment losses	14,561	11,512	3,049	26.49%
		Carrying amount	**61,619**	**56,958**	**4,661**	**8.18%**
	coverage rate		19.11%	16.81%		
Past due loans		Gross amount	7,670	2,073	5,597	270.00%
		Impairment losses	749	177	572	323.16%
		Carrying amount	**6,921**	**1,896**	**5,025**	**265.03%**
	coverage rate		9.77%	8.54%		

Table 4

Collective impairment losses on performing loans were made using credit deterioration statistics of previous years and the credit deterioration rates published by Bank of Italy and communicated to the banks via the public database, integrated by an empirical analysis of companies' loan losses.

These two estimates, i.e., the probability of default (PD) and the bank's historical loss trends, were used to determine the different impairment percentages for each business segment, adjusted to consider the duration of each type of loan. In line with previous years, a prudent floor of 0.3% was then applied to reflect the sample's statistical dispersion rate.

As a result, the expected losses decreased considerably in 2016 due to the reduction in new NPEs.

The implicit risk on performing loans, covered by the allowance for collective impairment losses, was €7,549 thousand at year end, down on the €10,275 thousand balance at 31 December 2015. This implied that the coverage rate of these loans was 0.91%, which falls within the high-end bracket of the performing loans of the Italian banking system, compared to 1.22% at the end of the previous year.

Monitoring of credit risk, both for loans and endorsement credit, is an ongoing process which uses analyses obtained using the state-of-the-art IT credit position control (CPC) tool, designed to provide an automatic analysis of credit by determining a scoring system for the different loan performances and a weighting system.

As part of the internal control project, the bank has developed and rolled out a more evolved system to assign ordinary customers (households, craftsmen, professionals, partnerships and companies) specific ratings depending on the type of company and, obviously, their financial position, results of operations and performance. This system will work alongside the CPC model and also considers the performance of the different business sectors to which the customers belong, integrated by subjective merit factors.

Specifically, the internal rating system uses three sources of information:

- analyses of the customer's relationship with the bank and the banking system in general;
- statistical analyses of their financial statements;
- qualitative analyses of aspects that require subjective assessment by an expert.

The bank also gives particular importance to the customers' "personal" data.

As part of its traditional policy of prudence, the internal rating programme is not used to determine regulatory capital requirements, for which the standard method is used.

Through the careful assessment of the data generated by the available procedures, at the first signs of customer difficulty, the specific unit of the Loans Office directly monitors the loan and works with the relevant branch to implement all suitable actions to return the relationship to normal, as the key priority.

Should the customer's financial position deteriorate again, the Problem Loan Office is charged with monitoring all its exposures in order to take all necessary steps to resolve the customer's difficulties. If appropriate, the office also commences and coordinates recovery procedures.

When this is not possible and the deterioration in the customer's financial position leads to its insolvency, even if not yet ascertained at judicial level and regardless of the existence of guarantees, the customer's entire position is transferred to the Legal Affairs Office so that legal recovery actions can be commenced, after cancellation of any credit facilities and the related reclassification as non-performing.

The bank's support of the local economy was not limited to the above lending transactions during the year as it also developed its asset brokerage business.

The following activities were carried out:
Leasing: the bank continued its operations in the finance lease sector through its operating agreements with Fraer Leasing S.p.A., leading to the execution of 52 contracts worth €5,048 thousand in addition to five contracts agreed with Alba Leasing for €503 thousand.

Credit cards: the bank was very active in this sector with a total 16,643 credit cards issued at year end (+627). It reviewed its issue of Viacard and Telepass cards, including in organisational terms, with 9,498 cards issued at year end, an increase of 627 cards over 31 December 2015.

Investments

Interest rates were heavily impacted by the ECB's decision to extend the duration and monthly amounts of its QE programme.

The 3-month Euribor was an average -0.256% for the year, fluctuating within a range of between -0.13% and -0.31%, while the EONIA rate, which is usually more sensitive to the ECB's marginal lending facility, performed similarly and continued to fluctuate between -0.24% and -0.35%.

The 10-year IRS rate continued to be positive varying from a minimum of 0.31% to a maximum of 0.84%. Towards the end of the year, the rate took off from 0.32% in September to 0.74% in December.

Therefore, the spread between the 10-year IRS and the 3-month Euribor rates progressively gained about 40 bp, up to 1.05% at year end, showing the clear expectations about growth in the long-term rates.

The markets went through very complex phases linked to political events of epoch-making importance, the unexpected outcomes of which generated strong discontinuities followed by very volatile phases.

In June, the Brexit referendum showed the British people's intention to leave the EU. The resulting expected smaller common economic market cast doubts about the possible splintering of the entire EU, considering also the ground gained by the separatist movements in all the member states.

Then in November, the US presidential elections provided unexpected results, increasing the markets' widespread uncertainty about the future. The new administration's very expansionary tax policy encouraged a strong rise in share prices but led the Federal Reserve to anticipate its decisions about a less accommodating monetary policy as seen by the rise in interest rates communicated to the markets in December.

The Italian institutional referendum left the Constitution unchanged, but emphasised the well-known institutional stagnation, which makes the country very inefficient to the advantage once again of anti-Euro movements.

The background of imminent European elections and the resurgence of the Greek crisis, that had never been properly resolved, have fed the flight to quality trend in the Bund and US T-bond's favour but to the detriment of the peripheral countries' bonds, such as the Italian BTPs. This may lead to wider spreads between government bonds.

The bank's investment portfolio, which mostly consisted of Italian government bonds at the end of 2015, has been revised to include significant diversification and decorrelation policies in terms of the amounts and allocation strategies.

Asset management: after the initial modification of the securities portfolio management policies, the board of directors took the decision to delegate management of €100 million of the bank's portfolio to Epsilon SGR to make large investments complementary to its securities portfolio.

The bank established the following investment limits in the management mandate:

1. the portfolio's maximum duration: 3 years;
2. equity portion: maximum 25%;
3. bonds with a non-investment grade rating: maximum 20%;
4. bonds issued by emerging country issuers: maximum 20%;
5. exposures in non-Euro currencies: maximum 50% net of any coverage;
6. yield objective: Barclays Euro Treasury Bill + 2.00%.

The portfolio was assembled prudently and gradually, with a cautious approach to global bonds and longer-term maturities, concentrating on shorter maturities with the percentage in equities, initially around 10% of the portfolio, firstly achieved through the acquisition of futures on the Eurostoxx50 and subsequently with the acquisition of an EFT on the same index.

Subsequently, as the central banks' future policies were unveiled and the more important political events had taken place, the bank completed assembly of the portfolio with a gradual build-up of the foreign currency component through the purchase of global bonds of up to roughly 16% of the assets, with the concurrent agreement of currency hedges. At year end, the portfolio's non-Euro component, net of hedges, was roughly 9.5% of the assets under management.

The equities component, in which the bank steadily increased the proportion of EFTs to roughly 17.5% of the total, was managed in such a way as to have short positions with futures on the same index to hedge the instruments when the markets were more volatile. As a result, at year end, the equities component of the portfolio had decreased to about 7.5%.

At year end, the portfolio was worth €100,542 million, with an initial return of 0.54%, equal to an annual return of 1.24%. It comprised:

⊇	0-3 year core investment grade bonds	44.30%
⊇	Euro government high yield bonds	2.80%
⊇	Euro investment grade corporate bonds	13.50%
⊇	Euro corporate high yield bonds	4.30%
⊇	Foreign currency global bonds	15.80%
⊇	European shares	17.50%
⊇	Liquidity	1.90%

The managed portfolio's duration of 2.01 years (the duration of the bank's entire portfolio is just under three years) was covered in part by a short position on a 10-year Bund future, partly offset by a long position on a 10-year future treasury note, obtaining, de facto, a treasury note-bund spread position.

The portfolio's performance is mainly based on the equities index, interest income on bonds and exchange rate gains on non-Euro bonds. Their positive performance was partly decreased by tactical hedges using futures and currency forwards.

Towards the end of the year, the board of directors decided to diversify the bank's securities portfolio again by investing €10 million in the European Loan fund managed by M&G, a global asset management market leader.

M&G's European Loan Fund mostly invests in a diversified portfolio of leveraged loans to medium and large companies, principally based in the UK, the US and the major European countries. The loans are chiefly granted to finance internal growth, acquisitions, mergers and leveraged buyouts (LBO) of private equity sponsors. The fund's return objective is the Libor plus 400 bp. The loans are the companies' senior debt secured by the issuer's collateral.

The bank's objectives were wholly in line with its prudent approach to all its investments, not solely the financial ones.

At year end, this strategy showed positive feedback with returns approaching the objectives, despite the short time period in which the portfolio had operated.

The rest of the bank's financial investments are nearly entirely comprised of government bonds with the remainder consisting of senior bonds issued by major Italian banks.

Given the different composition of the financial instruments held by the bank and the current prudent supervisory regulations, the bank saw a rise in both market and counterparty risks, although they are still very modest.

The ongoing assessments of risk using the VaR model, covering both the outsourced component and the portfolio managed internally by the bank, showed that it always remained within the limits set by the board of directors.

In line with its decisions made upon first-time adoption of the International Financial Reporting Standards (IFRS) and following the 2008 amendment to IAS 39, the bank classified its entire securities portfolio at the reporting date in line with each financial instrument's objective.

The securities portfolio is classified depending on whether the securities are held for trading (HFT) or are available-for-sale (AFS). Specifically, securities that are held for trading contribute to the net trading income (expense) while available-for-sale securities contribute to net interest income (expense).

Just one debt instrument issued by the Italian government with a nominal amount of €5 million, previously classified under non-current securities pursuant to Legislative decree no. 87/1992, is recognised as held-to-maturity.

The bank's decisions about its investments and how to allocate its resources consider the different purposes of its two main portfolios with the result that they have an average duration of two years and 183 days and an average residual life of five years and 41 days at year end, both showing an increase on the previous year end.

A breakdown of the fixed-income securities classified in the trading and AFS portfolios and their nominal amounts is as follows:

Breakdown of bonds in the HFT and AFS portfolios Nominal amounts				
			Difference	
	31/12/2016	31/12/2015	amount	%
BOT Italian treasury bills and zero coupon	16,861	7,400	9,461	127.85%
CCT Italian treasury certificates	198,768	203,317	-4,549	-2.24%
BTP Italian treasury bonds	225,537	409,404	-183,867	-44.91%
Bonds	112,502	12,033	100,469	834.95%
Shares	20,844	0	20,844	100.00%
Total	**574,512**	**632,154**	**-57,642**	**-9.12%**

Table 5

Table 5 shows the reclassification made during the year, leading to a reduction in Italian government bonds and the increase in Euro or foreign currency bonds and equities.

Fair value gains on the trading book amounted to €553 thousand compared to a fair value loss of €1,308 thousand, both recognised in profit or loss.

Changes in the trading book also generated net trading income of €2,348 thousand during the year.

Modification of the AFS portfolio during the year was due to transactions performed either directly by the bank or the manager as part of its mandate.

They generated trading income of €6,216 thousand recognised in profit or loss, thus partly using the previously set-up reserve. Foreign currency securities in the portfolio managed by Epsilon SGR generated exchange rate gains of €606 thousand recognised in caption 80 of the income statement.

During the year, the bank maintained its traditional position as lender on the interbank market, including after expiry of the TLTRO programme of €60 million and repayment to the ECB in September 2016.

Equity investments

The bank has recognised its non-controlling interests in banks, financial and commercial companies in the AFS portfolio even though it intends to hold on to these investments in the long term.

It does not have controlling investments.

In 2014, the bank signed a joint venture agreement pursuant to article 2549 of the Italian Civil Code for its involvement in production of a film, contributing €1,800 thousand. It recognised its investment in the AFS portfolio. The related test of the investment did not show indication of impairment, further to the €633 thousand recognised in its 2015 financial statements.

During the year, the bank subscribed €402 thousand of Cassa di Risparmio di Cesena S.p.A.'s recapitalisation as part of the Interbank Deposit Protection Fund. After the appropriate due diligence of Cassa di Risparmio di Cesena, the bank identified an impairment loss of €98 thousand on the investment. As the conditions for a significant or prolonged decline in the investment's fair value were not met, the bank recognised this loss in the appropriate equity reserve.

As a result of the above transactions, the bank had equity investments of €9,413 thousand at year end compared to €9,777 thousand at 31 December 2015.

The annexes to the financial statements show a list of the bank's equity investments at year end, all classified in the AFS portfolio as they do not meet the requirements for inclusion in caption 100 - Equity investments under Assets.

Funding

Customers clearly appreciated the bank's solid position and its reputable products in this period characterised by four banks' financial difficulties (three of which are in central Italy) and this clearly gives it a strong competitive advantage, also when considering competitors' aggressive policies.

The bank's funding policy has been developed without competing at unfavourable conditions. Direct funding grew significantly throughout the year even though interest rates were adjusted to the continued low market rates.

In 2016, funding was impacted by the heavy tax burden with both the taxation of financial income, penalised compared to government bonds and the stamp duty on security deposits.

During the year, the bank's direct funding, measured at its carrying amount, underwent the following changes:

Breakdown of direct funding by product							
				Half year Annual		difference difference	
	31/12/2016	30/06/2016	31/12/2015	Amount	%	Amount	%
Savings deposits	127,586	125,513	125,116	2,073	1.7%	2,470	2.0%
Current accounts	1,078,265	1,019,998	997,409	58,267	5.7%	80,856	8.1%
Repos	-	60	694	- 60	-100.0%	- 694	-100.0%
Certificates of deposit	116,516	105,133	74,548	11,383	10.8%	41,968	56.3%
Bonds	125,561	157,471	213,414	- 31,910	-20.3%	- 87,853	-41.2%
Total direct funding	**1,447,928**	**1,408,175**	**1,411,181**	**39,753**	**2.8%**	**36,747**	**2.6%**

Table 6

Overall, direct funding amounted to €1,447,928 thousand, a large increase on an annual basis of €36,747 thousand or +2.6%.

The next table shows the total amount of funding by business segment with more than 61% coming from households.

Type SAE		Amount	% OF TOTAL
4	COMPANIES	364,954	25.205%
61	ARTISANS AND FAMILY BUSINESSES	126,323	8.724%
60	HOUSEHOLDS	892,198	61.619%
99	OTHER	64,453	4.451%
	TOTAL	**1,447,928**	**100.000%**

Table 7

Euro and foreign currency current account overdrafts runs, which are the most important product, increased by €80,856 thousand (+8.1%) to €1,078,265 thousand, equal to three quarters of the bank's entire direct funding. As a result, this sector was the object of much attention leading the bank to offer innovative products and services such as on-line trading or the expansion of the operations that can be carried out at ATMs which are the natural reference point for current account transactions.

Even the obsolete savings deposits gained ground, amounting to €127,586 thousand.

The bank did not deem that the conditions for new bond issues existed in 2016 due to the adverse tax measures, which are particularly significant given the market interest rates, and the negative regulations for this sector. Therefore, its senior bonds decreased by 41.2% on 2015 to €125,561 thousand. Certificates of deposit increased by 56.3% to €116,516 thousand (+€41,968 thousand).

Bonds accounted for 8.7% of the entire direct funding at year end.

At 31 December 2016, the bank had 10 bond issues outstanding, described in the annexes to the financial statements. Seven issues matured during the year (€87,846 thousand).

As part of an internal decision, the bank no longer offers repos to its customers and they had a nil balance at year end.

Indirect funding at year end may be analysed as follows:

	31/12/2016	30/06/2016	31/12/2015	Half year difference		Annual difference	
				Amount	%	Amount	%
Government bonds	200,191	242,441	251,723	-42,250	-17.43%	-51,532	-20.47%
Bonds	100,643	110,297	112,930	-9,654	-8.75%	-12,287	-10.88%
Shares	83,623	79,914	89,655	3,709	4.64%	-6,032	-6.73%
Total administered funds	**384,457**	**432,652**	**454,308**	**-48,195**	**-11.14%**	**-69,851**	**-15.38%**
Funds and OEICs	319,384	243,174	245,899	76,210	31.34%	73,485	29.88%
Asset management	21,830	24,133	26,107	-2,303	-9.54%	-4,277	-16.38%
Total managed funds	***341,214***	***267,307***	***272,006***	***73,907***	***27.65%***	***69,208***	***25.44%***
Total indirect funding	***725,671***	***699,959***	***726,314***	***25,712***	***3.67%***	***-643***	***-0.09%***
Insurance and pension products	389,675	370,884	336,799	18,791	5.07%	52,876	15.70%
Total	**1,115,346**	**1,070,843**	**1,063,113**	**44,503**	**3.99%**	**52,233**	**4.91%**

Table 8

Indirect funding increased at year end to €1,115,346 thousand compared to €1,063,113 thousand at 31 December 2015 (+4.91%).

A breakdown of indirect funding, compared to that at 31 December 2015, shows customers' smaller interest in administered funds, in line with the bank's commercial policy. Direct investments in bonds and shares lost 15.4%, partly due to investors' increased uncertainty about the market and difficulties in identifying remunerative investments.

In line with forecasts, the asset management business performed very well with year-on-year growth of 25.4%, thanks to the bank's offer of selected managed saving products that reflected the profiles of the investors interested in these instruments.

Net funding from mutual funds and OEIC units confirmed the trend already seen at the end of 2015 at €69,433 thousand.

The bank commenced a project to select and streamline funds in order to better monitor its offer. This led to the negative asset management balance as the bank discontinued offering products of a fund no longer deemed compatible with its policies.

The bank continued to offer insurance and pension products during the year and these amounted to €389,675 thousand at year end (+15.7%).

INCOME STATEMENT

The following table summarises the key income statement figures, using the same reclassification criteria adopted in previous years.

	2016	2015	Difference	
			amount	%
Net interest income	30,466	32,807	-2,341	-7.14%
Net operating income	63,032	73,504	-10,472	-14.25%
Operating costs	-49,721	-49,653	-68	0.14%
Operating profit	13,311	23,851	-10,540	-44.19%
Pre-tax profit from continuing operations	6,732	11,723	-4,991	-42.57%
Profit for the year	5,236	7,059	-1,823	-25.83%

Table 9

The individual balances are shown below:

Net interest income

	2016	2015	Difference	
			amount	%
Interest income:	***38,274***	***44,017***	***-5,743***	***-13.05%***
- Ordinary customers	31,301	35,186	-3,885	-11.04%
- Securities portfolio	6,966	8,819	-1,853	-21.01%
- Banks	7	12	-5	-41.67%
Interest expense:	***-7,808***	***-11,210***	***3,402***	***-30.35%***
- Ordinary customers	-3,442	-5,035	1,593	-31.64%
- Bonds	-4,086	-6,038	1,952	-32.33%
- Banks	-280	-137	-143	104.38%
Net interest income	**30,466**	**32,807**	**-2,341**	**-7.14%**

Table 10

Net interest income amounted to €30,466 thousand, with the expected drop on the previous year (due to the significant reduction in interest rates seen since 2012).

The effect of the contraction in interest rates on lending products on interest income was partly offset by the bank's more aggressive move to encourage investments by households, which re-energised the sector and allowed the bank to contain the contraction in interest income.

As a result of the continued low interest rates, the bank saw a decrease in interest on financial products due to the steady reduction in coupons on securities held in its banking book.

Given the higher premium for bank bonds, especially after enactment of the bail-in regulations, the bank did not deem it appropriate to issue new bonds and this segment decreased as a result.

Low interest rates on Italian government bonds affected the rates applied to ordinary customers, where the greater stickiness of interest rates paid compared to those received is visible. However, thanks to the sharp cut in these rates, especially on the more remunerative positions, the bank was able to defend its profit margins.

The average annual rate paid on direct funding was 0.54% compared to the average 0.83% at the end of 2015, a drop of 29 bp, and the 2016 year-end rate was 0.46%.

Interest income from ordinary customers went from an average 3.87% in 2015 to an average rate of 3.51% in 2016 equal to an average annual reduction of 36 bp. The rate was 3.27%.

The total spread on average interest rates with ordinary customers was on average below that of the previous year as shown in the following graph, ending the year at 2.96% down 7 bp:

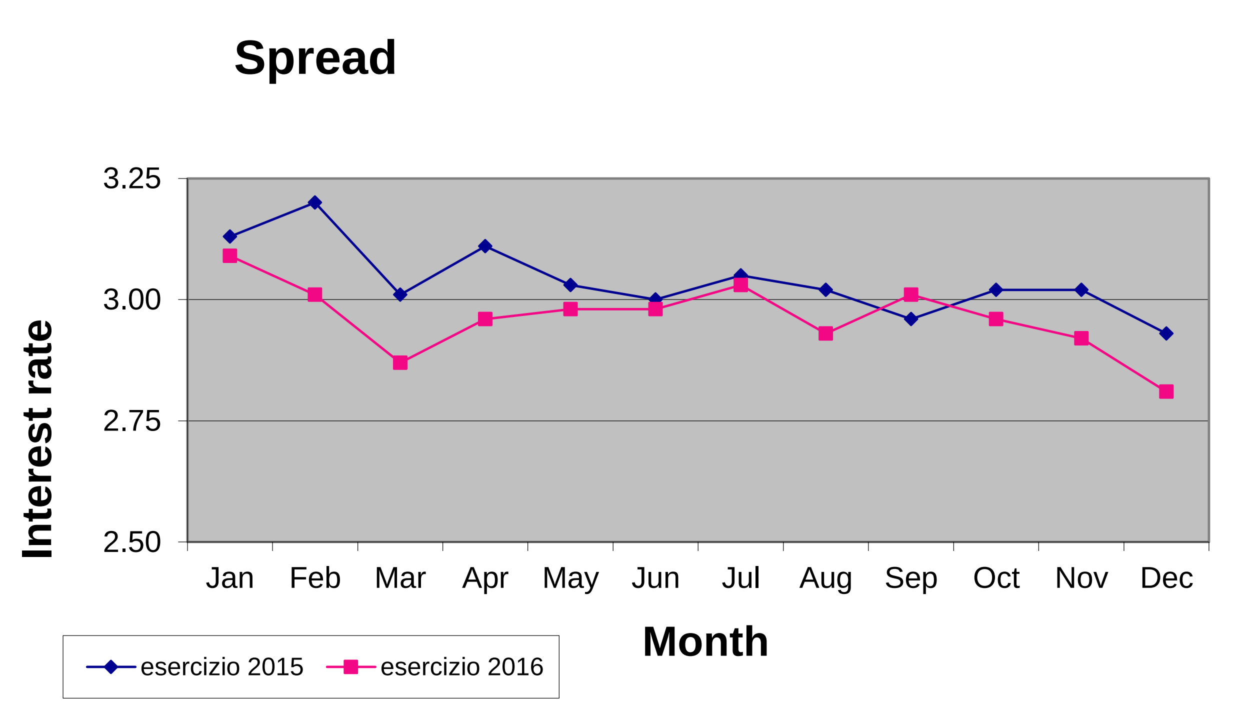


Table 11

NET OPERATING INCOME

	2016	2015	Difference	
			amount	%
Net interest income	**30,466**	**32,807**	**-2,341**	**-7.14%**
Dividends	650	1,632	-982	-60.17%
Net fee and commission income	21,216	20,783	433	2.08%
Net trading income	6,972	12,715	-5,743	-45.17%
Net gains (losses) on financial assets and liabilities at fair value through profit or loss	0	0	0	0.00%
Other operating income	3,728	5,567	-1,839	-33.03%
Net operating income	**63,032**	**73,504**	**-10,472**	**-14.25%**

Table 12

Net operating income of €63,032 thousand decreased significantly, due to the bank's trading performance affected by market trends.

Dividends collected contracted by €982 thousand from €1,632 thousand for 2015 to €650 thousand. This reduction was due to the fact that the investee CSE made extraordinary distributions of reserves in 2014 and 2015 (the bank's share was €1,000 thousand for each year), which did not take place in 2016.

Net fee and commission income increased by 2.1% to €21,206 thousand for the year. As part of this caption, securities placement commissions, increased from €2,375 thousand to €3,013 thousand, while fee and commission income earned on the distribution of third party products went from €2,781 thousand to €3,082 thousand, due to the large increase in managed savings products.

In line with market trends, fees and commissions on current account services decreased to €9,421 thousand while fee and commission income on collection and payment services came to €2,888 thousand (-2.9%).

Net trading income amounted to €6,972 thousand, down €5,743 thousand on the balance of €12,715 thousand for 2015. This decrease was affected by the gain on securities trading of €2,412 thousand, the fair value loss on the HFT portfolio of €755 thousand, the gain of €6,216 thousand on the AFS portfolio and the loss of €1,158 thousand on derivatives.

The loss on derivative trading was closely related to the asset management mandate given to Epsilon SGR, whose financial instruments, classified in the AFS portfolio, recorded net gains of €694 thousand, recognised in a specific reserve, net of deferred taxes.

Other operating income decreased by €1,839 thousand to €3,728 thousand, due to the negative outcome of a long-running dispute for which the bank had not made significant provision based on previous proceedings which it had always won.

OPERATING PROFIT

	2016	2015	Difference	
			amount	%
Net operating income	**63,032**	**73,504**	**-10,472**	**-14.25%**
Personnel expense	-27,906	-27,769	-137	-0.49%
Administrative expenses	-20,176	-20,220	44	0.22%
Amortisation and depreciation	-1,639	-1,664	25	1.50%
Operating costs	**-49,721**	**-49,653**	**-68**	**0.14%**
Operating profit	**13,311**	**23,851**	**-10,540**	**-44.19%**

Table 13

The operating profit for the year was €13,311 thousand compared to €23,851 thousand for 2015 (-€10,540 thousand).

The caption includes a small increase in personnel expense (€137 thousand), while administrative expenses, amortisation and depreciation remained fairly stable.

Administrative expenses include the ordinary and extraordinary contributions to the National Resolution Fund as well as the ex-ante contribution of €1,643 thousand to the Interbank Deposit Guarantee Fund.

Increase:

1. legal and technical consultancy, from €961 thousand to €1,102 thousand;
2. credit collection legal fees, from €1,393 thousand to €1,581 thousand.

Decrease:

1. maintenance and repairs, from €1,060 thousand to €749 thousand;
2. lighting and heating, from €589 thousand to €547 thousand.

Pre-tax profit from continuing operations

	2016	2015	Difference	
			amount	%
Operating profit	**13,311**	**23,851**	**-10,540**	**-44.19%**
Net accruals to provisions for risks and charges	-47	-298	251	84.23%
Net impairment losses on loans	-6,535	-11,080	4,545	41.02%
Net impairment losses on other assets	0	-760	760	0.00%
Gains on held-to-maturity and other investments	3	10	-7	-70.00%
Pre-tax profit from continuing operations	**6,732**	**11,723**	**-4,991**	**-42.57%**

Table 14

The pre-tax profit from continuing operations amounted to €6,732 thousand compared to €11,723 thousand for 2015.

Net accruals to provisions for risks and charges of €47 thousand reflect the bank's prudent evaluation of the higher risks of ongoing legal disputes and claw-back claims as well as operating risks and charges and potential risks on endorsement credits.

Loans to ordinary customers were measured using the methods set out in the notes to the financial statements with the usual prudent approach.

Impairment losses on irregular loans were based on the borrowers' objective repayment difficulties and the recovery value of the underlying guarantees, which the bank subjected to a tough assessment. It also estimated the possible recovery times of the loans, considering the frequent resort to negotiations and made the related discounts. As a result, the coverage ratio of irregular loans increased from 37.7% for 2015 to 38.5%.

The collective impairment losses on performing loans considered the implicit risk of the different business segments using historical and forward-looking statistics. Given the steady improvement in the PD indicator, the expected losses indicator decreased from 1.22% to 0.91% for the year.

Overall, the bank had to counter the drop in credit quality by recognising individual impairment losses and losses on loans of €16,853 thousand, offset however by reversals of impairment losses of €10,318 thousand for a net balance of €6,535 thousand, a decrease compared to €11,080 thousand for 2015.

The cost of credit was 0.69%, better than the 1.03% for the previous year, showing the visible improvement in credit quality as well as the bank's attention to safeguarding against credit risk, which has increased due to the ongoing far-reaching economic crisis.

PROFIT FOR THE YEAR

	2016	2015	Difference	
			amount	%
Pre-tax profit from continuing operations	**6,732**	**11,723**	**-4,991**	**-42.57%**
Income taxes	-1,496	-4,664	3,168	67.92%
Profit (loss) from discontinued operations	0	0	0	0.00%
Profit for the year	**5,236**	**7,059**	**-1,823**	**-25.83%**

Table 15

Estimated direct IRES and IRAP taxes for the year came to €1,496 thousand compared to €4,664 thousand for 2015, due to the following factors.

Estimated IRES taxes amount to €1,028 thousand while estimated IRAP taxes amount to €418 thousand.

The elimination of fiscally-driven entries led to the reversal of deferred taxes for a negative balance of €772 thousand.

Reimbursements of previously claimed tax credits for the deductibility of personnel expenses for IRAP purposes of €722 thousand (previously provided for in the provision for tax) allowed the bank to release the same amount from the provision.

Accordingly, the profit for the year amounted to €5,236 thousand.

Comprehensive income for 2016 is €710 thousand compared to €5,324 thousand for the previous year.

The actuarial losses of €361 thousand recognised on post-employment benefits and the supplementary pension fund and the reduction of €4,165 thousand in the fair value reserve, net of the related taxes, mainly due to sales during the year, contributed to the comprehensive income

Cash flows

The statement of cash flows has been prepared using the indirect method as allowed by IAS 7. Cash flows generated and used during the year are split between operating, investing and financing activities.

Operating activities generated cash flows of €24,112 thousand, including €8,085 thousand from operations, while financial assets and financial liabilities generated and used cash of €67,574 thousand and €51,548 thousand, respectively.

Investing activities used cash flows of €984 thousand, mostly due to the purchase of property, equipment and investment property.

Financing activities used cash flows of €3,039 thousand to pay dividends to shareholders in 2016 using the profit for 2015.

As a result, the net cash flows for the year were €20,088 thousand.

Indicators

The customary analysis using financial statements indicators is set out in the following table:

Financial statements indicators	2016	2015
Capitalisation ratios:		
Equity/total assets	9.59%	9.31%
CET 1 capital ratio	14.99%	16.06%
Tier 1 capital ratio	14.99%	16.06%
Total capital ratio	15.00%	16.06%
Non-current assets/equity	10.64%	11.30%
Net non-performing loans/equity	34.00%	34.22%
Own funds/third-party funds	11.03%	11.36%
Risk ratios:		
Net non-performing loans/loans	5.74%	5.80%
Collective impairment losses/performing loans	0.91%	1.22%
Allowance for impairment/total loans	8.21%	7.71%
New non-performing loans ratio	0.90%	3.59%
Profitability ratios:		
Net interest income/total income	51.37%	48.29%
Income from financial transactions/total income	11.76%	18.72%
Cost of credit	0.69%	1.03%
Gross operating profit/Equity	8.33%	14.43%
Profit/equity	3.28%	4.40%
Profit/total assets	0.31%	0.41%
Tax ratio	22.22%	39.78%
Net other administrative expenses/total income	26.18%	22.62%
Personnel expense/total income	47.06%	40.87%
Administrative expenses/total income	73.23%	63.50%
Cost/income	76.00%	65.95%
Costs/gains on fair value measurement of securities	75.04%	67.87%
Administrative expenses/total assets	2.89%	2.79%
Productivity - Distribution efficiency		
Loans and receivables with customers/employees	2,498	2,482
Due to customers/employees	3,820	3,704
Total income/average employees	156.066	179.017
Average employees/branches	6.333	6.325
Cost per employee	70.81	70.51
Loans and receivables with customers and due to customers/average employees	6,301	6,210
Loans and receivables with customers and due to customers/branches	39,908	39,279
Branch employees/employees	69.39%	69.55%

Table 16

Indicators reflecting the bank’s core business are summarised in the above table, split into four macro areas.

The indicators for the bank’s capitalisation continued to be very high. The net non-performing loans/equity ratio decreased slightly to 34%.

The loan risk indicators improved, showing the more positive situation. Non-performing loans made up 5.7% of total loans. Despite this, the bank has increased its loan coverage ratio from 7.7% in 2015 to 8.2%.

The performing loans indicator continues to be very positive at 0.91%.

The new non-performing loans indicator decreased from 3.6% to 0.90%.

The cost/income ratio is 76%, down on 2015, and is particularly affected by the cost of the ordinary and extraordinary contributions to the National Resolution Fund and the Interbank Deposit Protection Fund, as well as the non-recurring costs described earlier.

That being said, ROE increased to 3.3% while ROA went from 0.4% to 0.3%.

The efficiency indicator shows the substantial stability of all the indicators.

Objectives

The objectives set out in the business plan, which the board of directors revised and updated in June 2016 and which is valid until 31 December 2018, were the bank's main points of reference for the year.

At the end of the first year of the three-year plan, the bank's actions to make its organisation and production more efficient should be acknowledged.

These actions were carried out in line with the plan's objectives, supplemented in June by a specific plan for more decisive measures for managed savings products to increase the bank's recurring income.

1. Continuation of the Banca h24 project with the Giulianova and Macerata branches.
2. Change in the opening hours of some smaller branches (under trial).
3. Modification of the internal regulations for financial investments with the related activation of asset management to diversify lending.
4. Activation of a cash management project to optimise this at all the bank's cash points.

The board of directors monitored attainment of the qualitative and quantitative objectives on an ongoing basis through discussions and resolutions.

The quantitative objectives for 2016 were based on forecasts made at the end of 2015 by very reputable research institutes, which indicated a strong reversal in the economic crisis in 2016 together with an increase in lending and a reduction in impairment losses on loans in a scenario characterised by continued very low interest rates.

The new service model, designed to improve revenue from services and decrease distribution costs, is expected to gradually change the cost/income ratio.

Lending, including the allowance for impairment, estimated to amount to €1,046,775 thousand at year end, actually came to €1,031,169 thousand, €15,606 or 1.5% below forecasts.

Direct funding was estimated to amount to €1,311,625 thousand compared to the actual €1,447,928 thousand: a difference of €136,303 thousand or 10.4%.

Indirect funding, including pension funds and insurance policies, was estimated to amount to €1,151,424 thousand compared to the actual €1,115,346 thousand: a difference of €36,078 thousand or 3.2%. This reduction was due to the forced decision of the insurance companies to discontinue distributing new class I policies due to the too-low rates, which would have jeopardised interest already paid on assets.

Profitability ratios:
The 2016-2018 business plan provided for fairly stable profitability in the first two years, to be followed by an increase in the third year and total profit for the three years of around €17.6 million. The expected scenario included stabilised profits, with the smaller contribution of net financial income and the greater impact of fees and commissions from the network's intensified activities to place large amounts of managed savings products and the increase in loans and receivables with customers, along with less impairment losses.

The bank recorded a profit of €5,235 thousand for the first year, well above the expected €932 thousand (+21.7%), despite the unforeseeable non-recurring expenses[2].

Table 17 shows the actual results achieved:

[2] They included the extraordinary contributions to the National Resolution Fund and the cost of the adverse outcome of a long-running dispute.

	Plan	Actual	Difference	%
Net interest income	32,486	30,466	- 2,020	-6.22%
Revenue from services	22,038	21,216	- 822	-3.73%
Other revenue	5,594	4,379	- 1,215	-21.72%
Net trading income	5,235	6,973	1,738	33.20%
Total income	**65,353**	**63,034**	- 2,319	-3.55%
Administrative expenses	- 19,423	- 20,176	- 753	3.88%
Amortisation and depreciation	- 1,680	- 1,686	- 6	0.36%
Personnel expense	- 27,432	- 27,906	- 474	1.73%
Operating profit	**16,818**	**13,266**	- 3,552	-21.12%
Impairment losses/reversals of impairment losses	- 10,211	- 6,535	3,676	-36.00%
Pre-tax profit from continuing operations	**6,607**	**6,731**	124	1.88%
Income taxes	- 2,304	- 1,496	808	-35.07%
Profit for the year	**4,303**	**5,235**	932	21.66%
Equity	168,109	165,007	- 3,102	-1.85%

Table 17

The table shows that the bank exceeded its objectives although the various profit margins were different.

The larger differences are due to:

1. net interest income of €2,020 thousand below the plan target, due to the different performance of the interest rate curves and the unexpected trends of loans and receivables;
2. total income, substantially in line with the plan thanks to the better-than-expected net trading income;
3. net administrative expenses were higher than expected, mainly due to the non-recurring costs of the contributions to the National Resolution Fund;
4. impairment losses on loans and receivables were €3,676 thousand less than budgeted, due to the considerable improvement in loan quality and utilisation of the allowance for impairment of €2.7 million.

Equity did not reach the targeted €168,109 thousand and amounted to €165,007 thousand. An analysis of the bank's equity shows that the difference of €3,102 thousand between the actual and business plan figures is entirely due to the reduction in the valuation reserve

Bank of Italy/Consob/Isvap (the Italian Insurance Companies Supervisory Authority) document no. 2 of 6 February 2009

The directors note that they have assessed the bank's profitability and liquidity for a period of not less than 12 months from the reporting date based on the business plan, the 2016 budget and all other available information.

With respect to the bank's liquidity, the board of directors confirms the following management guidelines:

1. ongoing alignment and monitoring of interbank credit facilities;
2. maintenance of a lending/funding ratio always below the 90% threshold identified by the board of directors as prudential.

With respect to the bank's profitability, the board of directors believes that, despite this difficult economic period, the bank has appropriate profitability margins for the near and far future notwithstanding increasingly volatility in its results due to changed economic conditions and application of the IFRS.

It is sufficient to consider the following:

a. the bank has never made a loss despite other unfavourable economic periods;
b. it has a large market share and its local ground roots have actually been strengthened by the unfavourable climate;
c. Its high capitalisation and prudent approach are a solid basis for dealing with any future risks;
d. The 2016-2018 business plan includes a wide-ranging programme of actions designed to improve the bank's efficiency by extending its synergies with the IT outsourcer CSE and with the minority shareholder Intesa Sanpaolo.

It can, therefore, clearly be seen that the going concern assumption is fully met without having to provide any more detail.

Bank of Italy document no. 0265719/13 of 15 March 2013

This communication focuses on the measurement of loans and receivables, remuneration and dividend policies.

It mainly deals with banks' capitalisation in light of their requirement for funds as a result of the current recession.

The central bank expects bank bodies to adopt strict and transparent criteria for the measurement of financial statements captions and to adopt dividend distribution policies that ensure adequate capitalisation.

In full compliance with these instructions, the bank has built up its risk monitoring activities in 2016 in line with its objective of maintaining high capitalisation levels and to continue its actions taken in previous years. Measurement of irregular loans and receivables was very affected by the need to align controls to the tough annual assessment of guarantees.

This policy, monitored continuously to focus on the bank's capitalisation and to comply with the new regulations about the calculation of own funds, as set out in Regulation (EU) no. 575/2013 (the CCR), Directive no. 2013/36/EU and Bank of Italy Circular no. 285/2013, led to the very acceptable Own Funds and Tier 1 ratios achieved.

While own funds increased from €157,948 thousand to the current €160,109 thousand, the reduction in the CET1 capital ratio is due to the rise in risk-weighted assets following the replacement of government bonds with financial assets included in the assets under management portfolio discussed earlier.

The bank's remuneration policy for its key management personnel hinges on maximum prudence, limiting the variable part indexed to financial statements data to just the mechanisms provided for by labour agreements while another part, agreed annually by the board of directors, is based on quantitative/qualitative assessments of the work performed by the management team.

Outlook

The economy shows positive signs of improvement. European GDP is expected to grow in 2017 while the Italian economy should continue its economic and production recovery although the situation continues to be very fragile.

Brexit, the Italian referendum and the US elections show that even though some risks have materialised, they have not had a significant impact. The markets have shown a strong resilience to shocks.

Public debt continues to mount up without a solution and unemployment, especially among young people, is becoming a real social emergency.

The continuation of the difficulties being encountered by many companies, which risk closure, and the size of the accumulated impairment losses suggest that credit quality will continue to suffer leading to the inevitable consequences on the banking sector's profitability.

The bail-in legislation became applicable in 2016 and this will obviously affect the banks' operations and their relationships with customers. The bail-out of the four bad banks, referred to herein, has shown that Cassa di Risparmio di Fermo S.p.A. is advantaged by its solid reputation built up by it which it well deserves, despite the onerous contributions it has been required to make to the National Resolution Fund.

The Marche region's economy is very slowly recovering its export market share, notwithstanding the sizeable difficulties encountered in recent years due to the restrictions on trade with Russia, which adversely affected exports to that country. The earthquake that hit the southern part of the region hard has affected both the local populations and the regional economy.

Based on the business plan, the bank should see an initial large improvement in its net interest income thanks to more efficient commercial policies.

The bank will continue to closely monitor its credit risk. The cost of credit is expected to improve somewhat, decreasing to around 0.7%, although it will remain high.

The business model modification should prove positive with the offer of a range of diversified services to customers, including managed savings and corporate finance products. The related recurring income will allow the bank to improve its results of operations.

Net financial income's contribution will steady decrease although it will always be affected by market trends which, as noted earlier, are sensitive to numerous factors, many of which are unpredictable. The smaller percentage of government bonds in portfolio, decreased through the asset management procedures, and continuation of the ECB's public sector purchase programme will decrease the potential financial risks.

Operating costs are expected to increase.

Conclusions

To wind up this report, I would like to firstly thank all our customers that have again chosen Cassa di Risparmio di Fermo S.p.A. as their bank in a difficult year and are confident that the bank has been able to repay such choice with its top quality services.

The bank's activities are those set out by the Fondazione Cassa di Risparmio di Fermo which are its reference point and guiding light. The expert assistance of the shareholder Intesa Sanpaolo provided continuously to our staff improving their approach and professional standing contributes great added value.

We are deeply appreciative of the managing director's expert assistance provided to the board of directors and for his ability to guide the bank in this period characterised by significant legislative discontinuities and a difficult economic situation.

The precious assistance provided by the entire board of statutory auditors is also worthy of mention.

We would also like to especially thank all the bank's employees for their willingness to embrace change in a professional manner and diligently.

Finally, we would like to express our gratitude to the supervisory authorities and, especially, the Ancona branch manager, Gabriele Magrini Alunno, for his availability as well as all the personnel at that branch for their assistance.

On behalf of the board of directors
The Chairman
(signed on the original)

Fermo, 29 March 2017

STATEMENT OF FINANCIAL POSITION: ASSETS

	Assets	31/12/2016	31/12/2015
10.	Cash and cash equivalents	35,870,911	15,782,571
20.	Financial assets held for trading	327,938,545	377,129,775
30.	Financial assets at fair value through profit or loss	-	-
40.	Available-for-sale financial assets	270,367,831	279,583,818
50.	Held-to-maturity investments	5,000,286	5,011,143
60.	Loans and receivables with banks	17,797,719	29,027,573
70.	Loans and receivables with customers	946,561,434	945,537,217
80.	Hedging derivatives	-	-
90.	Adjustments to generically hedged financial assets (+/-)	-	-
100.	Equity investments	-	-
110.	Property, equipment and investment property	16,886,886	17,938,650
120.	Intangible assets	109,829	168,205
	including: - goodwill	-	-
130.	Tax assets	21,944,769	25,275,978
	a) current	*7,318,696*	*10,445,406*
	b) deferred	*14,626,073*	*14,830,572*
	including as per Law no. 214/2011	*11,238,493*	*11,829,993*
140.	Non-current assets classified as held for sale and disposal groups	-	-
150.	Other assets	23,957,405	25,335,100
	Total assets	**1,666,435,615**	**1,720,790,030**

STATEMENT OF FINANCIAL POSITION: LIABILITIES

	Liabilities and equity	31/12/2016	31/12/2015
10.	Due to banks	3,306,518	70,661,608
20.	Due to customers	1,205,851,785	1,123,219,838
30.	Securities issued	242,076,309	287,961,523
40.	Financial liabilities held for trading	654,079	213,464
50.	Financial liabilities at fair value through profit or loss	-	-
60.	Hedging derivatives	-	-
70.	Adjustments to generically hedged financial liabilities (+/-)	-	-
80.	Tax liabilities	5,310,761	10,556,034
	a) current	*3,113,141*	*6,787,850*
	b) deferred	*2,197,620*	*3,768,184*
90.	Liabilities associated with disposal groups	-	-
100.	Other liabilities	22,067,569	38,338,317
110.	Post-employment benefits	9,208,026	9,383,597
120.	Provisions for risks and charges:	12,952,908	13,119,281
	a) pension and similar obligations	*9,981,267*	*10,194,676*
	b) other provisions	*2,971,641*	*2,924,605*
130.	Valuation reserves	13,574,455	18,100,293
140.	Redeemable shares	-	-
150.	Equity instruments	-	-
160.	Reserves	72,295,920	68,275,499
170.	Share premium	34,660,068	34,660,068
180.	Share capital	39,241,087	39,241,087
190.	Treasury shares (-)	-	-
200.	Profit for the year (+/-)	5,236,130	7,059,421
	Total liabilities and equity	**1,666,435,615**	**1,720,790,030**

INCOME STATEMENT

		2016	2015
10.	Interest and similar income	38,274,420	44,004,482
20.	Interest and similar expense	- 7,807,983	- 11,197,873
30.	**Net interest income**	**30,466,437**	**32,806,609**
40.	Fee and commission income	22,413,617	21,944,134
50.	Fee and commission expense	- 1,197,752	- 1,161,351
60.	**Net fee and commission income**	**21,215,865**	**20,782,783**
70.	Dividends and similar income	649,730	1,631,582
80.	Net trading income	804,397	4,884,707
90.	Net hedging income (expense)	-	-
100.	Gain (loss) from sales or repurchases of:	6,168,163	7,831,312
	a) loans and receivables	-	-
	b) available-for-sale financial assets	6,216,236	7,890,284
	c) held-to-maturity investments	-	-
	d) financial liabilities	- 48,073	- 58,972
110.	Net gains (losses) on financial assets and liabilities at fair value through profit or loss	-	-
120.	**Total income**	**59,304,592**	**67,936,993**
130.	Net impairment losses on:	- 6,534,944	- 11,839,956
	a) loans and receivables	*- 6,534,944*	*- 11,080,007*
	b) available-for-sale financial assets	-	*- 759,949*
	c) held-to-maturity investments	-	-
	d) other financial transactions	-	-
140.	**Net financial income**	**52,769,648**	**56,097,037**
150.	Administrative expenses	- 48,082,233	- 47,988,783
	a) personnel expense	*- 27,905,986*	*- 27,769,130*
	b) other administrative expenses	*- 20,176,247*	*- 20,219,653*
160.	Net accruals to provisions for risks and charges	- 47,036	- 298,212
170.	Depreciation and net impairment losses on property, equipment and investment property	- 1,564,445	- 1,572,435
180.	Amortisation and net impairment losses on intangible assets	- 74,254	- 91,818
190.	Other operating income	3,727,920	5,567,207
200.	**Operating costs**	**- 46,040,048**	**- 44,384,041**
210.	Gains (losses) on equity investments	-	-
220.	Fair value gains (losses) on property, equipment, invest. property and int. assets	-	-
230.	Impairment losses on goodwill	-	-
240.	Net gains on sales of investments	2,549	9,854
250.	**Pre-tax profit from continuing operations**	**6,732,149**	**11,722,850**
260.	Income taxes	- 1,496,019	- 4,663,429
270.	**Post-tax profit from continuing operations**	**5,236,130**	**7,059,421**
280.	Post-tax profit (loss) from discontinued operations	-	-
290.	**Profit for the year**	**5,236,130**	**7,059,421**

STATEMENT OF COMPREHENSIVE INCOME

		2016	2015
10.	**Profit for the year**	**5,236,130**	**7,059,421**
	Items, net of tax, that will not be reclassified subsequently to profit or loss		
20.	Property, equipment and investment property	-	-
30.	Intangible assets	-	-
40.	Defined benefit plans	- 360,906	1,345,233
50.	Non-current assets held for sale	-	-
60.	Share of valuation reserves of equity-accounted investees	-	-
	Items, net of tax, that will be reclassified subsequently to profit or loss		
70.	Hedges of investments in foreign operations	-	-
80.	Exchange rate gains (losses)	-	-
90.	Cash flow hedges	-	-
100.	Available-for-sale financial assets	- 4,164,932	- 3,080,712
110.	Non-current assets held for sale	-	-
120.	Share of valuation reserves of equity-accounted investees	-	-
130.	**Total other comprehensive expense, net of income taxes**	**- 4,525,838**	**- 1,735,479**
140	**Comprehensive income (captions 10 + 130)**	**710,292**	**5,323,942**

STATEMENT OF CHANGES IN EQUITY FOR 2016

	Balance at 31/12/2015	Change to opening balances	Balance at 1/01/2016	Allocation of prior year profit		Changes in 2016								Equity at 31/12/2016
						Changes in reserves	Equity transactions						Comprehensive income for 2016	
				Reserves	Dividends and other allocations		Issue of new shares	Repurchase of treasury shares	Extraordinary dividend distribution	Change in equity instruments	Derivatives on treasury shares	Stock options		
Share capital:	**39,241,087**	**-**	**39,241,087**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**39,241,087**
a) ordinary shares	39,241,087	-	39,241,087	-	-	-	-	-	-	-	-	-	-	39,241,087
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premium	**34,660,068**	**-**	**34,660,068**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**34,660,068**
Reserves:	**68,275,499**	**-**	**68,275,499**	**4,020,421**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**72,295,920**
a) income-related	65,005,739	-	65,005,739	4,020,421	-	-	-	-	-	-	-	-	-	69,026,160
b) other	3,269,760	-	3,269,760	-	-	-	-	-	-	-	-	-	-	3,269,760
Valuation reserves	**18,100,293**	**-**	**18,100,293**	**-**	**-**	**- 4,525,838**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**13,574,455**
Equity instruments	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Interim dividend	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Treasury shares	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Profit for the year	**7,059,421**	**-**	**7,059,421**	**- 4,020,421**	**- 3,039,000**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**5,236,130**	**5,236,130**
Equity	**167,336,368**	**-**	**167,336,368**	**-**	**- 3,039,000**	**- 4,525,838**	**-**	**-**	**-**	**-**	**-**	**-**	**5,236,130**	**165,007,660**

STATEMENT OF CHANGES IN EQUITY FOR 2015

	Balance at 31/12/2014	Change to opening balances	Balance at 1/01/2015	Allocation of prior year profit		Changes in 2015								Equity at 31/12/2015
						Changes in reserves	Equity transactions						Comprehensive income for 2015	
				Reserves	Dividends and other allocations		Issue of new shares	Repurchase of treasury shares	Extraordinary dividend distribution	Change in equity instruments	Derivatives on treasury shares	*Stock options*		
Share capital:	**39,241,087**	**-**	**39,241,087**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**39,241,087**
a) ordinary shares	39,241,087	-	39,241,087	-	-	-	-	-	-	-	-	-	-	39,241,087
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premium	**34,660,068**	**-**	**34,660,068**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**34,660,068**
Reserves:	**67,230,504**	**-**	**67,230,504**	**1,044,995**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**68,275,499**
a) income-related	63,960,744	-	63,960,744	1,044,995	-	-	-	-	-	-	-	-	-	65,005,739
b) other	3,269,760	-	3,269,760	-	-	-	-	-	-	-	-	-	-	3,269,760
Valuation reserves	**19,835,772**	**-**	**19,835,772**	**-**	**-**	**- 1,735,479**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**18,100,293**
Equity instruments	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Interim dividend	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Treasury shares	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Profit for the year	**4,083,995**	**-**	**4,083,995**	**- 1,044,995**	**- 3,039,000**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**7,059,421**	**7,059,421**
Equity	**165,051,426**	**-**	**165,051,426**	**-**	**- 3,039,000**	**- 1,735,479**	**-**	**-**	**-**	**-**	**-**	**-**	**7,059,421**	**167,336,368**

STATEMENT OF CASH FLOWS: indirect method

A. OPERATING ACTIVITIES	Amount	
	2016	**2015**
1. Operations	**8,084,852**	**19,402,074**
- profit for the year (+/-)	5,236,130	7,059,421
- gains on financial assets held for trading and financial assets/liabilities at fair value through profit or loss (-/+)	180,510	-1,926,434
- gains/losses on hedging transactions (-/+)	-	-
- net impairment losses/reversals of impairment losses (+/-)	8,526,567	12,336,968
- net impairment losses/reversals of impairment losses on property, equipment and investment property and intangible assets (+/-)	1,638,699	1,898,411
- net accruals to provisions for risks and charges and other costs/revenue (+/-)	5,898,733	4,038,865
- unpaid taxes and duties (+)	1,496,019	4,663,429
- net impairment losses/reversals of impairment losses on disposal groups, net of the tax effect (+/-)	-	-
- other adjustments (+/-)	-14,891,806	-8,668,586
2. Cash flows generated by financial assets	**67,574,382**	**22,768,242**
- financial assets held for trading	50,161,435	-76,855,221
- financial assets at fair value through profit or loss	-	-
- available-for-sale financial assets	9,794,067	78,070,854
- loans and receivables with banks: on demand	-9,957,932	6,804,915
- loans and receivables with banks: other	21,186,869	10,756,539
- loans and receivables with customers	-5,909,090	6,423,444
- other assets	2,299,033	-2,432,289
3. Cash flows used for financial liabilities	**-51,547,682**	**-37,864,613**
- due to banks: on demand	-7,355,089	10,464,333
- due to banks: other	-60,000,000	-150,000,000
- due to customers	82,631,946	153,346,407
- securities issued	-45,885,214	-34,777,493
- financial liabilities held for trading	440,614	-267,075
- financial liabilities at fair value through profit or loss	-	-
- other liabilities	-21,379,939	-16,630,785
Net cash flows generated by operating activities	**24,111,552**	**4,305,703**
B. INVESTING ACTIVITIES		
1. Cash flows generated by	**4,640**	**25,190**
- sales of equity investments	-	-
- dividends from equity investments	-	-
- sales of HTM investments	-	-
- sales of property, equipment and investment property	4,640	25,190
- sales of intangible assets	-	-
- sales of business units	-	-
2. Cash flows used to acquire	**-988,852**	**-921,353**
- equity investments	-	-
- HTM investments	-	-
- property, equipment and investment property	-519,346	-571,576
- intangible assets	-469,506	-349,777
- business units	-	-
Net cash flows used in investing activities	**-984,212**	**-896,163**

C. FINANCING ACTIVITIES		
- issue/repurchase of treasury shares	-	-
- issue/repurchase of equity instruments	-	-
- dividend and other distributions	- 3,039,000	- 3,039,000
Net cash flows used in financing activities	**- 3,039,000**	**- 3,039,000**
NET CASH FLOWS FOR THE YEAR	**20,088,340**	**370,540**

Key: (+) generated; (-) used

Reconciliation:

FINANCIAL STATEMENTS CAPTIONS	Amount	
	2016	2015
Opening cash and cash equivalents	15,782,571	15,412,031
Total net cash flows for the year	20,088,340	370,540
Cash and cash equivalents: exchange rate effects	-	-
Closing cash and cash equivalents	35,870,911	15,782,571

NOTES TO THE FINANCIAL STATEMENTS

PART A
Accounting policies

A.1 – GENERAL PART

Section 1 – Statement of compliance

The financial statements of Cassa di Risparmio di Fermo S.p.A. as at and for the year ended 31 December 2016 have been prepared in compliance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and related interpretations of the International Financial Reporting Interpretations Committee (IFRIC), endorsed by the European Commission with EC regulation 1606 of 19 July 2002 and applied in Italy with article 1 of Legislative decree no. 38 of 28 February 2005. The instructions issued by Bank of Italy in its Circular no. 262 of 22 December 2005 and subsequent updates have also been considered.

The bank also referred to the Framework for application of the IFRS.

When a standard or an interpretation did not exist for a specific transaction, event or circumstance, the board of directors based itself on its judgement to develop and apply an accounting policy in order to provide information that is:

- useful as a basis for the readers to take financial decisions;
- reliable, so that the financial statements:
    - give a faithful view of the bank's financial position, results of operations and cash flows;
    - reflect the economic substance of transactions, other events and circumstances and not merely their legal form;
    - are neutral, i.e., are not biased;
    - are prudent;
    - are complete with reference to all significant aspects.

When exercising its judgement, the board of directors made reference to, and considered the applicability of the following sources, set out below in decreasing order of importance:

- the guidance and instructions set out in the standards and interpretations for similar or related cases;
- the definitions, measurement criteria and concepts used to recognise assets, liabilities, revenue and costs provided in the Framework.

The board of directors may also refer to the most recently issued measures of other bodies that issue accounting standards and use a framework similar to that of the IFRS to develop such standards, other accounting reference documentation and consolidated practices.

Pursuant to article 5 of Legislative decree no. 38 of 28 February 2005, when, in exceptional cases, application of a provision established by the IFRS is incompatible with the true and fair view of an entity's financial position, results of operations and cash flows, it is not applied. In such case, the reasons for departure from the standard are explained in the notes together with its impact on the presentation of the entity's financial position, results of operations and cash flows.

Any gains arising from application of the above-mentioned departure are recognised in a non-distributable reserve to the extent of the amount that can be recovered.

Section 2 – Basis of presentation

The financial statements are clearly stated and give a true and fair view of the bank's financial position at 31 December 2016 and its results of operations and cash flows for the year then ended. They comprise a statement of financial position, an income statement, a statement of comprehensive income, a statement of changes in equity, a statement of cash flows and these notes.

They are accompanied by a directors' report which comments on the bank's performance and financial position.

When the disclosures required by the IFRS and the instructions set out in Bank of Italy Circular no. 262 of 22 December 2005, and subsequent amendments, are not sufficient to give a true and fair, material, reliable, comparable and understandable view of the bank's financial position, results of operations and cash flows, additional information is provided in the notes.

The general guidelines for presentation of the financial statements are:

- the directors deemed it appropriate to apply the going concern assumption as there are no uncertainties about circumstances or events that would create doubts about the validity of this assumption. Therefore, assets, liabilities and off-statement of financial position transactions are measured assuming their use over a long period of time;
- the accruals basis of accounting: costs and revenue are recognised on an accruals basis;
- consistency of presentation: in order to ensure the comparability of data and information in the financial statements, they are presented and classified consistently over the years unless another presentation or classification would be more appropriate or amendments are made to the IFRS;
- in 2011, the IASB published IAS 19 (revised), introducing, inter alia, new accounting treatments for defined benefit plans, which include pension funds and the Italian post-employment benefits. The bank applied the revised standard starting from 2012. The most significant effects on the bank's financial statements are as follows:
  1. actuarial gains and losses:
     a. elimination of the corridor approach and full recognition in profit or loss;
     b. adoption of the model of immediate recognition in equity (i.e., other comprehensive income);
  2. the costs recognised in profit or loss are those relating to the actuarial capitalisation (i.e., interest cost);
  3. service costs, i.e., the increase in the present value of future benefits attributable to the service period is, in the bank's case, equal to zero, since pension funds do not include any current employees but only retired employees;
- materiality and aggregation: each material class of similar items is presented separately in the statement of financial position and the income statement. Items of a dissimilar nature or function are presented separately unless they are immaterial;
- when an asset or liability item relates to more than one caption, disclosure is provided in the notes when this is necessary to understand the financial statements;
- offsetting: assets and liabilities, income and expenses are not offset, unless expressly required or permitted by a standard or an interpretation or the above-mentioned Bank of Italy Circular no. 262 of 22 December 2005 and subsequent amendments;
- substance over form: the financial statements are presented in accordance with the principle of substance over form;
- comparative information: comparative information in respect of the previous year is disclosed for all amounts reported in the current year's financial statements.

Pursuant to article 5 of Legislative decree no. 38 of 28 February 2005, the financial statements have been prepared using the Euro as the reporting currency. Specifically, the financial statements are prepared in Euros and the notes in thousands of Euros. When necessary in the notes, more detail is given (Euros or cents).

Section 3 - Events after the reporting date

No significant events took place in the period between the reporting date and the date of approval of the financial statements that would require mention in this section of the financial statements or that would require modifications to be made to the financial statements after their approval by the board of directors.

Section 4 - Other aspects

None.

A2 – ACCOUNTING POLICIES

1 - FINANCIAL ASSETS HELD FOR TRADING

a) Recognition
Debt and equity instruments are initially recognised at their settlement date while derivatives are recognised at the date they are signed.

Financial assets held for trading are initially recognised at fair value, which usually equals the consideration paid, without considering transaction costs or revenue, which are recognised in profit or loss.

Embedded derivatives in structured financial instruments whose characteristics are not strictly correlated with those of the host instrument and that meet the definition of a derivative are separated from the host contract and recognised at fair value in profit or loss.

The host contract is recognised using the relevant standard.

b) Classification
Financial assets held for trading include debt and equity instruments acquired to make profits, including through their trading.

Hedging derivatives with positive fair values are included in this caption, including those embedded in financial instruments that meet the conditions for separation of the underlying derivatives.

c) Measurement
Financial assets are measured at fair value following initial recognition. Changes in fair value are taken to profit or loss.

The fair value of financial instruments listed on active markets equals the reporting date market closing prices.

The fair value of financial instruments traded on inactive markets is determined using commonly adopted estimation/valuation models that take into account market data such as methods based on the measurement of listed instruments with similar characteristics, calculation of discounted cash flows, option pricing models and prices registered in recent similar transactions, considering the different risk profiles of the instruments.

The zero coupon rates derived from the closing swap rates are used to discount the above cash flows.

A market is defined as inactive when there are significant differences in the bid/ask prices of the instrument in question.

d) Derecognition
These financial assets are derecognised when the contractual rights to cash flows therefrom expire or the financial asset is sold, transferring substantially all the related risks and rewards.

e) Recognition of costs and revenue
Interest and dividends are recognised under “Interest and similar income” and “Dividends and similar income”, respectively. Trading income or expense and gains or losses on the sale of financial assets are recognised under “Net trading income (expense), except for those related to derivatives associated with a fair value option, which are classified under “Net gains (losses) on financial assets and liabilities at fair value through profit or loss”.

2 - AVAILABLE-FOR-SALE FINANCIAL ASSETS

a) Recognition
Available-for-sale (AFS) financial assets are initially recognised at the settlement date (debt and equity instruments) or at the disbursement date (loans and financing). They are initially recognised at fair value, which usually equals cost, including any transaction costs or revenue.

b) Classification
This category includes non-derivative financial assets that are not classified as held for trading, held-to-maturity investments or are not loans and receivables.

The caption includes equity investments not held for trading and that do not qualify as investments in subsidiaries, associates or interests in joint ventures.

c) Measurement
AFS financial assets are subsequently measured at fair value with any fair value gains or losses being recognised in a specific equity reserve.

The fair value of financial instruments listed on active markets equals the reporting date market closing prices.

The fair value of debt instruments not traded on an active market is determined based on the price of instruments with similar characteristics or the present value of estimated future cash flows, considering the different risk profiles inherent in the instruments, or based on the actual prices for trades of the same asset.

The zero coupon rates derived from the closing swap rates are used to discount the above cash flows.

A market is defined as inactive when there are significant differences in the bid/ask prices of the instrument in question.

The fair value of equity instruments classified as AFS is determined considering the actual prices for trades of the same asset. When fair value cannot be determined reliably, the carrying amount equals cost, redetermined if necessary when the asset is sold.

AFS financial assets are tested for impairment whenever there are objective indications that their carrying amount has decreased by 25% of more or they have undergone impairment for at least two consecutive years, due to a worsening in the issuer's solvency or the other indicators provided for in IAS 39.
The impairment loss is determined:
- as the difference between carrying amount and fair value for equity instruments;
- as the difference between the carrying amount and the recoverable amount, i.e., the present value of estimated future cash flows, discounted using the effective interest method, for debt instruments.

Impairment losses are recognised in profit or loss after decreasing the equity reserve for each financial instrument.

When the reasons for impairment are eliminated, the reversal of the impairment loss is taken to:
- equity for equity instruments;
- profit or loss for debt instruments.

d) Derecognition
These financial assets are derecognised when the contractual rights to cash flows therefrom expire or the financial asset is sold, transferring substantially all the related risks and rewards.

e) Recognition of costs and revenue
Interest and dividends are recognised under "Interest and similar income" and "Dividends and similar income", respectively. Gains or losses on the sale of financial assets are recognised under "Gain (loss) on sale or repurchase of available-for-sale financial assets". Gains and losses on the fair value measurement of AFS financial assets are recognised in the "Valuation reserve" under equity and reclassified to profit or loss when the assets are sold.

Impairment losses are recognised as "Net impairment losses on available-for-sale financial assets". Any reversals of impairment losses on debt instruments are recognised as "Net reversals of impairment losses on available-for-sale financial assets".

3 - HELD-TO-MATURITY INVESTMENTS

a) Recognition
Held-to-maturity investments are initially recognised at the settlement date.

They are initially recognised at fair value, which usually equals the consideration paid, including any transaction costs or revenue.

The fair value of AFS financial assets reclassified to held-to-maturity investments is their amortised cost.

b) Classification
This category includes non-derivatives with fixed or determinable payments and fixed maturities that the bank has the ability and intention to hold to maturity.

If it is no longer appropriate to maintain an asset as classified as held to maturity following a change in the bank's intentions or ability, it is reclassified to "AFS financial assets".

Should the sale or reclassification of a held-to-maturity investment not be immaterial in quantitative or qualitative terms, the investment is reclassified as available for sale.

c) Measurement
After initial recognition, held-to-maturity investments are subsequently measured at amortised cost using the effective interest method.

They are tested for impairment to determine whether there is objective evidence of impairment due to a worsening in the issuer's solvency or the other indicators provided for by IAS 39.

The amount of the loss is measured as the difference between the asset's carrying amount and its recoverable amount, being the present value of estimated future cash flows, discounted at the asset's original effective interest rate.

The impairment loss is recognised in profit or loss.

When the reasons for impairment are no longer valid, the impairment loss is reversed.

d) Derecognition
These financial assets are derecognised when the contractual rights to cash flows therefrom expire or the financial asset is sold, transferring substantially all the related risks and rewards.

e) Recognition of costs and revenue
Interest is recognised in "Interest and similar income". Gains and losses on the asset's sale are recognised in "Gain (loss) on sale or repurchase of held-to-maturity investments". Impairment losses and any reversals are recognised under "Net impairment losses on held-to-maturity investments".

4 - LOANS AND RECEIVABLES WITH CUSTOMERS AND BANKS

a) Recognition
Loans and receivables are initially recognised at the disbursement date or, in the case of a debt instrument, at the settlement date, based on the financial instrument's fair value, which usually equals the amount disbursed, or the subscription price, including transaction costs or revenue attributable to the individual loan or receivable and determinable from the transaction start date, even when they are disbursed subsequently.

The initially recognised amount does not include costs that, despite having the above characteristics, are to be reimbursed by the counterparty or that are administrative costs. Reverse repurchase agreements and repurchase agreements are recognised as lending or funding transactions.

Specifically, spot resale and forward repurchase agreements are recognised as a liability for the spot amount received while spot repurchase and forward resale agreements are recognised as an asset for the spot amount paid.

b) Classification
Loans and receivables include non-derivative amounts with banks and customers, both disbursed directly and acquired from third parties, with fixed or determinable payments that are not listed on an active market and are not initially recognised as "Financial assets at fair value through profit or loss".

This category includes trade receivables, repurchase agreements, finance lease receivables and securities acquired as part of underwriting or private placement transactions with fixed or determinable payments that are not listed on an active market.

The bank has aligned its classification and measurement criteria with the EBA's new definitions of performing, non-performing and forbearance exposures.

c) Measurement
After initial recognition, loans and receivables are measured at amortised cost, that is, they are measured at initial recognition minus/plus principal repayments, impairment losses/reversals

of impairment losses and cumulative amortisation, using the effective interest method. The effective interest rate is the date that exactly discounts estimated future payments over the expected life of the loan or receivable to the carrying amount at the time of initial recognition, including directly attributable transaction costs and amounts paid or received between the contracting parties.

The amortised cost method is not used for short-term loans (with maturities of less than 18 months) as discounting these loans has no material impact. They are measured at historical cost.

Loans without a specified maturity and revocable loans are treated similarly.

Loans and receivables are tested for impairment at least at each reporting date to determine whether there is objective evidence of impairment due to events subsequent to initial recognition or a worsening in the debtors' solvency.

Impaired loans include non-performing loans, unlikely to pay loans and loans past due by more than 90 days. They are tested for impairment individually, using different methods depending on the amount: loans classified as non-performing up to €50 thousand are measured statistically using the loss percentages calculated from year to year (see section 4.3.3.1 Credit policy). The impairment loss is equal to the difference between their carrying amount at the (annual or interim) measurement date (amortised cost) and the present value of the recoverable cash flows, calculated using the original effective interest rate. Estimated future cash flows are determined considering the estimated recovery time and the estimated realisable amount of any guarantees. The original effective interest rate of each loan is unchanged over time. The recovery time is reasonably estimated considering general or specific factors. General factors include the estimated recovery time considering the nature of the transaction while specific factors include the estimate of future cash flows considering negotiations for an out-of-court settlement or ongoing debt rescheduling plans. The bank monitors the difference between the originally planned recovery time and the effective cash flows to best estimate the expected recovery times.

Loans for which objective indicators of impairment are not identified, i.e., the performing loans, are tested for impairment collectively. They are grouped into categories of exposures with similar credit risk characteristics and the loss rate estimated on a statistical basis and expressed as the counterparty's probability of default (PD) and the loss given default (LGD) rate are applied. The expected loss (EL) is the loan amount multiplied by PD and LGD with a floor of 0.3%.

Impairment losses are recognised in profit or loss. The loss attributable to discounting cash flows is released on an accruals basis using the effective interest method and recognised as a reversal.

Collectively-determined impairment losses are recognised in profit or loss.

Any additional impairment losses or reversals of impairment losses are recalculated at each reporting date using a different approach considering the entire performing loan portfolio at that date.

When the reasons for impairment are no longer valid, the impairment loss is reversed.

d) Derecognition

Loans and receivables are derecognised when substantially all the risks and rewards of ownership of the asset are transferred.

Conversely, if the risks and rewards associated with the asset are retained, the loan or receivable continues to be recognised to the extent of the bank's continuing involvement in the asset, even though legal title has been transferred.

When it is not possible to verify the substantial transfer of the risks and rewards, the assets are derecognised when no control thereover is retained. If even a portion of control is retained, the asset continues to be recognised in line with the bank's continuing involvement, measured by exposure to changes in the value of the assets transferred and to changes in the related cash flows.

Finally, loans and receivables are derecognised when the bank retains the contractual rights to receive the related cash flows with the concurrent obligation to pay them to a third party.

e) Recognition of costs and revenue

Interest is recognised under "Interest and similar income". Impairment losses and reversals of impairment losses are recognised under "Net impairment losses on loans and receivables".

Gains or losses on sales are shown under "Gain (loss) on sales or repurchases of loans and receivables".

5 - FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

a) Recognition
b) Classification
c) Measurement
d) Derecognition
e) Recognition of costs and revenue

At the reporting date, the bank did not have financial assets at fair value through profit or loss either to hedge derivatives or to exercise the fair value option.

6 - HEDGING

The bank has not undertaken hedging transactions.

7 - EQUITY INVESTMENTS

At the reporting date, the bank did not have investments in subsidiaries or associates.

8 - PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY

a) Recognition

They are recognised at cost, including directly related charges.

Subsequent maintenance expenditure is capitalised if it leads to an increase in the future economic benefits generated by the asset.

Borrowing costs are recognised in accordance with IAS 23 and are, therefore, recognised as a cost in the year in which they are incurred.

b) Classification

Property, equipment and investment property include land, owned buildings and investment property, furniture, fittings, technical systems and other assets held for use in production or to supply goods and services, for lease to third parties or for administrative purposes which will be used over more than one period.

Buildings and appurtenance land are recognised separately when purchased.

c) Measurement

Assets held for operating purposes are measured at cost net of accumulated depreciation and any impairment losses.

Land and assets under construction are not depreciated.

Property and equipment held for operating purposes are depreciated systematically over their useful lives on a straight-line basis, except for land which has an indefinite useful life and is not depreciable. Should the carrying amount of land be included in that of the related building, they are separated using an appraisal performed by sector experts.

These assets are tested for impairment when there is objective indication thereof.

Investment property is measured at fair value, which is determined periodically using specific appraisal estimates prepared by sector experts.

d) Derecognition

An asset is derecognised when divested or when it is no longer used and its disposal is not expected to generate future risks or benefits.

e) Recognition of costs and revenue

Accumulated depreciation and any impairment losses on operating assets are recognised under "Depreciation and net impairment losses on property, equipment and investment property". Fair value gains and losses on investment property are recognised under "Fair value gains (losses) on property, equipment and investment property".

9 - INTANGIBLE ASSETS

a) Classification

Intangible assets include long-term software licences.

b) Recognition and measurement
Intangible assets are recognised at cost, including directly related charges only when it is probable that the future economic benefits of the asset will materialise and its cost can be determined reliably.

The cost of assets with finite lives is amortised on a straight-line basis over their useful lives.

d) Derecognition
Intangible assets are derecognised upon their disposal or when no future benefits are expected therefrom.

d) Recognition of costs and revenue
Accumulated amortisation is recognised under "Amortisation and net impairment losses on intangible assets". Impairment losses on goodwill and intangible assets with indefinite useful lives are taken to "Impairment losses on goodwill" and "Amortisation and net impairment losses on intangible assets", respectively.

10 - NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE
The bank does not have non-current assets classified as held for sale.

11 - CURRENT AND DEFERRED TAXES
a) Classification
Current tax assets and liabilities consist of receivables for tax advances paid and income taxes on the tax base for the year, respectively.

Deferred tax assets and liabilities originate on the temporary differences between the carrying amounts of assets and liabilities and their tax bases.

b) Recognition and measurement
Current and deferred taxes, calculated in accordance with the Italian tax legislation, are recognised on an accruals basis, in line with the costs and revenue generating them and using enacted tax rates. Income taxes are recognised in profit or loss except for those related to captions recognised directly in equity.

Income taxes are provided for based on a prudent estimate of the current and deferred taxes.

Current taxes are the net of current tax liabilities and current tax assets, being the advances paid and other tax credits for withholdings.

Deferred taxes are determined considering the temporary differences (without time limits) between the carrying amount of assets and liabilities and their tax bases.

Following enactment of Law no. 214/2011, governing the recognition of deferred tax assets, a round table was held during which Bank of Italy, Consob and ISVAP discussed the issue in the light of the IFRS. On 15 May 2012, they published a document stating that, due to the above-mentioned law, the probability test is automatically passed, as the recoverability of deferred tax assets is now certain in any circumstances. Accordingly, they are recognised in the financial statements.

Deferred tax liabilities are recognised since the amount of the available taxed reserves is such that it can reasonably be held that transactions which require their taxation will not take place.

Deferred tax assets and liabilities are recognised in the statement of financial position without offsetting.

e) Recognition of costs and revenue
Current and deferred taxes are recognised under "Income taxes".

They are recognised in equity if they relate to transactions recognised directly in equity.

12 - PROVISIONS FOR RISKS AND CHARGES

a) Recognition and derecognition

b) Classification

c) Measurement

Pension and similar provisions

They include the supplementary pension fund organised by INPS (the Italian social security institution).

The plan, which technically is a defined benefit fund, includes accruals to guarantee pensioners with the related vested rights a supplementary pension, determined on an objective and realistic forward-looking basis, equal to the "mathematical reserve" calculated by an external actuary. It is recognised in accordance with IAS 19 (revised in 2011), with respect to elimination of the possibility to apply the corridor approach and the subsequent immediate recognition of any actuarial gains or losses in equity (other comprehensive income).

Other provisions

Other provisions for risks and charges include provisions made when the following concurrent conditions are met:

a) the bank has a present legal or constructive obligation as a result of a past event;
b) it is probable that an outflow of resources will be necessary to settle the obligation;
c) the obligation can be determined reliably.

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation or transfer it to third parties at the reporting date.

The types of events that could require provisions are:

a) ongoing legal disputes;
b) risks for ongoing claw-back claims;
c) certain or probable obligations arising from contractual commitments or an executive ruling which is not yet final.

When the effect of the time value of money is material, the provisions are discounted using the current market rates at the reporting date.

d) Recognition of costs and revenue

Accruals to these provisions are recognised in "Net accruals to provisions for risks and charges" while those for post-employment benefits are recognised under "Personnel expense".

13 - LIABILITIES AND ISSUED SECURITIES

a) Recognition

These financial liabilities are recognised when the amounts are received or the debt instruments are issued.

They are initially recognised at fair value, which is normally equal to the consideration received or the issue price, plus or minus any additional costs or revenue directly attributable to the individual transaction and not reimbursed to the creditor. The fair value of financial liabilities issued at other than market conditions is estimated and the difference compared to the consideration received is recognised directly in profit or loss, when the conditions of IAS 39 are met.

Structured financial liabilities, consisting of a security and one or more embedded derivatives, are classified under liabilities measured at fair value using the fair value option. Therefore, their fair value includes that of the embedded derivatives and the host contract.

b) Classification

Due to banks, due to customers and securities issued include the characteristic types of interbank and customer funding as well as lending through certificates of deposit and bonds issued net of any repurchases.

c) Measurement

After initial recognition, financial liabilities are measured at amortised cost using the effective interest method.

Conversely, current financial liabilities continue to be measured at the consideration received as the effect of the amortised cost measurement would be negligible.

d) Derecognition

Financial liabilities are derecognised when they expire or are extinguished. They are also derecognised when previously issued securities are repurchased. The difference between their carrying amount and the amount paid to repurchase them is recognised in profit or loss.

If the repurchased security is subsequently placed on the market again, this is treated as a new issue and is recognised at the new placement price, with no effect on profit or loss.

e) Recognition of costs and revenue

Interest is recognised under “Interest and similar expense”. Gains and losses on the repurchase of the liabilities are shown under “Gain (loss) from sales or repurchases of financial liabilities”.

14 - FINANCIAL LIABILITIES HELD FOR TRADING

a) Recognition

Financial liabilities held for trading are initially recognised at the settlement date while derivatives are recognised at their agreement date.

They are initially recognised at fair value, which usually equals the consideration received, without considering directly related transaction costs and revenue.

b) Classification

The category includes financial liabilities held for trading and embedded derivatives with a negative fair value.

c) Measurement

Financial liabilities held for trading are subsequently measured at fair value through profit or loss.

Market prices are used to determine the fair value of financial instruments listed on active markets. If an active market does not exist, commonly adopted estimation/valuation models that take into account market data such as methods based on the measurement of listed instruments with similar characteristics, calculation of discounted cash flows, option pricing models and prices registered in recent similar transactions are used.

d) Derecognition

Financial liabilities held for trading are derecognised when they expire, are extinguished or all the related risks and rewards are transferred to third parties.

e) Recognition of costs and revenue

Fair value gains and losses are recognised in “Net trading income (expense)”, except for those related to derivatives recognised at fair value through profit or loss, which are classified in “Net gains (losses) on financial assets and liabilities at fair value through profit or loss”.

15 - FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

a) Recognition

Debt instruments are initially recognised at their issue date. Financial liabilities at fair value through profit or loss are initially recognised at their fair value which is usually the consideration received, without considering directly related transaction costs or revenue, which are recognised in profit or loss.

The fair value of financial liabilities issued at other than market conditions is estimated and the difference compared to the consideration received is taken directly to profit or loss when the conditions of IAS 39 are met.

b) Classification

This category includes financial liabilities measured at fair value through profit or loss when:

1. fair value designation allows elimination or reduction of significant inconsistencies that would otherwise arise in presenting financial instruments or between financial and non-financial liabilities; or
2. a group of financial instruments at fair value through profit or loss is managed and its performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy; or
3. the liability has an embedded derivative that significantly alters the cash flows of the host instrument and shall be separated.

Specifically, this category includes financial liabilities subject to natural hedges using derivatives.

c) Measurement

Financial liabilities are subsequently measured at fair value.

Market prices are used to determine fair value of financial instruments quoted on an active market.

If an active market does not exist, commonly adopted estimation/valuation models that take into account market data such as methods based on the measurement of listed instruments with similar characteristics, calculation of discounted cash flows, option pricing models and prices registered in recent similar transactions are used.

d) Derecognition
Financial liabilities are derecognised when they expire or are extinguished. They are also derecognised when previously issued securities are repurchased. The difference between their carrying amount and the amount paid to repurchase them is recognised in profit or loss.

e) Recognition of costs and revenue
Fair value gains and losses are recognised in "Net trading income (expense)", except for those related to derivatives associated with a fair value option, which are classified in "Net gains (losses) on financial assets and liabilities at fair value through profit or loss".

16 - FOREIGN CURRENCY TRANSACTIONS
a) Recognition and derecognition
Foreign currency transactions are initially recognised in Euros by applying the exchange rate prevailing at the transaction date.

b) Classification and measurement
Foreign currency assets and liabilities are translated into Euros at each subsequent reporting date using the following criteria:

- ✓ monetary items are translated using the closing rates;
- ✓ non-monetary items measured at historical cost are translated using the transaction-date exchange rates;
- ✓ non-monetary items measured at fair value are translated using the closing rates.

Monetary items include cash-in-hand and assets or liabilities to be received or delivered in fixed or determinable amounts of money.

Non-monetary items do not give the right to receive or obligation to deliver a fixed or determinable amount of money.

e) Recognition of costs and revenue
Exchange rate differences arising from the settlement of monetary items or from the translation at exchange rates other than at the initial translation rate or the prior closing rate are recognised in profit or loss in the period in which they arise.

When the gain or loss on a non-monetary item is recognised in equity, the exchange rate gain or loss is also taken to equity. However, when the gain or loss is recognised in profit or loss, the related exchange rate gain or loss is recognised there too.

All exchange rate gains and losses are recognised under "Net trading income (expense)".

17 - OTHER INFORMATION
17.1 - Post-employment benefits
a) Recognition
b) Classification
c) Measurement
d) Derecognition
Post-employment benefits are recognised at their actuarial value.

This value is determined using the procedure for defined benefit plans and the projected unit credit method, whereby future payments are projected using historical series analyses and demographical trends and discounted using a market rate.

Accruals are recognised under "Personnel expense" and includes the Italian Civil Code revaluation and interest expense on the increase in present value due to the time value of money. The actuarial gains or losses are calculated in accordance with IAS 19 (revised by the IASB in 2011), which eliminated the possibility to apply the corridor approach and their full recognition in profit or loss and requires their recognition in other comprehensive income (equity).

e) Recognition of costs and revenue
Accruals for post-employment benefits are recognised in "Personnel expense" in the income statement. Actuarial gains and losses are recognised as other comprehensive income, in a specific equity reserve.

17.2 - Treasury shares

The bank did not have any treasury shares in its portfolio at the reporting date.

17.3 - Dividends and revenue recognition
Revenue is recognised when received and when it is probable that future economic benefits will flow to the bank and these benefits can be measured reliably.

Dividends are recognised in profit or loss when their distribution is approved.

Income from the trading or issue of financial instruments, being the difference between the transaction price and the instrument's fair value, is recognised in profit or loss when the transaction is recognised if the fair value can be determined using parameters or recent transactions on the same market as that on which the instrument is traded; if not, they are deferred and recognised over the instrument's term considering its nature.

Income from financial instruments that cannot be measured using the above methods is taken to profit and loss over the transaction's term.

A3 - TRANSFERS BETWEEN FINANCIAL ASSET PORTFOLIOS

A.3.1 Reclassified financial assets: carrying amount, fair value and effect on comprehensive income

Type of financial instrument	Original portfolio	Portfolio to which transfer is made	Valore contabile al 31/12/2016	Fair value al 31/12/2016	Income or expense if transfer had not taken place (pre-tax)		Income or expense for the year (pre-tax)	
					Fair value gains	Other	Fair value gains	Other
Debt	HFT	AFS	1,525	1,525	- 46	19	- 46	19
				Total A	**- 46**	**19**	**- 46**	**19**

No financial assets were reclassified out of one portfolio and into another in 2016.

The table shows the fair value of the securities held by the bank at the reporting date and reclassified from the HFT portfolio into the AFS portfolio in 2008, following the amendment to IAS 39 and IFRS 7, endorsed by the relevant bodies. Due to the reclassification of securities from the HFT portfolio into the AFS portfolio, the bank continued to recognise the assets in question at fair value through other comprehensive income rather than through profit or loss. The amounts shown in the “Income or expense for the year (pre-tax) - Fair value gains” column and recognised in equity reflect the 2016 losses. The “Other” column shows interest on bonds.

Measurement of the fair value of just the debt instruments reclassified into the AFS portfolio, which had a residual nominal amount of €2,000 thousand, increased the fair value loss on these bonds from €384 thousand for the previous year to €430 thousand and, hence, recognition of a gross fair value loss of €46 thousand. Net of the related deferred tax assets, this fair value loss has been recognised in other comprehensive income for €31 thousand.

All reclassified securities were redeemed at par.

A4 - FAIR VALUE

Qualitative disclosure

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the principal market at the measurement date.

The fair value of a financial liability with a demand feature (e.g., a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

The fair value of financial instruments quoted on active markets is calculated using the official prices of the principal market. A financial instrument is considered to be quoted on an active market if the quoted prices are promptly and regularly available in a price list, from an operator, broker, etc. and these prices represent effective market transactions that take place regularly in normal conditions.

A.4.1 Fair value levels 2 and 3: valuation techniques and inputs used like level 2 and level 3

If an active market that can give the price of a financial instrument does not exist, the bank determines fair value using the following methods:

- ***Market approach***: the bank uses prices generated by market transactions involving identical or similar assets, liabilities or a group of assets and liabilities.
- ***Discounted cash flow***: the bank estimates future cash flows expected or generated by the financial instrument which it discounts using risk free rates to which it adds the credit spread requested by the market for instruments with similar risk profiles.
  Fair value equals the sum of the discounted cash flows.
  The credit spread for performing loans with customers is calculated considering expected losses.
  The fair value of impaired loans is their carrying amount.
- ***Similar transactions:*** the fair value of equity instruments for which market prices or market prices for identical or similar assets is based on recent transactions or the unrestricted trade of the same instrument are not available.
  If there are no recent transactions by third parties, the bank uses the transaction performed to acquire the financial instrument to calculate its fair value.

Financial products are classified as level 2 when fair value is determined by using observable inputs on an active market. They are classified as level 3 when market sources do not provide a market price and the bank applies valuation techniques used on the market and applied to its assets.
Financial instruments not measured at fair value, including loans and receivables with customers and banks and amounts due to customers and banks are not classified by fair value, which is only calculated to comply with the disclosure requirements of IFRS 13 and does not affect the financial statements or profit or loss. As these instruments are not traded, determination of their fair value is based on internal parameters not directly observable on the market as defined by IFRS 13.
The fair value of debt instruments issued by the bank and recognised at amortised cost is determined using the effective interest method.

A.4.2 Valuation processes and sensitivity

The bank has measured investments in unlisted entities, classified in the AFS portfolio and for which observable prices in an active market do not exist, as level 3-fair value. As mentioned earlier, the carrying amount was determined using the prices of the most recent transactions performed. The bank performed a sensitivity analysis for these assets, assuming a variation of -10%/+10% in equity. The following table shows the possible variations:

Investee	Equity	Investment %	Share of equity	10% decrease in equity	10% increase in equity	Carrying amount at 31/12/2016
S.W.I.F.T. - Brussels	387,876,000	0.0004%	1,425	1,283	1,568	2,529
ConfidiCoop Marche	25,590,113	1.5000%	383,852	345,467	422,237	100,000
SIA S.p.A. (former Società Servizi Bancari S.p.A.)	214,660,040	0.0340%	72,982	65,683	80,280	161,770
Alipicene S.r.l.	10,217	2.5000%	255	230	281	2,582
Fermano Leader S.c.a.r.l.	48,355	1.5000%	725	653	798	3,000
CSE Cons.Servizi Bancari Srl	97,418,350	4.0000%	3,896,734	3,507,061	4,286,407	5,156,000
CARICESE S.r.l.	9,365,759	0.5000%	46,829	42,146	51,512	20,000
TOTAL	**734,968,834**		**4,402,802**	**3,962,523**	**4,843,083**	**5,445,881**

The above table shows that the fair value of the equity investments listed above (shown in the financial statements) is consistent with the inputs used for the sensitivity analysis.
The table does not show the bank's investment of €316 thousand in the joint venture with IDF S.r.l. for the production of the film "Ma tu di che segno 6?" (What sign are you?), regulated by the contract drawn up under article 2549 of the Italian Civil Code.

A.4.3 Fair value hierarchy

IFRS 13 establishes a fair value hierarchy depending on the observability of the valuation technique inputs adopted. There are three levels:

1. Level 1: the fair value of instruments classified in this level is based on quoted prices in active markets;
2. Level 2: the fair value of instruments classified in this level is based on valuation models that use inputs that are observable on inactive/active markets for the asset or liability;
3. Level 3: the fair value of instruments classified in this level is based on valuation models used on the market and applicable to the bank's assets.

A.4.4 Other disclosures

The bank has not undertaken transactions that would require disclosure as per paragraphs 51, 93.i and 96 of IFRS 13.

Quantitative disclosure

A.4.5 Fair value hierarchy

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

	31/12/2016			31/12/2015		
	L1	L2	L3	L1	L2	L3
1. Financial assets held for trading	327,026	913	-	376,313	817	-
2. Financial assets at fair value through profit or loss	-	-	-	-	-	-
3. Available-for-sale financial assets	253,096	11,206	6,066	269,932	3,250	6,402
4. Hedging derivatives	-	-	-	-	-	-
5. Property, equipment and investment property	-	-	-	-	-	-
6. Intangible assets	-	-	-	-	-	-
Total	**580,122**	**12,119**	**6,066**	**646,245**	**4,067**	**6,402**
1. Financial liabilities held for trading	-	654	-	-	213	-
2. Financial liabilities at fair value through profit or loss	-	-	-	-	-	-
3. Hedging derivatives	-	-	-	-	-	-
Total	**-**	**654**	**-**	**-**	**213**	**-**

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

Financial assets classified as trading in the L2 column of the A.4.5.1 table refer to debt instruments traded on inactive markets and measured using the criteria set out in Part A, section 2 of these notes.

Financial assets classified as AFS in the L1 column of the A.4.5.1 table refer to:

- debt instruments traded on organised markets;
- the bank’s listed equity instruments,

Financial assets classified as AFS in the L2 column of the A.4.5.1 table refer to debt instruments traded on inactive markets and measured using the criteria set out in Part A, section 2 of these notes and the investment in Bank of Italy, for which fair value can objectively be determined.

Financial assets classified as AFS in the L3 column of the A.4.5.1 table refer to unlisted equity investments and investments in companies limited by quotas (S.r.l.) acquired by the bank over the last few years with carrying amounts equal to the average prices struck for the last few acquisitions. If this information is not available, they are measured at cost.

A.4.5.2 Changes in assets measured at fair value on a recurring basis (level 3)

	HFT	FVTPL	AFS	Hedging derivatives	Property, equipment and investment property	Intangible assets
1. Opening balance	-	-	**6,402**	-	-	-
2. Increases	-	-	**402**	-	-	-
2.1. Purchases	-	-	402	-	-	-
2.2. Gains recognised in:	-	-	-	-	-	-
2.2.1. Profit or loss	-	-	-	-	-	-
- including gains on sales	-	-	-	-	-	-
2.2.2. Equity			-	-	-	-
2.3. Transfers from other levels	-	-	-	-	-	-
2.4. Other increases	-	-	-	-	-	-
3. Decreases	-	-	**738**	-	-	-
3.1. Sales	-	-	-	-	-	-
3.2. Repayments	-	-	640	-	-	-
3.3. Losses recognised in:	-	-	98	-	-	-
3.3.1. Profit or loss	-	-	-	-	-	-
- including losses on sales	-	-	-	-	-	-
3.3.2. Equity			*98*	-	-	-
3.4. Transfers to other levels	-	-	-	-	-	-
3.5 Other decreases	-	-	-	-	-	-
4. Closing balance	-	-	**6,066**	-	-	-

Item "2.1 Purchases" shows the bank's contribution to the "voluntary scheme" introduced by the Interbank Deposit Protection Fund for acquisition of the investment in CaRICesena S.p.A..

Item "3.2 Repayments" shows the amount of €640 thousand repaid to the joint venture set up to produce a film, "Ma tu di che segno 6?", directed by Italian Dream Factory S.r.l..

Item "3.3.2 Equity" shows the impairment loss of €98 thousand on the investment in CaRICesena S.p.A. reflecting the communication sent by the Interbank Deposit Protection Fund to all the investing banks.

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

	31/12/2016				31/12/2015			
	CA	L1	L2	L3	CA	L1	L2	L3
1. Held-to-maturity investments	5,000	4,993	-	-	5,011	5,037	-	-
2. Loans and receivables with banks	17,798	-	-	17,798	29,028	-	-	29,028
3. Loans and receivables with customers	946,561	-	-	1,024,090	945,537	-	-	1,020,845
4. Investment property	-	-	-	-	-	-	-	-
5. Non-current assets classified as held for sale and disposal groups	-	-	-	-	-	-	-	-
TOTAL	**969,359**	**4,993**	**-**	**1,041,888**	**979,576**	**5,037**	**-**	**1,049,873**
1. Due to banks	3,307	-	-	3,307	70,662	-	-	70,662
2. Due to customers	1,205,852	-	-	1,205,852	1,123,220	-	-	1,123,220
3. Securities issued	242,076	-	-	243,778	287,962	-	-	290,195
4. Liabilities associated with disposal groups	-	-	-	-	-	-	-	-
TOTAL	**1,451,235**	**-**	**-**	**1,452,937**	**1,481,844**	**-**	**-**	**1,484,077**

PART B
Notes to the statement of financial position

ASSETS

Section 1 – Cash and cash equivalents – Caption 10

1.1 Cash and cash equivalents: breakdown

	31/12/2016	31/12/2015
a) Cash	18,489	15,783
b) Demand deposits with central banks	17,382	-
Total	**35,871**	**15,783**

Section 2 – Financial assets held for trading – Caption 20

2.1 Financial assets held for trading: breakdown by product

	31/12/2016			31/12/2015		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. Assets						
1. Debt instruments	327,026	568	-	376,313	606	-
1.1 Structured instruments	-	-	-	-	-	-
1.2 Other debt instruments	*327,026*	*568*	-	*376,313*	*606*	-
2. Equity instruments	-	-	-	-	-	-
3. OEIC units	-	-	-	-	-	-
4. Financing	-	-	-	-	-	-
4.1 Reverse repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total A	**327,026**	**568**	**-**	**376,313**	**606**	**-**
B. Derivatives						
1. Financial derivatives:	-	345	-	-	211	-
1.1 trading	-	*345*	-	-	*211*	-
1.2 associated with fair value option	-	-	-	-	-	-
1.3 other	-	-	-	-	-	-
2. Credit derivatives	-	-	-	-	-	-
2.1 trading	-	-	-	-	-	-
2.2 associated with fair value option	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
Total B	**-**	**345**	**-**	**-**	**211**	**-**
Total (A + B)	**327,026**	**913**	**-**	**376,313**	**817**	**-**

The amount shown in the "Level 2" column for item "1.2 Other debt instruments" relates to the securities subscribed by the bank and issued by public sector bodies.

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

	31/12/2016	31/12/2015
A. ASSETS		
1. Debt instruments	**327,594**	**376,919**
a) Government and central banks	317,710	366,809
b) Other government agencies	568	606
c) Banks	-	-
d) Other issuers	9,316	9,504
2. Equity instruments	**-**	**-**
a) Banks	-	-
b) Other issuers:	-	-
- insurance companies	-	-
- financial companies	-	-
- non-financial companies	-	-
- other	-	-
3. OEIC units	-	-
4. Financing	**-**	**-**
a) Government and central banks	-	-
b) Other government agencies	-	-
c) Banks	-	-
d) Other	-	-
Total A	**327,594**	**376,919**
B. DERIVATIVES		
a) Banks	264	178
b) Customers	80	32
Total B	**344**	**210**
Total (A + B)	**327,938**	**377,129**

The derivatives set out in point B include:

- *interest rate swaps*;
- *interest rate caps*;
- *interest rate collars;*
- *futures;*
- *currency forwards.*

The IRS, caps and collars were agreed given customers' requirements to reduce their exposure to financial risks taken on when they take out loans or agree leases. The bank agreed an additional specular derivative with leading national banks to hedge each derivative agreed with its customers, which led to the substantial overlapping of the fair value of the derivatives and the sterilisation of the related market risks.

The futures and forwards relate to the assets managed by Epsilon SGR.

Section 4 – Available-for-sale financial assets – Caption 40

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

	31/12/2016			31/12/2015		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt instruments	225,591	7,956	-	269,806	-	-
1.1 Structured instruments	-	-	-	-	-	-
1.2 Other debt instruments	*225,591*	*7,956*	-	*269,806*	-	-
2. Equity instruments	97	3,250	6,066	125	3,250	6,402
2.1 FVTPL	*97*	*3,250*	*6,066*	*125*	*3,250*	*6,402*
2.2 Cost	-	-	-	-	-	-
3. OEIC units	27,407	-	-	-	-	-
4. Financing	-	-	-	-	-	-
Total	**253,095**	**11,206**	**6,066**	**269,931**	**3,250**	**6,402**

AFS financial assets shown:

1. in the Level 1 column refer to:
   a. debt instruments traded on regulated active markets;
   b. listed equity instruments.
2. in the Level 2 column refer to the Bank of Italy shares (€3,250 thousand);
3. in the Level 3 column refer to equity instruments measured based on recent transactions or at cost if recent transactions do not exist. The investment in Intesa Sanpaolo (listed) is shown in the Level 1 column. A list of the bank's equity investments is given in the annexes, where the carrying amount of the investment in Bank of Italy is based on its objectively calculated fair value.

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

	31/12/2016	31/12/2015
1. Debt instruments	**233,547**	**269,806**
a) Government and central banks	130,320	268,230
b) Other government agencies	20,447	-
c) Banks	45,926	1,576
d) Other issuers	36,854	-
2. Equity instruments	**9,413**	**9,777**
a) Banks	3,347	3,375
b) Other issuers:	6,066	6,402
- insurance companies	-	-
- financial companies	*404*	*100*
- non-financial companies	*5,662*	*6,302*
- other	-	-
3. OEIC units	**27,407**	**-**
4. Financing	**-**	**-**
a) Government and central banks	-	-
b) Other government agencies	-	-
c) Banks	-	-
d) Other	-	-
Total	**270,367**	**279,583**

During the year, the bank gave Epsilon SGR of Intesa Sanpaolo Group an asset management mandate worth €100 million.
The securities purchased as part of this mandate were reclassified into the AFS portfolio at the reporting date and had a nominal amount of €98,625 thousand.
The directors' report provides ample information about the asset manager's activities.

Section 5 – Held-to-maturity investments – Caption 50

5.1 Held-to-maturity investments: breakdown by product

	31/12/2016				31/12/2015			
	Carrying amount	Fair value			Carrying amount	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Debt instruments	5,000	4,993	-	-	5,011	5,037	-	-
1.1 Structured	-	-	-	-	-	-	-	-
1.2 Other	*5,000*	*4,993*	-	-	*5,011*	*5,037*	-	-
2. Financing	-	-	-	-	-	-	-	-
Total	**5,000**	**4,993**	**-**	**-**	**5,011**	**5,037**	**-**	**-**

This caption comprises floating rate Italian government bonds, maturing in 2019, indexed to the 10-year swap rate and acquired to be held until their maturity.

The difference between the carrying amount and fair value is €7 thousand, equal to the smaller value of the bonds compared to their market prices.

5.2 Held-to-maturity investments: breakdown by debtor/issuer

	31/12/2016	31/12/2015
1. Debt instruments	**5,000**	**5,011**
a) Government and central banks	5,000	5,011
b) Other government agencies	-	-
c) Banks	-	-
d) Other issuers	-	-
2. Financing	**-**	**-**
a) Government and central banks	-	-
b) Other government agencies	-	-
c) Banks	-	-
d) Other	-	-
Total	**5,000**	**5,011**
Total fair value	**4,993**	**5,037**

Section 6 – Loans and receivables with banks – Caption 60

6.1 Loans and receivables with banks: breakdown by product

	31/12/2016				31/12/2015			
	CA	FV Level 1	FV Level 2	FV Level 3	CA	FV Level 1	FV Level 2	FV Level 3
A. Loans and receivables with central banks	**13,052**	**-**	**-**	**13,052**	**5,285**	**-**	**-**	**5,285**
1. Term deposits	-				-			
2. Minimum reserve	13,052				5,285			
3 Reverse repurchase agreements	-				-			
4. Other	-				-			
B. Loans and receivables with banks	**4,745**	**-**	**-**	**4,745**	**23,743**	**-**	**-**	**23,743**
1. Financing	**4,745**	**-**	**-**	**4,745**	**23,743**	**-**	**-**	**23,743**
1.1 Current accounts and demand deposits	4,613				20,424			
1.2 Term deposits	132				3,319			
1.3 Other financing:	-	-	-	-	-	-	-	-
- Reverse repurchase agreements	-				-			
- Finance leases	-				-			
- Other	-				-			
2. Debt instruments	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Structured instruments	-				-			
2.2 Other debt instruments	-				-			
Total (carrying amount)	**17,797**	**-**	**-**	**17,797**	**29,028**	**-**	**-**	**29,028**

Section 7 – Loans and receivables with customers – Caption 70

7.1 Loans and receivables with customers: breakdown by product

	31/12/2016						31/12/2015					
	Carrying amount			Fair value			Carrying amount			Fair value		
	Unimpaired	Impaired		L1	L2	L3	Unimpaired	Impaired		L1	L2	L3
		Purchased	Other					Purchased	Other			
Financing	**822,368**	**-**	**124,193**				**831,842**	**-**	**113,695**			
1. Current accounts	174,807	-	35,138				197,632	-	29,842			
2. Reverse repurchase agreements	-	-	-				-	-	-			
3. Loans	516,061	-	73,961				508,570	-	67,062			
4. Credit cards, personal loans and salary-backed loans	19,929	-	2,133				17,035	-	2,585			
5. Finance leases	-	-	-				-	-	-			
6. Factoring	-	-	-				-	-	-			
7. Other financing	111,571	-	12,961				108,605	-	14,206			
Debt instruments	**-**	**-**	**-**				**-**	**-**	**-**			
8. Structured instruments	-	-	-				-	-	-			
9. Other debt instruments	-	-	-				-	-	-			
Total	**822,368**	**-**	**124,193**	**-**	**-**	**1,024,090**	**831,842**	**-**	**113,695**	**-**	**-**	**1,020,845**

The fair value of loans to customers was determined considering the risk-free interest rate curve, increased by a spread calculated on the basis of estimated losses based on historical data.

The risk-free interest rate curve, fed daily by the Reuters provider, is the short-term interbank rate + medium to long-term swap rate. At the reporting date, the curve was as follows:

Currency	Date	Months	Years		ZC interest rate	Currency	Date	Months	Years	ZC interest rate
Euro	30/12/2016	1	0.083	-	0.3680	Euro	30/12/2016	63	5.250	0.1060
Euro	30/12/2016	2	0.167	-	0.3380	Euro	30/12/2016	66	5.500	0.1347
Euro	30/12/2016	3	0.250	-	0.3190	Euro	30/12/2016	69	5.750	0.1634
Euro	30/12/2016	6	0.500	-	0.2210	Euro	30/12/2016	72	6.000	0.1921
Euro	30/12/2016	9	0.750	-	0.2141	Euro	30/12/2016	75	6.250	0.2233
Euro	30/12/2016	12	1.000	-	0.2030	Euro	30/12/2016	78	6.500	0.2544
Euro	30/12/2016	15	1.250	-	0.1924	Euro	30/12/2016	81	6.750	0.2856
Euro	30/12/2016	18	1.500	-	0.1819	Euro	30/12/2016	84	7.000	0.3167
Euro	30/12/2016	21	1.750	-	0.1713	Euro	30/12/2016	87	7.250	0.3481
Euro	30/12/2016	24	2.000	-	0.1605	Euro	30/12/2016	90	7.500	0.3795
Euro	30/12/2016	27	2.250	-	0.1454	Euro	30/12/2016	93	7.750	0.4109
Euro	30/12/2016	30	2.500	-	0.1304	Euro	30/12/2016	96	8.000	0.4423
Euro	30/12/2016	33	2.750	-	0.1152	Euro	30/12/2016	102	8.500	0.5024
Euro	30/12/2016	36	3.000	-	0.1001	Euro	30/12/2016	108	9.000	0.5626
Euro	30/12/2016	39	3.250	-	0.0810	Euro	30/12/2016	114	9.500	0.6179
Euro	30/12/2016	42	3.500	-	0.0618	Euro	30/12/2016	120	10.000	0.6731
Euro	30/12/2016	45	3.750	-	0.0421	Euro	30/12/2016	144	12.000	0.8625
Euro	30/12/2016	48	4.000	-	0.0230	Euro	30/12/2016	180	15.000	1.0619
Euro	30/12/2016	51	4.250		0.0020	Euro	30/12/2016	240	20.000	1.2192
Euro	30/12/2016	54	4.500		0.0271	Euro	30/12/2016	300	25.000	1.2609
Euro	30/12/2016	57	4.750		0.0522	Euro	30/12/2016	360	30.000	1.2750
Euro	30/12/2016	60	5.000		0.0773					

A spread is applied to each transaction, depending on their risk profile.

The discount factor is calculated to determine fair value using the above rates and the transaction period.

Item “7. Other” of table 7.1 includes the following (€’000):

- import/export advances of €16,921 thousand;
- advances on bills under reserve and invoices of €63,279 thousand;
- portfolio risks of €237 thousand;
- subsidies with or without repayment plans of €34,885 thousand;
- collateral margins on futures of €1,135 thousand.

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

	31/12/2016			31/12/2015		
	Unimpaired	Impaired		Unimpaired	Impaired	
		Purchased	Other		Purchased	Other
1. Debt instruments:	**-**	**-**	**-**	**-**	**-**	**-**
a) Governments	-	-	-	-	-	-
b) Other government agencies	-	-	-	-	-	-
c) Other issuers	-	-	-	-	-	-
- non-financial companies	-	-	-	-	-	-
- financial companies	-	-	-	-	-	-
- insurance companies	-	-	-	-	-	-
- other	-	-	-	-	-	-
2. Financing to:	**822,368**	**-**	**124,193**	**831,841**	**-**	**113,696**
a) Governments	2,811	-	-	-	-	-
b) Other government agencies	1,806	-	-	2,078	-	-
c) Other:	817,751	-	124,193	829,763	-	113,696
- non-financial companies	*537,001*	-	*89,611*	*552,529*	-	*81,932*
- financial companies	*13,647*	-	*61*	*11,101*	-	*102*
- insurance companies	-	-	-	-	-	-
- other	*267,103*	-	*34,521*	*266,133*	-	*31,662*
Total	**822,368**	**-**	**124,193**	**831,841**	**-**	**113,696**

Item "2. Financing to: b) Other government agencies" shows the loans granted by the bank to bodies to which it provides treasury services.

Section 11 – Property, equipment and investment property – Caption 110

11.1 Property, equipment and investment property: assets measured at cost

	31/12/2016	31/12/2015
1 Owned	**16,887**	**17,939**
a) land	4,223	4,223
b) buildings	10,499	11,451
c) furniture	819	775
d) electronic systems	534	594
e) other	812	896
2 Under finance lease	**-**	**-**
a) land	-	-
b) buildings	-	-
c) furniture	-	-
d) electronic systems	-	-
e) other	-	-
Total	**16,887**	**17,939**

11.5 Operating assets: changes

	Land	Buildings	Furniture	Electronic systems	Other	Total
A. Gross opening balance	**4,223**	**34,597**	**5,753**	**6,391**	**6,495**	**57,459**
A.1 Total net impairment losses	-	23,146	4,978	5,797	5,599	39,520
A.2 Net opening balance	4,223	11,451	775	594	896	17,939
B. Increases:	**-**	**-**	**159**	**178**	**181**	**518**
B.1 Purchases	-	-	159	178	181	518
B.2 Capitalised improvement costs	-	-	-	-	-	-
B.3 Reversals of impairment losses	-	-	-	-	-	-
B.4 Fair value gains recognised in:	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) profit or loss	-	-	-	-	-	-
B.5 Exchange rate gains	-	-	-	-	-	-
B.6 Transfers from investment property	-	-	-	-	-	-
B.7 Other increases	-	-	-	-	-	-
C. Decreases:	**-**	**952**	**115**	**238**	**265**	**1,570**
C.1 Sales	-	-	-	-	-	-
C.2 Depreciation	-	952	115	238	259	1,564
C.3 Impairment losses recognised in:	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) profit or loss	-	-	-	-	-	-
C.4 Fair value losses recognised in:	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) profit or loss	-	-	-	-	-	-
C.5 Exchange rate losses	-	-	-	-	-	-
C.6 Transfers to:	-	-	-	-	-	-
a) investment property	-	-	-	-	-	-
b) disposal groups	-	-	-	-	-	-
C.7 Other decreases	-	-	-	-	6	6
D. Net closing balance	**4,223**	**10,499**	**819**	**534**	**812**	**16,887**
D.1 Total net impairment losses	-	24,098	5,093	6,035	5,858	41,084
D.2 Gross closing balance	**4,223**	**34,597**	**5,912**	**6,569**	**6,670**	**57,971**
E. Measurement at cost	**4,223**	**10,499**	**819**	**534**	**812**	**16,887**

The decreases in item “C2 Depreciation” of table 11.5 reflect the assets’ real wear and tear, in line with the tax rates established by the Ministry for the Economy and Finance decree as no material wear and tear was identified during the year.

Property and equipment are held for operating purposes.

A list of the property owned by the bank is attached to these notes.

Section 12 – Intangible assets – Caption 120

12.1 Intangible assets: breakdown by asset

	31/12/2016		31/12/2015	
	Finite life	Indefinite life	Finite life	Indefinite life
A.1 Goodwill		**-**		**-**
A.2 Other intangible assets	**110**	**-**	**168**	**-**
A.2.1 Assets measured at cost:	110	-	168	-
a) Internally developed assets	-	-	-	-
b) Other	*110*	-	*168*	-
A.2.2 Assets measured at fair value:	-	-	-	-
a) Internally developed assets	-	-	-	-
b) Other	-	-	-	-
Total	**110**	**-**	**168**	**-**

12.2 Intangible assets: changes

	Goodwill	Other intangible assets: internally generated		Other intangible assets: other		Total
		finite life	indefinite life	finite life	indefinite life	
A. Gross opening balance	**-**	**-**	**-**	**486**	**-**	**486**
A.1 Total net impairment losses	-	-	-	318	-	318
A.2 Net opening balance	-	-	-	168	-	168
B. Increases	**-**	**-**	**-**	**16**	**-**	**16**
B.1 Purchases	-	-	-	16	-	16
B.2 Increase in internally generated assets		-	-	-	-	-
B.3 Reversals of impairment losses		-	-	-	-	-
B.4 Fair value gains recognised in:	-	-	-	-	-	-
- equity		-	-	-	-	-
- profit or loss		-	-	-	-	-
B.5 Exchange rate gains	-	-	-	-	-	-
B.6 Other increases	-	-	-	-	-	-
C. Decreases	**-**	**-**	**-**	**74**	**-**	**74**
C.1 Sales	-	-	-	-	-	-
C.2 Impairment losses	-	-	-	74	-	74
- Amortisation		-	-	*74*	-	*74*
- Impairment losses	-	-	-	-	-	-
+ equity		-	-	-	-	-
+ profit or loss	-	-	-	-	-	-
C.4 Fair value losses recognised in:	-	-	-	-	-	-
- equity		-	-	-	-	-
- profit or loss		-	-	-	-	-
C.4 Transfers to disposal groups	-	-	-	-	-	-
C.5 Exchange rate losses	-	-	-	-	-	-
C.6 Other decreases	-	-	-	-	-	-
D. Net closing balance	**-**	**-**	**-**	**110**	**-**	**110**
D.1 Total net impairment losses	-	-	-	392	-	392
E. Gross closing balance	**-**	**-**	**-**	**502**	**-**	**502**
F. Measurement at cost	**-**	**-**	**-**	**-**	**-**	**-**

Intangible assets include program packages amortised over five years unless their user licence provides otherwise.

Section 13 – Tax assets and liabilities – Caption 130 of assets and Caption 80 of liabilities

13.1 Deferred tax assets: breakdown

	31/12/2016
Personnel expense	1,017
Administrative expenses	817
Fair value gains on AFS financial assets	425
Impairment losses on loans	11,238
Actuarial losses on agents' termination benefits/post-employment benefits	1,129
Total	**14,626**

13.2 Deferred tax liabilities: breakdown

	31/12/2016
Fair value gains on bonds	-
Fair value gains on AFS financial assets	1,290
Deferred gains	-
FTA depreciation of land	672
Post-employment benefits	-
Actuarial gains on post-employment benefits	235
Total	**2,197**

Deferred tax assets and liabilities were affected by changes in the fair value reserve. Moreover, the tax legislative changes applicable to entities that apply the IFRS imposed use of the "derivazione rafforzata" criterion rather than the "neutrality" criterion.

This substantially decreased the differences between the carrying amounts and tax bases of assets and liabilities with the resulting decrease in the related deferred tax assets and liabilities. Law no. 214/2011 introduced the provision for the conversion of the deferred tax assets recognised on loans and receivables and goodwill when they automatically pass the probability test.

Table 13.3.1 shows the deferred tax assets that can be used if the bank has an accounting or tax loss.

Based on its business plan forecasts, the bank expects to earn profits sufficient to realise the recognised deferred tax assets in future years.

13.3 Changes in deferred tax assets (recognised in profit or loss)

	31/12/2016	31/12/2015
1. Opening balance	**13,713**	**12,820**
2. Increases	**313**	**1,336**
2.1 Deferred tax assets recognised in the year	313	1,336
a) related to previous years	-	-
b) due to changes in accounting policies	-	-
c) reversals of impairment losses	-	-
d) other	*313*	*1,336*
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**953**	**443**
3.1 Deferred tax assets derecognised in the year	953	443
a) reversals	*953*	*443*
b) impairment due to non-recoverability	-	-
c) change in accounting policies	-	-
d) other	-	-
3.2 Decrease in tax rates	-	-
3.3 Other decreases	-	-
a) conversion into tax assets, including as per Law no. 214/2011	-	-
b) other	-	-
4. Closing balance	**13,073**	**13,713**

13.3.1 Change in deferred tax assets as per Law no. 214/2011 (recognised in profit or loss)

	31/12/2016	31/12/2015
1. Opening balance	**11,830**	**10,895**
2. Increases	**-**	**935**
3. Decreases	**592**	**-**
3.1 Reversals	*592*	-
3.2 Conversions into tax assets	-	-
a) arising on the loss for the year	-	-
b) arising on tax losses	-	-
3.3 Other decreases	-	-
4. Closing balance	**11,238**	**11,830**

The above table shows the deferred tax assets related to impairment losses on loans convertible into tax assets should the bank record a loss for accounting or tax purposes as per Law no. 214/2011. These conditions did not materialise in 2016.

13.4 Changes in deferred tax liabilities (recognised in profit or loss)

	31/12/2016	31/12/2015
1. Opening balance	**892**	**882**
2. Increases	**133**	**10**
2.1 Deferred tax liabilities recognised in the year	133	10
a) related to previous years	-	-
b) due to changes in accounting policies	-	-
c) other	*133*	*10*
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**-**	**-**
3.1 Deferred tax liabilities derecognised in the year	-	-
a) reversals	-	-
b) due to changes in accounting policies	-	-
c) other	-	-
3.2 Decrease in tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	**1,025**	**892**

13.5 Changes in deferred tax assets (recognised in equity)

	31/12/2016	31/12/2015
1. Opening balance	**1,118**	**1,730**
2. Increases	**435**	**-**
2.1 Deferred tax assets recognised in the year	435	-
a) related to previous years	-	-
b) due to changes in accounting policies	-	-
c) other	*435*	-
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**-**	**612**
3.1 Deferred tax assets derecognised in the year	-	612
a) reversals	-	*612*
b) impairment due to non-recoverability	-	-
c) due to changes in accounting policies	-	-
d) other	-	-
3.2 Decrease in tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	**1,553**	**1,118**

13.6 Changes in deferred tax liabilities (recognised in equity)

	31/12/2016	31/12/2015
1. Opening balance	**2,875**	**4,388**
2. Increases	**546**	**1,249**
2.1 Deferred tax liabilities recognised in the year	546	1,249
a) related to previous years	-	-
b) due to changes in accounting policies	-	-
c) other	*546*	*1,249*
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**2,249**	**2,762**
3.1 Deferred tax liabilities derecognised in the year	2,249	2,762
a) reversals	*2,249*	*2,762*
b) due to changes in accounting policies	-	-
c) other	-	-
3.2 Decrease in tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	**1,172**	**2,875**

13.7 Other information

Caption 130 "Tax assets: a) current" of €7,318 thousand comprises:

- IRES payments on account of €3,475 thousand;
- IRAP payments on account of €933 thousand;
- carry forward of previous IRAP tax assets of €314 thousand;
- substitute tax on account of €675 thousand on the capital gain;
- an IRES tax asset claimed for reimbursement of €810 thousand related to the deductibility of IRAP from personnel expense as per Decree law no. 201/2011; the related claim was filed on 18 January 2013 - the application submission date for the Marche region;
- cinema tax credit of €720 thousand;
- tax credit of €391 thousand for offsetting on withholdings on current accounts, savings deposits and certificates of deposit.

Section 15 – Other assets – Caption 150

15.1 Other assets: breakdown

	31/12/2016
a) receivables from tax authorities and other tax bodies	4,125
b) cheques drawn on other banks	395
c) cheques to be received from clearing house and drawn on customer accounts	3,560
d) suspense items	-
e) revenue stamps and other stamps	3
f) gold, silver and other precious metals	-
g) shortfalls, embezzlement, theft and other prior year items	-
h) items in transit	7,478
i) leasehold improvements	627
j) accrued income	393
k) prepayments	728
l) portfolio adjustment differences	2,141
m) other	4,507
Total	**23,957**

Specifically, in the above table:

- item h) includes transactions under settlement by the Istituto Centrale delle Banche Popolari Italiane (ICBPI) and Bank of Italy (€5,196 thousand) and items in transit to be debited to the end accounts (€2,282 thousand);
- item k) mostly consists of prepaid insurance premiums;
- item m) includes sundry amounts of €675 thousand and accrued commissions of €3,832 thousand.

LIABILITIES

Section 1 – Due to banks – Caption 10

1.1 Due to banks: breakdown by product

	31/12/2016	31/12/2015
1. Due to central banks	**-**	**60,000**
2. Due to banks	**3,306**	**10,661**
2.1 Current accounts and demand deposits	3,225	10,585
2.2 Term deposits	81	76
2.3 Financing	-	-
2.3.1 Repurchase agreements	-	-
2.3.2 Other	-	-
2.4 Commitments to repurchase own equity instruments	-	-
2.5 Other payables	-	-
Total	**3,306**	**70,661**
Fair value - level 1	**-**	**-**
Fair value - level 2	**-**	**-**
Fair value - level 3	**3,307**	**70,662**
Total fair value	**3,307**	**70,662**

The €60,000 thousand balance in item 1 of the above table at 31 December 2015 represented the four-year TLTRO, bearing interest at 0.15%. It is not included in these financial statements as the bank repaid it early on 28 September 2016.

Section 2 – Due to customers – Caption 20

2.1 Due to customers: breakdown by product

	31/12/2016	31/12/2015
1. Current accounts and demand deposits	1,192,092	1,107,876
2. Term deposits	11,913	13,102
3. Financing	-	694
3.1 Repurchase agreements	*-*	*694*
3.2 Other	*-*	*-*
4. Commitments to repurchase own equity instruments	-	-
5. Other payables	1,847	1,548
Total	**1,205,852**	**1,123,220**
Fair value - level 1	**-**	**-**
Fair value - level 2	**-**	**-**
Fair value - level 3	**1,205,852**	**1,123,220**
Total fair value	**1,205,852**	**1,123,220**

Section 3 – Securities issued – Caption 30

3.1 Securities issued: breakdown by product

	31/12/2016				31/12/2015			
	Carrying amount	Fair value			Carrying amount	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Securities								
1. bonds	125,561	-	-	126,239	213,414	-	-	215,249
1.1 structured	-	-	-	-	-	-	-	-
1.2 other	*125,561*	-	-	*126,239*	*213,414*	-	-	*215,249*
2. other securities	116,515	-	-	117,539	74,548	-	-	74,946
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	*116,515*	-	-	*117,539*	*74,548*	-	-	*74,946*
Total	**242,076**	**-**	**-**	**243,778**	**287,962**	**-**	**-**	**290,195**

The debt instruments in the "Level 3-fair value" column are bonds and certificates of deposit issued by the bank measured at amortised cost.

Section 4 – Financial liabilities held for trading – Caption 40

4.1 Financial liabilities held for trading: breakdown by product

	31/12/2016					31/12/2015				
	NA	FV			FV*	NA	FV			FV*
		Level 1	Level 2	Level 3			Level 1	Level 2	Level 3	
A. Financial liabilities										
1. Due to banks	-	-	-	-	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-	-	-	-	-
3. Debt instruments	-	-		-	-	-	-		-	-
3.1 Bonds	-	-		-	-	-	-		-	-
3.1.1 Structured	-	-	-	-		-	-	-	-	
3.1.2 Other	-	-	-	-		-	-	-	-	
3.2 Other securities	-	-		-	-	-	-		-	-
3.2.1 Structured	-	-	-	-		-	-	-	-	
3.2.2 Other	-	-	-	-		-	-	-	-	
Total A	**-**	**-**		**-**	**-**	**-**	**-**		**-**	**-**
B. Derivatives										
1. Financial derivatives	37,678	-	654	-	-	23,294	-	213	-	-
1.1 Trading		-	*654*	-			-	*213*	-	
1.2 Associated with fair value option		-	-	-			-	-	-	
1.3 Other		-	-	-			-	-	-	
2. Credit derivatives	-	-	-	-	-	-	-	-	-	-
2.1 Trading		-	-	-			-	-	-	
2.2 Associated with fair value option		-	-	-			-	-	-	
2.3 Other		-	-	-			-	-	-	
Total B		**-**	**654**	**-**			**-**	**213**	**-**	
Total (A + B)		**-**	**654**	**-**			**-**	**213**	**-**	

Key:

FV = Fair value
FV* = Fair value calculated by excluding gains and losses due to changes in the issuer's credit standing compared to the issue date.

NA = Nominal (liabilities) or notional (derivatives) amount

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

Section 8 – Tax liabilities – Caption 80

8.1 Current tax liabilities

	31/12/2016
Current tax liabilities	**3,113**
IRES	1,066
IRAP	418
Stamp duty	-
Substitute tax @ 12.00%	-
Prior year tax receivables	1,629

Section 10 – Other liabilities – Caption 100

10.1 Other liabilities: breakdown

	31/12/2016
a) Tax liabilities	2,684
b) Social security liabilities	996
c) Amounts available to customers	1,096
d) Third party guarantee deposits	43
d) Suspense items	-
f) Other amounts due to employees	3,145
g) Items in transit	11,889
h) Accrued expenses	20
i) Deferred income	262
j) Portfolio adjustment differences	-
k) Other	1,933
Total	**22,068**

Item "a) Tax liabilities" includes tax withholdings to be paid, usually within 16 days of the reporting date of 31 December.

Item "k) Other" includes amounts due to suppliers (€857 thousand), sundry items (€802 thousand), and subsidies for loans to customers provided by public sector bodies (€274 thousand).

Section 11 – Post-employment benefits – Caption 110

11.1 Post-employment benefits: changes

	31/12/2016	31/12/2015
A. Opening balance	**9,384**	**10,385**
B. Increases	**296**	**96**
B.1 Accruals	132	96
B.2 Other increases	164	-
C. Decreases	**471**	**1,097**
C.1 Payments	445	365
C.2 Other decreases	26	732
D. Closing balance	**9,209**	**9,384**
Total	**9,209**	**9,384**

Item "B.2 Other increases" comprises the actuarial loss of €164 thousand while item B.1 shows the interest cost for the year calculated by the actuary.

11.2 Other information:

Breakdown of caption "B. Increases"

Interest cost	132
including: revaluations	*132*
Actuarial loss	164
Total	**296**

Breakdown of caption "C. Decreases"

Decrease due to post-employment benefits reform as per Legislative decree no. 252/2005 / actuarial gain	-
Advances and payments for employee departures	445
Substitute tax on revaluation	26
Total	**471**

Actuarial valuation of post-employment benefits

Present value of benefits at 31 December 2015	9,384
Interest cost	132
Substitute tax	- 26
Service cost	-
Payments	- 445
Total	**9,045**
Present value of benefits at 31 December 2016	9,209
Accumulated actuarial loss	***- 164***

Since 1 January 2007, post-employment benefits are transferred to either the INPS treasury fund or a supplementary pension fund. Therefore, the actuarial calculation considers the accrued benefits, i.e., the total liability for each employee. The calculation is based on demographic and economic assumptions already used in 2013.

Measurement was based on an actuarial simulation developing the obligations vested at the measurement date and the additional obligations for continuation of the employment relationship in the form of future accruals.

Adoption of a criterion that allows a prudent valuation of the obligations consistently with the legislative measures that govern Italian post-employment benefits and, more generally, developments in the employment relationships is essential, considering:

- the legal criteria for calculation and revaluation of the accrual for post-employment benefits;
- the remaining service of each employee;

- utilisation of post-employment benefits, other than for "institutional" purposes, especially as regards advances and transfers to pension funds as per Legislative decree no. 252/2005 and subsequent amendments and integrations.

With respect to the second point, there is a difference between termination of the employment relationship due to the employee's retirement and termination for other reasons (resignations, death, full disability).

Following enactment of Law no. 214/2011, regulations governing pensionability provide for the steady replacement of pensions paid for years of service (occupational pension) to old-age pensions. In 2012, the regulation about pensionability due to the employee having reached the contributions limit (tied to a quota system up until 31 December 2011) became obsolete. It was replaced by another regime for "early" pensions that can be obtained after 41 years and one month service for women and 42 years and 1 month for men. This regime includes a penalisation factor as the amount of the pension is decreased by 1% for each year of early retirement compared to the old-age pension requirements.

The following table shows the eligibility requirements for old-age pensions from 1 January 2017:

YEAR	Years of service WOMEN	Years of service MEN
2017	65 years and 3 months	66 years and 3 months
2018	66 years and 3 months	66 years and 3 months
2019	66 years and 3 months	66 years and 3 months
2020	66 years and 3 months	66 years and 3 months
2021	67 years	67 years

With respect to calculation of the years of service rendered at the measurement date, given the lack of accurate information about the date of first inclusion in the compulsory general insurance, the bank has assumed that its employees have prior years of service based on when they entered the labour market as follows:

Qualification age of first job

Managers 25

Junior managers ¾ 25

Junior managers ½ 23

White collars 21

Subaltern employees 20

In addition to the assumed termination of employment relationships due to employees' retirement, the bank also assumed that payments may be necessary for advances requested by employees or for their resignation or dismissal, therefore, when the requirements for retirement are not met. As significant historical data about this trend do not exist, the bank referred to special departure rates adopted for actuarial valuations adapted for its employees.

At the reporting date, the bank had 380 employees, in line with the previous year end.

Another element to be considered is the bank's post-employment obligation, which amounted to €8,444 thousand at the measurement date net of advances paid from time to time.

The following information is useful for a complete assessment of the qualitative and quantitative data representing the bank's obligation. The calculations performed to determine them were based on the individual positions and changes over time.

The actuarial valuations were based on a projection of the individual beneficiaries' positions at the reporting date. This projection was extended until the complete extinguishment of the obligations based on likely assumptions considering:

a) demographic parameters;

b) economic parameters;

c) financial parameters.

The *demographic parameters* are fundamental for actuarial valuations. They are normally grouped in tables based on general samples from the various institutions (e.g., Istat, Inail, etc.).

The bank considered different assumptions of reducing the workforce:

- *probability of death*. The RG 48 chart prepared by the General Accounting Office was used;
- *probability of disability*. The chart prepared by INPS for commercial sector employees was used (INPS - projections up to 2010);

The *economic parameters* include assumptions about the amounts involved.

The bank assumed a long-term annual price/inflation growth rate of 2.00%. This is relevant because it provides a reference figure for the financial rate of return and can be used to calculate the revaluation of accruals for post-employment benefits.

The legal revaluation of post-employment benefits is based on a mechanism whereby the annual revaluation rate is equal to 75% of the prices growth rate increased by 1.5%.

Given the assumed inflation rate, this revaluation system gives an annual revaluation rate of 3.00% (75% x 2.00% + 1.50%).

With respect to the salary factor, given the characteristics of the workforce which, as mentioned, is covered by the system whereby new post-employment benefits are not retained by the bank, the assumption of average salary increases is not important.

The *financial parameter*, which is more significant, is the rate used to discount cash outflows and, hence, the average present value of the bank's obligations. Use of this rate is essential as the model estimates cash flows over several years after that in which the valuation is made.

Discounting is used to determine the present value of the future commitments at the valuation date.

With respect to the rate identified, the standard (see IAS 19.78) provides a general indication that it "*shall be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. In countries where there is no deep market in such bonds, the market yields (at the end of the reporting period) on government bonds shall be used. The currency and term of the corporate bonds or government bonds shall be consistent with the currency and estimated term of the post-employment benefit obligations*".

Therefore, reference was made to the yield curve for AA Euro corporate bonds at the reporting date. The bank recognised the actuarial loss of €164 thousand in other comprehensive income.

The following table shows the yield curve for AA Euro corporate bonds recognised at 31 December 2016 (source: Bloomberg):

YEAR	AA EU CORPORATE YIELD 31/12/2016	YEAR	AA EU CORPORATE YIELD 31/12/2016
1	-0.2230%	16	1.5752%
2	-0.1190%	17	1.6154%
3	-0.0380%	18	1.6556%
4	0.0710%	19	1.6958%
5	0.2090%	20	1.7360%
6	0.3930%	21	1.7602%
7	0.5260%	22	1.7844%
8	0.7000%	23	1.8086%
9	0.8750%	24	1.8328%
10	1.0380%	25	1.8570%

11	1.1374%	26	1.8812%
12	1.2368%	27	1.9054%
13	1.3362%	28	1.9296%
14	1.4356%	29	1.9538%
15	1.5350%	30	1.9780%

Adoption of these yields allows the bank to use discounting by matching the dates of when the cash outflows will take place to the discount factors to be applied thereto.

Section 12 – Provisions for risks and charges – Caption 120

12.1 Provisions for risks and charges: breakdown

	31/12/2016	31/12/2015
1. Internal pension funds	9,981	10,195
2. Other provisions for risks and charges	2,972	2,924
2.1 legal disputes	*2,602*	*2,530*
2.2 personnel expense	-	-
2.3 other	*370*	*394*
Total	**12,953**	**13,119**

12.2 Provisions for risks and charges: changes

	Pension funds	Other provisions	Total
A. Opening balance	**10,195**	**2,924**	**13,119**
B. Increases	**558**	**935**	**1,493**
B.1 Accruals	224	935	1,159
B.2 Discounting	-	-	-
B.3 Changes due to variations in discount rate	-	-	-
B.4 Other increases	334	-	334
C. Decreases	**772**	**887**	**1,659**
C.1 Utilisations	750	887	1,637
C.2 Changes due to variations in discount rate	-	-	-
C.3 Other decreases	22	-	22
D. Closing balance	**9,981**	**2,972**	**12,953**

Utilisations of these provisions of €807 thousand and €81 thousand recognised in caption 160 of the income statement after the settlement of pending disputes and the advertising campaign to promote the bank, respectively.
Other provisions for risks and charges of €2,972 thousand, shown in table 12.1, may be analysed as follows by type of litigation (€'000):

- Civil litigation	2,602,123
- Claw-back claims	150,000
- Sureties	64,625
- Lump-sum endorsement credits	134,893
- Labour disputes	0
- Other charges	20,000
-**Total**	**2.971.641**

As can be seen, the larger accruals are made for civil litigation, mostly related to third party claims about the charging of compound interest or interest exceeding the legal rate.
Risks for ongoing proceedings about securities trading are modest, also given the:
1) limited number of legal actions: four at the reporting date for which the bank has accrued €19 thousand;
2) generally modest amounts involved;
3) rulings at all levels in the bank's favour.
The accrual for claw-back claims refers to two customers under insolvency proceedings for which the court ruling had not been handed down at the reporting date.

The bank is unaware of other liabilities at the reporting date that could give rise to costs other than those provided for above.

The bank has considered the typical risks of the banking sector and a prudent interpretation of the reference regulations when measuring and determining the various provisions.

It regularly reviews contingent liabilities for which specific provisions have not been made and which are treated like the recognised liabilities. These relate to obligations that are possible only or present obligations about which:

a. it is not certain whether an outflow of resources will be necessary;

b. the amount cannot be determined.

Conversely, the case in point a. is more frequent and the probability that an outflow of resources will be necessary depends on events that suggest that the probability of a negative outcome is very unlikely or impossible.

Specifically, it includes legal disputes existing at the reporting date, for which a negative outcome is improbable based on:

(i) the legal advisors' opinion;

(ii) rulings in the bank's favour by earlier court hearings.

Based on the probability of contingent or actual liabilities presented in the 2016 financial statements and in table 12.2, the situation is as follows (in Euros):

Type of risk	Contingent liability		Obligation	
	Petitum	*Accrual*	*Petitum*	*Accrual*
Legal disputes	57,021,440	0	5,419,063	2,602,123
Claw-back claims	0	0	320,651	150,000
Labour disputes	829,000	0	0	0
Other charges	0	0	221,000	20,000
Total	**57.850.440**	**0**	**5.960.714**	**2.772.123**

Contingent liabilities for legal disputes refer to the following categories:

a) repudiation of false drawers' signatures on credit instruments;

b) trading of bonds;

c) compound interest;

d) other requests for damage compensation.

Contingent liabilities for labour disputes refer to the following categories:

a) claims by individual employees previously rejected by the first level court;

b) legal action for damages following settlement for dismissal.

12.3 Defined benefit internal pension plans

The bank's pension fund ("*Fondo d'integrazione delle pensioni dell'assicurazione obbligatorio per l'invalidità, la vecchiaia ed i superstiti gestita dall'INPS per il Personale - ruolo credito - della Cassa di Risparmio di Fermo*"), included in the special section III as number 9107 of the Pension funds register held by COVIP (the Italian pension regulator) and recognised in caption 120-a on the liabilities side of the statement of financial position, is regulated by the Agreement of 4 December 1990, Legislative decree no. 124/93, the new legislative framework as defined by Law no. 335 of 8 August 1995 and the measure attached to the 1998 Finance Act (Law no. 449/1997) as well as the agreement of 18 October 2000 for the fund's transformation by setting up a defined contribution part from 1 January 2001.

The fund's object is to provide its beneficiaries and their surviving family members with a supplementary pension in addition to that provided by INPS.

Following the aforesaid transformation agreement, the fund covers the bank's employees that had retired at 31 December 2000 or their surviving family members. The bank pays in a contribution in order to ensure its actuarial balance.

At the reporting date, the fund had 125 beneficiaries, including those with zero annuities, as shown in the following table:

Gender	Direct	Indirect or reversible	Total
Women	7	45	**52**
Men	72	1	**73**
Total	**79**	**46**	**125**

The actuarial calculations were based on a projection of the individual beneficiaries' positions at the reporting date. This projection was extended until the complete extinguishment of the obligations based on a hypothetical system based on:

1. legislative parameters;
2. demographic parameters;
3. economic parameters;
4. financial parameters.

The generation RG 48 chart prepared by the State General Accounting Office was used for the demographic parameters while the estimate usually used for INPS simulations was used for the family beneficiaries.

An annual increase in prices of 2.00% (the ECB's target) over the long term was assumed for the economic parameters. It also considered the effects of article 1.483 of Law no. 147 of 27 December 2013 which established the reduced use of the general rules about pension equalisation which differs by amount bracket in the three-year period 2014-2016.

Given the assumed inflation rate, the legal revaluation system envisages the following equalisation rate when it is fully operational:

BRACKET	Rate
Up to 3 times the minimum treatment	2.00%
From 3 to 5 times the minimum treatment	1.80%
More than 5 times the minimum treatment	1.50%

With respect to the financial parameters, the current situation was assessed, characterised by the illiquid corporate bond markets, as confirmed by the recent amendment to IAS 39.

Therefore, reference was made to the yield curve for AA corporate bonds at the reporting date instead of the yield curve for government bonds, without prejudice to the other technical assumptions.

The table on AA corporate bonds yield curves is included in the note to post-employment benefits.

Adoption of these yields allows the bank to use discounting by matching the dates of when the cash outflows will take place to the discount factors to be applied thereto pursuant to the IFRS.

The average present value appraised by the relevant expert of the cost of integrating and substituting the pension plan for the 125 beneficiaries is in line with the amount recognised in the financial statements.

Technical accounts at 31/12/2016	
Average present value - immediate charges	9,981
Average present value - total charges	9,981
Mathematical provision at 31/12/2015	10,195
Equity at 31/12/2016	9,981
Mathematical provision	9,981
TECHNICAL SURPLUS	**-**
Calculation of actuarial gains/losses for IFRS purposes	
Mathematical provision at 31 December 2015	10,195
Interest cost	202
Service cost	0
Payments	-750
Actuarial gain (-) / loss (+) at 31/12/2016	**-334**

The bank has replaced the corridor approach with the immediate recognition of actuarial losses in other comprehensive income. The interest cost recognised in profit or loss amounted to €202 thousand and the actuarial loss to €334 thousand, recognised in other comprehensive income.

Section 14 – Equity – Captions 130, 150, 160, 170, 180, 190 and 200

14.1 “Share capital” and “Treasury shares”: breakdown

	Amount
Share capital	39,241
Total	**39,241**

The fully subscribed and paid-in share capital consists of 759,750 shares with a unit nominal amount of €51.65 for a total €39,241,087.50.

The bank’s shareholders are:

- Fondazione Cassa di Risparmio di Fermo, with 506,500 ordinary shares equal to an investment of 66.67%;
- Intesa Sanpaolo S.p.A., with 253,250 ordinary shares equal to an investment of 33.33%.

The caption did not undergo any change during the year.

14.2 Share capital - number of shares: changes

	Ordinary	Other
A. Opening balance	**759,750**	**-**
- fully paid-in	*759,750*	-
- not fully paid-in	-	-
A.1 Treasury shares (-)	-	-
B.2 Outstanding shares: opening balance	**-**	**-**
B. Increases	**-**	**-**
B.1 New issues	-	-
- against consideration:	-	-
- business combinations	-	-
- bond conversions	-	-
- exercise of warrants	-	-
- other	-	-
- bonus issues:	-	-
- to employees	-	-
- to directors	-	-
- other	-	-
B.2 Sale of treasury shares	-	-
B.3 Other increases	-	-
C. Decreases	**-**	**-**
C.1 Cancellations	-	-
C.2 Repurchases of treasury shares	-	-
C3 Disposals of equity investments	-	-
C.4 Other decreases	-	-
D. Outstanding shares: closing balance	**759,750**	**-**
D.1 Treasury shares (+)	-	-
D.2 Closing balance	759,750	-
- fully paid-in	*759,750*	-
- not fully paid-in	-	-

14.4 Income-related reserves: other information

	LEGAL RESERVE	STATUTORY RESERVE	OTHER
OPENING BALANCE	**17,134**	**47,872**	**3,270**
INCREASES	**706**	**3,314**	**-**
Allocation of profits	706	3,314	-
DECREASES	**-**	**-**	**-**
Other changes (negative FTA reserve)	-	-	-
CLOSING BALANCE	**17,840**	**51,186**	**3,270**

The legal reserve was increased by the allocation of 10% of the profit for the year as provided for by article 25 of the by-laws, even though the reserve's balance now equals one fifth of the bank's share capital as required by article 2430 of the Italian Civil Code.

It exceeds one fifth of the bank's share capital by €9,992 thousand.

The statutory reserve includes:

- 15% of the profit for the year as provided for by article 24 of the by-laws;
- reclassification of the income-related reserves for €15,200 thousand as determined during IFRS FTA.

The other reserves comprise:

- the contribution reserve of €6,130 thousand as per Law no. 218/90, net of the valuation reserve of €2,860 thousand that arose during FTA of the IFRS.

14.4.1 Equity: breakdown, availability and distributability of the different captions

	Amount	Possible use (1)	Available portion	Summary of use in the last 3 years (2)	
				To cover losses	For other purposes
Share capital	39,241,087.50				
Equity-related reserves:					
Contribution reserve	15,121,767.94	A,B,C	15,121,767.94		
Revaluation reserve	6,129,826.94	A,B,C	6,129,826.94		
Share premium reserve (3)	34,660,068.07	A,B,C	34,660,068.07		
Income-related reserves:					
Legal reserve	17,839,838.72	B	9,991,621.22		
Statutory reserve	51,186,321.43	B	-		
FTA reserve	- 2,860,067.03		-		
Fair value reserve	1,428,075.00		-		
Actuarial reserve	- 2,975,387.87		-		
Retained earnings	-		-		
Total	**159,771,530.70**		**65,903,284.17**	**-**	**-**
Undistributable portion (4)			626,556.50		
Remaining distributable portion			65,137,865.06		

in Euros

Key:

A = share capital increase
B = to cover losses
C = dividend distribution

Note:

(1) = Except for additional constraints imposed by by-laws

(2) = Utilisations are shown from 2000 as comparative previous years' data are unavailable

(3) = Pursuant to article 2431 of the Italian Civil Code, the entire reserve can only be distributed when the legal reserve has reached the threshold set by article 2430 of the Italian Civil Code

(4) = The portion that cannot be distributed due to: the translation reserve, the reserve for equity-accounted investees, the reserve for departures as per article 2413.4 of the Italian Civil Code and the part allocated to cover unamortised deferred costs as per article 2426.5 of the Italian Civil Code

14.4.2 Proposed allocation of the profit for the year

(in Euros)

Proposed allocation of profit			
PROFIT FOR THE YEAR			**5,236,130**
Reserves as per article 6 of Legislative decree no. 38/2005:			
fair value gains recognised in profit or loss (to be recognised in the relevant reserve)			-
other			-
Unavailable profits			-
DISTRIBUTABLE PROFIT FOR THE YEAR			**5,236,130**
10% to the legal reserve			**523,613**
15% to the extraordinary reserve			**785,420**
- **Shareholder remuneration:** dividend per share	**3.50**		
- Shares held by Banca Intesa S.p.A.	*253,250*	*886,375*	
- Shares held by Fondazione Cassa di Risparmio di Fermo	*506,500*	*1,772,750*	
Dividends to be distributed to shareholders			**2,659,125**
Remainder to the statutory reserve			**1,267,972**
Summary of dividend distribution			
To the legal reserve		523,613	
To the extraordinary reserve		2,053,392	
Total increase in equity			**2,577,005**
Available portion to be distributed as dividends			**2,659,125**
TOTAL DISTRIBUTABLE PROFIT			**5,236,130**

The profit for the year to be allocated amounts to €5,236,130.

Pursuant to the relevant laws and article 25 of the by-laws, we propose it be allocated as follows:

- to the shareholders as a unit dividend of €3.50;
- 10% to the legal reserve, i.e., €523,613;
- €2,053,392 to the extraordinary reserve.

After the allocation set out above pursuant to article 25 of the by-laws, the legal reserve, which amounted to €17,839,839 at 31 December 2016, will amount to €18,363,452 exceeding one fifth of the share capital as per article 2430 of the Italian Civil Code by €10,515,234.

14.7 Valuation reserves: breakdown

	31/12/2016	31/12/2015
1. Available-for-sale financial assets	1,428	5,593
2. Property, equipment and investment property	-	-
3. Intangible assets	-	-
4. Hedges of investments in foreign operations	-	-
5. Cash flow hedges	-	-
6. Exchange rate gains (losses)	-	-
7. Non-current assets held for sale	-	-
8. Special revaluation laws	15,122	15,122
9. Net actuarial losses on defined benefit plans	- 2,975	- 2,615
Total	**13,575**	**18,100**

OTHER DISCLOSURES

1. Guarantees and commitments

	31/12/2016	31/12/2015
1) Financial guarantees issued	**4,215**	**2,460**
a) Banks	4,192	2,437
b) Customers	23	23
2) Commercial guarantees issued	**22,394**	**21,182**
a) Banks	-	-
b) Customers	22,394	21,182
3) Irrevocable commitments to disburse funds	**55,030**	**49,226**
a) Banks	11,540	9,897
i) certain use	*11,540*	*9,897*
ii) uncertain use	-	-
b) Customers	43,490	39,329
i) certain use	*30*	*515*
ii) uncertain use	*43,460*	*38,814*
4) Commitments underlying credit derivatives: protection sales	**-**	**-**
5) Assets pledged as collateral for third party commitments	**-**	**-**
6) Other commitments	**-**	**-**
Total	**81,639**	**72,868**

2. Assets pledged as guarantee for liabilities and commitments

	31/12/2016	31/12/2015
1. Financial assets held for trading	11	11,009
2. Financial assets at fair value through profit or loss	-	-
3. Available-for-sale financial assets	-	67,356
4. Held-to-maturity investments	5,000	5,011
5. Loans and receivables with banks	-	-
6. Loans and receivables with customers	-	-
7. Property, equipment and investment property	-	-
TOTAL	**5,011**	**83,376**

Table 2 shows the securities pledged as guarantee for the bank’s liabilities:

- transactions tied to payment of pensions by INPS for €11 thousand;

- transactions related to the issue of bank drafts by ICBPI for €5,000 thousand.

4. Management and trading on behalf of third parties

	Amount
1. Execution of customer orders	**-**
a) Purchases	-
1. settled	-
2. unsettled	-
b) Sales	-
1. settled	-
2. unsettled	-
2. Asset management	**-**
a) individual	-
b) collective	-
3. Securities custody and administration	**1,238,221**
a) third party securities held as part of depository bank services (excluding asset management)	-
1. securities issued by the reporting entity	-
2. other securities	-
b) third party securities on deposit (excluding asset management): other	670,656
1. securities issued by the reporting entity	*118,646*
2. other securities	*552,010*
c) third party securities deposited with third parties *[a subcaption "including" of points sub a) and sub b)]*	*635,929*
d) securities owned by the bank deposited with third parties	567,565
4. Other	**-**

9. Credit collection on behalf of third parties: adjustments

	31/12/2016	31/12/2015
a) "debit" adjustments	**320,969**	**292,744**
1) bank joint accounts	73,533	70,889
2) central portfolio	245,451	220,004
3) cash	772	626
4) other accounts	1,213	1,225
b) "credit" adjustments	**318,828**	**314,075**
1) bank joint accounts	74,437	70,621
2) transferors of bills and documents	244,152	243,196
3) other accounts	239	258
DIFFERENCE	**- 2,141**	**21,331**

The difference of €2,141 thousand is shown under caption 150 “Other assets” in the statement of financial position.

PART C
Notes to the income statement

Section 1 – Interest – Captions 10 and 20

1.1 Interest and similar income: breakdown

	Debt instruments	Financing	Other	2016	2015
1. Financial assets held for trading	2,630	-	-	2,630	2,903
2. Available-for-sale financial assets	4,314	-	-	4,314	5,876
3. Held-to-maturity investments	21	-	-	21	40
4. Loans and receivables with banks	-	7	-	7	31
5. Loans and receivables with customers	-	31,242	-	31,242	35,147
6. Financial assets at fair value through profit or loss	-	-	-	-	-
7. Hedging derivatives			-	-	-
8. Other assets			60	60	8
Total	**6,965**	**31,249**	**60**	**38,274**	**44,005**

Interest accrued during the year on impaired loans recognised at 31 December 2016 is as follows:
1. Unlikely to pay exposures of €3,730 thousand;
2. Other impaired past due exposures of €393 thousand.

1.3 Interest and similar income: other information

1.3.1 Interest income on foreign currency financial assets

	2016	2015
1.3.1 Interest income on foreign currency financial assets	265	34

1.4 Interest and similar expense: breakdown

	Liabilities	Securities	Other	2016	2015
1. Due to central banks	- 198		-	- 198	- 133
2. Due to banks	- 13		-	- 13	- 4
3. Due to customers	- 3,436		-	- 3,436	- 5,023
4. Securities issued		- 4,086	-	- 4,086	- 6,038
5. Financial liabilities held for trading	-	-	-	-	-
6. Financial liabilities at fair value through profit or loss	-	-	-	-	-
7. Other liabilities and provisions			- 75	- 75	-
8. Hedging derivatives			-	-	-
Total	**- 3,647**	**- 4,086**	**- 75**	**- 7,808**	**- 11,198**

1.6 Interest and similar expense: other information

1.6.1 Interest expense on foreign currency liabilities

	2016	2015
1.6.1 Interest expense on foreign currency liabilities	- 14	- 6

Section 2 – Fees and commissions – Captions 40 and 50

2.1 Fee and commission income: breakdown

	2016	2015
a) guarantees received	**306**	**287**
b) credit derivatives	**-**	**-**
c) management, brokerage and consultancy services:	**6,841**	**6,197**
1. trading in financial instruments	155	190
2. foreign currency transactions	109	112
3. asset management	-	-
3.1. individual	-	-
3.2. collective	-	-
4. securities custody and administration	112	128
5. depository services	-	-
6. securities placement	3,013	2,375
7. order collection and transmission	370	611
8. consultancy services	-	-
8.1. concerning investments	-	-
8.2. concerning financial structure	-	-
9. distribution of third party services	3,082	2,781
9.1. asset management	*399*	*416*
9.1.1. individual	*199*	*219*
9.1.2. collective	*200*	*197*
9.2. insurance products	*1,610*	*1,352*
9.3. other products	*1,073*	*1,013*
d) collection and payment services	**2,888**	**2,940**
e) servicing services for securitisations	**-**	**-**
f) services for factoring transactions	**-**	**-**
g) tax collection services	**-**	**-**
h) management of multilateral trading systems	**-**	**-**
i) keeping and management of current accounts	**9,421**	**9,728**
j) other services	**2,958**	**2,792**
Total	**22,414**	**21,944**

The balance shown as letter "j) other services" in the above table includes:[3]

	2016	*2015*
Loan preliminary investigation fees	644	601
Financing fees	742	702
Bancomat (debit card) and home banking fees	572	522
Other commissions	1,000	967

2.2 Fee and commission income: product and service distribution channels

	2016	2015
a) own branches:	**6,095**	**5,156**
1. asset management	-	-
2. securities placement	3,013	2,375
3. third party services and products	3,082	2,781
b) off-premises distribution:	**-**	**-**
1. asset management	-	-
2. securities placement	-	-
3. third party services and products	-	-
c) other distribution channels:	**-**	**-**
1. asset management	-	-
2. securities placement	-	-
3. third party services and products	-	-

2.3 Fee and commission expense: breakdown

	2016	2015
a) guarantees received	**- 2**	**-**
b) credit derivatives	**-**	**-**
c) management and brokerage services:	**- 263**	**- 242**
1. trading in financial instruments	- 133	- 165
2. foreign currency transactions	-	-
3. asset management:	- 63	-
3.1 own portfolio	*-*	*-*
3.2 third party portfolios	*- 63*	*-*
4. securities custody and administration	- 67	- 77
5. placement of financial instruments	-	-
6. off-premises distribution of securities, products and services	-	-
d) collection and payment services	**- 880**	**- 837**
e) other services	**- 53**	**- 82**
Total	**- 1,198**	**- 1,161**

[3] €'000

Section 3 – Dividends and similar income – Item 70

3.1 Dividends and similar income: breakdown

	2016		2015	
	Dividends	Income from OEIC units	Dividends	Income from OEIC units
A. Financial assets held for trading	-	-	-	-
B. Available-for-sale financial assets	650	-	1,632	-
C. Financial assets at fair value through profit or loss	-	-	-	-
D. Equity investments	-		-	
Total	**650**	**-**	**1,632**	**-**

Smaller dividends were collected in 2016 compared to the previous year as CSE did not make an extraordinary dividend distribution (-€1,000 thousand).

Section 4 – Net trading income (expense) - Caption 80

4.1 Net trading income: breakdown

	Gains (A)	Trading income (B)	Losses (C)	Trading losses (D)	Net trading income [(A+B) − (C+D)]
1. Financial assets held for trading	**553**	**2,998**	**1,308**	**650**	**1,593**
1.1 Debt instruments	553	2,998	1,308	586	1,657
1.2 Equity instruments	-	-	-	-	-
1.3 OEIC units	-	-	-	64	- 64
1.4 Financing	-	-	-	-	-
1.5 Other	-	-	-	-	-
2. Financial liabilities held for trading	**-**	**-**	**-**	**-**	**-**
2.1 Debt instruments	-	-	-	-	-
2.2 Payables	-	-	-	-	-
2.3 Other	-	-	-	-	-
3. Other financial assets and liabilities: exchange rate gains					**369**
4. Derivatives	**3,632**	**-**	**4,790**	**-**	**- 1,158**
4.1 Financial derivatives:	3,632	-	4,790	-	- 1,158
- On debt securities and interest rates	3,632	-	4,790	-	- 1,158
- On equity instruments and equity indexes	-	-	-	-	-
- On currencies and gold					-
- Other	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
Total	**4,185**	**2,998**	**6,098**	**650**	**804**

Currency: Costs, Revenue and Inventories

EXPENSES AND LOSSES:			INCOME AND PROFITS:		
	2016	2015		2016	2015
A) Opening balance in foreign currency	154	124	E) Revenue from currency sales	33,701	73,717
B) Cost of purchasing currency	33,923	73,630	F) Closing balance	419	154
D) Total costs	**34,077**	**73,754**	**H) Total revenue**	**34,120**	**73,871**

SUMMARY:		
	2016	2015
(+) Total revenue	***34,120***	***73,871***
(-) Total costs	***- 34,077***	***- 73,754***
(+) Currency fees	***47***	***56***
(-) IFRS adjustments	***-***	***- 3***
Unrealised exchange rate gains	***90***	***170***

The purchase costs and income from sales relate to foreign currency dealt in by the bank during the year, except for participating currencies and Euro captions.

The table does not show net exchange rate gains of €279 thousand on foreign currency securities.

Section 6 – Gain (loss) from sales or repurchases – Caption 100

6.1 Gain (loss) from sales or repurchases: breakdown

	2016			2015		
	Gain	Loss	Net gain	Gain	Loss	Net gain
Financial assets						
1. Loans and receivables with banks	-	-	-	-	-	-
2. Loans and receivables with customers	-	-	-	-	-	-
3. Available-for-sale financial assets	7,891	1,675	6,216	8,313	422	7,891
3.1 Debt instruments	*7,891*	*1,675*	6,216	*7,479*	*422*	7,057
3.2 Equity instruments	-	-	-	*834*	-	834
3.3 OEIC units	-	-	-	-	-	-
3.4 Financing	-	-	-	-	-	-
4. Held-to-maturity investments	-	-	-	-	-	-
Total assets	**7,891**	**1,675**	**6,216**	**8,313**	**422**	**7,891**
Financial liabilities						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Securities issued	-	48	- 48	1	60	- 59
Total liabilities	**-**	**48**	**- 48**	**1**	**60**	**- 59**

Section 8 – Net impairment losses – Caption 130

8.1 Net impairment losses on loans and receivables: breakdown

	Impairment losses (1)			Reversals of impairment losses (2)				2016	2015
	Individual		Collective	Individual		Collective			
	Derecognition	Other		A	B	A	B		
A. Loans and receivables with banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- Financing	-	-	-	-	-	-	-	-	-
- Debt instruments	-	-	-	-	-	-	-	-	-
B. Loans and receivables with customers	**- 237**	**- 16,616**	**-**	**2,695**	**4,919**	**-**	**2,704**	**- 6,535**	**- 11,080**
Impaired loans purchased	-	-	-	-	-	-	-	-	-
- Financing	-	-		-	-			-	-
- Debt instruments	-	-		-	-			-	-
Other	- 237	- 16,616	-	2,695	4,919	-	2,704	- 6,535	- 11,080
- Financing	*- 237*	*- 16,616*	-	*2,695*	*4,919*	-	*2,704*	*- 6,535*	*- 11,080*
- Debt instruments	-	-	-	-	-	-	-	-	-
C. Total	**- 237**	**- 16,616**	**-**	**2,695**	**4,919**	**-**	**2,704**	**- 6,535**	**- 11,080**

The "Reversals of impairment losses (2) Individual A" column includes default interest of €218 thousand collected on non-performing loans and reversals of impairment losses on discounted interest as follows:

- on unlikely to pay/past due loans €1,498 thousand, of which €1,380 thousand has been collected;
- on non-performing loans €979 thousand, of which €438 thousand has been collected.

The "Reversals of impairment losses (2) Individual B" column includes reversals on non-performing loans of €648 thousand and unrealised reversals of €2,196 thousand, as well as unrealised reversals and realised reversals of €1,716 thousand and €359 thousand on unlikely to pay/past due loans, respectively.
The "Reversals of impairment losses (2) Collective" were generated by the reduction in the performing loans' riskiness, as measured internally.

8.2 Net impairment losses on AFS financial assets: breakdown

	Impairment losses (1)		Reversals of impairment losses (2)		31/12/2016	31/12/2015
	Individual		Individual			
	Derecognition	Other	A	B	(3) = (1)-(2)	(3) = (1)-(2)
A. Debt instruments	-	-	-	-	-	-
B. Equity instruments	-	-			-	- 760
C. OEIC units	-	-		-	-	-
D. Financing to banks	-	-	-	-	-	-
E. Financing to customers	-	-	-	-	-	-
F. Total	**-**	**-**	**-**	**-**	**-**	**- 760**

8.4 Net impairment losses on other financial transactions: breakdown

	Impairment losses (1)			Reversals of impairment losses (2)				2016	2015
	Individual		Collective	Individual		Collective			
	Derecognition	Other		A	B	A	B		
A. Guarantees given	-	-	-	-	-	-	-	-	-
B. Credit derivatives	-	-	-	-	-	-	-	-	-
C. Commitments to disburse funds	-	-	-	-	-	-	-	-	-
D. Other transactions	-	-	-	-	-	-	-	-	-
E. Total	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

Section 9 – Administrative expenses – Caption 150

9.1 Personnel expense: breakdown

		2016		2015
1) Employees	**-**	**26,909**	**-**	**26,759**
a) wages and salaries	-	18,649	-	18,733
b) social security charges	-	5,060	-	4,999
c) post-employment benefits	-	1,050	-	1,042
d) pension costs		-		-
e) accrual for post-employment benefits	-	131	-	95
f) accrual for pension and similar provisions:	-	203	-	155
- defined contribution plans		-		-
- defined benefit plans	-	*203*	-	*155*
g) payments to external supplementary pension funds	-	758	-	745
- defined contribution plans	-	*758*	-	*745*
- defined benefit plans		-		-
h) costs of share-based payment plans		-		-
i) other employee benefits	-	1,058	-	990
2) Other personnel		**-**		**-**
3) Directors and statutory auditors	**-**	**997**	**-**	**1,010**
4) Retired personnel		**-**		**-**
5) Cost recoveries for personnel seconded to other companies		**-**		**-**
6) Cost reimbursements for personnel seconded to the bank		**-**		**-**
Total	**-**	**27,906**	**-**	**27,769**

Item 3 of the table includes the statutory auditors' fees and the directors' insurance premiums.

9.2 Average number of employees per category

	31/12/2015	2016 average	31/12/2106
• Employees	**380**	**368**	**382**
a) managers	2	2	2
b) junior managers	104	102	100
- including: 3rd and 4th level	*42*	*42*	*42*
c) other employees (including cleaning staff)	274	264	280
- including: 3rd professional group	*270*	*260*	*276*
- including: 2nd professional group	*3*	*3*	*3*
- including: cleaning staff	*1*	*1*	*1*
• Other personnel	**10**	**12**	**13**

The average was determined considering the part-time personnel for 50%.

9.3 Internal defined benefit pension plans: costs and revenue

	2016	2015
Remuneration on supplementary pension fund - Interest cost	203	154

9.4 Other employee benefits

	2016	2015
Other employee benefits	- 1,058	- 990

This caption mainly comprises training costs of €143 thousand, life, accident and health insurance policies of €377 thousand and meal vouchers of €470 thousand.

9.5 Other administrative expenses: breakdown

	2016	2015
1 - credit collection legal fees	- 1,581	- 1,393
2 - sundry and technical legal consultancy	- 1,102	- 961
3 - maintenance, repairs, conversions	- 749	- 1,060
4 - lease of premises	- 1,079	- 1,042
5 - cleaning services	- 540	- 534
6 - rental of machinery and data transmission lines	- 1,329	- 1,251
7 - security and security transportation	- 512	- 498
8 - lighting and heating	- 547	- 589
9 - stationery and printed matter	- 187	- 216
10 - postal, telegraph, telex, telephone	- 330	- 308
11 - insurance	- 403	- 392
12 - advertising	- 518	- 440
13 - subscriptions and purchases of publications	- 95	- 108
14 - third party service costs	- 3,547	- 3,546
15 - transportation and relocation	- 267	- 273
16 - membership fees	- 234	- 270
17 - contributions to the National Resolution Fund and the Interbank Guarantee Deposit Fund	- 1,643	- 1,697
18 - other	- 1,024	- 998
Subtotal of other administrative expenses	**- 15,687**	**- 15,576**
Indirect taxes and duties		
1 - stamp duty	- 3,558	- 3,695
2 - local property tax	- 354	- 360
3 - other	- 577	- 588
Total indirect taxes and duties	**- 4,489**	**- 4,643**
Total other administrative expenses	**- 20,176**	**- 20,219**

"Maintenance, repair and conversions" relate to work performed to make the buildings usable only.

Item "17 - Contributions to the National Resolution Fund and the Interbank Deposit Protection Fund" include the extraordinary contributions of €662 thousand to the former fund and the ex ante contributions of €651 thousand to the Interbank Deposit Protection Fund. Ordinary contributions to the National Resolution Fund amounted to €330 thousand.

As shown in the table at the end of this section, the fees due to KPMG S.p.A. for its services are as follows:

- legally-required audit of the annual financial statements € 123,917;
- translation services (into English) € 3,660;
- signing of the tax returns € 5,870;
- other tax attestations € 671;
- Other assistance with the "Asset Quality Review (AQR)" € 79,300.

In addition, fees for services paid to other entities of the KPMG network are shown below:
- €46,628 thousand to K Studio Associato for legal and tax assistance.

These fees include VAT and reimbursement of out-of-pocket expenses.

	Service provider	**Fees**
Legally-required audit	KPMG S.p.A.	123,917
Attestation services	KPMG S.p.A.	6,541
Other services	KPMG S.p.A.	82,960
Other services	K Studio Associato	46,628
TOTAL		**260.046**

Section 10 – Net accruals to provisions for risks and charges – Caption 160

10.1 Net accruals to provisions for risks and charges: breakdown

	2016
1- accrual for legal disputes	- 879
2- accrual for claw-back claims	- 50
3 - other	- 6
Total accruals	**- 935**
4 - Utilisation to settle legal disputes	888
Total utilisations	**888**
Net accruals	**- 47**

Utilisation of these provisions for €888 thousand referred to the settlement of legal disputes recognised in caption 160 of the income statement, net of accruals of €935 thousand.

Section 11 – Depreciation and net impairment losses on property, equipment and investment property – Caption 170

11.1 Depreciation and net impairment losses on property, equipment and investment property: breakdown

	Depreciation (a)	Impairment losses (b)	Reversals of impairment losses (c)	Carrying amount (a + b – c)
A. Property, equipment and investment property				
A.1 Owned	- 1,564	-	-	- 1,564
- operating assets	*- 1,564*	-	-	*- 1,564*
- investment property	-	-	-	-
A.2 Acquired under finance lease	-	-	-	-
- operating assets	-	-	-	-
- investment property	-	-	-	-
Total	**- 1,564**	**-**	**-**	**- 1,564**

Section 12 – Amortisation and net impairment losses on intangible assets – Caption 180

12.1 Amortisation and net impairment losses/reversals of impairment losses on intangible assets: breakdown

	Amortisation (a)	Impairment losses (b)	Reversals of impairment losses (c)	Carrying amount (a + b – c)
A. Intangible assets				
A.1 Owned	- 74	-	-	- 74
- Generated internally	-	-	-	-
- Other	*- 74*	-	-	*- 74*
A.2 Acquired under finance lease	-	-	-	-
Total	**- 74**	**-**	**-**	**- 74**

Section 13 – Net other operating income – Caption 190

13.1 Other operating expense: breakdown

	2016
1 - Charitable donations	- 6
2 - Contributions to bodies and municipalities receiving treasury services	- 17
3 - Amortisation of leasehold improvements	- 302
4 - Losses for robbery	- 63
5 - Other	- 1,687
Total	**- 2,075**

The contributions in item 2 are based on the scores assigned to the participants in the tenders for the treasury services.
Item “5 - Other” includes prior year losses (€1,682 thousand) and discounted contributions (€5 thousand).
Prior year losses comprise settlements of disputes about above legal interest rates (€75 thousand) and civil disputes (€416 thousand). They also include the settlement of the civil dispute commenced in 1990 with an adverse ruling for the bank (€1,130 thousand). The bank had won the previous court cases. It used the provision for risks and charges affecting caption 160 of the income statement to cover these amounts.

13.2 Other operating income: breakdown

	2016
1 - Recoveries of administrative expenses	4,983
2 - Security box fees	61
3 - Lease income	390
4 - Other income	369
Total other operating income	**5,803**
Total	**3,728**

Item "4 - Other income" includes:

- the contribution to the Banks and Insurance Companies' Fund (FBA) of €51 thousand;
- recovery of fines and fees on current accounts and deposits of €207 thousand;
- prior year income of €110 thousand.

Section 17 – Net gains on sales of investments – Caption 240

17.1 Net gains on sales of investments: breakdown

	2016	2015
A. Property	**-**	**-**
- Gains on sales	-	-
- Losses on sales	-	-
B. Other assets	**3**	**10**
- Gains on sales	5	25
- Losses on sales	- 2	- 15
Net gains on sales of investments	**3**	**10**

Section 18 – Income taxes – Caption 260

18.1 Income taxes: breakdown

	2016	2015
1. Current taxes (-)	- 1,446	- 5,546
2. Change in current taxes from previous years (+/-)	722	-
3. Decrease in current taxes for the year (+)	-	-
3 bis. Decrease in current taxes for the year due to tax assets as per Law no. 214/2011 (+)	-	-
4. Change in deferred tax assets (+/-)	- 772	883
5. Change in deferred tax liabilities (+/-)	-	-
6. Tax expense for the year (-) (-1+/-2+3+/-4+/-5)	**- 1,496**	**- 4,663**

In December 2016, the tax authorities reimbursed the IRES tax related to the deductibility of IRAP paid on personnel expenses in the years from 2008 to 2011, for which the bank had presented a reimbursement claim pursuant to Decree law no. 201/2011.
Item 2 shows utilisation of the provision for tax for the part reimbursed by the tax authorities.

18.2 Reconciliation between the theoretical and effective tax expense

		Amount
Pre-tax profit for the year	6,732	
Effective IRES tax rate	27.50%	
Theoretical tax expense		1,851
Permanent and temporary differences for IRES purposes		*- 823*
a) dividends	- 477	
b) other	- 2,515	
IRES tax		**1,028**
Pre-tax profit for the year	6,732	
Effective IRAP tax rate	5.49%	
Theoretical tax expense		369
Permanent differences for IRAP purposes	***49***	*49*
a) non-deductible personnel expense	1,165	
b) impairment losses/reversals of impairment losses on loans and r	- 1,104	
c) other	829	
IRAP tax		**418**
Income tax expense		**1,446**
Utilisation of provision for tax for IRES reimbursement pursuant to Decree law no. 201/2011		- 722
Change in deferred taxes		772
Total current taxes		**1,496**

Item “b) Other” includes net increases to the tax base. It includes impairment losses on loans and receivables exceeding the deductible portion.

Section 21 – Earnings per share

21.1 Average number of ordinary shares with dilutive effect

	2016	2015
Weighted average number of shares	759,750	759,750
Profit attributable to the share categories (Euro)	3,927,097	5,294,566
Basic EPS (Euro)	5.16	6.97
Diluted EPS (Euro)	5.16	6.97

Pursuant to IAS 33.10/33:

a) basic EPS are calculated by dividing the profit for the year attributable to the holders of ordinary shares by the weighted average number of shares outstanding in the year;

b) diluted EPS are calculated by dividing the profit for the year by the average number of ordinary shares outstanding in the year, adjusted to reflect the diluting effects of options.

At the reporting date, the bank proposed that the shareholders approve the distribution of dividends of €3.50 per share to the holders of ordinary shares.
Therefore and in accordance with article 25 of the by-laws, the profit for the year has been allocated as follows:

1. €523,613 to the ordinary reserve, as per article 25 of the by-laws;
2. €785,420 to the extraordinary reserve, as per article 25 of the by-laws;
3. €1,267,972 to the extraordinary reserve, as decided by the board of directors.

The numerator used to calculate the basic EPS is €3,927 thousand. With respect to the denominator, the weighted average number of the ordinary shares outstanding is unchanged at 759,750.

The bank has not repurchased own shares. It has not issued nor does it have shares with dilutive effects.

Therefore, the basic and diluted EPS are the same.

PART D

Comprehensive income

BREAKDOWN OF COMPREHENSIVE INCOME

		Gross amount	Income tax	Net amount
10.	**Profit for the year**			**5,236**
	Items that will not be reclassified subsequently to profit or loss			
20.	Property, equipment and investment property	-	-	-
30.	Intangible assets	-	-	-
40.	Defined benefit plans	- 498	137	- 361
50.	Non-current assets held for sale	-	-	-
60.	Share of valuation reserves of equity-accounted investees	-	-	-
	Items that will be reclassified subsequently to profit or loss			
70.	Hedges of investments in foreign operations	-	-	-
	a) fair value gains (losses)	-	-	
	b) reclassification to profit or loss	-	-	
	c) other changes	-	-	
80.	Exchange rate gains (losses):	-	-	-
	a) fair value gains (losses)	-	-	
	b) reclassification to profit or loss	-	-	
	c) other changes	-	-	
90.	Cash flow hedges:	-	-	-
	a) fair value gains (losses)	-	-	
	b) reclassification to profit or loss	-	-	
	c) other changes	-	-	
100.	Available-for-sale financial assets:	- 6,166	2,001	- 4,165
	a) fair value gains (losses)	- 95	- 3	
	b) reclassification to profit or loss	- 6,071	2,004	
	- impairment losses	-	-	
	- gains/losses on sales	- 6,071	2,004	
	c) other changes	-	-	
110.	Non-current assets held for sale:	-	-	-
	a) fair value gains (losses)	-	-	
	b) reclassification to profit or loss	-	-	
	c) other changes	-	-	
120.	Share of valuation reserves of equity-accounted investees	-	-	-
	a) fair value gains (losses)	-	-	
	b) reclassification to profit or loss	-	-	
	- impairment losses	-	-	
	- gains/losses on sales	-	-	
	c) other changes	-	-	
130.	**Total other comprehensive expense**	**- 6,664**	**2,138**	- 4,526
140.	**Comprehensive income (captions 10 + 130)**			**710**

PART E
Risks and related hedging policies

Introduction

Risk management (monitoring, management and measurement) is a fundamental creator of value for the bank and its stakeholders. Accordingly, the bank's control units (the Inspection and Internal Audit Office, the Risk Governance Office and the Compliance and AML Unit) are given complete independence and operating powers to ensure the correct and full presentation of risks to the board of directors, the board of statutory auditors, the shareholders and all those who have direct and indirect interests in the bank's equity.
In compliance with the principle of proportionality, risks are managed using methods and processes appropriate for the bank's operations.

The Risk Management Unit of the Risk Governance Office is in charge of monitoring and managing risks. Specifically, it has the following duties:

- proposing methods, tools and procedures to identify, measure, monitor and manage the most important types of risks to management;
- measuring and assessing the bank's exposure to large risks and reporting thereon;
- checking that bank's risk profiles are in line with the strategies decided by the board of directors;
- regularly reviewing the models and methods used, reporting any weaknesses;
- checking compliance with operating limits defined by both external and internal regulations, proposing adjustments if necessary to the latter;
- working with the IT outsourcer and teams that work on risk management projects;
- monitoring the production and filing of methodological documentation about risk management and control;
- processing analyses and assessments required by the ICAAP (internal capital adequacy assessment process);
- preparing the data necessary for part E of the notes to the financial statements together with other units;
- checking the quality of the performing loans portfolio and the classification and measurement of performing and non-performing loans in the financial statements;
- regularly preparing reports on trends and risk appetites of the bank's customers;
- preparing the reports on large exposures and, in the case of rregularities, informing the relevant units;
- checking compliance with the prudent regulatory limits as per Bank of Italy Circular no. 263/06, Title V, chapter 5 - Section IV (Related party transactions) every quarter.

Once a year, the Risk Management Unit prepares a report for the market when the annual report is published, which includes the "... information about capital adequacy, exposure to risks and the general characteristics of the systems in place to identify, measure and manage such risks" in the "Pillar 3, Market disclosures, situation at 31/12/2016" document, posted in the financial reporting section of the bank's internet site www.carifermo.it.

Following the transposition of "Country-by-country reporting" introduced by article 89 of Directive 2013/36/EU (the CRD IV) into Italian law, banks are required to publish the information set out in Annex A, Part 1, Title III, Chapter 2 of Circular no. 285/2013 starting from 1 July 2014. The bank publishes this information on its website page: www.carifermo.it/it/Il-bilancio.

Following the issue of the measures on the "Internal controls, IT system and business continuity" by Bank of Italy (integrated by Circular no. 285/13 of 21 July 2015, all banks were required to strengthen their ability to manage business risks. Accordingly, the board of directors defined the bank's risk appetite framework (RAF, updated on 28 June 2016 after the establishment of the new corporate bodies) identifying the risk objectives, the internal controls, specifying the roles and responsibilities of the internal bodies and units and preparing the related internal regulation and the criteria to identify the more significant transactions to be approved in advance by the Risk Management Unit.
The new internal controls strengthen the role of the control units and, especially, that of the Risk Management Unit which is actively involved in monitoring credit exposure, especially impaired exposures.

The seventh update of Circular no. 272 of 20 January 2015 introduced the new classification of loans and receivables, based on the definitions of non-performing exposures and forbearance introduced by the implementing technical standards (ITS) defined by the EBA. These new definitions have required a number of adjustments to internal processes and regulations, including the board of directors' approval of the new "Credit measurement and classification policy" in November 2015, which manages the processes to classify and measure loans and receivables introducing the new concepts of performing, non-performing, forbearance, financial difficulties and the default detection parameters.

The bank and its bodies encourage the circulation and development of a cross-the-board risk culture and employee training about the issue. Accordingly, the bank provided the internal bodies with information about new legislation that affects its operations, showing the bank's compliance and any necessary actions.

SECTION 1 - CREDIT RISK

Qualitative disclosure

1. General aspects

In line with its mission, the bank focuses on extending credit to households and SMEs, with products designed to help develop production activities. Its natural inclination towards promoting loans to SMEs is facilitated by its partnership with the underwriting syndicates, especially with those supervised by Bank of Italy. Although it privileges its local social and economic environment, the bank also builds up its customer portfolio in areas where it has a smaller base, partly to mitigate its risks.

The bank is careful when granting and monitoring credit that it does not build up risk concentrations in one sector or industry or, with respect to households, in certain age brackets.

The bank has a policy of ongoing improvement to safeguard both the debtors and their families as well as itself, covering product efficiency, insurance policies for pure risk with cover for death, invalidity and dismissals.

2. Credit risk management policies

2.1 Organisational aspects

Credit risk is the most significant risk for the bank and is the risk of losses due to the non-payment or partial payment of principal, interest or other amounts by the debtor (ordinary and institutional customers). Credit risk includes counterparty risk, i.e., the risk that the counterparty to a transaction involving certain financial instruments defaults before the transaction is settled.

The structure which decides and organises the granting of credit has different operating powers, depending on whether it is located at the branches or the head office (board of directors, managing director, Loans Department, Loans Division and Loans Office heads). The board of directors revised these powers on 3 February 2017. Each level is defined considering the overall risk assessment of each customer and potential connected customers, the type of credit, the direct and indirect exposure and type of guarantee.

The lending procedure also includes procedures and controls for risk mitigation carried out regularly by the following head office units:

- **Loans Office:** assists the branches with the preliminary investigations stage, assesses credit facility applications approved by the relevant branch bodies checking the risks and compliance with their powers, monitors the existing credit facilities and that the branches renew them. At the end of June 2016, the bank rolled out a tailored performing exposure monitoring project, which entailed the use of IT procedures (Credit monitoring procedure), designed to prevent steady credit deterioration with the timely assessment of appropriate remedial actions.
- **Risk Control Office (Problem Loans Office since 3 February 2017):** regularly monitors business risk irregularities using data provided by special computerised procedures and the Inspection and Internal Audit Office; proposes, assisted by the Loans Monitoring Unit, the classification of positions in temporary difficulties and/or for which the bank plans to take recovery measures, as “unlikely to pay”, encouraging the branches to have them return to a “performing” status; monitors and checks “restructured” positions; prepares a quarterly report for the corporate bodies on the situation and changes in reporting positions.
- **Risk Management Unit:** assesses and develops credit risk measurement methodologies in line with best practices; carries out static and dynamic analyses of the loan portfolio’s risk profile and reports thereon every month or quarter to the internal bodies and bank risk

monitoring units; analyses trends in the exposures and regularly checks that they are classified and provided for correctly.

- **Compliance Office**: analyses credit lending procedures and processes and related contracts to check aspects subject to potential legal risk and non-compliance with current legislation;
- **Inspection and Internal Audit Office**: performs level 3 controls, including on-site, and checks the bank's regular operations and changes in risks; assesses the completeness, adequacy, working and reliability of the internal controls, informing the corporate bodies of any need for adjustment.

2.2 Management, measuring and control systems

In order to identify any deterioration in customers' credit standing in advance and to analyse trends, the bank focuses on checking its relationships with its customers, including by using the information available in the credit information centre, which identifies irregularities with a potential negative impact on risk.

The control functions use special early warning procedures, the Loan Monitoring and the Credit Position Control (CPC). The Loan Monitoring procedure automatically identifies any credit irregularities defined by the bank and supervises the actions taken by the operators to resolve them. The CPC is used to monitor customers' behaviour in order to forecast any credit deterioration using diagnostic tools. The procedure gives each borrower a score for their credit riskiness.

The Risk Management Unit prepares regular reports for management, the branches and relevant internal units. Quarterly reports analysing the entire portfolio's risk and additional in-depth analyses by business and geographical segment are prepared for the board of directors. This report assesses compliance with the main internal limits, monitors the capital absorption of risks assumed and analyses large exposures.

The Risk Management Unit regularly checks the expected one-year losses on the bank's loans portfolio using the S.A.Ra. application's internal rating system. The loans are grouped by category in terms of their credit risk. Estimated loss rates are applied on a statistical basis and expressed as the probability of default (PD) of the counterparty and the loss rate in terms of loss given default (LGD). The expected loss for these loans is the amount of the loan multiplied by the PD and the LGD.

Loss rates are considered in the calculation of the lump sum impairment of performing loans and, under the new policy, used to measure non-performing loans of less than €50 thousand.

The S.A.Ra. rating system, used solely for management monitoring purposes, divides customers into three main segments (Corporate, SME retail and Retail) and classifies counterparties using a scale of 10 classes, consisting of nine for performing counterparties (AAA, AA, A, BBB, BB, B CCC, CC and C) and one for defaulting counterparties (D). The system has two different methods to measure probability of default (PD), one for businesses and one for individuals.

The internal rating system has also been included in the loan disbursement process, amending the related "delegated powers". Specifically, when positions are rated as CCC or below, the loan approval powers are automatically transferred to general management and are exercised by no lower than the head of the Loans Office.

The Risk Management Unit checks compliance with the limits and ceilings introduced by the RAF and the Credit Policy for capital adequacy, credit quality, risk concentration, counterparty concentration and concentration by product every quarter.

The Risk Management Unit also performs stress tests on the capital requirement for credit and counterparty risk, including quantification, in terms of additional capital, of sensitivity to three risk factors:

1. counterparty credit worthiness
2. loan deterioration rate
3. appropriateness of use of the credit risk mitigation tools.

The stress test results are included in the quarterly reports.

2.3 Credit risk mitigation techniques

The bank uses credit risk mitigation techniques and tools, the classification and utilisation of which are set out in the "Credit risk mitigation policies" document approved by the board of directors on 20 May 2008 and revised subsequently. The document requires that:

- The *bank* obtains guarantees, qualifiable and acceptable as *CRM* tools, for its credit exposure on a preferential basis, without waiving those without these requirements as additional protection of credit.
- "Collateral or personal guarantees, regardless of their acceptability as *CRM* tools, are considered to be ancillary compared to the credit transaction and cannot replace or make less effective the assessment of the debtor's repayment ability or be included in the assessment of the counterparty's credit standing or the riskiness of the transaction".

Highly mitigating factors are collateral, mainly consisting of pledges of highly liquid financial assets and mortgages on residential property. Other mitigating guarantees are mortgages on non-residential property, personal guarantees depending on the guarantor's standing and pledges of financial assets other than government bonds.

The concentration level of these guarantees is acceptable given the concentration level of the bank's loan portfolio (modest).

The credit risk mitigation factors are assessed using a hierarchical classification system for the credit types, based on the intrinsic loss given default (LGD), and the guarantees, based on their risk mitigation potential. Each risk category is given a weighing factor which estimates the overall risk level when applied to the counterparty's overall credit.

With respect to financial collateral acceptable as CRM, the bank meets the requirements of supervisory regulations.

In accordance with the above supervisory regulations and with respect to exposures guaranteed by property, the bank has systems which monitor the property's value on a statistical basis and operating procedures to check its actual value.

It has also updated the "Regulation for the appraisal of property" based on the "Guidelines for the appraisal of property securing credit exposures" issued by the Italian Banking Association (ABI). This regulation sets out the general criteria to appraise property applicable to all property appraisals carried out directly or indirectly on behalf of or in the interests of the bank.

The bank uses standard contracts for guarantees. If they are inadequate, the relevant offices prepare ad hoc contracts which are checked by the Compliance Office and, if necessary, external experts.

The bank did not have credit derivatives at the reporting date.

2.4 Impaired financial assets

The Risk Control Office and Legal Affairs Office manage non-performing loans.

Based on the information obtained from internal reports on loan performance and irregularities (monitoring of trends, identification of unpaid instalments and suspect cheques, items to be fixed, past due and/or overdue loans, reports from branches, inspection reports, etc.) and external sources (central risk database, CAI, external provider reports on injurious positions, etc.), the Risk Control Office assesses whether to adopt measures to contain risk and proposes classification of loans in temporary/financial difficulties as "unlikely to pay" or "non-performing", if necessary. If this is the case, it provides the Legal Affairs and Litigation Office with all the information necessary to commence the procedures to recover the loan. The Risk Control Office manages the impaired past due loans as well and prepares a quarterly report for senior management on the status and developments of loans, especially substandard ones.

Classification of loans as unlikely to pay is proposed and decided by reference to the objective criteria, set out in the *Credit measurement and classification policy* and defined by Bank of Italy, including communication to the risk database and registration of injurious positions.

After identifying positions that meet the objective requirements for classification as unlikely to pay, the Risk Control Office manager recognises positions with credit facilities of not more than €50 thousand as unlikely to pay; the amount is increased to €100 thousand for mortgage loans. The manager obtains senior management's approval for positions with higher credit facilities.

Responsibility for monitoring the unlikely to pay positions remains with the branches, assisted by the Risk Control Office. The branch manager regularly updates the latter Office about any developments and the outcome of the related actions taken.

The Risk Control Office manager requests the relevant branch officer for a periodic report on the position and examines the customer's financial statements and/or assets and income, to assess and decide whether to:

• maintain the position as unlikely to pay;

• ask the branch to propose to head office that the credit facilities be withdrawn and the customer declared to be defaulting;

• propose the positions be reclassified as performing, when the original difficulties are overcome and, in the case of forborne performing positions, if the probation period has been successfully passed;

• classify the position as non-performing or to propose the position be classified as non-performing if it exceeds the amount of their proxies.

The Risk Control Office prepares a monthly report for senior management on all unlikely to pay and impaired past due positions with a breakdown of new entries and positions reclassified as performing as well as trends therein.

With respect to the requirements for preparation of annual and interim half year reports, the Risk Control Office checks all positions classified as unlikely to pay and impaired past due. Based on a review of the customers' financial positions and their guarantees, the Office calculates the percentages to be used to determine the impairment losses and the recoverable amount for loans of more than €50 thousand.

Quantitative disclosure

A. Credit quality

A.1 Impaired and unimpaired loans: carrying amount, impairment losses, performance, business and geographical breakdown

A.1.1 Breakdown of loans by portfolio and credit quality (carrying amount)

	Non-performing	Unlikely to pay	Impaired past due	Unimpaired past due	Unimpaired assets	Total
1. Available-for-sale financial assets	-	-	-	-	233,548	**233,548**
2. Held-to-maturity investments	-	-	-	-	5,000	**5,000**
3. Loans and receivables with banks	-	-	-	-	17,798	**17,798**
4. Loans and receivables with customers	54,327	62,792	7,075	24,873	797,494	**946,561**
5. Financial assets at fair value through profit or loss	-	-	-	-	-	**-**
6. Financial assets held for sale	-	-	-	-	-	**-**
Total at 31/12/2016	**54,327**	**62,792**	**7,075**	**24,873**	**1,053,840**	**1,202,907**
Total at 31/12/2015	**54,841**	**56,958**	**1,896**	**81,252**	**1,054,435**	**1,249,382**

A.1.2 Breakdown of loans by portfolio and credit quality (gross amount and carrying amount)

	Impaired assets			Unimpaired assets			Total (carrying amount)
	Gross amount	Individual impairment	Carrying amount	Gross amount	Collective impairment	Carrying amount	
1. Available-for-sale financial assets	-	-	-	233,548	-	233,548	233,548
2. Held-to-maturity investments	-	-	-	5,000	-	5,000	5,000
3. Loans and receivables with banks	-	-	-	17,798	-	17,798	17,798
4. Loans and receivables with customers	201,252	77,059	124,193	829,917	7,549	822,368	946,561
5. Financial assets at fair value through profit or loss	-	-	-	-	-	-	-
6. Financial assets held for sale	-	-	-	-	-	-	-
Total at 31/12/2016	**201,252**	**77,059**	**124,193**	**1,086,263**	**7,549**	**1,078,714**	**1,202,907**
Total at 31/12/2015	**182,455**	**68,760**	**113,695**	**1,145,962**	**10,275**	**1,135,687**	**1,249,382**

No impaired loans were partially derecognised in 2016.

At the reporting date, there were 35 loans under deed of arrangement for €12,243 thousand, including four with applications filed in 2016 for €843 thousand. Three positions of €236 thousand, classified as under deed of arrangement in 2015, became insolvent in 2016.

Two positions of €408 thousand, classified as non-performing in 2015, are no longer under deed of arrangement.

In addition, 13 positions, of which seven classified as non-performing in previous years and six in 2016, of €1,175 thousand filed for winding up during the year.

The unlikely to pay exposures at the reporting date include:

- two positions under deed of arrangement (€4,699 thousand);
- two positions under deed of arrangement with reserve, currently in the cure period (€346 thousand).

	Assets with poor credit quality		Other assets
	Accumulated losses	Carrying amount	Carrying amount
1. Financial assets held for trading	-	-	327,939
2. Hedging derivatives	-	-	-
Total at 31/12/2016	**-**	**-**	**327,939**
Total at 31/12/2015	**-**	**-**	**377,130**

A.1.2.1 Breakdown of performing loans by portfolio (gross amount and carrying amount)

	Renegotiated loans to customers as part of collective agreements				
	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	More than 1 year	Not yet due
1. Available-for-sale financial assets	-	-	-	-	-
2. Held-to-maturity investments	-	-	-	-	-
3. Loans and receivables with banks	-	-	-	-	-
4. Loans and receivables with customers	216	-	-	-	2,991
5. Financial assets at fair value through profit or loss	-	-	-	-	-
6. Financial assets held for sale	-	-	-	-	-
Total at 31/12/2016	**216**	**-**	**-**	**-**	**2,991**

The above table shows performing loans that have been renegotiated as part of the collective ABI-MEF agreements provided for by Bank of Italy communication no. 0169844/11 of 24 February 2011. The net amount for Carifermo S.p.A. is €3,207 thousand.

	Renegotiated forborne exposures granted by individual banks					Total net renegotiated exposures	Total adjustments to renegotiated exposures
	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	More than 1 year	Not yet due		
1. Available-for-sale financial assets	-	-	-	-	-	-	-
2. Held-to-maturity investments	-	-	-	-	-	-	-
3. Loans and receivables with banks	-	-	-	-	-	-	-
4. Loans and receivables with customers	644	207	253	-	9,035	13,346	224
5. Financial assets at fair value through profit or loss	-	-	-	-	-	-	-
6. Financial assets held for sale	-	-	-	-	-	-	-
Total at 31/12/2016	**644**	**207**	**253**	**-**	**9,035**	**13,346**	**224**

	Other loans				
	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	More than 1 year	Not yet due
1. Available-for-sale financial assets	-	-	-	-	233,548
2. Held-to-maturity investments	-	-	-	-	5,000
3. Loans and receivables with banks	-	-	-	-	17,798
4. Loans and receivables with customers	19,212	2,830	1,504	8	785,468
5. Financial assets at fair value through profit or loss	-	-	-	-	-
6. Financial assets held for sale	-	-	-	-	-
Total at 31/12/2016	**19,212**	**2,830**	**1,504**	**8**	**1,041,814**

A.1.3 Loans and receivables with banks on and off-statement of financial position: gross amounts and carrying amounts

	Gross amount					Individual impairment	Collective impairment	Carrying amount
	Impaired assets				Unimpaired assets			
	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	More than 1 year				
A. ON STATEMENT OF FINANCIAL POSITION								
a) Non-performing loans	-	-	-	-	-	-		-
- *including: forborne exposures*	-	-	-	-	-	-		-
b) Unlikely to pay	-	-	-	-	-	-		-
- *including: forborne exposures*	-	-	-	-	-	-		-
c) Impaired past due	-	-	-	-	-	-		-
- *including: forborne exposures*	-	-	-	-	-	-		-
d) Unimpaired past due	-	-	-	-	-	-		-
- *including: forborne exposures*	-	-	-	-	-	-		-
e) Other unimpaired exposures	-	-	-	-	63,724	-		63,724
- *including: forborne exposures*	-	-	-	-	-		-	-
TOTAL A	-	-	-	-	63,724	-	-	63,724
B. OFF-STATEMENT OF FINANCIAL POSITION								
a) Impaired	-	-	-	-		-		-
b) Unimpaired					4,477		-	4,477
TOTAL B	-	-	-	-	4,477	-	-	4,477
TOTAL A + B	-	-	-	-	68,201	-	-	68,201

The amount shown in item “B. OFF-STATEMENT OF FINANCIAL POSITION - b) Unimpaired” is broken down in the next table for its better presentation:

Breakdown of off-statement of financial position loans and receivables with banks

	Gross amount					Individual impairment	Collective impairment	Carrying amount
	Impaired assets				Unimpaired assets			
	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	More than 1 year				
B. OFF-STATEMENT OF FINANCIAL POSITION								
a) Impaired	-	-	-	-		-		-
	-	-	-	-		-		-
b) Unimpaired					*3,845*		-	3,845
b.1) Deposits for repos					-		-	-
b.2) Interbank Deposit Protection Fund (FIDT)					3,560		-	*3,560*
b.3) Commitment with CC.OO to purchase securities issued by II.CC.					20		-	*20*
b.4) Interest rate derivatives					96		-	*96*
b.5) Currency forwards					169		-	*169*
TOTAL B	-	-	-	-	3,845	-	-	3,845

A.1.4 On-statement of financial position loans and receivables with banks: gross impaired positions

The bank does not have any impaired loans and receivables with banks.

A.1.5 On-statement of financial position loans and receivables with banks: changes in impaired positions

The bank has not undertaken this type of transaction (see point A.1.4.).

A.1.6 Loans and receivables with customers on and off-statement of financial position: gross amounts, carrying amounts and ageing bracket

	Gross amount					Individual impairment	Collective impairment	Carrying amount
	Impaired assets				Unimpaired assets			
	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	More than 1 year				
A. ON STATEMENT OF FINANCIAL POSITION								
a) Non-performing loans	-	-	-	116,077	-	61,749		**54,328**
- including: forborne exposures	-	-	-	*13,584*	-	*8,512*		***5,072***
b) Unlikely to pay	28,429	3,975	24,529	20,419	-	14,561		**62,791**
- including: forborne exposures	*16,285*	*1,238*	*3,912*	*7,150*	-	*2,918*		***25,667***
c) Impaired past due	512	761	3,767	2,783	-	749		**7,074**
- including: forborne exposures	*15*	-	*1,888*	-	-	*102*		***1,801***
d) Unimpaired past due	-	-	-	-	25,509		636	**24,873**
- including: forborne exposures	-	-	-	-	*1,391*		*72*	***1,319***
e) Other unimpaired exposures	-	-	-	-	1,324,623		6,913	**1,317,710**
- including: forborne exposures	-	-	-	-	*12,178*		*152*	***12,026***
TOTAL A	**28,941**	**4,736**	**28,296**	**139,279**	**1,350,132**	**77,059**	**7,549**	**1,466,776**
B. OFF-STATEMENT OF FINANCIAL POSITION								
a) Impaired	868	-	-	-		-		**868**
b) Unimpaired					76,639		-	**76,639**
TOTAL B	**868**	**-**	**-**	**-**	**76,639**	**-**	**-**	**77,507**
TOTAL A + B	**29,809**	**4,736**	**28,296**	**139,279**	**1,426,771**	**77,059**	**7,549**	**1,544,283**

Loans and receivables with customers include the balances of captions 20 and 40 (financial assets held for trading and available-for-sale) and 70 (loans and receivables with customers) less loans and receivables with banks consisting of securities included in table A.1.3.

The amounts shown in item "B. OFF-STATEMENT OF FINANCIAL POSITION - a) Impaired" and "b) Unimpaired" are broken down in the next table for their better presentation:

Breakdown of off-statement of financial position loans and receivables with customers

	Gross amount					Individual impairment	Collective impairment	Carrying amount
	Impaired assets				Unimpaired assets			
	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	More than 1 year				
B. OFF-STATEMENT OF FINANCIAL POSITION								
a) Impaired	***868***	**-**	**-**	**-**		**-**		**868**
a.1) Commercial endorsement credits	868	-	-	-		-		***868***
b) Unimpaired					***76,639***		**-**	***76,639***
b.1) Financial endorsement credits					21		-	***21***
b.2) Commercial endorsement credits					21,728		-	***21,728***
b.3) Commitments of uncertain use					43,260		-	***43,260***
b.4) Financing for repos					10		-	***10***
b.5) Commitment with II.CC to purchase securities issued by CC.OO.					11,540		-	***11,540***
b.6) Interest rate derivatives and forwards					11		-	***11***
b.7) Currency forwards					69		-	***69***
b.8) Risks associated with SFTs (repos)					-		-	**-**
TOTAL B	**868**	**-**	**-**	**-**	**76,639**	**-**	**-**	**77,507**

A.1.7 On-statement of financial position loans and receivables with customers: gross impaired positions

	Non-performing	Unlikely to pay	Impaired past due
A. Gross opening balance	**111,912**	**68,470**	**2,073**
- including: positions transferred but not derecognised	-	-	-
B. Increases	**10,487**	**30,554**	**8,188**
B.1 transfers from performing loans	1,761	24,056	7,486
B.2 transfers from other impaired loan categories	7,361	967	-
B.3 other increases	1,365	5,531	702
C. Decreases	**6,322**	**21,672**	**2,438**
C.1 transfers to performing loans	-	3,987	538
C.2 derecognitions	1,212	3	-
C.3 collections	5,110	10,435	820
C.4 losses on sales	-	-	-
C.5 losses on sales	-	-	-
C.6 transfers to other impaired loan categories	-	7,247	1,080
C.7 other decreases	-	-	-
D. Gross closing balance	**116,077**	**77,352**	**7,823**
- including: positions transferred but not derecognised	-	-	-

A.1.7bis On-statement of financial position loans and receivables with customers: gross forborne exposures broken down by credit quality

	Forborne exposures: impaired	Forborne exposures: unimpaired
A. Gross opening balance	**30,427**	**11,188**
- including: positions transferred but not derecognised	-	-
B. Increases	**18,831**	**7,932**
B.1 transfers from performing exposures not subject to forbearance measures	3,420	7,481
B.2 transfers from performing forborne exposures	3,951	
B.3 transfers from impaired forborne exposures		195
B.4 other increases	11,460	256
C. Decreases	**5,186**	**5,551**
C.1 transfers to performing exposures not subject to forbearance measures		-
C.2 transfers to performing forborne exposures	195	
C.3 transfers to impaired forborne exposures		3,951
C.4 derecognitions	15	-
C.5 collections	3,746	1,600
C.6 gains on sales	-	-
C.7 losses on sales	-	-
C.8 other decreases	1,230	-
D. Gross closing balance	**44,072**	**13,569**
- including: positions transferred but not derecognised	-	-

A.1.8 On-statement of financial position loans and receivables with customers: changes in impaired positions

	Non-performing		Unlikely to pay		Impaired past due	
	Total	Including: forborne exposures	Total	Including: forborne exposures	Total	Including: forborne exposures
A. Opening balance	**57,071**	**7,306**	**11,512**	**3,640**	**177**	**-**
- including: positions transferred but not derecognised	-	-	-	-	-	-
B. Increases	**10,237**	**1,414**	**8,059**	**656**	**734**	**102**
B.1. impairment losses	8,066	952	7,988	656	731	102
B.2 losses on sales	-	-	-	-	-	-
B.3 transfers from other impaired loan categories	1,523	16	71	-	3	-
B.4 other increases	648	446	-	-	-	-
C. Decreases	**5,559**	**208**	**5,010**	**1,378**	**162**	**-**
C.1. fair value losses	2,737	61	2,709	1,205	57	-
C.2. reversals of impairment losses due to collections	1,603	108	778	157	28	-
C.3 gains on sales	-	-	-	-	-	-
C.4 derecognitions	1,219	39	3	-	-	-
C.5 transfers to other impaired loan categories	-	-	1,520	16	77	-
C.6 other decreases	-	-	-	-	-	-
D. Closing balance	**61,749**	**8,512**	**14,561**	**2,918**	**749**	**102**
- including: positions transferred but not derecognised	-	-	-	-	-	-

A.2 Classification of exposures using external and internal ratings

A.2.1 Breakdown of credit exposure on and off-statement of financial position by external rating classes

Moody's provides the external ratings in accordance with the ECAI used to calculate the capital requirements for credit risk on exposures with governments and supervised intermediaries.

The exposure with externally-rated ordinary customers on and off-statement of financial position is modest.

The exposure with institutional and banking counterparties has the rating shown in the next table:

	External rating class						Unrated	Total
	AAA/AA-	A+/A-	BBB+/BBB	BB+/BB-	B+/B-	Below B		
A. On-statement of financial position loans and receivables	**13,624**	**7,471**	**469,276**	**2,468**	**788**	**-**	**1,064,282**	**1,557,909**
B. Derivatives	**-**	**264**	**-**	**-**	**-**	**-**	**80**	**344**
B.1 Financial derivatives	-	264	-	-	-	-	80	344
B.2 Credit derivatives	-	-	-	-	-	-	-	-
C. Guarantees issued	**-**	**-**	**-**	**-**	**-**	**-**	**26,609**	**26,609**
D. Commitments to disburse funds	**-**	**-**	**11,540**	**-**	**-**	**-**	**43,490**	**55,030**
E. Other	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**13,624**	**7,735**	**480,816**	**2,468**	**788**	**-**	**1,134,461**	**1,639,892**

A.2.2 Breakdown of credit exposure on and off-statement of financial position by internal rating classes

The bank has decided not to use internal rating systems to calculate its capital adequacy.

A.3 Breakdown of guaranteed exposure by type of guarantee

A.3.2 Guaranteed loans and receivables with customers

	Net amount	Collateral (1)				Personal guarantees (2)									Total (1)+(2)
						Credit derivatives					Endorsement credits				
							Other derivatives								
		Mortgaged property	Property under finance lease	Securities	Other collateral	CLN	Governments and central banks	Other government agencies	Banks	Other	Governments and central banks	Other government agencies	Banks	Other	
1. Guaranteed loans:	**755,711**	**511,878**	**-**	**11,793**	**11,767**	**-**	**-**	**-**	**-**	**-**	**540**	**2,608**	**2,247**	**204,599**	**745,432**
1.1.Fully guaranteed	730,957	511,688	-	10,132	9,776	-	-	-	-	-	292	2,608	1,929	194,394	730,819
- including: impaired	*114,161*	*92,732*	-	*218*	*3,111*	-	-	-	-	-	-	*504*	*85*	*17,416*	*114,066*
1.2. Partly guaranteed	24,754	190	-	1,661	1,991	-	-	-	-	-	248	-	318	10,205	14,613
- including: impaired	*1,827*	-	-	-	*17*	-	-	-	-	-	-	-	-	*1,427*	*1,444*
2. Off-statement of financial position guaranteed loans:	**22,771**	**8,707**	**-**	**859**	**2,415**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**9,301**	**21,282**
2.1. Fully guaranteed	20,604	8,707	-	457	2,157	-	-	-	-	-	-	-	-	9,251	20,572
- including: impaired	*854*	*200*	-	*39*	*101*	-	-	-	-	-	-	-	-	*514*	*854*
2.2. Partly guaranteed	2,167	-	-	402	258	-	-	-	-	-	-	-	-	50	710
- including: impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

B. Breakdown and concentration of credit exposure

B.1 Breakdown of loans and receivables with customers on and off-statement of financial position by business segment (carrying amount)

	Governments			Other government agencies		
	Net amount	Individual impairment	Collective impairment	Net amount	Individual impairment	Collective impairment
A. On-statement of financial position						
A.1 Non-performing	-	-		-	-	
- including: forborne exposures	-	-		-	-	
A.2 Unlikely to pay	-	-		-	-	
- including: forborne exposures	-	-		-	-	
A.3 Impaired past due	-	-		-	-	
- including: forborne exposures	-	-		-	-	
A.4 Unimpaired	455,841		-	22,821		-
- including: forborne exposures	-		-	-		-
TOTAL A	**455,841**	**-**	**-**	**22,821**	**-**	**-**
B. Off-statement of financial position						
B.1 Non-performing loans	-	-		-	-	
B.2 Unlikely to pay	-	-		-	-	
B.3 Other impaired assets	-	-		-	-	
B.4 Unimpaired exposures	11,540		-	33,812		-
Total B	**11,540**	**-**	**-**	**33,812**	**-**	**-**
Total (A+B) at 31/12/2016	**467,381**	**-**	**-**	**56,633**	**-**	**-**
Total (A+B) at 31/12/2015	**647,191**	**-**	**-**	**31,799**	**-**	**-**

	Financial companies			Insurance companies		
	Net amount	Individual impairment	Collective impairment	Net amount	Individual impairment	Collective impairment
A. On-statement of financial position						
A.1 Non-performing loans	33	86		-	-	
- including: forborne exposures	*7*	*10*		-	-	
A.2 Unlikely to pay	28	7		-	-	
- including: forborne exposures	*17*	*5*		-	-	
A.3 Impaired past due	-	-		-	-	
- including: forborne exposures	-	-		-	-	
A.4 Unimpaired exposures	45,292		56	306		-
- including: forborne exposures	*71*		-	-		-
TOTAL A	**45,353**	**93**	**56**	**306**	**-**	**-**
B. Off-statement of financial position						
B.1 Non-performing loans	-	-		-	-	
B.2 Unlikely to pay	609	-		-	-	
B.3 Other impaired assets	-	-		-	-	
B.4 Unimpaired exposures	3,300		-	90		-
Total B	**3,909**	**-**	**-**	**90**	**-**	**-**
Total (A+B) at 31/12/2016	**49,262**	**93**	**56**	**396**	**-**	**-**
Total (A+B) at 31/12/2015	**25,111**	**72**	**38**	**-**	**-**	**-**

	Non-financial companies			Other		
	Net amount	Individual impairment	Collective impairment	Net amount	Individual impairment	Collective impairment
A. On-statement of financial position						
A.1 Non-performing	40,605	49,223		13,690	12,440	
- including: forborne exposures	*4,035*	*7,944*		*1,030*	*558*	
A.2 Unlikely to pay	44,395	13,095		18,368	1,459	
- including: forborne exposures	*19,582*	*2,466*		*6,068*	*447*	
A.3 Impaired past due	4,610	585		2,464	164	
- including: forborne exposures	*11*	*1*		*1,790*	*101*	
A.4 Unimpaired exposures	551,220		6,278	267,103		1,215
- including: forborne exposures	*6,183*		*170*	*7,091*		*54*
TOTAL A	**640,830**	**62,903**	**6,278**	**301,625**	**14,063**	**1,215**
B. Off-statement of financial position						
B.1 Non-performing loans	39	-		-	-	
B.2 Unlikely to pay	217	-		-	-	
B.3 Other impaired assets	-	-		4	-	
B.4 Unimpaired exposures	24,506		-	3,390		-
Total B	**24,762**	**-**	**-**	**3,394**	**-**	**-**
Total (A+B) at 31/12/2016	**665,592**	**62,903**	**6,278**	**305,019**	**14,063**	**1,215**
Total (A+B) at 31/12/2015	**657,244**	**57,080**	**8,928**	**301,810**	**11,607**	**1,310**

Item “A.1 Non-performing - including: forborne exposures” includes 313 exposures, comprising both those with debt rescheduling agreements and those under deed of arrangement.

Item “A.2 Unlikely to pay - including: forborne exposures” includes 233 exposures subject to forbearance measures.

Item “A.3 Impaired past due - including: forborne exposures” includes four exposures subject to forbearance measures.

Item “A.4 Unimpaired exposures - including: forborne exposures” comprises 177 exposures to which concessions have been made.

The credit concentration risk is analysed in the directors’ report.

B.2 Breakdown of loans and receivables with customers on and off-statement of financial position by geographical segment (carrying amount)

	ITALY		OTHER EUROPEAN COUNTRIES		AMERICAS		ASIA		REST OF THE WORLD	
	Net amount	Total impairment	Net amount	Total impairment	Net amount	Total impairment	Net amount	Total impairment	Net amount	Total impairment
A. On-statement of financial position										
A.1 Non-performing	54,327	61,749	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	62,792	14,561	-	-	-	-	-	-	-	-
A.3 Impaired past due	7,074	749	1	-	-	-	-	-	-	-
A.4 Unimpaired exposures	1,295,244	7,544	29,389	3	13,779	1	174	1	3,997	-
TOTAL A	**1,419,437**	**84,603**	**29,390**	**3**	**13,779**	**1**	**174**	**1**	**3,997**	**-**
B. Off-statement of financial position										
B.1 Non-performing	39	-	-	-	-	-	-	-	-	-
B.2 Unlikely to pay	825	-	-	-	-	-	-	-	-	-
B.3 Other impaired assets	4	-	-	-	-	-	-	-	-	-
B.4 Unimpaired exposures	76,604	-	35	-	-	-	-	-	-	-
Total B	**77,472**	**-**	**35**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total (A+B) at 31/12/2016	**1,496,909**	**84,603**	**29,425**	**3**	**13,779**	**1**	**174**	**1**	**3,997**	**-**
Total (A+B) at 31/12/2015	**1,661,786**	**79,018**	**958**	**3**	**189**	**1**	**221**	**14**	**-**	**-**

B.2.1 Breakdown of loans and receivables with customers on and off-statement of financial position by geographical segment (carrying amount)

	North-west ITALY		North-east ITALY		Central ITALY		South ITALY and islands	
	Net amount	Total impairment	Net amount	Total impairment	Net amount	Total impairment	Net amount	Total impairment
A. On-statement of financial position								
A.1 Non-performing	2,255	4,227	163	213	50,330	54,547	1,579	2,762
A.2 Unlikely to pay	165	24	-	-	59,838	14,170	2,788	367
A.3 Impaired past due	2,438	412	1	-	4,565	323	70	13
A.4 Unimpaired exposures	17,380	89	2,668	25	1,224,630	6,975	50,565	455
Total A	**22,238**	**4,752**	**2,832**	**238**	**1,339,363**	**76,015**	**55,002**	**3,597**
B. Off-statement of financial position								
B.1 Non-performing	-	-	-	-	39	-	-	-
B.2 Unlikely to pay	-	-	-	-	625	-	200	-
B.3 Other impaired assets	-	-	-	-	4	-	-	-
B.4 Unimpaired exposures	1,598	-	496	-	73,181	-	1,329	-
Total B	**1,598**	**-**	**496**	**-**	**73,849**	**-**	**1,529**	**-**
Total (A+B) at 31/12/2016	**23,836**	**4,752**	**3,328**	**238**	**1,413,212**	**76,015**	**56,531**	**3,597**
Total (A+B) at 31/12/2015	**21,056**	**4,517**	**2,832**	**220**	**1,585,320**	**70,859**	**52,577**	**3,421**

B.3 Breakdown of loans and receivables with banks on and off-statement of financial position by geographical segment (carrying amount)

	ITALY		OTHER EUROPEAN COUNTRIES		AMERICAS		ASIA		REST OF THE WORLD	
	Net amount	Total impairment	Net amount	Total impairment	Net amount	Total impairment	Net amount	Total impairment	Net amount	Total impairment
A. On-statement of financial position										
A.1 Non-performing	-	-	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
A.3 Impaired past due	-	-	-	-	-	-	-	-	-	-
A.4 Unimpaired exposures	39,916	-	15,371	-	4,853	-	1,295	-	2,289	-
Total A	**39,916**	**-**	**15,371**	**-**	**4,853**	**-**	**1,295**	**-**	**2,289**	**-**
B. Off-statement of financial position										
B.1 Non-performing loans	-	-	-	-	-	-	-	-	-	-
B.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
B.3 Other impaired assets	-	-	-	-	-	-	-	-	-	-
B.4 Unimpaired exposures	4,477	-	-	-	-	-	-	-	-	-
Total B	**4,477**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total (A+B) at 31/12/2016	**44,393**	**-**	**15,371**	**-**	**4,853**	**-**	**1,295**	**-**	**2,289**	**-**
Total (A+B) at 31/12/2015	**35,780**	**-**	**195**	**-**	**178**	**-**	**73**	**-**	**-**	**-**

B.3.1 Breakdown of loans and receivables with banks on and off-statement of financial position by geographical segment (carrying amount)

	North-west ITALY		North-east ITALY		Central ITALY		South ITALY and islands	
	Net amount	Total impairment	Net amount	Total impairment	Net amount	Total impairment	Net amount	Total impairment
A. On-statement of financial position								
A.1 Non-performing	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-
A.3 Impaired past due	-	-	-	-	-	-	-	-
A.4 Unimpaired exposures	15,005	-	-	-	24,912	-	-	-
Total A	**15,005**	**-**	**-**	**-**	**24,912**	**-**	**-**	**-**
B. Off-statement of financial position								
B.1 Non-performing	-	-	-	-	-	-	-	-
B.2 Unlikely to pay	-	-	-	-	-	-	-	-
B.3 Other impaired assets	-	-	-	-	-	-	-	-
B.4 Unimpaired exposures	264	-	-	-	4,212	-	-	-
Total B	**264**	**-**	**-**	**-**	**4,212**	**-**	**-**	**-**
Total (A+B) at 31/12/2016	**15,269**	**-**	**-**	**-**	**29,124**	**-**	**-**	**-**
Total (A+B) at 31/12/2015	**7,778**	**-**	**453**	**-**	**27,550**	**-**	**-**	**-**

B.4 Large exposures

	31/12/2016	31/12/2015
a) Carrying amount	566,245	710,499
b) Weighted amount	36,444	5,629
c) Number	4	4

As provided for by the sixth update of Circular no. 263 of the “New prudential reporting instructions for banks” of 27 December 2010, which revised the prudential regulations for risk concentration, and with reference to communication no. 0206253/11 of 7 March 2011 issued by Bank of Italy, the above table shows both the weighted value of the large exposures and their carrying amount. The number of positions is unchanged from the previous year, while the nominal amount has decreased.
The weighted amount increased from €5,629 thousand to €36,444 thousand at 31 December 2016. It includes exposures to government agencies (€4,290 thousand) and the investment in Bank of Italy (€3,250 thousand) with the remainder mainly consisting of exposures to companies and investment funds (€27,407 thousand) as provided for by Commission Delegated Regulation (EU) no. 1197/2014, which supplements Regulation (EU) no. 575/2013 (CRR).

E. Transfers

A. FINANCIAL ASSETS TRANSFERRED AND NOT DERECOGNISED

Qualitative disclosure

The amounts shown in this section refer to repurchase agreements with customers.

Quantitative disclosure

E.1 Financial assets transferred and not derecognised: carrying amount and entire amount

	Financial assets held for trading			Financial assets at fair value through profit or loss			Available-for-sale financial assets			Total	
	A	B	C	A	B	C	A	B	C	31/12/2016	31/12/2015
A. Assets	-	-	-	-	-	-	-	-	-	-	692
1. Debt instruments	-	-	-	-	-	-	-	-	-	-	692
2. Equity instruments	-	-	-	-	-	-	-	-	-	-	-
3. OEIC units	-	-	-	-	-	-	-	-	-	-	-
4. Financing	-	-	-	-	-	-	-	-	-	-	-
B. Derivatives	-	-	-							-	-
Total at 31/12/2016	-	-	-	-	-	-	-	-	-	-	
- including: impaired	-	-	-	-	-	-	-	-	-	-	
Total at 31/12/2015	692	-	-	-	-	-	-	-	-		692
- including: impaired	-	-	-	-	-	-	-	-	-		-

	Held-to-maturity investments			Loans and receivables with banks			Loans and receivables with customers			Total	
	A	B	C	A	B	C	A	B	C	31/12/2016	31/12/2015
A. Assets	-	-	-	-	-	-	-	-	-	-	-
1. Debt instruments	-	-	-	-	-	-	-	-	-	-	-
2. Equity instruments										-	-
3. OEIC units										-	-
4. Financing	-	-	-	-	-	-	-	-	-	-	-
B. Derivatives										-	-
Total at 31/12/2016	-	-	-	-	-	-	-	-	-	-	
- including: impaired	-	-	-	-	-	-	-	-	-	-	
Total at 31/12/2015	-	-	-	-	-	-	-	-	-		-
- including: impaired	-	-	-	-	-	-	-	-	-		-

KEY:

A = transferred financial assets recognised in full (carrying amount)
B = transferred financial assets recognised in part (carrying amount)
C = transferred financial assets recognised in part (entire amount)

E.2 Financial liabilities for financial assets transferred but not derecognised: carrying amount

	Financial assets held for trading	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity investments	Loans and receivables with banks	Loans and receivables with customers	Total
1. Due to customers	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) for fully recognised assets	-	-	-	-	-	-	-
b) for partly recognised assets	-	-	-	-	-	-	-
2. Due to banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) for fully recognised assets	-	-	-	-	-	-	-
b) for partly recognised assets	-	-	-	-	-	-	-
Total at 31/12/2016	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total at 31/12/2015	**694**	**-**	**-**	**-**	**-**	**-**	**694**

SECTION 2 - MARKET RISK

2.1 Interest rate and price risks - supervisory trading book

Qualitative disclosure

A. General aspects

The securities portfolio was comprised of Italian government bonds (76%) while the remainder consisting of bank bonds and equities (24%).

The AFS portfolio includes securities covered by the asset management mandate given to Epsilon SGR, such as equity futures, bonds and currency forwards.

Other interest rate swaps include specular contracts for corporate customers, hedged specifically with institutional counterparties. As a result, derivatives do not entail the bank’s taking on of risk.

Therefore, the bank’s policy for trading on its own behalf consists of short-term repurchase transactions, monitoring the performance and risk profiles, in order to achieve returns on a portfolio mainly composed of floating rate securities.

As part of its ordinary trading activities, the bank undertook transactions directly for government bonds and bonds, mostly issued by banks. It also managed the organised trades system for its own bonds.

The bank solely traded in long-term interest rate derivatives using unlisted derivatives such as interest rate options and swaps.

B. Management and measurement of interest rate and price risks

The bank applies the standardised method as per Regulation (EU) no. 575/2013 and the related supervisory regulations to calculate its prudent capital requirements. It has specific market risk control procedures in place as well as ensuring and checking compliance with the prudent rules.

Specifically, internal control regulations established that the trading book's exposure to risk is checked by the Risk Management Unit using the VaR method.

On 28 June 2016, the board of directors approved the transfer of part of its banking book to a portfolio managed by Epsilon SGR S.p.A. (initial amount of €100 million). The related mandate became effective on 18 July 2016.

The bank checks the operating and total risk limits set in the "Policies for financial risk management" (updated on 27 September 2016) using the portfolio not transferred to Epsilon S.p.A., while it checks compliance with the limits set in the mandate's guidelines for the transferred assets. The bank measures VaR of the internally-managed portfolio based on a variance-covariance type parametric model with a confidence interval of 99% and a holding period of ten days. The VaR has a reliability factor of 99% and measures the maximum loss that the portfolio could incur in the ten days after the analysis date.

The bank measures VaR using the procedures that estimate the potential losses due to generic risk (market, interest rate and currency) and specific risk (the risk of losses due to an unfavourable change in the price of a traded financial instrument due to factors related to the issuer's situation). The procedure also performs a sensitivity analysis for each security in the bank's portfolio measuring variations in value of financial instruments (present value) caused by a variation in the interest rate curve, assuming a parallel change in the curve of 1 bp.

The calculation of the VaR of the banking book includes financial instruments, comprising shares, bonds and UCITS units in Euros and foreign currencies of the HFT, AFS and HTM portfolios, excluding foreign currency swaps and futures and derivatives.

The objective is to constantly check the exposure to market risk and compliance with the internally-established limits using the VaR method to estimate the VaR component (VaRC) of each HFT, AFS and HTM portfolio. The VaR monitoring is performed daily and the Risk Management Unit prepares a monthly summary for the board of directors.

At present, the VaR model is solely used for management and internal control purposes. The backtesting procedure of the VaR DEaR (one-day) is performed daily to check the calculation model's reliability.

With respect to the financial instruments managed by Epsilon, the manager provides the 1-month VaR with a probability level of 99% on a daily basis and the stress test results at each month end. The Risk Management Unit monitors the manager's compliance with the limits set in the mandate's guidelines once a month.

With respect to price risk, the bank's operations in price risk sensitive financial instruments (equity instruments, UCITS units, derivatives on UCITS units, share indexes, precious metals, commodities and other assets) are checked by measuring VaR using the Ermas application and as provided by the asset manager.

Quantitative disclosure

1. Supervisory trading book: breakdown by residual maturity (repricing date) of on-statement of financial position financial assets and liabilities and derivatives

	On demand	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	From 5 to 10 years	After 10 years	Open term
1. Assets	**-**	**19,126**	**142,308**	**-**	**10,163**	**152,745**	**2,996**	**-**
1.1 Debt instruments	-	19,126	142,308	-	10,163	152,745	2,996	-
- with early repayment option	-	-	*568*	-	-	-	-	-
- other	-	*19,126*	*141,740*	-	*10,163*	*152,745*	*2,996*	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. Liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives	**-**	**410,421**	**2,276**	**17,722**	**226,789**	**344,981**	**125,184**	**-**
3.1 With underlying security	-	14,400	-	15	1,503	9,053	3,749	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	*14,400*	-	*15*	*1,503*	*9,053*	*3,749*	-
+ long positions	-	*2,839*	-	*15*	*1*	*9,053*	*2,436*	-
+ short positions	-	*11,561*	-	-	*1,502*	-	*1,313*	-
3.2 Without underlying security	-	396,021	2,276	17,707	225,286	335,928	121,435	-
- Options	-	-	-	*17,219*	*225,120*	*335,928*	*121,435*	-
+ long positions	-	-	-	*8,580*	*112,541*	*168,014*	*60,716*	-
+ short positions	-	-	-	*8,639*	*112,579*	*167,914*	*60,719*	-
- Other derivatives	-	*396,021*	*2,276*	*488*	*166*	-	-	-
+ long positions	-	*201,463*	*1,138*	*244*	*83*	-	-	-
+ short positions	-	*194,558*	*1,138*	*244*	*83*	-	-	-

The amounts shown in item "3.2 Financial derivatives without underlying security - Options" of the above table include data about the remaining term of the cap options, calculated as a series of forward rate agreement options equal in number to the options for which the bank receives (pays) the fixed rate and pays (receives) the fair value of the indexed reference rate. These options are implicitly included in the loans granted to customers and are tied to the variability of interest rates.

2. Supervisory trading book: breakdown of exposure in equity instruments and share indexes by main stock exchange

	Listed						Unlisted
	ITALY	USA	UK	Switzerland	Germany	Other	
A. Equity instruments	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- long positions	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-
B. Unsettled transactions involving equity instruments	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- long positions	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-
C. Other derivatives on equity instruments	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- long positions	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-
D. Derivative on share indexes	**-**	**-**	**-**	**-**	**-**	**9,705**	**-**
- long positions	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	*9,705*	-

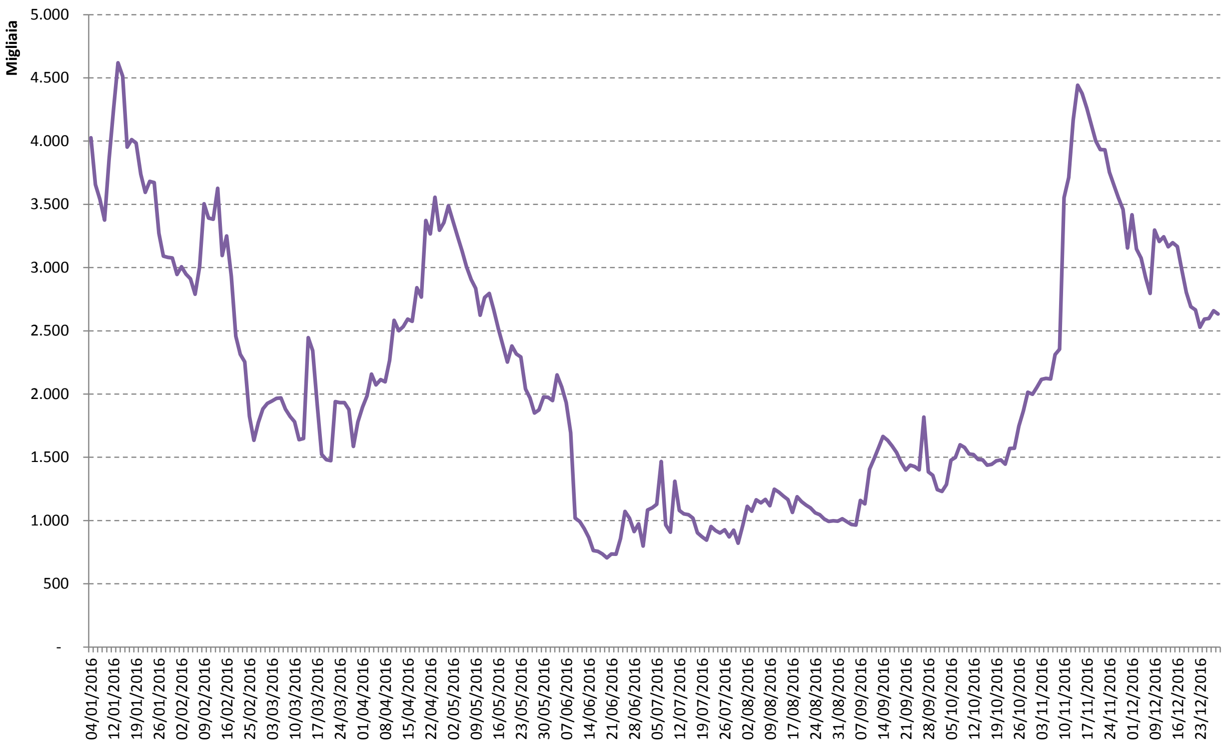
3. Supervisory trading book: internal models and other methodologies used to analyse sensitivity

The following table shows the information provided by the VaR calculation model about the shares and bonds in the HFT portfolio.
The graph shows the 10-day VaR trend of the HFT portfolio from 1 January to 31 December 2016[4].

VaR (HFT)	From 1 January 2016 to 31 December 2016 - in Euro
Minimum	705,055
Maximum	4,619,694
Average	2,139,952
Year end	2,633,636

[4] Excluding currency spot and forward positions and derivatives.

10-day VaR, 99% confidence interval (HFT)



The Risk Management Unit also carries out backtesting to check how accurately the VaR model reflects real changes in value of the securities portfolio being analysed. It compares the results (profits or losses) for a certain period directly observed by the bank with the VaR results. The backtesting shows how often losses incurred are greater than those estimated using the VaR model. Actual losses should be higher than the VaR with a frequency in line with that defined by the 99% confidence level, i.e., 1%.

2.2 Interest rate and price risk - banking book

Qualitative disclosure

A. General aspects, management and measurement of interest rate and price risks

The banking book includes all financial assets and liabilities not included in the trading book. The duration mismatching of funding and lending products generates interest rate risk, which the Risk Management Unit measures every quarter using the A2 matrix data and every month for internal monitoring purposes using Prometeia's Ermas application. The unit applies the methodology required by the prudential supervisory instructions (Bank of Italy Circular no. 285/2013).

The model breaks down the assets and liabilities by maturity or interest rate review date and considers annual changes in daily interest rates recorded over an observation period of six years to determine internal capital in ordinary conditions, considering a 1% (downward) and 99% (upward) trend.

In stress conditions, the model assumes a 200 bp change in the interest rates and quantifies the change in the total economic value of the instruments included in the banking book, on which the supervisory test is performed compared to the bank's own funds.

For management and monitoring purposes only, the bank's interest rate risk is subjected to additional monthly analyses to assess the impact of changes in interest rates on profit (repricing gap) and the economic value of the bank's assets and liabilities (duration gap) using the Ermas application. The analyses include on-demand items and assessing the stickiness effect (i.e., how long it takes to adapt to changes in interest rates) and the beta effect (how changes in market rates are absorbed by rates applied to on-demand products).

In order to ensure the proper monitoring of the banking book's interest rate risk, it is measured every month while monthly and quarterly reports are prepared for the managing director and the board of directors, respectively.

Reference should be made to the previous sections for information on price risk and how it is monitored.

B. Fair value hedges

The bank has not agreed fair value hedges.

C. Cash flow hedges

The bank has not agreed cash flow hedges.

D. Hedges of investments in foreign operations

No such transactions have taken place.

Quantitative disclosure

1. Banking book: breakdown by residual maturity (by repricing date) of financial assets and liabilities

	On demand	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	From 5 to 10 years	After 10 years	Open term
1. Assets	**280,107**	**474,335**	**60,103**	**45,483**	**179,691**	**118,112**	**23,965**	**-**
1.1 Debt instruments	-	22,491	42,316	13,238	77,841	66,783	-	-
- with early repayment option	-	-	-	-	*7,532*	-	-	-
- other	-	*22,491*	*42,316*	*13,238*	*70,309*	*66,783*	-	-
1.2 Financing to banks	670	13,052	-	-	-	-	-	-
1.3 Financing to customers	**279,437**	**438,792**	**17,787**	**32,245**	**101,850**	**51,329**	**23,965**	**-**
- current account	*197,571*	*658*	*330*	*2,444*	*5,063*	*3,681*	-	-
- other financing	*81,866*	*438,134*	*17,457*	*29,801*	*96,787*	*47,648*	*23,965*	-
- with early repayment option	*19,770*	*399,046*	*12,794*	*19,829*	*76,522*	*39,165*	*23,965*	-
- other	*62,096*	*39,088*	*4,663*	*9,972*	*20,265*	*8,483*	-	-
2. Liabilities	**1,193,735**	**65,268**	**45,620**	**37,093**	**104,171**	**-**	**-**	**-**
2.1 Due to customers	1,188,668	6,022	5,894	-	-	-	-	-
- current account	*1,071,182*	-	-	-	-	-	-	-
- other payables	*117,486*	*6,022*	*5,894*	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	*117,486*	*6,022*	*5,894*	-	-	-	-	-
2.2 Due to banks	3,225	-	-	-	-	-	-	-
- current account	*3,225*	-	-	-	-	-	-	-
- other payables	-	-	-	-	-	-	-	-
2.3 Debt instruments	1,842	59,246	39,726	37,093	104,171	-	-	-
- with early repayment option	-	*7,956*	*6,828*	*7,712*	*66,457*	-	-	-
- other	*1,842*	*51,290*	*32,898*	*29,381*	*37,714*	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives	**-**	**34,322**	**16,981**	**7,524**	**31,486**	**6,890**	**3,324**	**-**
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	34,322	16,981	7,524	31,486	6,890	3,324	-
- Options	-	***34,322***	***16,981***	***7,524***	***31,486***	***6,890***	***3,324***	-
+ long positions	-	*2,681*	*3,170*	*7,284*	*30,109*	*4,514*	*2,505*	-
+ short positions	-	*31,641*	*13,811*	*240*	*1,377*	*2,376*	*819*	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
4. Other off-statement of financial position transactions	**-**	***18***	**-**	**-**	**-**	**-**	**-**	**-**
+ long positions	-	*9*	-	-	-	-	-	-
+ short positions	-	*9*	-	-	-	-	-	-

2. Banking book: internal models and other methodologies for sensitivity analyses

The impact on interest income of a 1% increase or decrease (thus including the trading portfolio) in interest rates is calculated using the Ermas application for management purposes, assuming that the maturity dates do not change for a year.
The bank uses an econometric model based on the captions' past trends for a realistic treatment of the assets and liabilities (current accounts), which provides for the modelling of on-demand items and valuation of the stickiness effect (i.e., how long it takes to adapt to changes in interest rates, that is the average repricing period) and the beta effect (i.e., the elasticity of bank rates, which show how changes in market rates are absorbed by rates applied to on demand products).

Analysis of net interest income delta - Shock +100bp, -100bp
Behavioural model - stickiness effect
in Euros

30/12/2016	*REPRICING DELTA MI SHOCK 1*	*REPRICING DELTA MI SHOCK 2*
Assets	**9,782,568**	**-9,038,019**
Other assets	6,156	-6,156
Assets/Cash	96,796	-96,798
Loans and receivables with banks	522,002	-522,017
Loans and receivables with customers	7,627,426	-7,574,242
Securities portfolio	1,521,679	-830,297
Assets held by asset manager	8,509	-8,509
Off-statement of financial position	**650**	**-652**
Liabilities	**-8,778,915**	**1,308,708**
Securities issued	-948,584	942,581
Due to banks	-43,196	43,198
Due to customers	-7,787,135	322,929
Total	**1,004,303**	**-7,729,964**

Analysis of net interest income delta - Shock +100bp, -100bp
Behavioural model - stickiness and beta effects
in Euros

30/12/2016	*BETA PRICING DELTA MI SHOCK 1*	*BETA PRICING DELTA MI SHOCK 2*
Assets	**9,662,362**	**-8,916,703**
Other assets	6,156	-6,156
Assets/Cash	96,796	-96,798
Loans and receivables with banks	522,002	-522,017
Loans and receivables with customers	7,507,219	-7,452,926
Securities portfolio	1,521,679	-830,297
Assets held by asset manager	8,509	-8,509
Off-statement of financial position	**650**	**-652**
Liabilities	**-4,482,565**	**1,323,759**
Securities issued	-948,584	942,581
Due to banks	-43,196	43,198
Due to customers	-3,490,785	337,981
Total	**5,180,446**	**-7,593,596**

2.3 Currency risk

Qualitative disclosure

A. General aspects, management and measurement of currency risk

Currency risk is the risk that the bank may incur losses due to adverse changes in foreign exchange rates affecting its positions.

The bank's currency risk mainly arises on its transactions in foreign currency securities held in the asset management portfolio. Foreign currency activities also include spot and forward purchases and sales with customers, which are concurrently matched on the market by agreeing very short-term short/long positions that give rise to immaterial price risk.

The bank mainly operates in the US dollar.

The relevant operating offices that carry out first level controls and the control functions monitor the currency positions. The Risk Management Unit performs checks of the internal limits once a month.

The bank does not usually take on large risky positions in the currencies market.

Internal models to calculate the capital requirements for market risk are not used.

B. Currency hedges

The bank does not agree specific currency hedges. For operating and economic efficiency purposes, transactions with customers are not immediately matched on the market but may be offset, including cumulatively, during the same day or the following day, against other transactions in the same currency of a spot or forward nature and an opposite sign.

Currency risk hedges for the assets managed by the external manager are managed by sterilising or containing the risks.

Quantitative disclosure

1. Breakdown of assets, liabilities and derivatives by currency

	Currencies					
	US dollar	Pound sterling	Yen	Canadian dollar	Swiss franc	Other currencies
A.1 Financial assets	**11,303**	**325**	**47**	**142**	**226**	**9,069**
A.1 Debt instruments	7,421	-	-	-	-	8,458
A.2 Equity instruments	-	-	-	-	-	-
A.3 Financing to banks	2,801	325	47	142	226	534
A.4 Financing to customers	1,081	-	-	-	-	77
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	**125**	**43**	**15**	**5**	**14**	**25**
C. Financial liabilities	**4,102**	**368**	**81**	**154**	**232**	**412**
C.1 Due to banks	-	-	81	-	-	-
C.2 Due to customers	4,102	368	-	154	232	412
C.3 Debt instruments	-	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
D. Other liabilities	**-**	**-**	**-**	**-**	**-**	**-**
E. Financial derivatives	**16,535**	**1**	**517**	**-**	**-**	**12,093**
- Options	-	-	-	-	-	-
+ *long positions*	-	-	-	-	-	-
+ *short positions*	-	-	-	-	-	-
- Other derivatives	16,535	1	517	-	-	12,093
+ *long positions*	*5,947*	-	*259*	-	-	*4,914*
+ *short positions*	*10,588*	*1*	*258*	-	-	*7,179*
Total assets	**17,375**	**368**	**321**	**147**	**240**	**14,008**
Total liabilities	**14,690**	**369**	**339**	**154**	**232**	**7,591**
Difference (+/-)	**2,685**	**- 1**	**- 18**	**- 7**	**8**	**6,417**

2. Internal models and other methodologies for sensitivity analyses

The bank does not use internal models to measure currency risk or other methodologies for sensitivity analyses.

2.4 Derivatives

A. Financial derivatives

The banking book is not subject to price risk.

A.1 Supervisory trading book: notional amounts at the reporting date

	31/12/2016		31/12/2015	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt instruments and interest rates	**309,772**	**-**	**38,107**	**-**
a) Options	34,746	-	37,769	-
b) IRS	199	-	338	-
c) Forwards	-	-	-	-
d) Futures	274,827	-	-	-
e) Other	-	-	-	-
2. Equity instruments and share indexes	**9,705**	**-**	**-**	**-**
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	9,705	-	-	-
e) Other	-	-	-	-
3. Currencies and gold	**28,837**	**-**	**8,467**	**-**
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forwards	28,837	-	8,467	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
4. Commodities	**-**	**-**	**-**	**-**
5. Other underlying assets	**-**	**-**	**-**	**-**
Total	**348,314**	**-**	**46,574**	**-**

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

	Positive fair value			
	31/12/2016		31/12/2015	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Supervisory trading book	**345**	**-**	**211**	**-**
a) Options	96	-	90	-
b) Interest rate swaps	11	-	27	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	238	-	94	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
B. Banking book - hedging	**-**	**-**	**-**	**-**
a) Options	-	-	-	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
C. Banking book - other derivatives	**-**	**-**	**-**	**-**
a) Options	-	-	-	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
Total	**345**	**-**	**211**	**-**

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

	Negative fair value			
	31/12/2016		31/12/2015	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Supervisory trading book	**653**	**-**	**214**	**-**
a) Options	99	-	93	-
b) Interest rate swaps	11	-	27	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	543	-	94	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
B. Banking book - hedging	**-**	**-**	**-**	**-**
a) Options	-	-	-	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
C. Banking book - other derivatives	**-**	**-**	**-**	**-**
a) Options	-	-	-	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
Total	**653**	**-**	**214**	**-**

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

	Governments and central banks	Other government agencies	Banks	Financial companies	Insurance companies	Non-financial companies	Other
1. Debt instruments and interest rates	**-**	**-**	**17,540**	**274,957**	**-**	**8,516**	**9,121**
- notional amount	-	-	17,289	274,957	-	8,482	9,044
- positive fair value	-	-	96	-	-	-	11
- negative fair value	-	-	11	-	-	34	66
- future exposure	-	-	144	-	-	-	-
2. Equity instruments and share indexes	**-**	**-**	**-**	**9,705**	**-**	**-**	**-**
- notional amount	-	-	-	9,705	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
3. Currencies and gold	**-**	**-**	**3,422**	**22,950**	**-**	**3,273**	**263**
- notional amount	-	-	3,219	22,291	-	3,069	258
- positive fair value	-	-	169	67	-	-	2
- negative fair value	-	-	2	369	-	173	-
- future exposure	-	-	32	223	-	31	3
4. Other assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-

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

	Up to 1 year	From 1 to 5 years	After 5 years	Total
A. Supervisory trading book	**317,893**	**16,477**	**13,943**	**348,313**
A.1 Financial derivatives on debt instruments and interest rates	279,351	16,477	13,943	309,771
A.2 Financial derivatives on equity instruments and share indexes	9,705	-	-	9,705
A.3 Financial derivatives on currencies and gold	28,837	-	-	28,837
A.4 Financial derivatives on other assets	-	-	-	-
B. Banking book	**-**	**-**	**-**	**-**
A.1 Financial derivatives on debt instruments and interest rates	-	-	-	-
A.2 Financial derivatives on equity instruments and share indexes	-	-	-	-
A.3 Financial derivatives on exhange rates and gold	-	-	-	-
A.4 Financial derivatives on other assets	-	-	-	-
Total at 31/12/2016	**317,893**	**16,477**	**13,943**	**348,313**
Total at 31/12/2015	**12,422**	**16,998**	**17,155**	**46,575**

B. Credit derivatives

The bank has not agreed credit derivatives.

SECTION 3 - LIQUIDITY RISK

Qualitative disclosure

A. General aspects, management and measurement of liquidity risk

Liquidity risk is the risk that the bank is unable to meet its payment commitments due to its inability to raise funds on the market (funding liquidity risk) and/or to free its assets (market liquidity risk), thus jeopardising daily operations or its financial position.

The bank's liquidity risk management strategy is based on ensuring a steady flow of liquidity, as required by the supervisory regulations and its healthy and prudent management policies. The "Liquidity risk governance and management policy", approved by the board of directors in 2011, formalises this policy and sets out the emergency plan for any liquidity crises.

The Finance Unit Head is in charge of managing liquidity, including by investing any surplus on the interbank deposit market. The Risk Management Unit regularly monitors the liquidity conditions and reports to the general manager.

Regular risk monitoring requires the monthly check that the limits set by regulations and in the RAF by the board of directors are complied with in respect of short-term and structural liquidity and the ordinary customers' lending/liquidity ratio.

The Ermas application and the matrix data feed the internal risk assessment model, which has differentiated weighing ratios depending on the type of asset and liability and classifies them considering their residual maturity (maturity ladder) as per the relevant regulations. Any differences and certain synthetic indexes are used to assess the structural liquidity situation over the entire timeframe.

Once a month, the bank checks the regulatory operating liquidity ratio (LCR - liquidity coverage ratio), which measures its ability to cover its forecast net cash outflows over 30 days, and the stable funding ratio which estimates the degree of coverage of medium-term funding through stable forms of funding.

Transition to the new reporting methods about the LCR pursuant to the Commission Implementing Regulation (EU) no. 2016/322, which supplements and updates the previous Commission Delegated Regulation (EU) no. 2015/61 started on 30 September 2016. As of this date, reporting on the liquidity coverage requirement (LY information base) in accordance with Circular no. 286/13 and Regulation (EU) no. 575/2013 (CRR) using the Ermas application (CRR form) was eliminated.

Both ratios were always stable and higher than the regulatory and internal limits, set by the RAF, in 2016. The highly liquid assets, which are the numerator in the LCR, mainly consist of uncommitted government bonds plus other liquidity items and the bank's exposure to the central bank which can be monetised in stress conditions.

In addition, after enactment of the Commission Implementing Regulation (EU) no. 2016/313 about additional liquidity monitoring metrics (ALMM), subsequently transposed by the seventh update to Circular no. 286, the bank supplemented its liquidity risk monitoring procedures to include the ALMM reports, prepared once a quarter using the Ermas application starting from 30 June 2016 (sent in August 2016).

The Risk Management Unit also performs monthly stress tests and the results are used to define ex ante limits and ex-post assessments of their adequacy, to plan and undertake transactions to remedy any differences and to define and periodically overview the liquidity risk mitigation systems.

The bank uses a judgement-based approach to estimate cash flows, based on subjective forecasts based on past experience and the guidance received from the supervisory authorities. Identification of appropriate risk factors is essential for the suitability of the stress tests. Given the bank's operations and related vulnerabilities, the main risk factors relate to:

- the bank's capacity to fund itself on interbank and retail markets;
- requests for liquidity to cover on demand liabilities;

- the use of credit facilities granted and usability of those received;
- losses due to non-repayment of large positions;
- the degree of liquidability of the bank's assets.

Based on these factors, the Risk Management Unit uses stress tests that include increases in the haircuts of highly liquid assets and cash outflows of the maturity ladder based on scenarios that it intends to analyse (increase in withdrawals by customers, greater use of current account credit facilities).

Given the bank's operations and related vulnerabilities, the main risk factors relate to its capacity to fund itself on the interbank and retail markets, to cover on demand liabilities, the use of credit facilities granted and the usability of those received, losses due to non-repayment of large positions and the degree of liquidability of its assets.

Quantitative disclosure

The following table shows the data of the internal structural liquidity model, which show the excellent liquidity position at the reporting date, confirmed by the regulatory ratios:

€'000

Time bracket	Asset/ availability	Liability/ commitment	Difference	Total difference	Balancing ratio
Highly liquid assets	533,650	-	-	-	-
On demand or revocation	21,781	196,681	358,750	358,750	2.82
Up to 1 month	32,104	63,622	-31,518	327,232	2.26
From 1 to 3 months	58399	15947	42,452	369,684	2.34
From 3 to 6 months	45,170	45,439	- 269	369,415	2.15
From 6 to 12 months	43,069	36,873	6,196	375,611	2.05
From 1 to 2 years	88,498	73296	15,202	390,813	1.90
From 2 to 3 years	88,227	29,023	59,204	450,017	1.98
From 3 to 4 years	57,990	-	57,990	508,007	2.10
From 4 to 5 years	58,230	1,225	57,005	565,012	2.22
From 5 to 7 years	89,983	-	89,983	654,995	2.42
From 7 to 10 years	87,325	-	87,325	742,320	2.61
From 10 to 15 years	67,682	-	67,682	810,002	2.75
From 15 to 20 years	17,408	-	17,408	827,410	2.79
After 20 years	3,854	-	3,854	831,264	2.80
TOTAL	**1,293,370**	**462,106**	**831,264**		

At the reporting date, the top 15 customers (excluding banks) accounted for roughly 10.00% of the direct funding (calculated using carrying amounts).

1. Breakdown of financial assets and liabilities by residual contractual maturity

The following breakdown of foreign currency financial assets and liabilities shows the overall balance of deposits/financing and spot/forward exchange rate items.

Therefore, currency risks are immaterial thanks to the bank's careful management of foreign currency.

Currency: all currencies

	On demand	From 1 to 7 days	From 7 to 15 days	From 15 days to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	After 5 years	Open term
Assets	**303,503**	**2,658**	**4,396**	**17,418**	**65,379**	**50,503**	**80,663**	**429,321**	**610,367**	**13,052**
A.1 Government bonds	-	-	46	-	17,469	11,329	1,462	84,638	336,935	-
A.2 Other debt instruments	-	-	-	197	293	770	11,071	70,420	29,536	-
A.3 OEIC units	27,407	-	-	-	-	-	-	-	-	-
A.4 Financing	276,096	2,658	4,350	17,221	47,617	38,404	68,130	274,263	243,896	13,052
- Banks	*4,613*	-	*132*	-	-	-	-	-	-	*13,052*
- Customers	*271,483*	*2,658*	*4,218*	*17,221*	*47,617*	*38,404*	*68,130*	*274,263*	*243,896*	-
Liabilities	**1,198,972**	**10,876**	**2,158**	**36,454**	**16,774**	**45,959**	**37,878**	**103,578**	**-**	**-**
B.1 Deposits and current accounts	1,195,209	273	266	1,212	4,391	5,892	34	33	-	-
- Banks	*3,225*	-	-	*81*	-	-	-	-	-	-
- Customers	*1,191,984*	*273*	*266*	*1,131*	*4,391*	*5,892*	*34*	*33*	-	-
B.2 Debt instruments	1,916	10,603	1,892	35,242	12,383	40,067	37,844	103,545	-	-
B.3 Other liabilities	1,847	-	-	-	-	-	-	-	-	-
Off-statement of financial position	**221**	**15,034**	**1,024**	**950**	**50,226**	**4,534**	**957**	**1,501**	**13,021**	**-**
C.1 Financial derivatives with exchange of principal	-	15,016	1,024	950	50,226	4,534	957	1,501	13,021	-
- long positions	-	*3,146*	*512*	*476*	*25,113*	*2,267*	*486*	*1*	*11,674*	-
- short positions	-	*11,870*	*512*	*474*	*25,113*	*2,267*	*471*	*1,500*	*1,347*	-
C.2 Financial derivatives without exchange of principal	**218**	-	-	-	-	-	-	-	-	-
- long positions	*107*	-	-	-	-	-	-	-	-	-
- short positions	*111*	-	-	-	-	-	-	-	-	-
C.3 Deposits and financing to be received	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds	**-**	**18**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- long positions	-	*9*	-	-	-	-	-	-	-	-
- short positions	-	*9*	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	3	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of principal	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-

At the reporting date, the bank had received guarantees of €11,389 thousand which are not shown in the above table as there is no evidence to reasonably suggest that they will be enforced or when they will be used. Guarantees enforced in the last four years are as follows:
2012: five positions for a total of €61 thousand;
2013: seven positions for a total of €542 thousand;
2014: 15 positions for a total of €399 thousand;
2015: four positions for a total of €431 thousand;
2016: three positions for a total of €15 thousand.

Currency: Euro

	On demand	From 1 to 7 days	From 7 to 15 days	From 15 days to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	After 5 years	Open term
Assets	**299,080**	**2,629**	**4,132**	**17,332**	**64,985**	**50,201**	**75,421**	**418,330**	**610,367**	**13,052**
A.1 Government bonds	-	-	46	-	17,469	11,329	1,462	84,638	336,935	-
A.2 Other debt instruments	-	-	-	156	255	599	5,829	59,429	29,536	-
A.3 OEIC units	27,407	-	-	-	-	-	-	-	-	-
A.4 Financing	271,673	2,629	4,086	17,176	47,261	38,273	68,130	274,263	243,896	13,052
- Banks	*670*	-	-	-	-	-	-	-	-	*13,052*
- Customers	*271,003*	*2,629*	*4,086*	*17,176*	*47,261*	*38,273*	*68,130*	*274,263*	*243,896*	-
Liabilities	**1,193,703**	**10,876**	**2,158**	**36,373**	**16,774**	**45,959**	**37,878**	**103,578**	**-**	**-**
B.1 Deposits and current accounts	1,189,972	273	266	1,131	4,391	5,892	34	33	-	-
- Banks	*3,225*	-	-	-	-	-	-	-	-	-
- Customers	*1,186,747*	*273*	*266*	*1,131*	*4,391*	*5,892*	*34*	*33*	-	-
B.2 Debt instruments	1,916	10,603	1,892	35,242	12,383	40,067	37,844	103,545	-	-
B.3 Other liabilities	1,815	-	-	-	-	-	-	-	-	-
Off-statement of financial position	**221**	**14,724**	**512**	**476**	**25,113**	**2,268**	**487**	**1,501**	**13,021**	**-**
C.1 Financial derivatives with exchange of principal	-	14,706	512	476	25,113	2,268	487	1,501	13,021	-
- long positions	-	*3,045*	*275*	*239*	*15,936*	*1,134*	*251*	*1*	*11,674*	-
- short positions	-	*11,661*	*237*	*237*	*9,177*	*1,134*	*236*	*1,500*	*1,347*	-
C.2 Financial derivatives without exchange of principal	**218**	-	-	-	-	-	-	-	-	-
- long positions	*107*	-	-	-	-	-	-	-	-	-
- short positions	*111*	-	-	-	-	-	-	-	-	-
C.3 Deposits and financing to be received	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds	**-**	**18**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- long positions	-	*9*	-	-	-	-	-	-	-	-
- short positions	-	*9*	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	3	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of principal	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of principal	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-

SECTION 4 - OPERATIONAL RISKS

Qualitative disclosure

A. General aspects, management and measurement of operational risk

Operational risk is the risk of losses arising from errors or shortfalls in internal procedures, human resources or systems and external factors. This risk includes losses caused by fraud, human error, business discontinuity, system unavailability, contractual defaults and natural disasters. It also comprises legal risk but not strategic or reputational risk.

In line with the proportionality principle, the bank uses the basic method (basic indicator approach of 15% of the average total income for the last three years) to measure its capital requirements to cover operational risk.

The bank launched an operational risk assessment project at the start of the year to define a risk self-assessment (RSA) approach, which is still ongoing.

The Risk Management Unit was defined in the "Operational risk mitigation policy" approved by the board of directors on 24 June 2014. Specifically:

- the board of directors defines the guidelines to control and mitigate operational risk, regularly checking that they are correctly implemented and reflect the bank's operations as well as the transparent and appropriate allocation of duties and responsibilities;
- the managing director defines the operating rules and practices, activities, procedures and most appropriate units to manage the operational risk mitigation process assisted by the competent units and in line with the policies set by the board of directors; they also check their suitability over time in terms of the adequacy and functionality and ensures steps are taken to eliminate any weaknesses or dysfunctions;
- as a control body, the board of statutory auditors monitors the adequacy of the risk management and control system and internal controls;
- the Risk Management Unit designs and updates the methods to measure risks and assists the Organisation Office to assign the first and second level controls when new products, processes or activities are introduced, amendments are made to legislation and regulations, changes take place in the market conditions or other external factors;
- the Internal Audit Unit carries out regular audits of the operational risk management system; it works with the Risk Management Unit to develop, implement and maintain the operational risk management system; it liaises promptly with the board of directors on its findings when they identify effective weaknesses in the controls adopted to mitigate operational risks that would expose the bank to the risk of large losses.

With respect to the operational risk mitigation tools, the bank focused on the transfer of risk through the agreement of insurance policies, suitable for low frequency events with a high financial impact. These policies cover risks of losses from:

- fraud or misconduct;
- damage to third parties caused by errors made during banking operations;
- non-intentional violations of legal, regulatory and by-laws obligations by directors and specific employees;
- third-party fraud;
- damage to property and equipment as a result of natural or criminal events;
- accidents and slight or serious injuries to third parties inside the bank's premises.

Legal risks

Situations that lead to legal risks principally relate to operations covered by the main special regulations such as, specifically, entities' administrative liability (Legislative decree no. 231/2001), occupational safety (Legislative decree no. 81/2008), building site regulations (Legislative decree no. 494/96), privacy (Legislative decree no. 196/2003), anti-money laundering (Legislative decree no. 231/2007), banking transparency, usury, investment services and tax regulations.

With respect to Legislative decree no. 231/01, the bank implemented the organisational model proposed by the ABI, approved by the Ministry for Justice, and set up a supervisory body to ensure the working and compliance of the models. The board of statutory auditors carries out the supervisory body's duties, with the assistance of the pro tempore heads of the bank's control units (Internal Audit and Risk Management, Compliance and AML).

The Compliance Unit is responsible for monitoring legal risks and the bank's compliance with external and internal rules and regulations. It also checks new products/services' compliance in order to identify any potential risks in advance and make the necessary amendments.

The "Compliance Unit's Regulation" regulates the risk of non-compliance and its management as well as the methods adopted by the Unit to carry out its duties. Pursuant to Bank of Italy circular no. 285/13, the regulation defines the scope of the Unit's duties and specific controls, as well as a special function to perform the compliance tests.

The Anti-money Laundering Unit performs ongoing controls and encourages a culture of compliance with internal and external regulations.

With respect to the correct management and keeping of the centralised computer database, the Unit ensures the network is constantly monitored and kept aware of the issue, assisted by other general management units.

The main legal disputes are described below.

Compound interest disputes

In line with the banking sector's general practice, the bank does not agree with the decision reiterated by the Supreme Court since 1999 which confirms the "negotiating" rather than the "regulatory" nature of the quarterly capitalisation clause for interest expense and, therefore, the illegality of its application to bank current accounts. The bank maintains its opinion in court as well.

The banks' position is supported by numerous merits rulings which emphasise different legal points, which are valid, and that may lead the Supreme Court to rethink its position in the future.

At present, the bank is obliged to make adequate provision for its ongoing disputes with customers about compound interest, based on the calculations made when the dispute arose.

Claw-back claims

The bank assesses individual requests for the return of amounts from the official receivers, estimating the inherent risks. It assesses the cost/benefits ratio only when it deems it more useful and proposes out-of-court settlements to the counterparties, which are often successful and avoid going to court.

Should a legal proceeding be commenced, the bank evaluates its possibility of losing, updates its risk estimates and defends itself suitably in court, also based on its understanding of the counterparty's insolvency. Once such legal proceedings commence, provision is made for the risks related to the amounts deemed re-obtainable based on internal assessments.

Disputes involving securities

Supported by a number of court rulings in its favour, the bank reviews each dispute and only makes adequate provision when it deems that it may effectively have to pay.

Moreover, the number of proceedings commenced against the bank for the acquisition of securities by customers (mostly Argentine and Parmalat bonds) is very modest compared to the number of transactions performed. The bank does not expect it to increase significantly.

Tax regulations

In 2012, the Italian Inland Revenue carried out an inspection of the bank with respect to the IRES and IRAP direct taxes as well as the main indirect taxes paid by the bank in 2009. The extremely comforting results confirmed that the bank’s procedures were correctly used thus ensuring compliance with the sector regulations.

PART F
Equity

Section 1 - Equity

A. Qualitative disclosure

Regulation (EU) no. 575/2013 (CRR) and Directive no. 2013/36/EU (CRD IV) of 26 June 2013 covering banks and investment companies became effective on 1 January 2014. They transposed the supervisory standards for banks defined by the Basel Committee in the European Union.

On 19 December 2013, Bank of Italy published Circular no. 285 “Prudential reporting instructions for banks”, setting out guidance on how to implement CRD IV. The central bank subsequently issued Circular no. 286 “Instructions for preparing prudential reports for banks and investment companies”, which regulates the prudent supervisory reports prepared on a separate and consolidated basis.

Equity management covers all the policies and decisions necessary to ensure that the bank’s own funds are adequate to cover its assets and risks. The bank has to comply with capital adequacy requirements established by the above regulations.

Checks of compliance with the minimum prudential requirements are ongoing and consider possible changes in risks and the Risk Appetite Framework (RAF).

Moreover and in accordance with the ECB’s recommendation of 28 January 2015, compliance with the minimum requirements is also ensured by observance of a pay out policy tied to attainment of the above-mentioned minimum capital requirements.

On 23 January 2014, the board of directors exercised the option envisaged by part 2, chapter 14, section II of the aforesaid Circular no. 285. This measure provides for the exclusion of unrealised profits or losses on positions with governments classified in the AFS portfolio from calculation of CET 1 (common equity tier 1) until IFRS 9 is adopted by the EU countries. This standard includes new classification criteria for assets and liabilities, especially assets recognised as available for sale. Exercise of the option affected the regulatory capital reports starting from 31 March 2014.

The directors’ report discloses and comments on the main financial statements indicators which include, in particular, the capitalisation ratios, useful to analyse the bank’s equity on a qualitative basis.

Since 1 January 2014, the Italian banks are required to have a minimum CET 1 ratio of 4.5%, a TIER 1 ratio of 5.5% (6% from 2015) and a Total Capital Ratio of 8%. These minimum requirements have been supplemented by the following CET 1 buffers: Capital Conservation buffer of 2.5% from 1 January 2014 and, from 2016, Countercyclical buffer in periods of high credit growth and Systematic buffer for major international or local banks. Non-compliance with the sum of these buffers (Combined Requirement) leads to limits on distributions and the requirement to introduce a capital conservation plan.

B. Quantitative disclosure

B.1 Equity: breakdown

	31/12/2016	31/12/2015
1. Share capital	**39,241**	**39,241**
2. Share premium	**34,660**	**34,660**
3. Reserves	**72,296**	**68,276**
- income-related	66,166	62,146
a) legal	*17,840*	*17,134*
b) statutory	*51,186*	*47,872*
c) treasury shares	-	-
d) other	*- 2,860*	*- 2,860*
- other	6,130	6,130
4. Equity instruments	**-**	**-**
5. (Treasury shares)	**-**	**-**
6. Valuation reserves	**13,575**	**18,101**
- Available-for-sale financial assets	1,428	5,593
- Property, equipment and investment property	-	-
- Intangible assets	-	-
- Hedges of investments in foreign operations	-	-
- Cash flow hedges	-	-
- Exchange rate gains (losses)	-	-
- Non-current assets held for sale	-	-
- Net actuarial losses on defined benefit pension plans	- 2,975	- 2,614
- Share of valuation reserves of equity-accounted investees	-	-
- Special revaluation laws	15,122	15,122
7. Profit for the year	**5,236**	**7,059**
Total	**165,008**	**167,337**

Item "3. Reserves - d) Other" includes the IFRS FTA reserve of €2,860 thousand.

B.2 Fair value reserves: breakdown

	31/12/2016		31/12/2015	
	Fair value gains	Fair value losses	Fair value gains	Fair value losses
1. Debt instruments	1,505	842	5,673	258
2. Equity instruments	157	98	177	-
3. OEIC units	726	20	-	-
4. Financing	-	-	-	-
Total	**2,388**	**960**	**5,850**	**258**

B.3 Fair value reserves: changes

	Debt instruments	Equity instruments	OEIC units	Financing
1. Opening balance	**5,415**	**177**	**-**	**-**
2. Increases	**2,737**	**381**	**1,083**	**-**
2.1 Fair value gains	571	-	1,083	-
2.2 Reclassification of fair value losses to profit or loss	-	-	-	-
- due to impairment	-	-	-	-
- on sale	-	-	-	-
2.3 Other increases	2,166	381	-	-
3. Decreases	**8,119**	**216**	**30**	**-**
3.1 Fair value losses	1,593	125	30	-
3.2 Impairment losses	-	-	-	-
3.3 Reclassification of fair value gains to profit or loss	6,071	-	-	-
3.4 Other decreases	455	91	-	-
4. Closing balance	**33**	**342**	**1,053**	**-**

B.4 Actuarial reserves: changes

	Fip (pension fund)	Post-employment benefits
1. Opening balance	**- 1,807**	**- 807**
2. Increases	**92**	**45**
2.1 Actuarial gains	-	-
2.2 Deferred tax assets	92	45
3. Decreases	**- 334**	**- 164**
3.1 Actuarial losses	- 334	- 164
3.2 Deferred tax liabilities	-	-
4. Total (negative reserve)	**- 2,049**	**- 926**

Section 2 – Own funds and ratios

2.1 Own funds

Qualitative disclosure

The reforms of the Basel Committee agreements (Basel 3), aimed at strengthening banks' ability to absorb shocks caused by financial and economic tensions, became part of the EU legislation on 1 January 2014.

The Committee maintained the three-pillar approach at the base of the previous capital agreement (Basel 2), which it integrated and strengthened to improve the amount and quality of intermediaries' capital. It also introduced countercyclical supervisory tools and rules about liquidity risk management and financial leverage containment.

The above EU laws were integrated by the instructions issued by Bank of Italy in Circular no. 285 of 17 December 2013, which grouped the prudential supervisory regulations applicable to banks and Italian banking groups.

These regulations provided for a transitional period, generally until 2017, when only a percentage of some elements that will be included or deducted in full in Common Equity after the transitional period affect the Tier 1 capital. The remaining percentage compared to that applied is usually added to/deducted from the ATI and Tier 2 capital or included in the calculation of risk-weighted assets. At 31 December 2016, the capital ratios included the adjustments required for the transitional period in 2016.

1. Common Equity Tier 1 – CET 1

A. Common Equity Tier 1 – CET 1

This caption includes:

- fully paid-up instruments (share capital) €39,241 thousand;
- share premium €34,660 thousand;
- income-related reserves €69,026 thousand;
- reserves that are taxed upon distribution as per Law no. 218/90 €6,129 thousand;
- IFRS FTA reserve -€2,860 thousand;
- reserve for building revaluations as per Law no. 218/90 €15,122 thousand;
- the profit for the year of €5,236 thousand included in own funds as per article 26.2 of the CRR, net of dividends of €2,659 thousand;
- actuarial reserve under revised IAS 19 €2,975 thousand;
- fair value reserve of €1,428 thousand;

D. Elements to be deducted from CET 1

This caption includes:

- intangible assets of €110 thousand;
- 40% of the unrealised losses on bank bonds classified in the AFS portfolio of €39 thousand.

E. Transitional regime - Impact on CET 1 (+/-)

This caption includes the following transitional adjustments:

- exclusion of unrealised gains/losses on AFS securities of -€760 thousand;
- positive filter on actuarial reserves (IAS 19) of €1,124 thousand.

2. Additional Tier 1 – AT 1

This capital cannot be calculated due to the lack of elements.

3. Tier 2 – T2

O. Transitional regime - Impact on T2 (+/-)

This caption includes:

- the national filter introduced by Bank of Italy Circular no. 285 of 40% of 50% of the unrealised gains on AFS securities of €153 thousand.

Quantitative disclosure

	31/12/2016	31/12/2015
A. Common Equity Tier 1 (CET1) before application of prudential filters	**160,475**	**165,159**
including CET1 instruments covered by the transitional measures	-	-
B. CET1 prudential filters (+/-)	**- 467**	**-**
C. CET1 including the elements to be deducted and the effects of the transitional regime (A +/- B)	**160,008**	**165,159**
D. Elements to be deducted from CET1	**- 149**	**- 399**
E. Transitional regime - Impact on CET1 (+/-)	**97**	**- 6,885**
F. Total Common Equity Tier 1 (CET1) (C– D +/-E)	**159,956**	**157,875**
G. Additional Tier 1 (AT1) including the elements to be deducted and the effects of the transitional regime	**39**	**231**
including AT1 instruments covered by the transitional measures	-	-
H. Elements to be deducted from AT1	**-**	**-**
I. Transitional regime – Impact on AT1 (+/-)	**- 39**	**- 231**
L. Total Additional Tier 1 (AT1) (G - H +/-I)	**-**	**-**
M. Tier 2 (T2) including the elements to be deducted and the effects of the transitional regime	**-**	**-**
including T2 instruments covered by the transitional measures	-	-
N. Elements to be deducted from T2	**-**	**-**
O. Transitional regime - Impact on T2 (+/-)	**153**	**73**
P. Total Tier 2 (T2) (M - N +/- O)	**153**	**73**
Q. Total own funds (F + L + P)	**160,109**	**157,948**

The quantitative impact of application of the option envisaged by part II, chapter 14, section 2 of Bank of Italy Circular no. 285/2013, which provides for the exclusion of unrealised gains or losses on positions with governments classified in the AFS portfolio from calculation of CET1, is equal to the reserve of €760 thousand.

2.2 Capital adequacy

Qualitative disclosure

As shown in the table on the bank's risk-weighted assets and capital ratios, it had a CET 1 Capital Ratio of 14.99%, a Tier 1 Capital Ratio of 14.99% and a Total Capital Ratio of 15.00% at 31 December 2016, well above the minimum mandatory requirements of CRR/CRD IV and Bank of Italy's instructions in its Circular no. 285/2013.

The regulatory capital requirements of €85.3 million refer to credit, operational and market risk. Credit operations account for the most capital with credit risk requirements of €67.2 million.

Risk-weighted assets amount to €1,067 million. There has been an increase in such assets for market risk, while credit risks decreased.

Quantitative disclosure

	Unweighted amounts		Weighted amounts/requirements	
	31/12/2016	31/12/2015	31/12/2016	31/12/2015
A. EXPOSURES				
A.1 Credit and counterparty risk	**1,366,754**	**1,369,851**	**840,657**	**739,298**
1. Standardised method	1,366,754	1,369,851	840,657	739,298
2. IRB approach	-	-	-	-
2.1 Basic	-	-	-	-
2.2 Advanced	-	-	-	-
3. Securitisations	-	-	-	-
B. CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			**67,253**	**59,144**
B.2 Credit risk			**21**	**24**
B.3 Regulation risk			**-**	**-**
B.4 Market risk			**8,514**	**9,205**
1. Standard method			8,514	9,205
2. Internal models			-	-
3. Concentration risk			-	-
B.5 Operational risk			**9,590**	**10,282**
1. Basic method			9,590	10,282
2. Standardised method			-	-
3. Advanced method			-	-
B.6 Other calculation elements			**-**	**-**
B.7 Total prudential requirements			**85,378**	**78,655**
C. EXPOSURES AND CAPITAL RATIOS				
C.1 Risk-weighted assets			**1,067,225**	**983,188**
C.2 CET 1 capital/Risk-weighted assets (CET1 capital ratio)			**14.99%**	**16.06%**
C.3 Tier 1 capital/risk-weighted assets (Tier 1 capital ratio)			**14.99%**	**16.06%**
C.4 Total own funds/risk-weighted assets (Total capital ratio)			**15.00%**	**16.06%**

PART H
Related party transactions

General information

The bank's board of directors has identified the entities that qualify as related parties pursuant to IAS 24.
They are:

1. Fondazione Cassa di Risparmio di Fermo, which holds 66.67% of the bank's ordinary shares and controls it;
2. Banca Intesa Sanpaolo S.p.A., which holds 33.33% of the bank's ordinary shares and has significant influence thereover;
3. directors and managers, due to their strategic powers;
4. the statutory auditors, due to their control powers;
5. spouses and immediate descendants of the parties listed in points 3 and 4;
6. subsidiaries of or companies over which the parties listed in points 3, 4 and 5 have significant influence.

The key managers' remuneration is given with separate mention of the directors' and statutory auditors' fees compared to the remuneration of directors which receive (as provided for by IAS 24.16) short-term benefits, which include direct and indirect costs, and termination benefits. All other forms of remuneration covered by the standard are excluded. Specifically, managers do not have incentive plans tied to profits, further to that provided for in the second level national labour contracts, or pension plans other than those existing for employees. There are no stock option plans.

Transactions undertaken by the bank with its related parties (as defined above) comply with the ruling legislation, are fair and take place at market prices.

The bank has not performed atypical or unusual transactions with related parties during the year, i.e., transactions that do not form part of its normal operations or that would have a significant impact on its financial position, results of operations and cash flows.

1. Key managers' remuneration (in Euros)

	31/12/2016
C. Managers	**619,255**
Short-term benefits	586,336
Current termination benefits	32,919
Total termination benefits	471,824
A. Directors	**679,207**
Fees	679,207
B. Statutory auditors	**156,703**
Fees	156,703

2. Related party transactions (€'000)

	Assets	Liabilities	Costs	Revenue	Guarantees received
A. Directors	890	1,245	6	67	1,314
B. Statutory auditors	-	72	-	1	40
C. Managers	145	317	1	4	233
D. Family members	82	1,225	10	27	187
E. Other related parties	10,406	10,626	68	112	11,763
Total	**11,523**	**13,485**	**85**	**211**	**13,537**

Annexes to the financial statements

The annexes include:

a) – a list of the sections and financial statements captions that have not been presented

b) – a list of property;

c) – a list of equity investments recognised in the AFS financial assets portfolio;

d) – a list of bonds issued at the reporting date;

e) – treasury and cash services.

Sections and tables not presented

This list shows the tables in the notes that have not been presented due to the lack of amounts/operating information:

PART A – FAIR VALUE

A3 – TRANSFERS BETWEEN FINANCIAL ASSET PORTFOLIOS

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

A.3.3 Transfer of HFT financial assets

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

A.4 – FAIR VALUE DISCLOSURE

- *A.4.5.3 Changes in liabilities measured at fair value on a recurring basis (level 3)*

A.5 INFORMATION ON “DAY ONE PROFI/LOSS”

PART B – NOTES TO THE STATEMENT OF FINANCIAL POSITION

Assets

SECTION 3 – FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS – CAPTION 30

- 3.1 Financial assets at fair value through profit or loss: breakdown by product
- 3.2 Financial assets at fair value through profit or loss: breakdown by debtor/issuer
- 3.3 Financial assets at fair value through profit or loss: changes

SECTION 4 – AVAILABLE-FOR-SALE FINANCIAL ASSETS – CAPTION 40

- 4.3 Specifically hedged available-for-sale financial assets

SECTION 5 – HELD-TO-MATURITY INVESTMENTS – CAPTION 50

- 5.3 Held-to-maturity investments: specifically hedged assets

SECTION 6 – LOANS AND RECEIVABLES WITH BANKS – CAPTION 60

- 6.2 Specifically hedged loans and receivables with banks
- 6.3 Finance leases

SECTION 7 – LOANS AND RECEIVABLES WITH CUSTOMERS – CAPTION 70

- 7.3 Loans and receivables with customers: specifically hedged assets
- 7.4 Finance leases

SECTION 8 – HEDGING DERIVATIVES – CAPTION 80

- 8.1 Hedging derivatives: breakdown by type and level
- 8.2 Hedging derivatives: breakdown by hedged item and type

SECTION 9 – ADJUSTMENTS TO GENERICALLY HEDGED FINANCIAL ASSETS – CAPTION 90

- 9.1 Adjustments to hedged assets: breakdown by hedged portfolio
- 9.2 Assets hedged generically against interest rate risk

SECTION 10 – EQUITY INVESTMENTS – CAPTION 100

- 10.1 Investments in subsidiaries and associates and interests in joint ventures
- 10.2 Investments in subsidiaries and associates and interests in joint ventures: accounting disclosures

- C.2.3 Transfers with associated liabilities having recourse on the transferred assets: fair value

o B. Financial assets transferred and fully derecognised with recognition of continuing involvement

D. Disclosure on unconsolidated structured entities (other than securitisation SPVs)

QUALITATIVE DISCLOSURE

QUANTITATIVE DISCLOSURE

E. Transfers

E.3 TRANSFERS WITH ASSOCIATED LIABILITIES HAVING RECOURSE ON THE TRANSFERRED ASSETS: FAIR VALUE

B. Financial assets transferred and fully derecognised with recognition of continuing involvement

QUALITATIVE DISCLOSURE

QUANTITATIVE DISCLOSURE

C.4 COVERED BOND TRANSACTIONS

F. Credit risk measurement models

SECTION 2 – MARKET RISK

2.1 INTEREST RATE AND PRICE RISK – SUPERVISORY TRADING BOOK

- 2. Supervisory trading book: breakdown of exposure in equity instruments and share indexes by main stock exchange
- 3. Supervisory trading book: internal models and other methodologies used to analyse sensitivity

2.2 INTEREST RATE AND PRICE RISK – BANKING BOOK

- 2. Banking book: internal models and other methodologies for sensitivity analyses

2.3 CURRENCY RISK

- 2. Internal models and other methodologies for sensitivity analyses

2.4 DERIVATIVES

- A. Financial derivatives
  - *A.2 Banking book: reporting date notional amounts and average amounts*
  - *A.6 OTC financial derivatives - supervisory trading book: notional amounts, gross fair value gains and losses by counterparty - contracts included in netting agreements;*
  - *A.7 OTC financial derivatives - banking book: notional amounts, gross fair value gains and losses by counterparty - contracts not included in netting agreements;*
  - *A.8 OTC financial derivatives - banking book: notional amounts, gross fair value gains and losses by counterparty - contracts included in netting agreements*
  - *A.10 OTC financial derivatives: counterparty/financial risk - Internal models*
- B. Credit derivatives
- C. Financial and credit derivatives

PART G – BUSINESS COMBINATIONS

Property

PROPERTY	REVALUATION as per Law no. 72/83	REVALUATION as per Law no. 218/90	REVALUATION as per Law no. 413/91	GROSS AMOUNT	including value of land	including value of buildings	CARRYING AMOUNT BUILDINGS
Fermo Via Don E. Ricci, 1	1,011,739.07	2,017,280.65	401,803.47	3,498,627.99	349,862.81	3,148,765.18	544,293.94
Fermo Campoleggio Corso Marconi, 19	103,291.38	274,755.07	42,865.92	432,750.15	43,275.02	389,475.13	71,464.68
Fermo Campoleggio - extension Corso Marconi, 19	-	-	1,549.37	19,039.38	1,903.94	17,135.44	1,922.75
Carassai Piazza Leopardi 8/9	25,822.84	24,273.47	11,362.05	66,563.76	8,653.29	57,910.47	7,750.73
Cupramarittima Via E. Ruzzi, 9	-	211,230.87	47,514.03	436,910.79	-	436,910.79	66,467.79
Grottazzolina Via Verdi, 5	51,645.69	32,020.33	25,306.39	124,894.81	-	124,894.81	14,331.70
Montegranaro P.zza Mazzini	175,595.35	47,867.29	41,501.96	200,509.38	-	200,509.38	22,342.27
Monterubbiano Piazza Calzecchi Onesti, 9	46,481.12	63,007.74	18,592.45	131,741.32	13,174.13	118,567.19	18,360.01
Monte San Pietrangeli Via S. Antonio, 6	-	64,040.66	4,131.66	140,636.48	-	140,636.48	35,159.18
Montottone Piazza Leopardi, 8	37,184.90	29,954.50	14,977.25	85,204.37	10,224.52	74,979.85	9,884.94
Monturano Via Gramsci, 32/A	232,405.60	583,079.84	129,114.22	1,058,503.84	158,775.58	899,728.26	151,341.18
Petritoli Via Mannocchi Tornabuoni, 25	28,405.13	88,314.13	12,911.42	135,285.44	13,528.54	121,756.90	22,775.78
Falerone fraz. Piane di Falerone Viale of Resistenza, 95	51,645.69	205,549.85	26,339.30	301,981.85	75,495.47	226,486.38	43,479.26
Porto S. Elpidio Via S. Giovanni Bosco, 10	180,759.91	203,484.02	76,952.08	487,019.99	97,404.00	389,615.99	56,087.19
Porto S. Elpidio - Restructuring Via Marina, 1	180,759.91	167,848.49	81,600.19	499,256.17	70,224.58	429,031.59	79,392.81
Porto S. Giorgio - head office Via Annibal Caro, 11	-	2,471,246.26	73,853.34	5,703,013.66	1,140,602.74	4,562,410.92	999,810.22
S.Elpidio a Mare Via Rome, 31	129,114.22	523,170.84	65,590.03	764,747.17	-	764,747.17	147,190.15
S.Elpidio a Mare 1981 extension Via Rome, 31	-	-	34,602.61	127,207.59	-	127,207.59	8,650.63
S.Elpidio a Mare 1983 extension Via Rome, 31	-	-	33,569.70	139,393.78	-	139,393.78	8,392.44
Fermo P.zza Mascagni, 4	154,937.07	211,747.33	66,106.48	455,484.95	-	455,484.95	69,463.52
Fermo - P.zza Mascagni 1984 extension	-	-	5,164.57	25,169.18	-	25,169.18	1,491.12
Fermo Via Ognissanti	-	11,878.51	4,648.11	29,035.21	3,484.22	25,550.99	3,635.88
Fermo Corso Cavour, 104	-	1,066,999.95	217,428.35	2,647,791.16	264,779.13	2,383,012.03	379,337.04
S.Elpidio a mare - Casette d'Ete C. Garibaldi, 3	-	203,484.02	83,149.56	678,504.31	33,925.22	644,579.09	82,966.58
Fermo V.le Trento, 182	-	3,083,247.69	601,672.29	7,454,739.36	1,490,947.88	5,963,791.48	957,561.73
S.Benedetto del Tronto Via Liberazione, 190	-	820,650.01	211,230.87	2,356,260.19	164,938.21	2,191,321.98	326,129.38

PROPERTY	REVALUATION			GROSS AMOUNT	including value of land	including value of buildings	CARRYING AMOUNT BUILDINGS
	as per Law no. 72/83	as per Law no. 218/90	as per Law no. 413/91				
Civitanova Marche Via cairoli, 22	-	388,375.59	30,987.41	804,859.80	-	804,859.80	154,955.40
Porto S. Elpidio - Restructuring Piazza Giovanni XXIII, 14	232,405.60	108,455.95	-	419,019.11	-	419,019.11	301,857.81
Fermo V.le Ciccolungo area	-	-	-	0.01	-	0.01	-
Grottazzolina Via Fonterotta	-	-	-	476,932.12	-	476,932.12	476,932.12
Pescara Piazza Duca d'Aosta, 30	-	-	-	1,908,478.18	-	1,908,478.18	534,373.81
Montegranaro Via Gramsci	-	-	-	465,720.02	-	465,720.02	221,217.02
Recanati Santacroce 34/E	-	-	-	301,285.46	60,257.09	241,028.37	114,488.51
Rome Via Puglie 15/21	-	-	-	2,932,724.03	-	2,932,724.03	1,832,952.53
Colli del Tronto Via Matteotti, 2	-	-	-	342,295.20	-	342,295.20	215,722.21
Porto S. Elpidio - Restructuring Via S. Giovanni Bosco, 10	-	-	-	497,084.46	99,416.89	397,667.57	248,542.20
Fermo - Loc. Molini Girola	-	-	-	30,250.00	6,050.00	24,200.00	17,240.08
Falerone fraz. Piane - Restructuring Viale of Resistenza, 95	-	-	-	111,836.61	-	111,836.61	84,984.63
Montegiorgio - Loc. Piane Via A. Einstein, 8	-	-	-	869,227.16	116,000.00	753,227.16	662,011.37
Fermo Via G. da Palestrina 13/19	-	-	-	418,945.49	-	418,945.49	367,289.53
Fermo Piazza del Popolo, 38	-	-	-	16,400.00	-	16,400.00	14,694.40
San Benedetto del Tronto Via Francesco Fiscaletti	-	-	-	918,260.22	-	918,260.22	835,433.14
Recanati Via Villa Musone snc	-	-	-	306,356.00	-	306,356.00	286,350.95
TOTAL	**2,642,193.48**	**12,901,963.06**	**2,364,525.08**	**38,819,946.15**	**4,222,923.26**	**34,597,022.89**	**10,498,728.61**

List of equity investments recognised in the available-for-sale financial assets portfolio

OTHER INVESTMENTS	Carrying amount 31/12/2015	Changes in 2016			Carrying amount 31/12/2016	of which for revaluation or transfer	of which measurement
		(+) Purchases	(-) Sales	(+/-) measurement			
SEDA -Soc. Elaborazione Dati S.p.A.	0.00	0.00	0.00	0.00	0.00	0.00	0.00
BANCA D'ITALIA	3,250,000.00	0.00	0.00	0.00	3,250,000.00	0.00	0.00
Intesa Sanpaolo S.p.A.	125,088.42	0.00	0.00	-27,788.92	97,299.50	0.00	1,173.92
SIA S.p.A.	161,770.00	0.00	0.00	0.00	161,770.00	0.00	139,703.54
Alipicene S.r.l.	2,582.00	0.00	0.00	0.00	2,582.00	0.00	0.00
S.W.I.F.T. - Brussels	2,529.08	0.00	0.00	0.00	2,529.08	0.00	0.00
Fermano Leader s.c.a.r.l	3,000.00	0.00	0.00	0.00	3,000.00	0.00	0.00
CSE Consorzio Servizi Bancari S.r.l.	5,156,000.00	0.00	0.00	0.00	5,156,000.00	0.00	76,000.00
CARICESE	20,000.00	0.00	0.00	0.00	20,000.00	0.00	0.00
CONFIDICOOP MARCHE	100,000.00	0.00	0.00	0.00	100,000.00	0.00	0.00
Schema Volontario c/o FITD (C.R.CESENA)	0.00	401,696.68	0.00	-97,698.37	303,998.31	0.00	-97,698.37
Italian Dream Factory S.r.l.	956,400.00	0.00	-640,607.00	0.00	315,793.00	0.00	0.00
TOTAL AS PER ACCOUNTING RECORDS	**9,777,369.50**	**401,696.68**	**-640,607.00**	**-125,487.29**	**9,412,971.89**	**0.00**	**119,179.09**

List of bonds issued at the reporting date

Bond issue ISIN number	Issue date	Maturity date	Amount €'000
ISIN "IT 0004885999"	21/01/2013	21/01/2017	30,000
ISIN "IT 0004918279"	06/05/2013	06/05/2017	11,687
ISIN "IT 0004923980"	05/06/2013	05/06/2017	13,104
ISIN "IT 0004961238"	30/09/2013	30/09/2017	11,957
ISIN "IT 0004985948"	03/01/2014	03/01/2017	9,406
ISIN "IT 0004991037"	06/02/2014	06/02/2018	15,000
ISIN "IT 0004991029"	06/02/2014	06/02/2017	2,421
ISIN "IT 0004998891"	03/03/2014	03/03/2018	25,312
ISIN "IT 0004998883"	03/03/2014	03/03/2017	3,497
ISIN "IT 0005055014"	03/09/2014	03/09/2017	9,375
Total			**131,759**

During 2016, bond issues of €87,846 thousand matured while no new issues were made.

The bank has not issued bonus shares, bonds convertible into shares, subordinated bonds or securities or similar instruments.

Furthermore, the bank has not issued own bank drafts as it has entered into specific agreements for the issue of third party bank drafts.

Treasury and cash services provided

Treasury services	
Body	**Municipality**
Municipality of Carassai	Carassai (AP)
Municipality of Fermo	FERMO
Municipality of Grottazzolina	Grottazzolina (FM)
Municipality of Lapedona	Lapedona (FM)
Municipality of M. Vidon Combatte	Monte Vidon Combatte (FM)
Municipality of M.S. Pietrangeli	Monte S. Pietrangeli (FM)
Municipality of Monsampietro Morico	Monsampietro Morico (FM)
Municipality of Monte Giberto	Monte Giberto (FM)
Municipality of Montefiore dell'Aso	Montefiore dell'Aso (AP)
Municipality of Monteleone	Monteleone di Fermo (FM)
Municipality of Monterubbiano	Monterubbiano (FM)
Municipality of Montottone	Montottone (FM)
Municipality of Moresco	Moresco (FM)
Municipality di Pedaso	Pedaso (FM)
Municipality of Petritoli	Petritoli (FM)
Municipality of Ponzano di Fermo	Ponzano di Fermo (FM)
Municipality of Porto San Giorgio	Porto San Giorgio (FM)
Municipality of Rapagnano	Rapagnano (FM)
Municipality of Ripe San Ginesio	Ripe San Ginesio (MC)
Municipality of Sant'Elpidio a Mare	Sant'Elpidio a Mare (FM)
Municipality of Servigliano	Servigliano (FM)
Municipality of Torre San Patrizio	Torre S. Patrizio (FM)
Province of Fermo	FERMO

Cash services	
Body	**Municipality**
Camera di Commercio I.A.A. di FERMO	FERMO
Casa Riposo Sassatelli	FERMO
Camera di Commercio I.A.A. - AZ. FERMO PROMUOVE	FERMO
Cons.Intercom.Servizio Samaltimento Rifiuti Solidi Urbani T.S. Patrizio	Torre San Patrizio (FM)
Conservatorio Musicale "G.B. Pergolesi"	FERMO
Ente Regionale per l'Abitazione Pubblica	FERMO
Istituto Tecnico Industriale Statale "G. Montani"	FERMO
Liceo Ginnasio "Annibal Caro"	FERMO
Mercato Ittico	Porto San Giorgio (FM)
Fondazione "G. Didari"	Francavilla D'Ete (FM)
Fondazione Ric. Montegranaro	Montegranaro (FM)
Ospizio Marino	FERMO
Pia Casa "F. Falconi"	Sant'Elpidio a Mare (FM)
Ordine Dottori Commercialisti ed Esperti Contabili	FERMO