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

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

2017 ANNUAL REPORT

- CONTENTS -

BOARD OF DIRECTORS
Meeting of 27 March 2018

Directors’ report

Dear shareholders,

Cassa di Risparmio di Fermo celebrated its 160th anniversary this year, being set up on 29 April 1857 as you will well remember.

The bank has grown steadily over these 160 years and strengthened its foothold in its local area. Households and businesses have always found a friendly bank willing to contribute to the community's social and economic development.

The board of directors decided to celebrate this important anniversary with a project designed to express the bank's tangible support of the people uprooted by the 2016 earthquake that destroyed the southern part of the Marche region.

A symbolic gesture to demonstrate the bank's care for the areas worst hit through the restoration of a building of significant importance to the community the bank serves.

Restoration of the Santuario della Madonna dell'Ambro (Santuary of the Madonna dell'Ambro), which will be completed in 2018, symbolises the essence and depth of the relationship that has traditionally bound the bank to this area.

2017 was also a very important year for Cassa di Risparmio di Fermo due to far-reaching organisational changes that affected the entire bank from the branches to the head office.

Early in the year, it rolled out the new service model which is the cornerstone of its operations and has been designed to create the conditions necessary for the bank to develop its business in a more controlled environment with tight budgeting.

The new model has assisted the circulation of a management culture throughout the bank network, with staff aware of their responsibility for and engaged in achieving the qualitative and quantitative growth objectives.

The closer tie between the decision-makers and the branches (including the smaller ones) has been fundamental to boost the branches' production, positively contributing to the bank's overall results.

These results, which are analysed in more detail later in this report, confirm the validity of the bank's decisions; in fact, all its asset captions have increased significantly.

Direct funding has grown, confirming customers' trust in the bank as a safe resort for their savings in a difficult regional banking context.

Indirect funding also increased, especially managed funds products, demonstrating the sales network's excellent work.

The lending business has grown at a rate well above that of the other Italian banks. At regional level, where this segment plummeted, the bank saw an increase in its loans disbursed, confirming its prominent role and relationship with households and local businesses. Asset quality improved as shown by the fact that non-performing exposures (NPE) recognised by the bank were stable compared to the previous year end.

The 2016 Annual Report referred to Italy's continued economic difficulties which were aggravated by the uncommon length of the crisis, although the first signs of a reversal in the negative trend were seen and were in line with expectations. The Marche region's economy was worse placed than most of the other areas in the country.

The August 2016 earthquake had a devastating effect on local business with some companies forced to close. Figures for 2017 confirm these difficulties but also the affected people's strong intention to overcome their difficulties.

The global economy's expansionary trend is widespread and strong although inflation continues to be fundamentally weak. Short-term growth prospects are positive.

They are even better in the Eurozone where according to the most recent forecasts of the European System of Central Banks (ESCB, the Eurosystem), GDP should grow by 2.3% in 2018. While concerns about deflation have abated, inflation continues to be low at 1.4% in December. Core inflation is weak, held back by the slow growth in salaries in many Eurozone countries.

Inflation is slowly increasing, although it struggles to return to the ECB's hoped-for levels.

The monetary policy has stimulated 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 initial measures with the 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 awaited an upturn in the economy.

These measures have had the hoped-for effects, except for a decent rise in inflation.

In 2017, given the changed improved general situation, the ECB recalibrated its monetary policy tools. It intends to taper by the end of 2018 although it will maintain very expansionary monetary conditions, deemed necessary for the long-lasting return of inflation to below but around 2%.

The Italian GDP grew 1.6% in 2017, confirming an upwards trend which is, however, still lower than the average European performance. This improvement affected the services and industrial sectors with data indicating that business confidence has returned to pre-recession levels. This was confirmed by the upturn in investments made in the second half of the year.

The Marche region's economic situation continues to be 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.

Third quarter figures confirm the region's weak economic performance despite the signs of improvement seen in the previous months. In line with 2016, internal demand continued to pick up in the three months alongside more positive foreign demand, although this varied.

During the year, the banking sector saw signs of recovery in the lending business. Loans to households jumped and those to businesses also increased, especially to manufacturing companies. Large internal resources and the growing trend to issue bonds held back businesses' demand for credit.

Credit quality has continued to improve on the back of the stronger economy. The ratio of non-performing exposures to total loans decreased although this was mostly due to the completion of the sale of such NPEs. At the end of the year, net NPEs had decreased by 25.8% as a result of the de-risking process performed by the Italian banks to eliminated the worst quality NPEs.

The bank's equity ratios improved.

The banking sector did not note any particular difficulties in the funding business and according to the ABI's (Italian Banking Association) previews, this was in line with the previous year. The drop in bond issues affected the end result offset by a large increase in current account deposits.

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.

Given the continued adverse situation of the Marche region's economy, the bank strengthened its controls over credit risk to include safeguards designed to anticipate customers' financial difficulties. At the same time, its commercial policy has been designed to split up credit risk, promoting especially house purchase loans and, through specific ceilings, loans to businesses, albeit with an extremely cautious approach.

Loans increased by 3.8% over the previous year which was better than the sector's rate of +1.85% and much better than the regional decrease of 8%.

Alongside the very positive increase in the lending business, net NPEs decreased by 3.15% on the previous year end after many years of continuous and uninterrupted growth.

Investments made a strong contribution to the bank's results although they were affected by the frequent tensions on the markets. Returns on the bank's entire portfolio were obviously impacted by the reduction in coupon flows but also benefited from the diversification in investments made possible mainly as a result of the management mandate given to Epsilon SGR, an Intesa Sanpaolo Group company, to diversify the bank's assets in terms of the products, markets and currencies.

Direct funding improved again, repeating the excellent results of the previous years to reach €1,468.7 million (+1.4%), thanks to customers' confidence in the bank's solidity.

Indirect funding also achieved new goals amounting to €1,192 million (+6.9% on 31 December 2016), with a 44.4% increase in assets under management.

During the year, the bank had to make sizeable non-recurring contributions to the funds set up to assist banks in difficulties (€1.1 million) and this significantly affected its profit for the year.

Despite the continued considerable difficulties encountered by major Italian and international banks in 2017 and the onerous contributions to the Resolution Funds, Carifermo managed to make a profit of more than €4.8 million for the year.

International situation

The international macroeconomic context progressively showed a general convergence to a common growth path during the year. The phase of the economic cycle commenced after the 2008-2009 financial crisis took the form of synchronised global recovery with growth recorded by all the main economies.

The major advanced economies saw ongoing growth in the third quarter of the year and this situation continued in the last few months of the year. 2017 was the eighth consecutive year of development for the US with sustained growth demonstrated by its GDP at +2.3% compared to +1.5% in 2016 and an unemployment rate at a historic low of 4%.

Private consumption in the UK picked up and leading indicators point to a growth rate for the last three months of the year in line with the average of the previous three quarters.

The most up-to-date economic data for Japan show that the economy picked up speed in the fourth quarter of the year.

The recovery recorded in the first half of 2017 by the emerging economies continued throughout the year. GDP accelerated in India during the summer and it maintained its stable growth rate already seen in recent years. Other major economies like Brazil and Russia saw an about-turn in their trends, mainly starting from the summer, and have recorded growth after a long tough recessionary period.

Growth remained stable in China in the last few months of the year after its economy outperformed expectations in the previous three quarters.

Growth in the Eurozone picked up speed and this recovery spread more strongly to its peripheral members.

The synchronised recovery at global level can seen from the upturn in global trade, which grew 3.5% in the third quarter of the year with a faster pace for Eurozone's imports and those of the emerging Asian economies other than China.

Oil prices have risen since the end of September 2017 driven by lively global demand and the ongoing agreement between the main oil producing countries to contain offer. Other factors were the gradual utilisation of the global oil stocks and the geopolitical tensions in the Middle East and Venezuela. The Brent price (USD/bbl) increased from USD56.74 at the end of 2016 to USD66.64 at the end of 2017. This rise in prices has encouraged US production from non-conventional sources with prices peaking in November. The greater offer of crude oil eased possible pressures on the demand side.

After the French elections in May 2017, there was a large drop in the political risk premium assigned by the markets to the Eurozone during the Euro crisis which culminated with the UK's June 2016 Brexit referendum.

The clearest evidence that the market was much more optimistic in 2017 was the sharp decline in volatility, which fell to the lows of the mature phases of the previous cycles. This benefited the government bonds of the peripheral Eurozone states.

The global economy's recovery was not flanked by a similar upturn in inflation, which is why the central banks continued their accommodating policies during the year.

The Federal Reserve raised the interest rates three times in March, June and December for a total of 75 bps in the US. The Fed Funds corridor ended the year at between 1.25% and 1.50%, well below the maximum rates of previous economic cycles. In October, the Federal Reserve started to reduce the liquidity available in the system, i.e., securities that it had purchased during the quantitative easing period. In addition, President Trump decided not to renew Janet Yellon as chair of the Federal Reserve, replacing her with Jerome Powel, who was already a member of the board of governors and is one of the "doves", who promoted a lower interest rate policy in the recent past to bolster the economy.

On the other hand, the ECB continued to inject liquidity into the market with its asset purchase programme. The budget was decreased in April 2017 from €80 billion to €60 billion a month. In October 2017, the ECB announced it would extend the QE until September 2018 but purchases would be decreased to €30 billion a month starting from January 2018.

The Bank of Japan confirmed its ultra-expansionary policy and was the sole large central bank not to indicate that it would cut back the economic stimuli.

The other events that characterised 2017 included the scant progress made in the Brexit negotiations after the surprise elections called in June 2017 by the Prime Minister Theresa May to consolidate her majority which instead weakened her position.

To complete the overview of Europe, the uncertain outcome of the German elections and the tensions in Spain about the Catalan independence referendum in the last quarter of the year also deserve mention.

Shinzo Abe did extremely well in the early Japanese elections of October 2017 winning a two-thirds majority in the parliament and extension of his mandate until 2021.

The National Congress of the Communist Party of China confirmed Xi Jinping as leader of the party and the country for the next few years.

The tensions between the international community and North Korea did not significantly affect the market.

FINANCIAL MARKET TRENDS

The global bond markets ended the year with a positive performance in local currency of 1.3% which becomes negative if translated into Euros at -6.2% due to fluctuations in the Euro exchange rate. The emerging economies performed the best with a rise of 8.3% in local currency but this decreases to -4.9% if translated into Euros. The Eurozone also did well at +0.4% while the US recorded a +2.5% increase in US dollars and a decrease of -10% if translated into Euros.

The global stock exchanges also performed very well with profits up 18.5% in local currency. However, translated into Euros, this profit decreases to 7.5%. The emerging economies recorded the largest increase with profits of 30.6% in local currency (20.6% in Euros), followed by the US at +21.2% (+6.4% after being translated into Euros) and the Eurozone at +12.5%.

The Euro appreciated significantly during the year against the other main currencies, such as, for example, the US dollar (+13.8%), the Yen (+10%) and the pound sterling (+4%).

ITALY

Italy's GDP for the fourth quarter of the year, adjusted by calendar effects, increased by 0.3% on the previous quarter and by 1.6% on the same three months of 2016. 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, as did the net export demand.

The industrial production index increased by 1.6% in December compared to November 2017. The average increase for the last quarter of the year was 0.8% on the previous quarter. Production increased by 3.0% on the previous year as an average. The index adjusted for calendar effects showed a significant increase in operating assets, intermediate goods and consumables in December while the energy sector recorded a decrease.

In December, the sectors showing the most year-on-year growth were machinery and equipment manufacturers, other manufacturing industries, machine and equipment repair and installation sectors, metal working and metal product sectors. The computer, electronics and optical sectors saw decreases as did the electro-medical equipment manufacturers, the mining industry and energy providers.

Overall, exports and imports both increased in 2017 both as an amount (7.4% and 9.0%, respectively) and volumes (3.1% and 2.6%, respectively). The upturn in exports related to both the non-EU (+8.2%) and EU countries (+6.7%). The trade surplus amounted to €47.5 billion, including the energy products' negative balance of €33.5 billion.

In 2017, Italy's exports to Spain, the US and Switzerland grew by 10.2%, 9.8% and 8.7% and to a lesser extent Germany and France (+6.0% and +4.9%, respectively). Sales to China and Russia jumped 22.2% and 19.3%, respectively.

The sectors that contributed the most to this increase in exports were the pharmaceutical products (+16.0%), motor vehicles (+11.3%) and foodstuffs (+7.5%). Sales of other manufactured goods also grew (+5.7%) as did those of machinery and equipment (+5.4%).

In December 2017, the import price index for imported industrial goods increased by 0.4% on November and 1.6% on December 2016.

On average, consumer prices grew by 1.2% in 2017 after a slight decrease of 0.1% in 2016. Core inflation, net of energy and food products, rose 0.7%, a tiny bit higher than the 2016 increase of 0.5%.

At year end, employment figures were slightly more encouraging with an annual increase of 0.8% or 173 thousand workers based on the ISTAT (the Italian National Institute of Statistics) data. The growth was concentrated on workers with fixed term contracts (+303 thousand units) while those with open-ended contracts decreased by 105 thousand units. At the end of December 2017, the ISTAT figures showed that the unemployment rate had decreased by 8.9% (-273 thousand units) but inactive persons increased by 0.3% (+ 34 thousand units).

MARCHE REGION

The cyclical recovery, which picked up pace in Italy in the first three quarters of the year, continued to be weak in the Marche region. Its performance has been below the national average since the beginning of the 2008 crisis and is held back by the specialised nature of its businesses, which engage in traditional production and are characterised by many small companies.

The regional economy is still reeling from the effects of the 2016 earthquakes which hit the southern part of the region particularly hard. The companies located in this area have been affected by the smaller flows of tourists and the general logistical difficulties created by the earthquakes. The economy should start to recover once the reconstruction work sites become operational but their start-up has currently been deferred in many cases.

A Bank of Italy survey showed that the short-term outlook of the local companies in all sectors is optimistic.

Industrial production decreased by roughly 0.8%[1] in the third quarter of 2017 compared to the same three months of the previous year. This negative trend affected nearly all production sectors, except for footwear and rubber and plastic, which recorded modest growth.

Third quarter figures confirm the continued weak economic performance despite the signs of improvement seen in the previous months. In line with 2016, internal demand continued to pick up in the three months alongside more positive foreign demand, although this varied.

Commercial activities in the third quarter of 2017 were quite positive: sales in real terms grew 0.8% compared to the same period of 2016 with a reasonably satisfactory performance on the domestic market, bettered by sales made abroad.

Sales on the domestic market increased by 0.5% compared to the third quarter of 2016 with positive results for all sectors except for foodstuffs and wood and furniture.

Foreign sales grew by 1.1% compared to the three-month period from July to September 2016. All the sectors saw improvements apart from the fashion sector.

There was a small increase in prices and the cost of purchasing raw materials, which were modest both on the domestic and foreign markets.

The sales trend for the next few months should reflect the steady economic improvement in Italy and abroad.

This recovery has not yet spread to the smaller sized companies and has mostly been seen by the more structured companies with better innovation capacity and a consolidated presence on foreign markets.

The capital accumulation process is gradually gaining speed although it continues to be modest

---

[1]Source: Confindustria Marche's (the regional branch of the General Confederation of Italian Industry) quarterly survey

compared to the pre-crisis period.

Production is slow to pick up in the construction sector, which has benefited from the building restructuring work encouraged by the tax incentives. However, new construction work is scarce. The large stock of unsold properties continues to hold back the construction sector and push prices down although this situation is gradually changing.

The tertiary sector has shown signs of improvement.

Company profitability levels are positive and not far off the pre-crisis situation and this has encouraged companies to finance the slight upturn in production using internal resources. In fact, corporate loans have decreased slightly.

The average employment rate for the third quarter of 2017 showed a modest decrease (-0.3%) compared to the second quarter. Utilisation of government-sponsored lay-off schemes decreased by 58.6% in terms of hours compared to the same period of 2016 with a reduction in resort to both the ordinary and extraordinary scheme.

Bank loans to customers resident in the region contracted sharply until the end of November[2]. The drop in corporate loans was only marginally offset by the increase in loans to households (+1.6%).

The credit quality indicators are slowly improving.

Bank deposits continued to grow, up 2.5% at the end of November 2017, especially the more liquid component, as did the managed funds products.

THE ITALIAN BANKING SYSTEM

Lending to the private sector increased in 2017. Corporate demand for loans bolstered by the upturn in investments was partly offset by the larger internal resources available and the companies' greater resort to bond issues. Credit quality continued to improve and the percentage of NPEs decreased again.

The equity indicators improved considerably.

At year end, bank loans had increased and based on preliminary estimates total loans to Italian residents[3] amounted to €1,785.9 billion, up 2.4% on 31 December 2016 including securitised loans.

Loans to households and non-financial companies amounted to €1,376.5 billion at year end. According to the estimates made using Bank of Italy data, the year-on-year increase in these loans, including securitised loans, is 2.3%, continuing the positive trend recorded by all loans.

Loans to households grew by 2.8% in November 2017 or 3.4% compared to the end of November 2016 confirming the renewed interest in loans, which started with the jump in new loans, based on data about existing loans.

This rise in loans to households was assisted by both consumer credit, especially in northern Italy, and house purchase loans, which grew at the same pace throughout the country. The increase in the latter loans was assisted by the rise in household income and the continued low interest rates.

The spread between the average lending and funding rates for households and non-financial companies was 180 bps in December 2017. The average spread for the year was 184 bps compared to 198 bps for 2016.

Non-performing loans, net of impairment losses, amounted to €66.3 billion in November 2017, showing a large reduction on 31 December 2016 when they amounted to €86.8 billion.

They decreased by approximately €19 billion on November 2016 due partly to the large number of factoring without recourse transactions.

[2] Source ABI - "Il mercato del credito nelle Marche" - February 2018
[3] Private sector plus public administrations less repurchase agreements with central counterparties

The ratio of net non-performing loans to total loans was 3.74% compared to 4.80% in 2016.

Funding from customers received by all Italian banks, consisting of deposits from resident customers including bonds, decreased by just €158 million or 0.01% on the previous year end.

Specifically, bank funding from resident customers amounted to €1,727.9 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 3.6% during the year or €50.5 billion to €1,444.7 billion at year end.

In line with previous years, bonds decreased by 15.2% or approximately €51 billion to roughly €283.1 billion.

The statistics prepared by the ESCB show that the average interest rate on bank funding from customers was 0.89% in December 2017. The rate applied to Euro deposits of households and non-financial companies was 0.39% while that on bonds was 2.60% and the interest rate on repurchase agreements was 1.15%.

The operating profit of significant banking groups for the first three quarters of 2017, net of the non-recurring component, grew 5.9% compared to the corresponding period of 2016. Total income increased by 1.1%: the positive performance of other revenue (+5.1%), which includes net fee and commission income and net trading income, more than offset the reduction in net interest income of 3.1%. The reduction in personnel expense led to a decrease of 1.2% in operating costs, which decreased as a percentage of total income from 68.3% to 65.9% for the year.

Impairment losses on loans and receivables decreased by 11.6%.

At 30 September 2017, common equity tier 1 (CET1) capital of the significant banking groups was 13.2% of the risk-weighted assets, a strong improvement on 30 June 2017 (11.8%).[4]

[4] This trend was assisted by the precautionary recapitalisation of the Monte dei Paschi di Siena Group (by roughly 80 bps) and the sale of a business unit by the UniCredit Group.

The bank's operations

In 2017, the bank undertook a far-reaching reorganisation of its sales network and head office to boost its quality and production output as well as to streamline its commercial activities.

Accordingly, it rolled out the new service model after laying the groundwork in 2016 with an extensive feasibility study and fine-tuning project involving all the network departments and the head office.

Over the last few years, the banks' (including Carifermo) strong dependence on the results of their financing activities and the slow but unstoppable decline in net interest income have shown the urgent need to strengthen recurring sources of income to stabilise their results, as far as possible, as an essential new source.

The bank's related project fully complies with its business plan and has entailed 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 and developed.

The bank's key objective was to maintain and even strengthen its local roots with a widespread network that promotes the bank's mission as the key local bank for the region.

The new distribution model entails a more efficient and flexible organisational structure, poised to fully exploit the various distribution 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 while continuing to comply with head office guidance and this will reflect on the spoke branches. 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 when necessary.

Following a very positive and successful trial period at a hub branch, the bank decided on the next openings, which were completed by the end of March 2017.

During 2017, the six work groups set up in the previous year to bridge any existing organisational gaps completed their work and the entire bank was active with the new organisational model by the end of March.

The figures that will be presented in more detail later in this report show that the commercial thrust was extended to all the bank's operating departments. Direct and indirect funding and lending all increased at rates above the national average for the banking sector and, especially, those of the Marche region in line thanks to an approach that was never based on volumes but rather focused on high quality products.

The increase in managed funds products reflected this trend and should generate an ongoing improvement in revenue and an increase in loans which will stabilise cash inflows, allow higher risk splitting, safer lending and greater customer retention.

During the year, the bank complied with the extensive legislative innovations which entailed a costly internal compliance exercise.

In order to analyse the effects of applying IFRS 9, the bank increased the controls over credit risk and introduced more prudent investigations of new loan applications.

It rolled out far-reaching organisational changes 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.

During the year, the bank introduced an application used for on-line communications between itself and its legal advisors managing credit collection. The application has digitalised the collection process that commences once legal measures have been taken and allows the bank to analyse the status of the collection process in real time, check on any progress made and evaluate the situation carefully and concisely.

The bank signed an agreement with Generale Gestione Crediti during the year for the collection of small NPEs. The credit collection company recovers the loans out of court through actions with the customer to obtain payment without resorting to legal action. In short, its activities include:

1. structured written payment reminders;
2. professional telephone follow-up calls;
3. direct follow-up action taken by credit protection agents;
4. follow-up requests by internal legal staff to settle the position out-of-court, while concurrently laying the groundwork for subsequent legal action, if necessary.

The complexity of the bank's operations, which is partly due to the unstable legislative framework and the lack of a clear interpretation of the principle of proportionality, requires it to have a very qualified organisational structure, production processes and conduct in line with the relevant legislation, respectful of customers' interest and consistent with its business plan.

Specifically, the bank focused on introducing and supporting 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.

On 19 June 2017, Legislative decree no. 90 of 25 May 2017 was published in the Official Journal transposing Directive (EU) no. 2015/849 (the "Fourth AML Directive) into Italian law, amending the Italian legislation on anti-money laundering and the financing of terrorism. The bank started a project to fully comply with this Legislative decree and, specifically, commenced the following activities useful and/or essential for this purpose:

a. introduction of enhanced due diligence procedures for transactions performed by customers that may follow cross-border capital movements;

b. communication to the branches of the new and wider definition of politically exposed persons;

c. 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 all personnel at the branches and head office.

During the year, maintenance work on the buildings affected by the earthquakes which damaged nearly all the areas where the bank has its branches continued.

The bank also commenced the activities to align the hub branches with the new distribution model's requirements. This involved the significant restructuring of the Monte Urano and Civitanova branches to comply with the new branch layout and entailed the use of space that was idle.

The bank's treasury and cash service provided to local bodies continued to be very intense and profitable. 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 through its treasury services.

At year end, the bank managed 23 treasury services and 12 cash services, including for two schools and the Fermo Chamber of Commerce. In December 2017, it was awarded the contract for the treasury service for the Montegiorgio and Campofilone municipalities which it started in January 2018.

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 2017, 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 31/12/2017	including hubs
Marche	Fermo	28	5
Marche	Ascoli Piceno	11	1
Marche	Macerata	13	2
Marche	Ancona	2	0
Abruzzo	Teramo	2	0
Abruzzo	Pescara	1	1
Lazio	Rome	3	1

In addition to that described about the renovation of the Monte Urano and Civitanova branches, the bank continued its work for the ongoing improvement and enhancement of its properties, both owned and leased, in order to primarily improve their working and comply promptly with the laws about occupational safety.

The bank's owned property used for operations has a surface of roughly 25,879 square metres while its leased property has a total surface of roughly 6,980 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 387 employees, excluding the cleaner, eight more than at the end of 2016, as follows:

	31/12/2017	31/12/2016	31/12/2015
Managers:	2	2	2
Junior managers (3rd and 4th level):	43	42	42
Junior managers (1st and 2nd level):	63	62	58
3nd professional area:	276	270	276
2nd professional area:	3	3	3
Total	**387**	**379**	**381**
Cleaning staff	*1*	*1*	*1*

In 2017, 12 employees left the bank while 20 people joined it.

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

Changes in the workforce					
	31/12/2017	**2017 departures**	**2017 entries**	**Changes in employment contracts**	**31/12/2016**
Managers	2	0	0	0	2
Junior managers (3rd and 4th level)	43	2	1	2	42
Junior managers (1st and 2nd level)	63	1	0	2	62
3rd professional area	276	9	18	-3	270
2nd professional area	3	0	1	-1	3
Total	**387**	**12**	**20**	**0**	**379**

At year end, the bank had 30 employees with part-time contracts, compared to 27 at the end of 2016. It had 17 employees with fixed-term contracts.

The workforce includes 268 employees (69.25%) at the branches and the other 119 (39.75%) at the head office.

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

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

Specific highly renowned training courses were held for staff with the direct participation of training companies and prestigious Italian universities. The courses were mainly provided to employees selling financial products, analysts and credit department staff.

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 build up the specific skills of personnel holding particularly important positions, also considering the legislative discontinuities which require ongoing refresher courses;
2. to provide professional training about new products and services, especially those of a financial nature;
3. to prepare for classroom exams on the key new AML legislation for all employees.

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, used mainly for insurance sector and AML training.

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 74.3% of the total, despite their preference for managed funds products.

The internet banking service, which includes on-line trading, is well met by customers and 22,950 customers had activated the service at year end compared to 20,178 at the end of 2016 (+13.7%).

The bank also provides corporate banking services to businesses alongside its internet banking service, designed for individuals. At 31 December 2017, 5,440 businesses had registered with this service compared to 5,252 at the end of 2016 (+6.6%).

The ATM service has 1,909 machines compared to 1,716 at the end of 2016 with transaction volumes up 27.0% on an annual basis.

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

2017 ATM DEPOSITS				
	No. of transactions		**Amount (€'000)**	
	2017	**2016**	**2017**	**2016**
Cash	64,933	55,668	115,727	101,178
Cheques	28,366	29,153	35,201	35,339

Deposits increased by 10.5% to €150.9 million compared to €136.5 million in 2016.

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 control's 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 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 Internal Audit Unit has focused more on assessing the bank's internal controls.

When urged to do so by the Internal Audit Unit, 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 during the year aimed at measuring and controlling the different types of risk in line with the instructions issued by the board of directors and the supervisory authorities.

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 period 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 on a statistical basis 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 collective 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 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 its destruction, either unintentionally or intentionally.

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.

Recovery plan

The Italian central bank set out instructions to implement Title IV, Chapter 01-I of the Consolidated Banking Act and Title IV, Chapter I-bis of the Consolidated Finance Act with its measure of 16 February 2017. The two Acts establish the banks' requirement to draw up recovery plans as per Directive no. 2014/59/EU (the Banking Recovery and Resolution Directive - BRRD). Bank of Italy's measure provides that banks identified as "less significant institutions" may adhere to simplified recovery plan obligations and sets out the minimum content that these banks shall include in their plans.

The board of directors examined the Italian central bank's measure and content in its meeting of 1 March 2017. The bank acknowledges the importance of preparing a recovery plan to be independently implemented should its situation deteriorate with the first trigger signs in order not to reach the stage of irreversibility when the regulator would have to either wind up the bank or put it in compulsory liquidation. Adoption of an effective recovery plan is a useful tool to prevent a crisis situation and essential for the bank's governance.

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 period 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 CSE (Banking services consortium), 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 2017, was assigned to Nike Consulting 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 for the important operating functions outsourced to Caricese was assigned to BDO Italia S.p.A..

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 14 May 2015, 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. 37803/15.

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 predicate crimes, assisted by the supervisory body which checks its working, effectiveness and compliance. The body also ensures that it is up to date.

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.

Legislative decree no. 231 of 21 November 2007 - Prevention of the use of the financial system for the purpose of money laundering and terrorist financing

In June 2017, Legislative decree no. 90/2017 transposed Directive (EU) no. 2015/849 into Italian law on the prevention of the use of the financial system for the purposes of money laundering and terrorist financing. It also implemented the amendment to Directives nos. 2005/60/EC and 2006/70/EC and implemented Regulation (EU) no. 2015/847 on the information accompanying transfers of funds which repeals Regulation (EC) no. 1781/2006 (the Fourth Directive). The bank is updating its processes and procedures, assisted by its IT outsourcer, to comply with these changes. All the bank employees received special training on the new issues introduced by Legislative decree no. 90/2017 in November and December.

The risk-based approach (RBA) establishes that the degree and scope of the customer due diligence requirements vary depending on the degree of risk of money laundering and terrorist financing. Customers are classified into four risk categories and subjected to different types of due diligence. Certain customers are considered to be more exposed to the risk of money laundering and/or terrorist financing due to the nature of their business activities and/or business sector, their characteristics and/or those of their owners and/or control chain. The various degrees of due diligence include escalation of the authorisation powers and/or stricter monitoring and controls depending on the customer.

During the year, the bank adjusted some profiling rules to introduce tougher and more extensive due diligence measures applicable in particular to the gaming sector, no profit bodies, cash-for-gold businesses, money transfers, trusts and fiduciaries.

In line with the bank's new service model, which introduced new distribution network positions, the board of directors adopted an AML regulation, which it updates regularly and which sets out responsibilities, duties and operating methods to manage risk. This regulation can be easily accessed by all personnel and describes the controls on a principle of proportionality basis in line with the size, organisation, characteristics and complexity of the bank's operations.

In April 2017, it completed the second 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 28 April 2017. 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	
	31/12/2017	30/06/2017	31/12/2016	Amount	%	Amount	%
Current accounts	124,088	138,065	140,423	-13,977	-10.1%	-16,335	-11.6%
Postal current accounts	3,349	2,085	1,218	1,264	60.6%	2,131	175.0%
Financing for advances	135,349	135,450	137,611	-101	-0.1%	-2,262	-1.6%
Loans	606,090	575,548	557,581	30,542	5.3%	48,509	8.7%
Subsidies not settled through current accounts	52,814	42,415	52,291	10,399	24.5%	523	1.0%
Loans against pledges	62	140	63	-78	-55.7%	-1	-1.6%
Salary-backed loans	0	0	0	0	0.0%	0	0.0%
Non-performing loans	59,973	57,222	54,326	2,751	4.8%	5,647	10.4%
Portfolio risk	323	274	237	49	17.9%	86	36.3%
Treasury transactions	10	176	2,811	-166	-94.3%	-2,801	-99.6%
Total lending	**982,058**	**951,375**	**946,561**	**30,683**	**3.2%**	**35,497**	**3.8%**
- of which in Euros	981,171	951,081	945,404	30,090	3.2%	35,767	3.8%
- of which in foreign currency	887	294	1,157	593	201.7%	-270	-23.3%

Table 1

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

A quick look at the figures in Table 1 shows the large increase in loans, with a clear about-turn compared to the negative trend of the last few years.

The more than satisfactory performance of the lending business includes the 8.7% increase in loans to €48.5 million, thanks to the targeted commercial policies planned with the sales network to build up this sector alongside a significant reduction in the related risks. The most risky component, current accounts, decreased.

The deterioration of credit quality affecting the entire banking sector is worrying. 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 (PD) of the bank's performing loans remained substantially stable thanks to its ongoing careful borrower selection process. The expected loss rate was in line with that of the previous year which indicates that the cost of credit may decrease in the next few years.

The bank assessed its problem loans very prudently in line with the policy issued in 2015.

Therefore, once again in 2017, the bank confirmed its role as a the major reference bank for the local households and businesses for which it took all steps possible to ensure that they did not have to do without financial assistance in this very difficult period, compatibly with their individual credit worthiness.

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

The lending business reversed the downwards trend seen in previous years, with a 3.8% improvement over 2016 for a total lending volume of €982,058 thousand compared to €946,521 thousand for 2016 on a consistent basis and net of impairment losses, affected by the general economic performance as noted earlier.

An analysis of lending by product confirms the recovery of growth, first seen in the previous year, of the longer-term products due to the precise guidelines set out in the commercial policy;

they amounted to €606,090 thousand compared to €557,581 thousand at the end of 2016, an increase of €48,509 thousand or 8.7%.

Renegotiated performing loans, as part of collective agreements, amounted to €2,469 thousand at year end compared to the 31 December 2016 balance of €3,207 thousand.

Current accounts amounted to €124,088 thousand at year end, down 11.6% on the previous year end, due to the weak demand, especially in the business sector confirmed by the reduction in advances from €137,611 thousand at 31 December 2016 to €135,349 thousand at the reporting date (-1.6%). This was entirely due to the ongoing negative economic situation which penalises companies' turnover, tying up their capital. Statistics for bills presented for collection or under reserve show an annual increase of 6.0% (number of transactions) and by 8.1% (amounts involved).

Subsidies not settled through current accounts increased slightly to €52,814 thousand compared to €52,291 thousand at the end of 2016.

The bank did not use derivatives to hedge interest rate risks on fixed rate loans during the year, also because of the 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		Gross	Individual impairment lo	Collective impairment lo	Net
412000	Construction of residential and non-residential buildings	85,777,782.69	11,656,002.80	700,610.55	73,421,169.34
681000	Buying and selling of own real estate	53,242,023.76	5,598,509.51	510,203.07	47,133,311.18
682001	Property leases	37,235,615.88	1,690,670.50	201,891.64	35,343,053.74
152010	Footwear	29,608,721.79	1,590,071.26	443,073.51	27,575,577.02
152000	Footwear	23,766,433.30	4,455,470.41	202,972.60	19,107,990.29
551000	Hotels and similar structures	13,850,743.47	289,997.10	145,185.23	13,415,561.14
471120	Supermarkets	12,220,637.50	869.92	86,479.68	12,133,287.90
152020	Leather parts for footwear	11,544,221.49	212,818.71	107,204.88	11,224,197.90
561011	Catering	8,291,652.67	209,983.96	83,298.20	7,998,370.51
591400	Film projection activities	6,936,907.58	225,298.94	957.60	6,710,651.04
462410	Wholesale of leather and raw and worked skins (excluding fur skins)	7,589,868.29	1,013,780.38	42,018.98	6,534,068.93
682002	Business leases	6,579,471.16	125,403.20	64,052.17	6,390,015.79
451101	Wholesale and retail sale of cars and light vehicles	6,610,336.81	536,478.67	67,727.58	6,006,130.56
464610	Wholesale of medical products	6,016,169.67	-	50,785.53	5,965,384.14
464240	Wholesale of footwear and accessories	5,963,294.74	305,962.69	75,736.81	5,581,595.24
310200	Production of kitchen furniture	5,584,770.88	44,920.37	35,828.69	5,504,021.82
	Total - utilisations of more than €5 million	320,828,651.68	27,956,238.42	2,818,026.72	290,044,386.54

Table 3

Credit quality did not change significantly compared to the previous year end. Total gross non-performed loans improved slightly.

Gross non-performing loans amounted to €200.4 million compared to €201.3 million at 31 December 2016, equal to more than 18% of the total loans to customers. This percentage shows the need to contain these non-performing loans and return them to normal levels. The bank is heavily involved in projects to significantly improve the percentage through:

1. transfers of smaller exposures to leading credit collection companies;
2. internal workout activities;
3. studies of the sale of worse-quality loans.

After years of continuous increases in non-performing exposures, this trend finally stopped in 2017.

Non-performing loans, net of impairment losses, which include bad, unlikely to pay and past due loans, decreased by 3.9% to €120.3 thousand over 31 December 2016, equal to 12.2% of total loans.

The coverage rate of non-performing loans increased from 38.2% to 40% in 2017.

Gross past due loans decreased from €7.8 million to €2.2 million with a coverage rate of 12.2%.

The unlikely to pay loans, including expected credit losses, amounted to €71.2 million compared to €77.3 million at 31 December 2016, with a coverage rate of 17.9%.

Bad loans amounted to €127,067 thousand at 31 December 2017 compared to €116.078 thousand at the end of 2016, including estimated credit losses, while accumulated impairment losses accounted for 52.8% of the total.

An analysis of irregular loans shows that the percentage of new loans reclassified as bad increased during the year and amounted to €18,262 thousand, including €13,272 thousand of loans previously classified as unlikely to pay or past due.

On the other hand, collections received during the year decreased to €5,666 thousand compared to €6,322 thousand at 31 December 2016, directly offsetting bad loans.

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

LOANS AND RECEIVABLES WITH CUSTOMERS - NPE					
		31/12/2017	**31/12/2016**	**Difference Amount**	**Difference %**
NON-PERFORMING EXPOSURES	Gross amount	200,414	201,251	-837	-0.42%
	Impairment losses	80,128	77,059	3,069	3.98%
	Carrying amount	**120,286**	**124,192**	**-3,906**	**-3.15%**
coverage rate		39.98%	38.29%		
Bad exposures	Gross amount	127,067	116,076	10,991	9.47%
	Impairment losses	67,092	61,749	5,343	8.65%
	Carrying amount	**59,975**	**54,327**	**5,648**	**10.40%**
coverage rate		52.80%	53.20%		
Unlikely to pay exposures	Gross amount	71,160	77,352	-6,192	-8.00%
	Impairment losses	12,769	14,561	-1,792	-12.31%
	Carrying amount	**58,391**	**62,791**	**-4,400**	**-7.01%**
coverage rate		17.94%	18.82%		
Past due exposures	Gross amount	2,187	7,823	-5,636	-72.04%
	Impairment losses	267	749	-482	-64.35%
	Carrying amount	**1,920**	**7,074**	**-5,154**	**-72.86%**
coverage rate		12.21%	9.57%		

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.

The resulting expected losses did not change significantly compared to the previous year.

The implicit risk on performing loans, covered by the allowance for collective impairment losses, was €8,017 thousand at year end, up on the €7,549 thousand balance at 31 December 2016. 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.

The Loans Office includes a special unit which monitors credit to identify any customers with potential financial difficulties and coordinate the related cure treatment together with the relevant branch. Monitoring of credit risk, both for loans and endorsement credit, involves use of a special application which automatically identifies irregularities on a daily basis based on the individual customer's performance and any irregularities shown by external data bases.

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 special 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 Loans 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 the workout 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 51 contracts worth €5,225 thousand in addition to four contracts agreed with Alba Leasing for €460 thousand.

Credit cards: the bank was again very active in this sector with a total 16,944 credit cards issued at year end (+301). It reviewed its issue of Viacard and Telepass cards, including in organisational terms, with 9,771 cards issued at year end, an increase of 273 cards over 31 December 2016.

Consumer credit: during the year, consumer credit granted by the bank through major specialised companies increased in terms of the number of transactions and amounts involved. Specifically, the amounts increased by 25.3% from €3,163 thousand to €3,965 thousand.

Investments

Interest rates continued to be heavily impacted by the ECB's decision to extend the duration of its QE programme although it reduced the monthly amounts.

The 3-month Euribor was an average -0.33% and was stable throughout the year.

The 10-year IRS rate continued to be positive and improved slightly from 0.75% in January to 0.83% in December[5]. Compared to the previous year, which reached monthly average peaks of 0.43%, the rate's performance in 2017 shows the markets' anticipation of future increases.

[5]The percentages refer to monthly averages.

Therefore, the spread between the 10-year IRS and the 3-month Euribor widened again in 2017 from 105 bps in 2016 to 116 bps at year end.

This trend shows the financial markets' increasing concerns about a possible global hike in interest rates.

Share price indexes were again very sensitive to the publication of macro data and especially data about inflation rather than statements made by central banks which are clearly intentioned to easing back their expansionary policies to start a reverse policy designed to eliminate the risk of being behind the curve.

The forecasts of tougher financial conditions did not affect the share price indexes which mostly improved. The US S&P 500 index recorded a year-on-year increase of more than 19%. The DAX grew by over 12% and the FTSE MIB by more than 13%. The Asian indexes surprised all the analysts with increases of 19% and 36% for the Nikkei and Hang Seng indexes, respectively.

Volatility was modest throughout the year. The VIX index fluctuated in a rather tight range with a maximum of 16 bps in April.

The Euro remained stable for most of the year except towards the end of 2017 when it appreciated considerably, especially against the US dollar. At year end, the Euro/US dollar exchange rate was 1.20 compared to 1.05 at the end of 2016, up 14.1%.

Despite the political uncertainty caused by the English elections, which added additional issues to the pot, the Euro/pound sterling exchange rate increased by 3.8%.

In the above context, the bank continued its policy introduced in 2016 to diversify and decorrelate to a greater extent its portfolio in terms of the amounts and allocation strategies.

Asset management: given the positive results achieved by the assets under management transferred to Epsylon SGR in terms of diversification and returns, the bank transferred another €20 million. It confirmed the investment limits set in the management mandate given the financial markets' general conditions as follows:

1. the portfolio's maximum duration: 3 years;
2. equities: 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%.

During the year, the portfolio included equities for 8% with a 1.75 year-term, corporate bonds for 40%, global bonds for 7% and government bonds for 7%.

The equities component was increased early in the year to 12% while it decreased to roughly 8% in the second half of the year.

The bonds component was more stable with a duration of between 1.5 and 2 years. The duration of bonds in currencies other than the Euro, especially US government bonds, was kept at around six months, including through resort to derivatives.

The managed portfolio included short futures on the German curve partly to obtain a spread position comparable to the US government bonds.

The portfolio recorded a performance of 1.05% with the largest contribution from the bonds component, followed by the equities mainly due to the bank's exposure to emerging markets and the US, which was partly sterilised by options purchased during the year.

The main negative driver was the foreign currency component which decreased the portfolio's performance by around 50 bps, mostly due to the weak US dollar.

In October, the board of directors assigned a short-term bond management mandate of €30 million with the aim of using available liquidity, which is usually invested at the Eonia rate.

The portfolio included Italian government bonds (70%), other Euro government bonds (6%), investment grade corporate bonds (16%) and high yield bonds (5%).

The mandate's duration is of less than one year and the return was 0.01% in line with the set objectives.

The bank decided to invest another two tranches of €10 million each in the European Loan fund managed by M&G, a global asset management market leader. It thus increased its units held in this fund to €30 million.

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 investment objectives and related diversification 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 and European Loan fund 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.

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 one year and 302 days and an average residual life of four years and five 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	
	31/12/2017	31/12/2016	amount	%
BOT Italian treasury bills and zero coupon	40,342	16,861	23,481	139.26%
CCT Italian treasury certificates	103,099	198,768	-95,669	-48.13%
BTP Italian treasury bonds	182,978	225,537	-42,559	-18.87%
Bonds	133,802	112,502	21,300	18.93%
Equities	51,736	20844	30,892	148.21%
Total	**511,957**	**574,512**	**-62,555**	**-10.89%**

Table 5

Table 5 shows the reclassification made during the year, leading to a large 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 €1,150 thousand compared to a fair value loss of €104 thousand, both recognised in profit or loss

Changes in the trading book generated net trading income of €1,361 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 net trading income of €5,718 thousand recognised in profit or loss, thus partly using the previously set-up reserve.

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. Net of collections, the carrying amount of the investment is €315 thousand.

During the year, the bank recognised non-controlling interests in Cassa di Risparmio di Rimini and Cassa di Risparmio di San Miniato as part of the voluntary procedure under the Interbank Deposit Protection Fund. This was in addition to the investments in Cassa di Risparmio di Cesena S.p.A. of €402 thousand recognised in its 2016 financial statements as part of the investee's recapitalisation again in relation to the Interbank Deposit Protection Fund. After the due diligence performed by the Interbank Deposit Protection Fund on the three banks, the bank recognised impairment losses of €1,142 thousand on all three investments in profit or loss.

In 2017, the bank increased its investment in Bank of Italy acquiring another 170 shares to join the 130 shares already held at the end of 2016.

As a result of the above transactions, the bank had equity investments of €13,425 thousand at year end compared to €9,413 thousand at 31 December 2016.

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:

After the problems arising from the crises of many banks based in central Italy, customers clearly appreciated the value added of the bank's solid position and its reputable products.

These factors clearly gave it a strong competitive advantage, which especially assisted the bank when competitors offered their products at absolutely off-market conditions.

Direct funding increased and the bank's objective was to constantly and solely focus on cost-effective products.

It grew considerably over the year even though the related interest rates had to be aligned with the continued negative market rates leading to zero interest in some cases.

There were other issues affecting funding during the year including 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 funding, measured at its carrying amount, underwent the following changes:

Breakdown of direct funding by product							
				Half year difference		Annual difference	
	31/12/2017	30/06/2017	31/12/2016	Amount	%	Amount	%
Savings deposits	124,206	125,891	127,586	- 1,685	-1.3%	- 3,380	-2.6%
Current accounts	1,211,338	1,127,911	1,078,265	83,427	7.4%	133,073	12.3%
Certificates of deposit	97,570	109,428	116,516	- 11,858	-10.8%	- 18,946	-16.3%
Bonds	35,556	56,354	125,561	- 20,798	-36.9%	- 90,005	-71.7%
Third party funds under administration	75	-	-	75	//	75	//
Total direct funding	**1,468,745**	**1,419,584**	**1,447,928**	**49,161**	**3.5%**	**20,817**	**1.4%**

Table 6

Overall, direct funding amounted to €1,468,745 thousand, an increase on an annual basis of €20,817 thousand or +1.4%.

The next table shows the total amount of funding by business segment with more than 58% coming from households.

Type SAE		Amount	% OF TOTAL
4	COMPANIES	418,927	28.523%
61	ARTISANS AND FAMILY BUSINESSES	130,166	8.862%
60	HOUSEHOLDS	857,255	58.366%
99	OTHER	62,397	4.248%
	TOTAL	**1,468,745**	**100.000%**

Table 7

Euro and foreign currency current account overdraft runs, which are the most important product, increased by €133,073 thousand (+12.3%) to €1,211,338 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.

Savings products, which are increasingly obsolete and less requested by customers, lost ground slightly at €124,206 thousand.

The bank did not deem that the conditions for new bond issues existed in 2017 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 to €35,556 thousand. Certificates of deposit also decreased to €97,570 thousand showing customers' reluctance to purchase products with very small returns which are also penalised in tax terms.

At year end, the bank has two bond issues as described in the annexes to the financial statements. They are both redeemable in the first quarter of 2018.

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:

	31/12/2017	30/06/2017	31/12/2016	Half year difference		Annual difference	
				Amount	%	Amount	%
Government bonds	161,921	177,876	200,191	-15,955	-8.97%	-38,270	-19.12%
Bonds	57,745	90,497	100,643	-32,752	-36.19%	-42,898	-42.62%
Equities	86,850	86,291	83,623	559	0.65%	3,227	3.86%
Total administered funds	**306,516**	**354,664**	**384,457**	**-48,148**	**-13.58%**	**-77,941**	**-20.27%**
Funds and OEICs	474,492	416,791	319,384	57,701	13.84%	155,108	48.56%
Asset management	18,073	19,535	21,830	-1,462	-7.48%	-3,757	-17.21%
Total managed funds	***492,565***	***436,326***	***341,214***	***56,239***	***12.89%***	***151,351***	***44.36%***
Total indirect funding	***799,081***	***790,990***	***725,671***	***8,091***	***1.02%***	***73,410***	***10.12%***
Insurance and pension products	393,010	389,827	389,675	3,183	0.82%	3,335	0.86%
Total	**1,192,091**	**1,180,817**	**1,115,346**	**11,274**	**0.95%**	**76,745**	**6.88%**

Table 8

Indirect funding increased at year end to €1,192,091 thousand compared to €1,115,346 thousand at 31 December 2016 (+6.9%).

A breakdown of indirect funding, compared to that at 31 December 2016, shows customers' increasingly smaller interest in administered funds. The bank promptly identified this trend and has responded by offering very qualified products without a speculative component that best meet the average customer's requirements.

Direct investments in bonds and equities lost 20.3%, partly due to investors' increased uncertainty about the market and difficulties in identifying remunerative investments and the risk of possible, significant reversals on government bonds, given the interest rate curve trend.

In line with forecasts, the managed funds business performed very well with year-on-year growth of 44.4%, consolidating the 25.4% increase recorded at the end of 2016, thanks to the bank's offer of selected managed savings products that reflected the profiles of the investors (as shown by the related numbers) interested in these instruments.

Net funding from mutual funds and OEIC units confirmed the trend already seen at the end of 2016 at €155,108 thousand compared to €69,433 thousand at 31 December 2016.

Following resolution of the technical issues holding back activation, the bank started to sell life insurance policies at the end of the year. Thanks to the competent sales structure, this should complement the bank's products.

At year end, insurance and pension products amounted to a positive €393,010 thousand.

INCOME STATEMENT

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

	2017	2016	Difference	
			Amount	%
Net interest income	28,063	30,466	-2,403	-7.89%
Net operating income	64,823	63,032	1,791	2.84%
Operating costs	-50,239	-49,721	-518	1.04%
Operating profit	14,584	13,311	1,273	9.56%
Pre-tax profit from continuing operations	7,330	6,732	598	8.88%
Profit for the year	4,825	5,235	-410	-7.83%

Table 9

The individual balances are shown below:

Net interest income

	2017	2016	Difference	
			Amount	%
Interest income:	***32,523***	***38,275***	***-5,752***	***-15.03%***
- Ordinary customers	27,740	31,302	-3,562	-11.38%
- Securities portfolio	4,757	6,966	-2,209	-31.71%
- Banks	26	7	19	271.43%
Interest expense:	***-4,460***	***-7,809***	***3,349***	***-42.89%***
- Ordinary customers	-2,235	-3,442	1,207	-35.07%
- Bonds	-2,046	-4,086	2,040	-49.93%
- Banks	-179	-281	102	-36.30%
Net interest income	**28,063**	**30,466**	**-2,403**	**-7.89%**

Table 10

Net interest income amounted to €28,063 thousand, a drop of 7.9% on the previous year.

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.

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

Income on the investment in the M&G Fund (details of the amounts involved and the scope of this investment are given elsewhere in this report) was recognised in caption 70 "Dividends and other income" in the income statement as it qualifies as dividends.

However, given the scope of the investment, the income could be reclassified to caption 10 "Interest and other income". This would have meant that net interest income would only have decreased by 5.2%.

The average annual rate paid on direct funding was 0.32% compared to the average 0.54% at the end of 2016, a drop of 0.25 bps, and the 2016 year-end rate was 25%.

Interest income from ordinary customers went from an average 3.51% in 2016 to an average rate of 3.09% in 2017 equal to an average annual reduction of 42 bps. The rate was 2.87%.

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 2.78% down 18 bps:

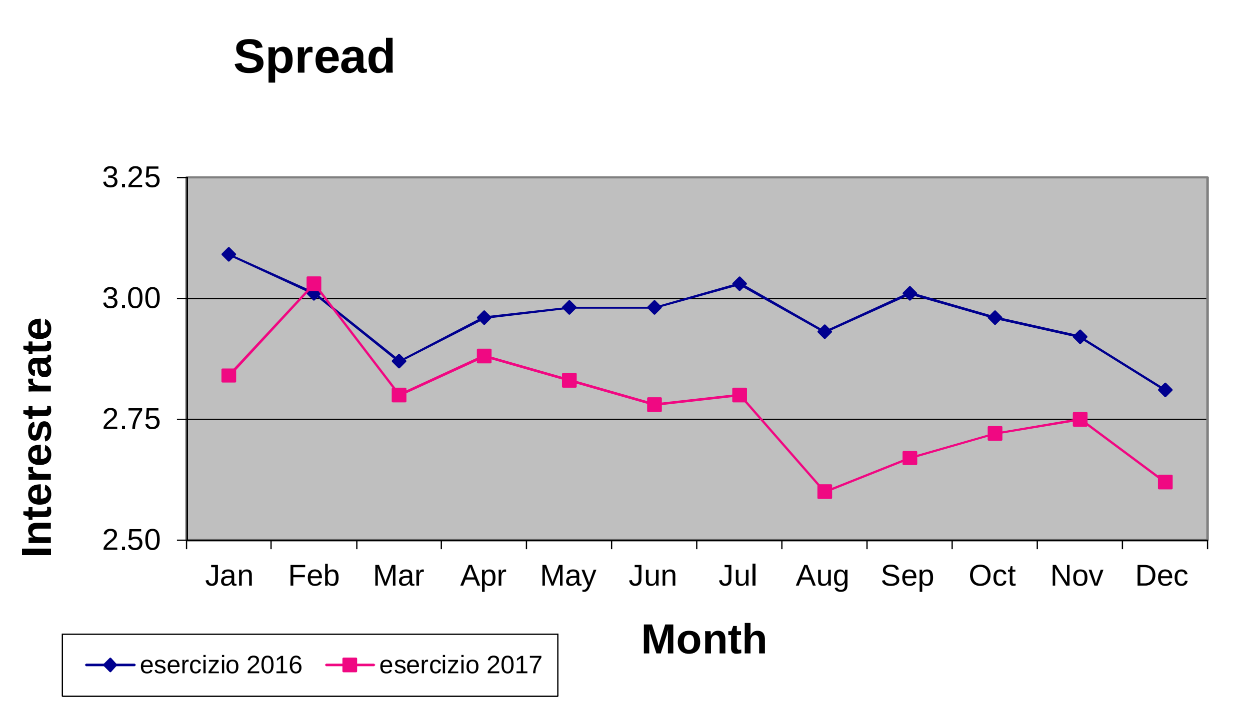

Table 11

NET OPERATING INCOME

	2017	2016	Difference	
			Amount	%
Net interest income	**28,063**	**30,466**	**-2,403**	**-7.89%**
Dividends	1,991	650	1,341	206.31%
Net fee and commission income	22,363	21,216	1,147	5.41%
Net trading income	5,976	6,972	-996	-14.29%
Net gains on financial assets and liabilities at fair value through profit or loss	0	0	0	0.00%
Other operating income	6,430	3,728	2,702	72.48%
Net operating income	**64,823**	**63,032**	**1,791**	**2.84%**

Table 12

Net operating income of €64,823 thousand increased on the previous year.

Dividends collected grew significantly from €650 thousand for 2015 to €1,991 thousand for the year, up €1,341 thousand boosted by collection of income from the M&G Fund as described earlier.

Net fee and commission income increased by 5.4% to €22,363 thousand for the year. As part of this caption, securities placement commissions, increased from €3,013 thousand to €4,196 thousand due to the considerable rise in managed funds products, while fee and commission income earned on the distribution of third party products went from €3,082 thousand to €3,182 thousand, due to the sale of insurance products and credit cards.

Fees and commissions on current account services decreased slightly to €9,304 thousand while fee and commission income on collection and payment services increased to €3,137 thousand.

Net trading income amounted to €5,976 thousand, down €996 thousand on the balance of €6,972 thousand for 2016. This decrease was affected by the gain on securities trading of €2,086 thousand, the fair value gain on the HFT portfolio of €1,150 thousand, the gain of €5,717 thousand on the AFS portfolio and the loss of €2,476 thousand on derivatives.

The loss on derivative trading was closely related to the asset management mandate given to Epsylon SGR, whose financial instruments, classified in the AFS portfolio, recorded net gains of €513 thousand, recognised in a specific reserve, net of deferred taxes.

Other operating income of €6,430 thousand included settlement of the insurance claim after quantification of the damage to the bank caused by the earthquakes in 2016.

OPERATING PROFIT

	2017	2016	Difference	
			Amount	%
Net operating income	**64,823**	**63,032**	**1,791**	**2.84%**
Personnel expense	-28,018	-27,906	-112	-0.40%
Administrative expenses	-20,588	-20,176	-412	-2.04%
Amortisation and depreciation	-1,633	-1,639	6	0.37%
Operating costs	**-50,239**	**-49,721**	**-518**	**1.04%**
Operating profit	**14,584**	**13,311**	**1,273**	**9.56%**

Table 13

The operating profit for the year was €14,585 thousand compared to €13,311 thousand for 2016 (+9.6%).

The caption includes a small increase in personnel expense (€112 thousand), and the administrative expenses, amortisation and depreciation saw a similar trend.

Administrative expenses include the non-recurring cost of a settlement agreement with a law firm that is winding up its activities. They comprise:

Increase:

1. maintenance and repairs, from €749 thousand to €1,147 thousand for the year due to maintenance work carried out at the Monte Urano and Civitanova branches for their transformation into hubs. Many other smaller maintenance projects were carried out as a result of damage to buildings caused by the 2016 earthquakes;
2. credit collection legal fees from €1,581 thousand to €1,971 thousand due to the above-mentioned termination of the bank's relationship with a law firm that wound up its activities.

Decrease:

1. leases, from €1,079 thousand to €980 thousand for 2017 as a result of the intense, profitable renegotiations of leases started in 2016 which are now fully showing their effects;
2. lighting and heating, from €547 thousand to €477 thousand;
3. insurance, from €403 thousand to €342 thousand;
4. advertising and marketing, from €518 thousand to €377 thousand due to the reorganisation of the bank's advertising policies;
5. ordinary and non-recurring amounts paid to the Interbank Deposit Protection Fund, down from €1,643 thousand to €1,048 thousand after recognition of non-recurring costs of €1,142 thousand for 2017 in caption 130.b) Impairment losses on available-for-sale financial assets rather than in caption 150.b) Other administrative expenses like in previous years.

Pre-tax profit from continuing operations

	2017	2016	Difference	
			Amount	%
Operating profit	**14,584**	**13,311**	**1,273**	**9.56%**
Net accruals to provisions for risks and charges	-966	-47	-919	-1955.32%
Net impairment losses on loans	-5,205	-6,535	1,330	20.35%
Net impairment losses on other assets	-1,142	0	-1,142	0.00%
Gains on held-to-maturity and other investments	59	3	56	1866.67%
Pre-tax profit from continuing operations	**7,330**	**6,732**	**598**	**8.88%**

Table 14

The pre-tax profit from continuing operations amounted to €7,330 thousand compared to €6,732 thousand for 2016.

Net accruals to provisions for risks and charges of €966 thousand mostly reflect the specific accrual for projects approved and to be commenced in 2018 for the bank's 160th anniversary. This accrual was made by reducing the advertising costs the bank usually incurs during the year. It preferred to concentrate all its advertising and marketing activities to promote its reputation in one far-reaching campaign of great impact and visibility: the restoration of the Santuario della Madonna dell'Ambro. The accruals also reflect the bank's prudent assessment of the risks of ongoing legal disputes and claw-back claims as well as other sundry operating risks and charges.

At the date of approval of the financial statements, the bank was not aware of events or circumstances that would have led it to change its accruals.

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 systematic 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 rate of irregular loans increased from 38.3% for 2015 to 40%.

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 increased slightly by 0.91% on the previous year. Net impairment losses amounted to €502 thousand.

Overall, the bank had to counter the drop in credit quality by recognising individual impairment losses and credit losses of €12,122 thousand, partially offset however by reversals of impairment losses of €7,409 thousand.

The net balance of impairment losses was €5,205 thousand, a decrease compared to €6,535 thousand recognised for 2016.

The cost of credit was 0.55%, better than the 0.69% for the previous year.

PROFIT FOR THE YEAR:

	2017	2016	Difference	
			Amount	%
Pre-tax profit from continuing operations	**7,330**	**6,732**	**598**	**8.88%**
Income taxes	-2,505	-1,497	-1,008	-67.33%
Profit (loss) from discontinued operations	0	0	0	0.00%
Profit for the year	**4,825**	**5,235**	**-410**	**-7.83%**

Table 15

Estimated direct IRES and IRAP taxes for the year came to €2,085 thousand (€1,596 thousand and €489 thousand, respectively) compared to €1,446 thousand for 2016.

The elimination of fiscally-driven entries led to the reversal of deferred taxes for a balance of €654 thousand.

Reimbursements of previously claimed tax credits for the deductibility of personnel expenses for IRAP purposes of €234 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 €4,826 thousand.

Comprehensive income for 2017 is €4,136 thousand compared to €710 thousand for the previous year.

The actuarial gains of €32 thousand recognised on post-employment benefits and the supplementary pension fund and the reduction of €722 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 €109,604 thousand, including €9,435 thousand from operations, while financial assets and financial liabilities generated cash of €77,313 thousand and €22,856 thousand, respectively.

Investing activities used cash flows of €764 thousand, mostly due to the purchase of property, equipment and investment property and intangible assets.

Financing activities used cash flows of €2,659 thousand to pay dividends to shareholders in 2017 using the profit for 2016.

As a result, the net cash flows for the year were €106,181 thousand.

Indicators

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

Financial statements indicators	2017	2016
Capitalisation ratios:		
Equity/total assets	9.57%	9.59%
CET 1 capital ratio	15.65%	14.99%
Tier 1 capital ratio	15.65%	14.99%
Total capital ratio	15.65%	15.00%
Non-current assets/equity	9.90%	10.64%
Net non-performing loans/equity	37.10%	34.00%
Own funds/third-party funds	11.01%	11.03%
Risk ratios:		
Net non-performing loans/loans	6.34%	5.74%
Collective impairment losses/performing loans	0.92%	0.91%
Allowance for impairment/total loans	8.52%	8.21%
New non-performing loans ratio	1.88%	0.90%
Profitability ratios:		
Net interest income/total income	48.06%	51.37%
Income from financial transactions/total income	0.46%	11.76%
Cost of credit	0.55%	0.69%
Gross operating profit/equity	9.02%	8.33%
Profit/equity	2.99%	3.28%
Profit/total assets	0.29%	0.31%
Tax ratio	34.17%	22.22%
Net other administrative expenses/total income	26.84%	26.18%
Personnel expense/total income	47.98%	47.06%
Administrative expenses/total income	74.82%	73.23%
Cost/income	77.62%	76.00%
Costs/gains on fair value measurement of securities	79.04%	75.04%
Administrative expenses/total assets	2.88%	2.89%
Productivity - Distribution efficiency		
Loans and receivables with customers/employees	2,440	2,498
Due to customers/employees	3,785	3,820
Total income/average employees	152.269	156.066
Average employees/branches	6.392	6.333
Cost per employee	70.64	70.81
Loans and receivables with customers and due to customers/average employees	6,298	6,301
Loans and receivables with customers and due to customers/branches	40,255	39,908
Branch employees/employees	69.07%	69.39%

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 CET1 ratio improved to 15.65 bps from 14.99 bps for 2016, which was already very satisfactory. This increase is due to the rise in own funds from €160.1 million to €161.7 million and a concurrent decrease in market risks.

The net non-performing loans/equity ratio increased to 37.1% from 34% for the previous year.

The loan risk indicators improved, reflecting a situation that requires attention. Non-performing loans made up 6.3% of total loans. Despite this, the bank has increased its loan coverage rate from 8.2% in 2016 to 8.5%.

The performing loans indicator continues to be very positive at 0.92%.

The new non-performing loans indicator decreased from 0.90% to 1.88%.

The cost/income ratio is 77.6%, a slight worsening on 2016, and is particularly affected by the non-recurring costs incurred with a law firm but however benefited from the different accounting treatment of the non-recurring costs of the contributions to the Interbank Deposit Protection Fund.

That being said, ROE is 2.99%.

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 second 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 to achieve the plan's very ambitious objectives, designed mainly to adjust the recurring income statement captions and provide customers with a more tailored service. During the year, the bank achieved the following objectives:

1. continuation of the new branch layout project which involved the make-over of the Monturano and Civitanova branches;
2. change in the opening hours of some smaller branches;
3. development of the asset management business and activation of the M&G Funds to diversify lending;
4. acquisition of an additional investment in Bank of Italy;
5. set up of a unit to anticipate and prevent credit quality deterioration.

The quantitative objectives for 2017 were based on forecasts made at the end of 2015 by very reputable research institutes, which indicated a significant 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.

Lending, including the allowance for impairment, estimated to amount to €1,073,775 thousand at year end, actually came to €1,070,204 thousand, nearly in line with forecasts.

Direct funding was estimated to amount to €1,249,693 thousand compared to the actual €1,468,745 thousand: a decrease of €219,052 thousand or 17.5%.

Indirect funding, including pension funds and insurance policies, was estimated to amount to €1,365,944 thousand compared to the actual €1,192,091 thousand: a difference of €173,853 thousand or 12.7% due to the technical and communication difficulties in activating the life policy product in the initially planned time frame. Overall, the managed funds products amounted to €492,565 thousand compared to the challenging objective of €487,170 thousand, which the bank managed to achieve and even slightly exceed.

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 mostly from the network's intensified activities to place large amounts of managed funds products and the increase in loans and receivables with customers in a situation where the cost of credit has flattened out considerably.

The bank recorded a profit of €4,826 thousand for the year, in line with the expected €4,927 thousand, despite the unforeseeable non-recurring expenses[6].

Table 17 shows the actual results achieved:

[6] They included the non-recurring contributions to the National Resolution Fund and the cost related to the closure of a local law firm.

	Plan	Actual 2017	Difference	%
Net interest income	33,271	28,063	- 5,208	-15.65%
Revenue from services	24,647	22,363	- 2,284	-9.27%
Other revenue	5,650	6,430	780	13.81%
Net trading income	1,406	7,968	6,562	466.71%
Total income	**64,974**	**64,824**	- 150	-0.23%
Administrative expenses	- 19,527	- 20,588	- 1,061	5.43%
Amortisation and depreciation	- 1,693	- 1,575	118	-6.97%
Personnel expense	- 26,814	- 28,017	- 1,203	4.49%
Operating profit	**16,940**	**14,644**	- 2,296	-13.55%
Impairment losses	- 9,422	- 7,313	2,109	-22.38%
Pre-tax profit from continuing operations	**7,518**	**7,331**	- 187	-2.49%
Income taxes	- 2,591	- 2,505	86	-3.32%
Profit for the year	**4,927**	**4,826**	- 101	-2.05%

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 €5,208 thousand below the plan target, due to the different performance of the interest rate curves and the very positive trend of direct funding which was well above expectations;
2. revenue from services which did not match the plan targets and decreased by €2,284 thousand;
3. financial income greatly above expectations at +€6,562 thousand;
4. total income, substantially in line with the plan thanks to the better-than-expected net financial income;
5. net administrative expenses, which increased by €1,061 thousand compared to the plan targets mainly due to the non-recurring costs incurred to settle transactions with a law firm;
6. impairment losses on loans and receivables that were less than expected by €2,109 thousand due to the significant improvement in credit quality.

Equity did not reach the targeted €170,885 thousand and levelled out at €166,845 thousand. An analysis of the bank's equity shows that the difference of €4,400 thousand between the actual and forecast 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 2018 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 increasing volatility in its results due to changed economic conditions and application of IFRS 9, which could lead to greater volatility in its results given the requirement to apply fair value measurement to an increasingly wider range of assets.

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 its strong reputation and efficiency characteristics that it has built up over the years;
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 non-controlling investor 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 2017 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.

At the same time, own funds went from €160,109 thousand to €161,771 thousand for 2017, which increased the CET1 capital ratio.

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 2018 while the Italian economy should continue its economic and production recovery although the situation continues to be very fragile.

The central banks' expansionary policy is drawing to an end and even the ECB has warned that it will discontinue its asset purchase programme in September 2018, thus ending the monetary expansionary phase that had boosted improvement in market indexes. Therefore, it is increasingly probable that interest rates will move upwards.

Public debt continues to mount up without a solution and the possible rise in interest rates could adversely affect the situation with an increase in debt servicing. 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 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 Euro's strong and unexpected appreciation against the other main currencies makes it more difficult to increase exports.

The earthquake that hit the southern part of the region hard has affected both the local populations and the regional economy.

The bank will continue to implement its business plan and, specifically, will adhere to Bank of Italy's guidelines for NPE management by:

- strengthening its credit process;
- building up revenue to continue the 2017 trend;
- focusing on and containing financial risks;
- dedicating resources to professional training to assist customers.

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

Revenue is expected to increase significantly thanks to net fee and commission income after the strong rise in sales of managed funds products.

The bank will continue to closely monitor its credit risk. The cost of credit is expected to be around the 2017 level, although it will remain high.

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

Net financial income's contribution will steadily 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, may decrease the potential financial risks.

Operating costs are expected to increase somewhat.

Conclusions

To wind up this report, I would like once again to firstly thank all our customers that continue to choose Cassa di Risparmio di Fermo S.p.A. as their bank in definitely not an easy 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 and enthusiastic assistance provided to the board of directors and for her 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, 27 March 2018

STATEMENT OF FINANCIAL POSITION: ASSETS

	Assets	31/12/2017	31/12/2016
10.	Cash and cash equivalents	142,052,261	35,870,911
20.	Financial assets held for trading	254,658,582	327,938,545
30.	Financial assets at fair value through profit or loss	-	-
40.	Available-for-sale financial assets	229,180,118	270,367,831
50.	Held-to-maturity investments	5,000,178	5,000,286
60.	Loans and receivables with banks	18,673,971	17,797,719
70.	Loans and receivables with customers	982,057,725	946,561,434
80.	Hedging derivatives	-	-
90.	Macro-hedging adjustments to financial assets (+/-)	-	-
100.	Equity investments	-	-
110.	Property, equipment and investment property	15,823,418	16,886,886
120.	Intangible assets	179,966	109,829
	including: - goodwill	-	-
130.	Tax assets	19,143,094	21,944,769
	a) current	*5,471,646*	*7,318,696*
	b) deferred	*13,671,448*	*14,626,073*
	including as per Law no. 214/2011	*10,292,093*	*11,238,493*
140.	Non-current assets classified as held for sale and disposal groups	-	-
150.	Other assets	22,672,833	23,957,405
	Total assets	**1,689,442,146**	**1,666,435,615**

STATEMENT OF FINANCIAL POSITION: LIABILITIES

	Liabilities and equity	31/12/2017	31/12/2016
10.	Due to banks	3,116,465	3,306,518
20.	Due to customers	1,335,618,326	1,205,851,785
30.	Securities issued	133,127,070	242,076,309
40.	Financial liabilities held for trading	200,704	654,079
50.	Financial liabilities at fair value through profit or loss	-	-
60.	Hedging derivatives	-	-
70.	Macro-hedging adjustments to financial liabilities (+/-)	-	-
80.	Tax liabilities	4,919,445	5,310,761
	a) current	*3,415,086*	*3,113,141*
	b) deferred	*1,504,359*	*2,197,620*
90.	Liabilities associated with disposal groups	-	-
100.	Other liabilities	23,935,363	22,067,569
110.	Post-employment benefits	8,768,145	9,208,026
120.	Provisions for risks and charges:	13,271,763	12,952,908
	a) pension and similar obligations	*9,334,223*	*9,981,267*
	b) other provisions	*3,937,540*	*2,971,641*
130.	Valuation reserves	12,884,638	13,574,455
140.	Redeemable shares	-	-
150.	Equity instruments	-	-
160.	Reserves	74,872,925	72,295,920
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 (+/-)	4,826,147	5,236,130
	Total liabilities and equity	**1,689,442,146**	**1,666,435,615**

INCOME STATEMENT

		2017	2016
10.	Interest and similar income	32,519,007	38,274,420
20.	Interest and similar expense	- 4,455,526	- 7,807,983
30.	**Net interest income**	**28,063,481**	**30,466,437**
40.	Fee and commission income	23,685,793	22,413,617
50.	Fee and commission expense	- 1,322,593	- 1,197,752
60.	**Net fee and commission income**	**22,363,200**	**21,215,865**
70.	Dividends and similar income	1,990,885	649,730
80.	Net trading income	269,932	804,397
90.	Net hedging income (expense)	-	-
100.	Gain (loss) from sales or repurchases of:	5,707,370	6,168,163
	a) loans and receivables	-	-
	b) available-for-sale financial assets	5,717,789	6,216,236
	c) held-to-maturity investments	-	-
	d) financial liabilities	- 10,419	- 48,073
110.	Net gains (losses) on financial assets and liabilities at fair value through profit or loss	-	-
120.	**Total income**	**58,394,868**	**59,304,592**
130.	Net impairment losses on:	- 6,346,825	- 6,534,944
	a) loans and receivables	*- 5,205,268*	*- 6,534,944*
	b) available-for-sale financial assets	*- 1,141,557*	-
	c) held-to-maturity investments	-	-
	d) other financial transactions	-	-
140.	**Net financial income**	**52,048,043**	**52,769,648**
150.	Administrative expenses	- 48,606,060	- 48,082,233
	a) personnel expense	*- 28,017,960*	*- 27,905,986*
	b) other administrative expenses	*- 20,588,100*	*- 20,176,247*
160.	Net accruals to provisions for risks and charges	- 965,899	- 47,036
170.	Depreciation and net imp. losses on property, equipment and investment property	- 1,546,148	- 1,564,445
180.	Amortisation and net imp. losses on intangible assets	- 87,067	- 74,254
190.	Other operating income	6,429,780	3,727,920
200.	**Operating costs**	**- 44,775,394**	**- 46,040,048**
210.	Gains (losses) on equity investments	-	-
220.	Fair value gains (losses) on property, equipment and invest. property and int. assets	-	-
230.	Impairment losses on goodwill	-	-
240.	Net gains on sales of investments	58,647	2,549
250.	**Pre-tax profit from continuing operations**	**7,331,296**	**6,732,149**
260.	Income taxes	- 2,505,149	- 1,496,019
270.	**Post-tax profit from continuing operations**	**4,826,147**	**5,236,130**
280.	Post-tax profit (loss) from discontinued operations	-	-
290.	**Profit for the year**	**4,826,147**	**5,236,130**

STATEMENT OF COMPREHENSIVE INCOME

		2017	2016
10.	**Profit for the year**	**4,826,147**	**5,236,130**
	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	31,870	- 360,906
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	- 721,687	- 4,164,932
110.	Non-current assets held for sale	-	-
120.	Share of valuation reserves of equity-accounted investees	-	-
130.	**Other comprehensive expense, net of income taxes**	**- 689,817**	**- 4,525,838**
140.	**Comprehensive income (captions 10 + 130)**	**4,136,330**	**710,292**

STATEMENT OF CHANGES IN EQUITY FOR 2017

	Balance at 31/12/2016	Change to opening balances	Balance at 1/01/2017	Allocation of prior year profit		Changes in 2017								Equity at 31/12/2017
						Changes in reserves	Equity transactions						Comprehensive income for 2017	
				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:	**72,295,920**	**-**	**72,295,920**	**2,577,005**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**74,872,925**
a) income-related	69,026,160	-	69,026,160	2,577,005	-	-	-	-	-	-	-	-	-	71,603,165
b) other	3,269,760	-	3,269,760	-	-	-	-	-	-	-	-	-	-	3,269,760
Valuation reserves	**13,574,455**	**-**	**13,574,455**	**-**	**-**	**- 689,817**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**12,884,638**
Equity instruments	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Interim dividend	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Treasury shares	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Profit for the year	**5,236,130**	**-**	**5,236,130**	**- 2,577,005**	**-2,659,125**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4,826,147**	**4,826,147**
Equity	**165,007,660**	**-**	**165,007,660**	**-**	**-2,659,125**	**- 689,817**	**-**	**-**	**-**	**-**	**-**	**-**	**4,826,147**	**166,484,865**

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 31/12/2017
						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 CASH FLOWS: indirect method

OPERATING ACTIVITIES	2017	2016
1. Operations	**9,435,079**	**8,084,852**
- profit for the year (+/-)	4,826,147	5,236,130
- gains/losses on financial assets held for trading and financial assets/liabilities at fair value through profit or loss (-/+)	- 1,021,513	180,510
- gains/losses on hedging transactions (-/+)	-	-
- net impairment losses/reversals of impairment losses (+/-)	7,137,000	8,526,567
- net impairment losses/reversals of impairment losses on property, equipment and investment property and intangible assets (+/-)	1,910,586	1,638,699
- net accruals to provisions for risks and charges and other costs/revenue (+/-)	59,601	5,898,733
- unpaid taxes and duties (+)	2,505,149	1,496,019
- net impairment losses/reversals of impairment losses on disposal groups, net of the tax effect (+/-)	-	-
- other adjustments (+/-)	- 5,981,891	- 14,891,806
2. Cash flows generated by financial assets	**77,313,450**	**67,574,382**
- financial assets held for trading	75,718,403	50,161,435
- financial assets at fair value through profit or loss	-	-
- available-for-sale financial assets	42,530,943	9,794,067
- loans and receivables with banks: on demand	- 881,092	- 9,957,932
- loans and receivables with banks: other	10,148	21,186,869
- loans and receivables with customers	- 41,149,547	- 5,909,090
- other assets	1,084,595	2,299,033
3. Cash flows generated by financial liabilities	**22,855,839**	**- 51,547,682**
- due to banks: on demand	- 183,085	- 7,355,089
- due to banks: other	- 6,968	- 60,000,000
- due to customers	129,798,462	82,631,946
- securities issued	- 107,586,153	- 45,885,214
- financial liabilities held for trading	- 453,366	440,614
- financial liabilities at fair value through profit or loss	-	-
- other liabilities	1,286,949	- 21,379,939
Net cash flows generated by operating activities	**109,604,368**	**24,111,552**
B. INVESTING ACTIVITIES		
1. Cash flows generated by	**101,006**	**4,640**
- sales of equity investments	-	-
- dividends from equity investments	-	-
- sales of HTM investments	-	-
- sales of property, equipment and investment property	101,006	4,640
- sales of intangible assets	-	-
- sales of business units	-	-
2. Cash flows used to acquire	**- 864,899**	**- 988,852**
- equity investments	-	-
- HTM investments	-	-
- property, equipment and investment property	- 525,080	- 519,346
- intangible assets	- 339,819	- 469,506
- business units	-	-
Net cash flows used in investing activities	**- 763,893**	**- 984,212**

C. FINANCING ACTIVITIES		
- issue/repurchase of treasury shares	-	-
- issue/repurchase of equity instruments	-	-
- dividend and other distributions	- 2,659,125	- 3,039,000
Net cash flows used in financing activities	**- 2,659,125**	**- 3,039,000**
NET CASH FLOWS FOR THE YEAR	**106,181,350**	**20,088,340**

Key: (+) generated; (-) used

Reconciliation:

FINANCIAL STATEMENTS CAPTIONS	2017	2016
Opening cash and cash equivalents	35,870,911	15,782,571
Net cash flows for the year	106,181,350	20,088,340
Cash and cash equivalents: exchange rate effects	-	-
Closing cash and cash equivalents	142,052,261	35,870,911

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 2017 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 2017 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

IFRS 9 and IFRS 15 became applicable on 1 January 2018. Point 17.4 of the section on the accounting policies provides information of the quantitative effects of applying these new standards.

Section 4 - Other aspects

Use of estimates and assumptions to prepare the financial statements

Preparation of financial statements and the notes thereto under the IFRS requires management to make estimates and assumptions that affect the carrying amount of recognised assets and liabilities and the disclosure about contingent assets and liabilities at the reporting date. The estimates and assumptions are based on past experience and other relevant factors. The actual results may differ from the estimates. Management reviews the estimates and assumptions regularly and the effects of any changes thereto are reflected in profit or loss in the period of the change, if the change affects that period only, or the period of the change and future periods, if the change affects both.

Management performs analyses, which are sometimes complex, of loans and receivables with customers for their classification and to identify exposures that show possible impairment after disbursement based on internal information based on the borrower's repayment trend and external information based on the reference sector and the borrower's total exposure to banks.

Measurement of loans and receivables with customers is a complex estimation process, characterised by a high degree of uncertainty and subjectivity. Management uses measurement methods that include many quantitative and qualitative elements such as, for example, historical collection data, expected cash flows and the related expected collection times, the existence of indicators of possible impairment, estimates about the borrower's ability to repay its loans and any guarantees given.

A2 – ACCOUNTING POLICIES

1 - FINANCIAL ASSETS HELD FOR TRADING

a) Recognition
Debt and equity instruments are initially recognised at their settlement date while derivative contracts 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, 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 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 the 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 annual or half yearly 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

Non-performing loans include bad 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 minimum 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.

c) 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.

c) 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 closing 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 closing 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.

c) 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.

17.4 - New IFRS 9 and IFRS 15

IFRS 9 and IFRS 15 became applicable on 1 January 2018.

After carefully examining its contracts and considering the five-step model required by IFRS 15, the bank ascertained that the new standard does not affect it.

The quantitative effects of the initial application of IFRS 9 amount to €129 thousand, net of the tax effect, for the adoption of the impairment and classification and measurement rules applicable to financial instruments classified as "held to collect and sell" (fair value through other comprehensive income) while the positive effect of the reclassification of financial instruments from the AFS (available-for-sale)/HTM (held-to-maturity) categories to the HTS (held to sell) category is €172 thousand. The impairment of performing loans classified in the HTC (held to collect) category and measured at amortised cost generated a higher impairment loss of €386 thousand, including the related deferred tax effect, which is due to the bank's calculation of the lifetime expected credit losses for the positions allocated to bucket 2. Therefore, an estimate of the fully loaded impact on the CET1 ratio is not significant.

The bank is currently designing a project to identify the bad loans classified in bucket 3 that could be collected through their factoring. The analyses available at the date of approval of these financial statements performed by a highly reputable advisor indicate an assumed price range that could lead to a loss when these bad loans are factored. Should the board of directors approve the factoring transaction, its effects will be recognised in accordance with the first-time adoption rules.

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	Carrying amount at 31/12/2017	Fair value at 31/12/2017	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	1,652	1,652	120	15	120	15
				Total A	**120**	**15**	**120**	**15**

No financial assets were reclassified out of one portfolio and into another in 2017.

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 2017 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, decreased the fair value loss on these bonds from €430 thousand for the previous year to €311 thousand and, hence, led to recognition of a gross fair value gain of €119 thousand. Net of the related deferred tax assets, this fair value gain has been recognised in other comprehensive income for €80 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 and other relevant information 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.
  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 31/12/2017
S.W.I.F.T. - Brussels	415,332,000	0.0004%	1,526	1,373	1,679	2,529
ConfidiCoop Marche	25,839,271	1.5000%	387,589	348,830	426,348	100,000
SIA S.p.A. (former Società Servizi Bancari S.p.A	233,783,000	0.0340%	79,483	71,535	87,431	161,770
Alipicene S.r.l.	10,217	2.5000%	255	230	281	2,582
Fermano Leader S.c.a.r.l.	46,517	1.5000%	698	628	768	3,000
CSE Cons.Servizi Bancari Srl	98,895,567	4.0000%	3,955,823	3,560,240	4,351,405	5,156,000
CARICESE S.r.l.	11,152,987	0.5000%	55,765	50,188	61,341	20,000
TOTAL	**785,059,559**		**4,481,139**	**4,033,024**	**4,929,253**	**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 IFRS 13.51/93(i)/96.

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

	31/12/2017			31/12/2016		
	L1	L2	L3	L1	L2	L3
1. Financial assets held for trading	253,899	759	-	327,026	913	-
2. Financial assets at fair value through profit or loss	-	-	-	-	-	-
3. Available-for-sale financial assets	199,360	24,006	5,814	253,096	11,206	6,066
4. Hedging derivatives	-	-	-	-	-	-
5. Property, equipment and investment property	-	-	-	-	-	-
6. Intangible assets	-	-	-	-	-	-
Total	**453,259**	**24,765**	**5,814**	**580,122**	**12,119**	**6,066**
1. Financial liabilities held for trading	-	201	-	-	654	-
2. Financial liabilities at fair value through profit or loss	-	-	-	-	-	-
3. Hedging derivatives	-	-	-	-	-	-
Total	**-**	**201**	**-**	**-**	**654**	**-**

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 table A.4.5.1 of the L3 column 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	-	-	**6,066**	-	-	-
2. Increases	-	-	**890**	-	-	-
2.1. Purchases	-	-	792	-	-	-
2.2. Gains recognised in:	-	-	98	-	-	-
2.2.1. profit or loss	-	-	-	-	-	-
- including gains on sales	-	-	-	-	-	-
2.2.2. equity			*98*	-	-	-
2.3. Transfers from other levels	-	-	-	-	-	-
2.4. Other increases	-	-	-	-	-	-
3. Decreases	-	-	**1,142**	-	-	-
3.1. Sales	-	-	-	-	-	-
3.2. Repayments	-	-	-	-	-	-
3.3. Losses recognised in:	-	-	1,142	-	-	-
3.3.1. profit or loss	-	-	*1,142*	-	-	-
- including losses on sales	-	-	*1,142*	-	-	-
3.3.2. equity			-	-	-	-
3.4. Transfers to other levels	-	-	-	-	-	-
3.5 Other decreases	-	-	-	-	-	-
4. Closing balance	-	-	**5,814**	-	-	-

Item "2.1 Purchases" shows the bank's contribution to the "voluntary scheme" introduced by the Interbank Deposit Protection Fund for acquisition of the investments in CaRiM S.p.A., C.R. San Miniato S.p.A. and Bancomat S.p.A..

Item "2.2.2 Increases - Gains recognised in: Equity" includes the 2016 fair value loss of €98 thousand on the investment in CaRiCesena S.p.A. reclassified to profit or loss.

Item "3.3.1 Decreases - Losses recognised in: Profit or loss" comprises the fair value loss of €1.142 thousand on the contribution to the "voluntary scheme" for CaRiCesena S.p.A., CaRiM S.p.A. and C.R. San Miniato S.p.A. recognised as a result of the communications sent by the Interbank Deposit Protection Fund to all its member 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

	31/12/2017				31/12/2016			
	CA	L1	L2	L3	CA	L1	L2	L3
1. Held-to-maturity investments	5,000	5,061	-	-	5,000	4,993	-	-
2. Loans and receivables with banks	18,674	-	-	18,674	17,798	-	-	17,798
3. Loans and receivables with customers	982,058	-	-	1,059,411	946,561	-	-	1,024,090
4. Investment property	-	-	-	-	-	-	-	-
5. Non-current assets classified as held for sale and disposal groups	-	-	-	-	-	-	-	-
TOTAL	**1,005,732**	**5,061**	**-**	**1,078,085**	**969,359**	**4,993**	**-**	**1,041,888**
1. Due to banks	3,116	-	-	3,117	3,307	-	-	3,307
2. Due to customers	1,335,618	-	-	1,335,631	1,205,852	-	-	1,205,852
3. Securities issued	133,127	-	-	133,779	242,076	-	-	243,778
4. Liabilities associated with disposal groups	-	-	-	-	-	-	-	-
TOTAL	**1,471,861**	**-**	**-**	**1,472,527**	**1,451,235**	**-**	**-**	**1,452,937**

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

	31/12/2017	31/12/2016
a) Cash	20,333	18,489
b) Demand deposits with central banks	121,720	17,382
Total	**142,053**	**35,871**

Section 2 – Financial assets held for trading – Caption 20

2.1 Financial assets held for trading: breakdown by product

	31/12/2017			31/12/2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. Assets						
1. Debt instruments	253,899	547	-	327,026	568	-
1.1 Structured instruments	-	-	-	-	-	-
1.2 Other debt instruments	*253,899*	*547*	-	*327,026*	*568*	-
2. Equity instruments	-	-	-	-	-	-
3. OEIC units	-	-	-	-	-	-
4. Financing	-	-	-	-	-	-
4.1 Reverse repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total A	**253,899**	**547**	**-**	**327,026**	**568**	**-**
B. Derivatives						
1. Financial derivatives:	-	212	-	-	345	-
1.1 Trading	-	*212*	-	-	*345*	-
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	**-**	**212**	**-**	**-**	**345**	**-**
Total (A + B)	**253,899**	**759**	**-**	**327,026**	**913**	**-**

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

	31/12/2017	31/12/2016
A. ASSETS		
1. Debt instruments	**254,447**	**327,594**
a) Government and central banks	248,463	317,710
b) Other government agencies	547	568
c) Banks	2,994	-
d) Other issuers	2,443	9,316
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	**254,447**	**327,594**
B. DERIVATIVES		
a) Banks	50	264
b) Customers	162	80
Total B	**212**	**344**
Total (A + B)	**254,659**	**327,938**

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

	31/12/2017			31/12/2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt instruments	169,526	16,506	-	225,591	7,956	-
1.1 Structured instruments	-	-	-	-	-	-
1.2 Other debt instruments	*169,526*	*16,506*	-	*225,591*	*7,956*	-
2. Equity instruments	112	7,500	5,814	97	3,250	6,066
2.1 FVTPL	*112*	*7,500*	*5,814*	*97*	*3,250*	*6,066*
2.2 Cost	-	-	-	-	-	-
3. OEIC units	29,722	-	-	27,407	-	-
4. Financing	-	-	-	-	-	-
Total	**199,360**	**24,006**	**5,814**	**253,095**	**11,206**	**6,066**

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 (€7,500 thousand); the bank purchased another 170 shares for €4,250 thousand in 2017;
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 L1 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

	31/12/2017	31/12/2016
1. Debt instruments	**186,032**	**233,547**
a) Government and central banks	118,307	130,320
b) Other government agencies	5,237	20,447
c) Banks	37,898	45,926
d) Other issuers	24,590	36,854
2. Equity instruments	**13,426**	**9,413**
a) Banks	7,612	3,347
b) Other issuers:	5,814	6,066
- insurance companies	*-*	*-*
- financial companies	*152*	*404*
- non-financial companies	*5,662*	*5,662*
- other	*-*	*-*
3. OEIC units	**29,722**	**27,407**
4. Financing	**-**	**-**
a) Government and central banks	-	-
b) Other government agencies	-	-
c) Banks	-	-
d) Other	-	-
Total	**229,180**	**270,367**

In 2016, the bank gave Epsilon SGR of the Intesa Sanpaolo Group an asset management mandate worth €100 million. It increased the mandate to €145 million in 2017.
The securities purchased as part of this mandate were reclassified into the AFS portfolio at the reporting date and had a carrying amount of €146,888 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

	31/12/2017				31/12/2016			
	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	5,061	-	-	5,000	4,993	-	-
1.1 structured instruments	-	-	-	-	-	-	-	-
1.2 other debt instruments	*5,000*	*5,061*	-	-	*5,000*	*4,993*	-	-
2. Financing	-	-	-	-	-	-	-	-
Total	**5,000**	**5,061**	**-**	**-**	**5,000**	**4,993**	**-**	**-**

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 €61 thousand, equal to the higher value of the bonds compared to their market prices.

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

	31/12/2017	31/12/2016
1. Debt instruments	**5,000**	**5,000**
a) Government and central banks	5,000	5,000
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**	**5,000**
Total fair value	**5,061**	**4,993**

Section 6 - Loans and receivables with banks - Caption 60

6.1 Loans and receivables with banks: breakdown by product

	31/12/2017				31/12/2016			
	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	**13,405**	**-**	**-**	**13,405**	**13,052**	**-**	**-**	**13,052**
1. Term deposits	-				-			
2. Minimum reserve	13,405				13,052			
3. Reverse repurchase agreements	-				-			
4. Other	-				-			
B. Loans and receivables with banks	**5,269**	**-**	**-**	**5,269**	**4,745**	**-**	**-**	**4,745**
1. Financing	**5,269**	**-**	**-**	**5,269**	**4,745**	**-**	**-**	**4,745**
1.1 Current accounts and demand deposits	5,147				4,613			
1.2 Term deposits	122				132			
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)	**18,674**	**-**	**-**	**18,674**	**17,797**	**-**	**-**	**17,798**

Section 7 - Loans and receivables with customers - Caption 70

7.1 Loans and receivables with customers: breakdown by product

	31/12/2017						31/12/2016					
	Carrying amount			Fair value			Carrying amount			Fair value		
	Performing	Non-performing		L1	L2	L3	Performing	Non-performing		L1	L2	L3
		Purchased	Other					Purchased	Other			
Financing	**861,772**	**-**	**120,286**				**822,368**	**-**	**124,193**			
1. Current accounts	161,819	-	35,540				174,807	-	35,138			
2. Reverse repurchase agreements	-	-	-				-	-	-			
3. Loans	571,414	-	70,612				516,061	-	73,961			
4. Credit cards, personal loans and salary-backed loans	22,729	-	1,981				19,929	-	2,133			
5. Finance leases	-	-	-				-	-	-			
6. Factoring	-	-	-				-	-	-			
7. Other financing	105,810	-	12,153				111,571	-	12,961			
Debt instruments	**-**	**-**	**-**				**-**	**-**	**-**			
8. Structured instruments	-	-	-				-	-	-			
9. Other debt instruments	-	-	-				-	-	-			
Total	**861,772**	**-**	**120,286**	**-**	**-**	**1,059,411**	**822,368**	**-**	**124,193**	**-**	**-**	**1,024,090**

The lending business is one of the bank's core activities. Loans and receivables with customers amount to €982.1 million at 31 December 2017 accounting for 58.1% of total assets.

The fair value of loans and receivables with customers was determined considering the risk-free interest rate curve, increased by a spread calculated on the basis of expected 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 29 December 2017, the curve was as follows:

Currency	Date	Months	Years	ZC interest rate	Currency	Date	Months	Years	ZC interest rate
Euro	29/12/2017	1	0.083	- 0.3680	Euro	29/12/2017	63	5.250	0.3507
Euro	29/12/2017	2	0.167	- 0.3400	Euro	29/12/2017	66	5.500	0.3836
Euro	29/12/2017	3	0.250	- 0.3290	Euro	29/12/2017	69	5.750	0.4164
Euro	29/12/2017	6	0.500	- 0.2710	Euro	29/12/2017	72	6.000	0.4492
Euro	29/12/2017	9	0.750	- 0.2622	Euro	29/12/2017	75	6.250	0.4798
Euro	29/12/2017	12	1.000	- 0.2567	Euro	29/12/2017	78	6.500	0.5103
Euro	29/12/2017	15	1.250	- 0.2378	Euro	29/12/2017	81	6.750	0.5408
Euro	29/12/2017	18	1.500	- 0.2147	Euro	29/12/2017	84	7.000	0.5714
Euro	29/12/2017	21	1.750	- 0.1824	Euro	29/12/2017	87	7.250	0.6007
Euro	29/12/2017	24	2.000	- 0.1498	Euro	29/12/2017	90	7.500	0.6300
Euro	29/12/2017	27	2.250	- 0.1094	Euro	29/12/2017	93	7.750	0.6592
Euro	29/12/2017	30	2.500	- 0.0690	Euro	29/12/2017	96	8.000	0.6885
Euro	29/12/2017	33	2.750	- 0.0274	Euro	29/12/2017	102	8.500	0.7438
Euro	29/12/2017	36	3.000	0.0130	Euro	29/12/2017	108	9.000	0.7991
Euro	29/12/2017	39	3.250	0.0534	Euro	29/12/2017	114	9.500	0.8514
Euro	29/12/2017	42	3.500	0.0929	Euro	29/12/2017	120	10.000	0.9038
Euro	29/12/2017	45	3.750	0.1328	Euro	29/12/2017	144	12.000	1.0869
Euro	29/12/2017	48	4.000	0.1727	Euro	29/12/2017	180	15.000	1.2909
Euro	29/12/2017	51	4.250	0.2090	Euro	29/12/2017	240	20.000	1.4731
Euro	29/12/2017	54	4.500	0.2453	Euro	29/12/2017	300	25.000	1.5375
Euro	29/12/2017	57	4.750	0.2816	Euro	29/12/2017	360	30.000	1.5550
Euro	29/12/2017	60	5.000	0.3179					

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 €16,414 thousand;
- advances on bills under reserve and invoices of €63,285 thousand;
- portfolio risks of €323 thousand;
- subsidies with or without repayment plans of €29,824 thousand;
- collateral margins on futures of €7 thousand;
- advances to managed treasury funds of €10 thousand.

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

	31/12/2017			31/12/2016		
	Performing	Non-performing		Performing	Non-performing	
		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:	**861,771**	**-**	**120,285**	**822,368**	**-**	**124,193**
a) Governments	85	-	-	2,811	-	-
b) Other government agencies	1,532	-	-	1,806	-	-
c) Other:	860,154	-	120,285	817,751	-	124,193
- non-financial companies	*585,428*	-	*88,602*	*537,001*	-	*89,611*
- financial companies	*7,266*	-	*127*	*13,647*	-	*61*
- insurance companies	-	-	-	-	-	-
- other	*267,460*	-	*31,556*	*267,103*	-	*34,521*
Total	**861,771**	**-**	**120,285**	**822,368**	**-**	**124,193**

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

	31/12/2017	31/12/2016
1 Owned	**15,824**	**16,887**
a) land	4,223	4,223
b) buildings	9,559	10,499
c) furniture	939	819
d) electronic systems	429	534
e) other	674	812
2 Under finance lease	**-**	**-**
a) land	-	-
b) buildings	-	-
c) furniture	-	-
d) electronic systems	-	-
e) other	-	-
Total	**15,824**	**16,887**

11.5 Operating assets: changes

	Land	Buildings	Furniture	Electronic systems	Other	Total
A. Gross opening balance	**4,223**	**34,597**	**5,912**	**6,569**	**6,670**	**57,971**
A.1 Total net impairment losses	-	24,098	5,093	6,035	5,858	41,084
A.2 Net opening balance	4,223	10,499	819	534	812	16,887
B. Increases:	**-**	**-**	**262**	**120**	**144**	**526**
B.1 Purchases	-	-	262	120	144	526
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:	**-**	**940**	**142**	**225**	**282**	**1,589**
C.1 Sales	-	-	-	-	42	42
C.2 Depreciation	-	940	142	225	240	1,547
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	-	-	-	-	-	-
D. Net closing balance	**4,223**	**9,559**	**939**	**429**	**674**	**15,824**
D.1 Total net impairment losses	-	25,038	5,235	6,260	6,098	42,631
D.2 Gross closing balance	**4,223**	**34,597**	**6,174**	**6,689**	**6,772**	**58,455**
E. Measurement at cost	**4,223**	**9,559**	**939**	**429**	**674**	**15,824**

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.

The bank sold its company cars during the year and replaced them with leased vehicles.

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

	31/12/2017		31/12/2016	
	Finite life	Indefinite life	Finite life	Indefinite life
A.1 Goodwill		**-**		**-**
A.2 Other intangible assets	**180**	**-**	**110**	**-**
A.2.1 Assets measured at cost:	180	-	110	-
a) Internally developed assets	-	-	-	-
b) Other	*180*	-	*110*	-
A.2.2 Assets measured at fair value:	-	-	-	-
a) Internally developed assets	-	-	-	-
b) Other	-	-	-	-
Total	**180**	**-**	**110**	**-**

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	**-**	**-**	**-**	**502**	**-**	**502**
A.1 Total net impairment losses	-	-	-	392	-	392
A.2 Net opening balance	-	-	-	110	-	110
B. Increases	**-**	**-**	**-**	**157**	**-**	**157**
B.1 Purchases	-	-	-	157	-	157
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	**-**	**-**	**-**	**87**	**-**	**87**
C.1 Sales	-	-	-	-	-	-
C.2 Amortisation and impairment losses	-	-	-	87	-	87
- Amortisation		-	-	*87*	-	*87*
- 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	**-**	**-**	**-**	**180**	**-**	**180**
D.1 Total net impairment losses	-	-	-	479	-	479
E. Gross closing balance	**-**	**-**	**-**	**659**	**-**	**659**
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

	31/12/2017
Personnel expense	928
Administrative expenses	1,083
Fair value gains on AFS financial assets	252
Impairment losses on loans	10,292
Actuarial losses on agents' termination benefits/post-employment benefits	1,116
Total	**13,671**

13.2 Deferred tax liabilities: breakdown

	31/12/2017
Fair value gains on bonds	-
Fair value gains on AFS financial assets	597
Deferred gains	-
FTA depreciation of land	672
Post-employment benefits	235
Actuarial gains on post-employment benefits	-
Total	**1,504**

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 deferred tax assets recognised on loans and receivables and goodwill when they satisfy the probability test.

Table 13.3.1 shows the deferred tax assets covered by the law 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)

	2017	2016
1. Opening balance	**13,073**	**13,713**
2. Increases	**427**	**313**
2.1 Deferred tax assets recognised in the year	427	313
a) related to previous years	-	-
b) due to changes in accounting policies	-	-
c) reversals of impairment losses	-	-
d) other	*427*	*313*
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**1,197**	**953**
3.1 Deferred tax assets derecognised in the year	1,197	953
a) reversals	*1,197*	*953*
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	**12,303**	**13,073**

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

	2017	2016
1. Opening balance	**11,238**	**11,830**
2. Increases	**-**	**-**
3. Decreases	**946**	**592**
3.1 Reversals	*946*	*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	**10,292**	**11,238**

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 2017.

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

	2017	2016
1. Opening balance	**1,025**	**892**
2. Increases	**17**	**133**
2.1 Deferred tax liabilities recognised in the year	17	133
a) related to previous years	-	-
b) due to changes in accounting policies	-	-
c) other	*17*	*133*
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**133**	**-**
3.1 Deferred tax liabilities derecognised in the year	133	-
a) reversals	*133*	-
b) due to changes in accounting policies	-	-
c) other	-	-
3.2 Decrease in tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	**909**	**1,025**

13.5 Changes in deferred tax assets (recognised in equity)

	2017	2016
1. Opening balance	**1,553**	**1,118**
2. Increases	**146**	**435**
2.1 Deferred tax assets recognised in the year	146	435
a) related to previous years	-	-
b) due to changes in accounting policies	-	-
c) other	*146*	*435*
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**331**	**-**
3.1 Deferred tax assets derecognised in the year	331	-
a) reversals	*331*	-
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	**1,368**	**1,553**

13.6 Changes in deferred tax liabilities (recognised in equity)

	2017	2016
1. Opening balance	**1,172**	**2,875**
2. Increases	**503**	**546**
2.1 Deferred tax liabilities recognised in the year	503	546
a) related to previous years	-	-
b) due to changes in accounting policies	-	-
c) other	*503*	*546*
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**1,081**	**2,249**
3.1 Deferred tax liabilities derecognised in the year	1,081	2,249
a) reversals	*1,081*	*2,249*
b) due to changes in accounting policies	-	-
c) other	-	-
3.2 Decrease in tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	**594**	**1,172**

13.7 Other information

Caption 130 “Tax assets: a) current” of €5,472 thousand comprises:

- IRES payments on account of €1,061 thousand;
- IRAP payments on account of €438 thousand;
- IRAP tax assets carried forward of €371 thousand;
- IRES tax assets carried forward of €1,354 thousand;
- substitute tax on account of €618 thousand on the capital gain;
- an IRES tax asset claimed for reimbursement of €576 thousand related to the deductibility of IRAP on 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 €334 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

	31/12/2017
a) receivables from tax authorities and other tax bodies	4,637
b) cheques drawn on other banks	26
c) cheques to be received from clearing house and drawn on customer accounts	2,339
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	9,776
i) leasehold improvements	532
j) accrued income	77
k) prepayments	298
l) portfolio adjustment differences	-
m) other	4,985
Total	**22,673**

Specifically, in the above table:

- item h) includes transactions under settlement by the Istituto Centrale delle Banche Popolari Italiane (ICBPI) and Bank of Italy (€6,865 thousand) and items in transit to be debited to the end accounts (€2,911 thousand);
- point k) mostly consists of prepaid insurance premiums;
- point m) includes sundry amounts of €652 thousand and accrued commissions of €4,333 thousand.

LIABILITIES

Section 1 - Due to banks - Caption 10

1.1 Due to banks: breakdown by product

	31/12/2017	31/12/2016
1. Due to central banks	**-**	**-**
2. Due to banks	**3,116**	**3,306**
2.1 Current accounts and demand deposits	3,042	3,225
2.2 Term deposits	74	81
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	**3,116**	**3,306**
Fair value - level 1	**-**	**-**
Fair value - level 2	**-**	**-**
Fair value - level 3	**3,117**	**3,307**
Total fair value	**3,117**	**3,307**

Section 2 – Due to customers – Caption 20

2.1 Due to customers: breakdown by product

	31/12/2017	31/12/2016
1. Current accounts and demand deposits	1,323,314	1,192,092
2. Term deposits	10,556	11,913
3. Financing	-	-
3.1 Repurchase agreements	-	-
3.2 Other	-	-
4. Commitments to repurchase own equity instruments	-	-
5. Other	1,749	1,847
Total	**1,335,619**	**1,205,852**
Fair value - level 1	**-**	**-**
Fair value - level 2	**-**	**-**
Fair value - level 3	**1,335,631**	**1,205,852**
Total fair value	**1,335,631**	**1,205,852**

Section 3 - Securities issued - Caption 30

3.1 Securities issued: breakdown by product

	31/12/2017				31/12/2016			
	Carrying amount	Fair value			Carrying amount	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Securities								
1. bonds	35,556	-	-	35,617	125,561	-	-	126,239
1.1 structured	-	-	-	-	-	-	-	-
1.2 other	*35,556*	-	-	*35,617*	*125,561*	-	-	*126,239*
2. other securities	97,571	-	-	98,162	116,515	-	-	117,539
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	*97,571*	-	-	*98,162*	*116,515*	-	-	*117,539*
Total	**133,127**	**-**	**-**	**133,779**	**242,076**	**-**	**-**	**243,778**

The debt instruments in the “Fair value - Level 3” 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

	31/12/2017					31/12/2016				
	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	22,451	-	201	-	-	37,678	-	654	-	-
1.1 Trading		-	*201*	-			-	*654*	-	
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		**-**	**201**	**-**			**-**	**654**	**-**	
Total (A + B)		**-**	**201**	**-**			**-**	**654**	**-**	

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

	31/12/2017
Current tax liabilities	**3,415**
IRES	1,596
IRAP	489
Stamp duty	-
Substitute tax @ 12.00%	-
Prior year tax assets	1,330

Section 10 - Other liabilities - Caption 100

10.1 Other liabilities: breakdown

	31/12/2017
a) Tax liabilities	3,086
b) Amounts due to social security institutions	944
c) Amounts available to customers	760
d) Third party guarantee deposits	37
d) Suspense items	-
f) Other amounts due to employees	3,247
g) Items in transit	13,089
h) Accrued expenses	23
i) Deferred income	252
j) Portfolio adjustment differences	924
k) Other	1,573
Total	**23,935**

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 (€983 thousand), sundry items (€427 thousand) and subsidies for loans to customers provided by public sector bodies (€163 thousand).

Section 11 – Post-employment benefits – Caption 110

11.1 Post-employment benefits: changes

	2017	2016
A. Opening balance	**9,208**	**9,384**
B. Increases	**99**	**295**
B.1 Accruals	74	131
B.2 Other increases	25	164
C. Decreases	**539**	**471**
C.1 Payments	509	445
C.2 Other decreases	30	26
D. Closing balance	**8,768**	**9,208**
Total	**8,768**	**9,208**

Item "B.2 Other increases" comprises the actuarial loss of €25 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	74
including: revaluations	*74*
Actuarial loss	25
Total	**99**

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	- 509
Substitute tax on revaluation	- 30
Total	**- 539**

Actuarial valuation of post-employment benefits

Present value of benefits at 31 December 2016	9,208
Interest cost	74
Substitute tax	- 30
Service cost	-
Payments	- 509
Total	**8,743**
Present value of benefits at 31 December 2017	8,768
Accumulated actuarial loss	***- 25***

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 and 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 2018:

YEAR	Years of service WOMEN	Years of service MEN
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 387 employees, an increase of seven people on the previous year end.

Another element to be considered is the bank's post-employment obligation, which amounted to €8,080 thousand at the measurement date net of advances paid from time to time.

The following information is useful for a complete view 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 State 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 €25 thousand in other comprehensive income.

The following table shows the yield curve for AA Corporate Euro securities recognised at 31 December 2017 (source: Bloomberg):

YEAR	AA EU CORPORATE YIELD 31/12/2016	YEAR	AA EU CORPORATE YIELD 31/12/2016
1	-0.2810%	16	1.6254%
2	-0.1270%	17	1.6998%
3	0.0520%	18	1.7742%
4	0.2220%	19	1.8486%
5	0.3850%	20	1.9230%
6	0.5360%	21	1.9676%
7	0.6790%	22	2.0122%
8	0.8110%	23	2.0568%
9	0.9310%	24	2.1014%
10	1.0430%	25	2.1460%

11	1.1446%	26	2.1460%
12	1.2462%	27	2.1460%
13	1.3478%	28	2.1460%
14	1.4494%	29	2.1460%
15	1.5510%	30	2.1460%

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

	31/12/2017	31/12/2016
1. Internal pension funds	9,334	9,981
2. Other provisions for risks and charges	3,938	2,972
2.1 legal disputes	*-*	*2,602*
2.2 personnel expense	*-*	*-*
2.3 other	*3,938*	*370*
Total	**13,272**	**12,953**

12.2 Provisions for risks and charges: changes

	Pension funds	Other provisions	Total
A. Opening balance	**9,981**	**2,972**	**12,953**
B. Increases	**142**	**1,413**	**1,555**
B.1 Accruals	142	1,413	1,555
B.2 Discounting	-	-	-
B.3 Changes due to variations in discount rate	-	-	-
B.4 Other increases	-	-	-
C. Decreases	**789**	**447**	**1,236**
C.1 Utilisations	720	447	1,167
C.2 Changes due to variations in discount rate	-	-	-
C.3 Other decreases	69	-	69
D. Closing balance	**9,334**	**3,938**	**13,272**

Utilisations of these provisions were recognised in caption 160 of the income statement (€447 thousand) after the settlement of pending disputes.
Other provisions for risks and charges of €3,938 thousand, shown in table 12.1, may be analysed as follows by type of litigation (€'000):

- Civil litigation	2,695,320
- Claw-back claims	335,721
- Sureties	64,625
- Lump-sum endorsement credits	121,874
- Labour disputes	0
- Other charges	720,000
-**Total**	**3.937.540**

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: three at the reporting date for which the bank has accrued €5 thousand;
2) generally modest amounts involved;
3) rulings at all levels in the bank's favour.
The accrual for claw-back claims refers to seven customers under bankruptcy 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 2017 financial statements and in table 12.2, the situation is as follows (in Euros):

Type of risk	Contingent liability		Bonds	
	Petitum	*Accrual*	*Petitum*	*Accrual*
Legal disputes	3,515,265	0	46,735,233	2,695,320
Claw-back claims	0	0	1,164,962	335,721
Labour disputes	829,000	0	0	0
Other charges	0	0	721,000	720,000
Total	**4.344.265**	**0**	**48.621.195**	**3.751.041**

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 claims for damage compensation.

Contingent liabilities for labour disputes refer to claims made by individual employees that the competent judges disallowed.

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 124 beneficiaries, including those with zero annuities as shown in the following table:

Gender	Direct	Indirect or reversible	Total
Women	7	47	**54**
Men	69	1	**70**
Total	**76**	**48**	**124**

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 estimates 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.

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%

Therefore, reference was made to the yield curve for AA Euro 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 Euro 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 124 beneficiaries is in line with the amount recognised in the financial statements.

Technical accounts at 31/12/2017	
Average present value - immediate charges	9,334
Average present value - total charges	9,334
Mathematical reserve at 31/12/2016	9,981
Equity at 31/12/2017	9,425
Mathematical provision	9,334
TECHNICAL SURPLUS	**91**
Calculation of actuarial gains/losses for IFRS purposes	
Mathematical provision at 31 December 2016	9.981
Interest cost	142
Service cost	0
Payments	-720
Actuarial gain (-) / loss (+) at 31/12/2017	**-69**

The bank has replaced the corridor approach with the immediate recognition of actuarial gains or losses in other comprehensive income. The interest cost recognised in profit or loss amounted to €142 thousand and the actuarial gain to €69 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 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	**17,840**	**51,186**	**3,270**
INCREASES	**524**	**2,053**	**-**
Allocation of profits	524	2,053	-
DECREASES	**-**	**-**	**-**
Other changes (negative FTA reserve)	-	-	-
CLOSING BALANCE	**18,364**	**53,239**	**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 €10,516 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	18,363,451.72	B	10,515,234.22		
Statutory reserve	53,239,713.43	B	-		
FTA reserve	(2,860,067.03)		-		
Fair value reserve	706,388.12		-		
Actuarial reserve	(2,943,518.10)		-		
Retained earnings	-		-		
Total	**161,658,718.59**		**66,426,897.17**	**-**	**-**
Undistributable portion (4)			531,800.23		
Remaining distributable portion			65,895,096.94		

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			**4,826,147.00**
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			**4,826,147.00**
10% to the legal reserve			**482,615.00**
15% to the extraordinary reserve			**723,922.00**
- **Shareholder remuneration:** dividend per share	**3.00**		
- Shares held by Banca Intesa S.p.A.	*253,250.00*	*759,750.00*	
- Shares held by Fondazione Cassa di Risparmio di Fermo	*506,500.00*	*1,519,500.00*	
Dividends to be distributed to shareholders			**2,279,250.00**
Remainder to the extraordinary reserve			**1,340,360.00**
Summary of dividend distribution			
To the legal reserve		482,615.00	
To the extraordinary reserve		2,064,282.00	
Total increase in equity			**2,546,897.00**
Available portion to be distributed as dividends			**2,279,250.00**
TOTAL DISTRIBUTABLE PROFIT			**4,826,147.00**

The profit for the year to be allocated amounts to €4,826,147.

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 €3.00;
- 10% to the legal reserve, i.e., €482,615;
- €2,064,282 to the extraordinary reserve.

After the allocation set out above pursuant to article 25 of the by-laws, the legal reserve, which amounted to €18,363,452 at 31 December 2017, will amount to €18,846,067 exceeding one fifth of the share capital as per article 2430 of the Italian Civil Code by €10,997,849.

14.7 Valuation reserves: breakdown

	31/12/2017	31/12/2016
1. Available-for-sale financial assets	706	1,428
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	- 2,944	- 2,975
Total	**12,884**	**13,575**

OTHER INFORMATION

1. Guarantees and commitments

	31/12/017	31/12/2016
1) Financial guarantees issued	**4,377**	**4,215**
a) Banks	4,354	4,192
b) Customers	23	23
2) Commercial guarantees issued	**20,770**	**22,394**
a) Banks	-	-
b) Customers	20,770	22,394
3) Irrevocable commitments to disburse funds	**57,495**	**55,030**
a) Banks	4,298	11,540
i) certain use	*4,298*	*11,540*
ii) uncertain use	-	-
b) Customers	53,197	43,490
i) certain use	*272*	*30*
ii) uncertain use	*52,925*	*43,460*
4) Commitments underlying credit derivatives: protection sales	**-**	**-**
5) Assets pledged as collateral for third party commitments	**-**	**-**
6) Other commitments	**-**	**-**
Total	**82,642**	**81,639**

2. Assets pledged as guarantee for liabilities and commitments

	31/12/2017	31/12/2016
1. Financial assets held for trading	11	11
2. Financial assets at fair value through profit or loss	-	-
3. Available-for-sale financial assets	-	-
4. Held-to-maturity investments	5,000	5,000
5. Loans and receivables with banks	-	-
6. Loans and receivables with customers	-	-
7. Property, equipment and investment property	-	-
TOTAL	**5,011**	**5,011**

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	**1,092,870**
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	646,422
1. securities issued by the reporting entity	*33,818*
2. other securities	*612,604*
c) third party securities deposited with third parties *[a subcaption "including" of points sub a) and sub b)]*	611,481
d) securities owned by the bank deposited with third parties	446,448
4. Other	**-**

9. Credit collection on behalf of third parties: adjustments

	31/12/2017	31/12/2016
a) "debit" adjustments	**325,512**	**320,969**
1) bank joint accounts	74,559	73,533
2) central portfolio	249,092	245,451
3) cash	510	772
4) other accounts	1,351	1,213
b) "credit" adjustments	**326,436**	**318,828**
1) bank joint accounts	78,679	74,437
2) transferors of bills and documents	247,430	244,152
3) other accounts	327	239
DIFFERENCE	**924**	**- 2,141**

The difference of €924 thousand is shown under caption 100 "Other liabilities" 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	2017	2016
1. Financial assets held for trading	2,602	-	-	2,602	2,630
2. Available-for-sale financial assets	2,155	-	-	2,155	4,314
3. Held-to-maturity investments	-	-	-	-	21
4. Loans and receivables with banks	-	26	-	26	7
5. Loans and receivables with customers	-	27,721	-	27,721	31,242
6. Financial assets at fair value through profit or loss	-	-	-	-	-
7. Hedging derivatives			-	-	-
8. Other assets			15	15	60
Total	**4,757**	**27,747**	**15**	**32,519**	**38,274**

Interest accrued during the year on non-performing loans recognised at 31 December 2017 is as follows:
1. Unlikely to pay exposures of €2,866 thousand;
2. Other non-performing past due exposures of €624 thousand.

1.3 Interest and similar income: other information

1.3.1 Interest income on foreign currency financial assets

	2017	2016
1.3.1 Interest income on foreign currency financial assets	414	265

1.4 Interest and similar expense: breakdown

	Liabilities	Securities	Other	2017	2016
1. Due to central banks	- 157		-	- 157	- 198
2. Due to banks	- 23		-	- 23	- 13
3. Due to customers	- 2,230		-	- 2,230	- 3,436
4. Securities issued		- 2,046	-	- 2,046	- 4,086
5. Financial liabilities held for trading	-	-	-	-	-
6. Financial liabilities at fair value through profit or loss	-	-	-	-	-
7. Other liabilities and provisions			-	-	- 75
8. Hedging derivatives			-	-	-
Total	**- 2,410**	**- 2,046**	**-**	**- 4,456**	**- 7,808**

1.6 Interest and similar expense: other information

1.6.1 Interest expense on foreign currency liabilities

	2017	2016
1.6.1 Interest expense on foreign currency liabilities	- 12	- 14

Section 2 – Fees and commissions - Captions 40 and 50

2.1 Fee and commission income: breakdown

	2017	2016
a) guarantees received	**298**	**306**
b) credit derivatives	**-**	**-**
c) management, brokerage and consultancy services:	**8,042**	**6,841**
1. trading in financial instruments	128	155
2. foreign currency transactions	105	109
3. asset management	-	-
3.1. individual	-	-
3.2. collective	-	-
4. securities custody and administration	94	112
5. depository services	-	-
6. securities placement	4,196	3,013
7. order collection and transmission	337	370
8. consultancy services	-	-
8.1. concerning investments	-	-
8.2. concerning financial structure	-	-
9. distribution of third party services	3,182	3,082
9.1 asset management	*376*	*399*
9.1.1. individual	*162*	*199*
9.1.2. collective	*214*	*200*
9.2. insurance products	*1,698*	*1,610*
9.3. other products	*1,108*	*1,073*
d) collection and payment services	**2,905**	**2,888**
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	**9,304**	**9,421**
j) other services	**3,137**	**2,958**
Total	**23,686**	**22,414**

The balance shown as letter “j) other services” in the above table includes:[7]

	2017	***2016***
Loan preliminary investigation fees	677	644
Financing fees	789	742
Bancomat (debit card) and home banking fees	604	572
Other commissions	1,067	1,000

2.2 Fee and commission income: product and service distribution channels

	2017	2016
a) own branches:	**7,378**	**6,095**
1. asset management	-	-
2. securities placement	4,196	3,013
3. third party services and products	3,182	3,082
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

	2017	2016
a) guarantees received	**- 22**	**- 2**
b) credit derivatives	**-**	**-**
c) management and brokerage services:	**- 370**	**- 263**
1. trading in financial instruments	- 140	- 133
2. foreign currency transactions	-	-
3. asset management	- 178	- 63
3.1 own portfolio	*-*	*-*
3.2 third party portfolios	*- 178*	*- 63*
4. securities custody and administration	- 52	- 67
5. placement of financial instruments	-	-
6. off-premises distribution of securities, products and services	-	-
d) collection and payment services	**- 882**	**- 880**
e) other services	**- 49**	**- 53**
Total	**- 1,323**	**- 1,198**

[7] €’000

Section 3 - Dividends and similar income - Item 70

3.1 Dividends and similar income: breakdown

	2017		2016	
	Dividends	Income from OEIC units	Dividends	Income from OEIC units
A. Financial assets held for trading	-	-	-	-
B. Available-for-sale financial assets	1,158	833	650	-
C. Financial assets at fair value through profit or loss	-	-	-	-
D. Equity investments	-		-	
Total	**1,158**	**833**	**650**	**-**

Larger dividends were collected in 2017 compared to the previous year when 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	**1,150**	**2,086**	**104**	**725**	**2,407**
1.1 Debt instruments	1,150	1,637	104	98	2,585
1.2 Equity instruments	-	449	-	627	- 178
1.3 OEIC units	-	-	-	-	-
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					**339**
4. Derivatives	**11,834**	**-**	**14,310**	**-**	**- 2,476**
4.1. Financial derivatives:	11,834	-	14,310	-	- 2,476
- On debt securities and interest rates	11,834	-	14,310	-	- 2,476
- On equity instruments and equity indexes	-	-	-	-	-
- On currencies and gold					-
- Other	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
Total	**12,984**	**2,086**	**14,414**	**725**	**270**

Currency: Costs, Revenue and Inventories

EXPENSES AND LOSSES:			INCOME AND PROFITS:		
	2017	2016		2017	2016
A) Opening balance in foreign currency	419	154	E) Revenue from currency sales	160,260	33,701
B) Cost of purchasing currency	160,346	33,923	F) Closing balance	868	419
D) Total costs	**160,765**	**34,077**	**H) Total revenue**	**161,128**	**34,120**

SUMMARY:		
	2017	2016
(+) Total revenue	***161,128***	***34,120***
(-) Total costs	***- 160,765***	***- 34,077***
(+) Currency fees	***45***	***47***
(-) IFRS adjustments	***- 69***	***-***
Unrealised exchange rate gains	***339***	***90***

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.

Section 6 - Gain (loss) from sales or repurchases - Caption 100

6.1 Gain (loss) from sales or repurchases: breakdown

	2017			2016		
	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	8,630	2,913	5,717	7,891	1,675	6,216
3.1 Debt instruments	*4,777*	*2,128*	2,649	*7,891*	*1,675*	6,216
3.2 Equity instruments	*1,453*	*292*	1,161	-	-	-
3.3 OEIC units	*2,400*	*493*	1,907	-	-	-
3.4 Financing	-	-	-	-	-	-
4. Held-to-maturity investments	-	-	-	-	-	-
Total assets	**8,630**	**2,913**	**5,717**	**7,891**	**1,675**	**6,216**
Financial liabilities						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Securities issued	-	11	- 11	-	48	- 48
Total liabilities	**-**	**11**	**- 11**	**-**	**48**	**- 48**

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)				2017	2016
	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	**-946**	**-11,166**	**-504**	**4,598**	**2,812**	**-**	**2**	**-5,204**	**-6,535**
Non-performing loans purchased	-	-	-	-	-	-	-	-	-
- Financing	-	-		-	-			-	-
- Debt instruments	-	-		-	-			-	-
Other	-946	-11,166	-504	4,598	2,812	-	2	-5,204	-6,535
- Financing	*-946*	*-11,166*	*-504*	*4,598*	*2,812*	-	*2*	*-5,204*	*-6,535*
- Debt instruments	-	-	-	-	-	-	-	-	-
C. Total	**-946**	**-11,166**	**-504**	**4,598**	**2,812**	**-**	**2**	**-5,204**	**-6,535**

The “Reversals of impairment losses (2) Individual A” column includes default interest of €269 thousand collected on bad loans and reversals of impairment losses on discounted interest as follows:

- on unlikely to pay/past due loans €1,867 thousand, of which €473 thousand has been collected;
- on bad loans €2,462 thousand, of which €297 thousand has been collected.

The “Reversals of impairment losses (2) Individual B” column includes reversals on bad loans of €1,170 thousand and unrealised reversals of €34 thousand, as well as unrealised reversals and realised reversals of €1,117 thousand and €491 thousand on unlikely to pay/past due loans, respectively.

8.2 Net impairment losses on AFS financial assets: breakdown

	Impairment losses (1)		Reversals of impairment losses (2)		2017	2016
	Individual		Individual			
	Derecognition	Other	A	B	(3) = (1)-(2)	(3) = (1)-(2)
A. Debt instruments	-	-	-	-	-	-
B. Equity instruments	-	-1,142			-1,142	-
C. OEIC units	-	-		-	-	-
D. Financing to banks	-	-	-	-	-	-
E. Financing to customers	-	-	-	-	-	-
F. Total	**-**	**-1,142**	**-**	**-**	**-1,142**	**-**

8.4 Net impairment losses on other financial transactions: breakdown

	Impairment losses (1)			Reversals of impairment losses (2)				2017	2016
	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

	2017	2016
1) Employees	**- 27,090**	**- 26,909**
a) wages and salaries	- 18,909	- 18,649
b) social security charges	- 5,116	- 5,060
c) post-employment benefits	-	- 1,050
d) pension costs	-	-
e) accrual for post-employment benefits	- 1,141	- 131
f) accrual for pension and similar provisions:	- 142	- 203
- defined contribution plans	-	-
- defined benefit plans	*- 142*	*- 203*
g) payments to external supplementary pension funds	- 759	- 758
- defined contribution plans	*- 759*	*- 758*
- defined benefit plans	-	-
h) costs of share-based payment plans	-	-
i) other employee benefits	- 1,023	- 1,058
2) Other personnel	**-**	**-**
3) Directors and statutory auditors	**- 928**	**- 997**
4) Retired personnel	**-**	**-**
5) Cost recoveries for personnel seconded to other companies	**-**	**-**
6) Cost reimbursements for personnel seconded to the bank	**-**	**-**
Total	**- 28,018**	**- 27,906**

Item 3 of the table includes the statutory auditors’ fees and the directors’ insurance premiums.

9.2 Average number of employees per category

	31/12/2017	2017 average	31/12/2016
• Employees	**388**	**369**	**380**
a) managers	2	2	2
b) junior managers	106	105	104
- including: 3rd and 4th level	*43*	*43*	*42*
c) other employees (including cleaning staff)	280	262	274
- including: 3rd professional group	*276*	*258*	*270*
- including: 2nd professional group	*3*	*3*	*3*
- including: cleaning staff	*1*	*1*	*1*
• Other personnel	**10**	**10**	**10**

The average was determined considering the part-time personnel for 50%.

9.3 Internal defined benefit pension plans: costs and revenue

	2017	2016
Remuneration on supplementary pension fund - Interest expense	142	203

9.4 Other employee benefits

	2017	2016
Other employee benefits	- 1,023	- 1,058

This caption mainly comprises training costs of €157 thousand, life, accident and health insurance policies of €342 thousand and meal vouchers of €467 thousand.

9.5 Other administrative expenses: breakdown

	2017	2016
1 - credit collection legal fees	1,971	1,581
2 - sundry and technical legal consultancy	1,115	1,102
3 - maintenance, repairs, conversions	1,137	749
4 - lease of premises	980	1,079
5 - cleaning services	547	540
6 - rental of machinery and data transmission lines	1,397	1,329
7 - security and security transportation	530	512
8 - lighting and heating	477	547
9 - stationery and printed matter	188	187
10 - postal, telegraph, telex, telephone	384	330
11 - insurance	342	403
12 - advertising	377	518
13 - subscriptions and purchases of publications	85	95
14 - third party service costs	3,753	3,547
15 - transportation and relocation	260	267
16 - membership fees	258	234
17 - contribution to the National Resolution Fund and the Interbank Guarantee Deposit Fund	1,048	1,643
18 - car leases	67	-
19 - information and Chamber of Commerce business register file searches	635	657
20 - other	295	367
Subtotal of other administrative expenses	**15,846**	**15,687**
Indirect taxes and duties		
1 - stamp duty	3,639	3,558
2 - local property tax	354	354
3 - other	749	577
Total indirect taxes and duties	**4,742**	**4,489**
Total other administrative expenses	**20,588**	**20,176**

“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” includes the ex ante contributions of €740 thousand to the latter fund. Ordinary contributions to the Single Resolution Fund amounted to €306 thousand and those to the National Resolution Fund to €2 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:

- statutory audit of the annual financial statements €125,904;
- translation services (into English) €12,200;
- signing of the tax returns €5,200;
- other tax attestations €11,590.

In addition, fees for services paid to other entities of the KPMG network are shown below:

- €26,645 thousand to K Studio Associato for legal and tax assistance;
- €120,150 thousand to KPMG Advisory S.p.A. for assistance with assessing the effects of applying IFRS 9 and for the real estate owned company.

These fees include VAT and reimbursement of out-of-pocket expenses.

Service	Service provider	Fees
Statutory audit	KPMG S.p.A.	125,904
Attestation services	KPMG S.p.A.	5,200
Other services	KPMG S.p.A.	23,790
Other services	KPMS Advisory S.p.A.	120,150
Other services	K Studio Associato	26,645
TOTAL		**301.689**

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

10.1 Net accruals to provisions for risks and charges: breakdown

	2017
1- accrual for legal disputes	- 527
2- accrual for claw-back claims	- 186
3 - other	- 700
Total accruals	**- 1,413**
4 - Utilisation to settle legal disputes	447
Total utilisations	**447**
Net accruals	**- 966**

Utilisation of these provisions for €447 thousand referred to the settlement of legal disputes recognised in caption 160 of the income statement, net of accruals of €1,413 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	- 1,546	-	-	- 1,546
- operating assets	*- 1,546*	-	-	*- 1,546*
- investment property	-	-	-	-
A.2 Acquired under finance lease	-	-	-	-
- operating assets	-	-	-	-
- investment property	-	-	-	-
Total	**- 1,546**	**-**	**-**	**- 1,546**

Section 12 - Amortisation and net impairment losses on intangible assets - Caption 180

12.1 Amortisation and net 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	-87	-	-	-87
- Generated internally	*-*	*-*	*-*	*-*
- Other	*-87*	*-*	*-*	*-87*
A.2 Acquired under finance lease	-	-	-	-
Total	**-87**	**-**	**-**	**-87**

Section 13 - Net other operating income - Caption 190

13.1 Other operating expense: breakdown

	2017
1 - Charitable donations	-3
2 - Contributions to bodies and municipalities receiving treasury services	-6
3 - Amortisation of leasehold improvements	-277
4 - Losses for robbery	-60
5 - Other	-274
Total	**-620**

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 (€272 thousand) and discounted contributions (€2 thousand).
Prior year losses comprise settlements of disputes about above legal interest rates (€103 thousand). It used the provision for risks and charges in caption 160 of the income statement.

13.2 Other operating income: breakdown

	2017
1 - Recoveries of administrative expenses	4,917
2 - Security box fees	65
3 - Lease income	390
4 - Other income	1,678
Total other operating income	**7,050**
Total	**6,430**

Item “4 - Other income” includes:

- the contribution to the Banks and Insurance Companies’ Fund (FBA) of €282 thousand;
- recovery of fines and fees on current accounts and deposits of €214 thousand;
- prior year income of €1,182 thousand.

Prior year income includes compensation of €900 thousand obtained for damage incurred as a result of the 2016 earthquakes.

Section 17 - Net gains on sales of investments - Caption 240

17.1 Net gains on sales of investments: breakdown

	2017	2016
A. Property	**-**	**-**
- Gains on sales	-	-
- Losses on sales	-	-
B. Other assets	**59**	**3**
- Gains on sales	101	5
- Losses on sales	- 42	- 2
Net gains on sales of investments	**59**	**3**

Section 18 - Income taxes - Caption 260

18.1 Income taxes: breakdown

	2017	2016
1. Current taxes (-)	- 2,085	- 1,446
2. Change in current taxes from previous years (+/-)	234	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 (+/-)	- 654	- 772
5. Change in deferred tax liabilities (+/-)	-	-
6. Tax expense for the year (-)(-1+/-2+3+/-4+/-5)	**- 2,505**	**- 1,496**

In February 2017, the tax authorities reimbursed the IRES tax related to the deductibility of IRAP paid on personnel expenses in the years from 2008 to 2011, following the claim filed by the bank 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	4,826	
Effective IRES tax rate	27.50%	
Theoretical tax expense		1,327
Permanent and temporary differences for IRES purposes		*269*
a) dividends	- 515	
b) other	1,493	
IRES tax		**1,596**
Pre-tax profit for the year	4,826	
Effective IRAP tax rate	5.50%	
Theoretical tax expense		265
Permanent differences for IRAP purposes	**-**	*224*
a) non-deductible personnel expense	1,070	
b) impairment losses/reversals of impairment losses on loans and receivables	- 1,766	
c) other	4,761	
IRAP tax		**489**
Income tax expense		**2,085**
Utilisation for provision for tax for IRES reimbursement pursuant to Decree law no. 291/2011		- 234
Change in deferred taxes		654
Total current taxes		**2,505**

Item “b) Other” includes net tax add-backs.

Section 21 – Earnings per share

21.1 Average number of ordinary shares with dilutive effect

	2017	2016
Weighted average number of shares	759,750	759,750
Profit attributable to the share categories (Euro)	3,619,610	3,927,097
Basic EPS (Euro)	4.76	5.16
Diluted EPS (Euro)	4.76	5.16

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 €3.00 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. €482,615 to the ordinary reserve, as per article 25 of the by-laws;
2. €723,922 to the extraordinary reserve, as per article 25 of the by-laws;
3. €1,340,360 to the extraordinary reserve, as decided by the board of directors.

The numerator used to calculate the basic EPS is €3,620 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 treasury 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**			**4,826**
	Items that will not be reclassified subsequently to profit or loss			
20.	Property, equipment and investment property	-	-	-
30.	Intangible assets	-	-	-
40.	Defined benefit plans	44	-12	32
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:	-1,127	405	-722
	a) fair value gains (losses)	1,262	-383	
	b) reclassification to profit or loss	-2,389	788	
	- impairment losses	98	-32	
	- gains/losses on sales	-2,487	820	
	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**	**-1,083**	**393**	-690
140.	**Comprehensive income (captions 10 + 130)**			**4,136**

PART E
Risks and related hedging policies

SECTION 1 - CREDIT RISK

General information

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 Internal Audit Office, the Risk Governance Office - including the Risk Management, Compliance and AML Units) 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 level 2 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 irregularities, informing the relevant units;
- checking compliance with the prudent regulatory limits as per Bank of Italy circular no. 263/06, Title V, chapter 5 - Annex A (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/..." 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 no. 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.

In accordance with Bank of Italy Circular no. 285/13, 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 non-performing exposures.

During the year, the bank also commenced a project for the introduction of the new standard IFRS 9 - Financial instruments, which became applicable on 1 January 2018 replacing IAS 30. The new standard will affect the classification and measurement of financial instruments and the methods and logic used to calculate impairment losses.

Following the Italian central bank's issue of "Guidance for less significant Italian banks on the management of non-performing loans" on 30 January 2018, the bank also started an internal process to analyse and check the matters covered by the guidelines and to assess what actions to take.

The bank and its bodies encourage the circulation and development of a cross-the-board risk culture and employee training about the issue. Accordingly, it provided the internal bodies with information about new legislation that affects the bank's operations, showing the bank's compliance and any necessary actions.

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 unit which decides and organises the management of credit risk has different operating powers, depending on whether it is located at the branches/agencies 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 activities and controls for risk management carried out by the following head office units:

- **Loans Office:** assists the branches/agencies with the preliminary investigations stage, assesses credit facility applications approved by the relevant branch/agency personnel checking the risks and compliance with their powers, monitors the existing credit facilities and that the branches/agencies renew them. The Office has a unit which monitors performing loans using IT procedures (Credit monitoring procedure), designed to prevent steady credit deterioration with the timely assessment of appropriate remedial actions.
- **Problem Loans Office:** regularly monitors business risk irregularities using data provided by special computerised procedures and the 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 a specific early warning procedure, the Credit Position Control (CPC), which gives each borrower a score for their credit riskiness. The CPC is used to monitor customers' behaviour in order to identify any loan deterioration on a timely basis 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 collective impairment of performing loans and, under the current policy, used to measure non-performing loans of less than €50 thousand.

The S.A.Ra. rating system, used for management monitoring purposes, divides customers into three main segments (Corporate, SME retail and Retail) and classifies counterparties using a scale of ten 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 Credit Policy for credit quality, 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 which 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 introduced a rule for the assessment of buildings which sets out the general criteria for property evaluations by experts.

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 Non-performing financial assets

The Risk Control Office and Legal Affairs Office solely manage bad 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 "bad", 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 non-performing 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 bad or to propose the position be classified as bad 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 non-performing 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 non-performing 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 Non-performing and performing loans: carrying amount, impairment losses, performance, business and geographical breakdown

A.1.1 Breakdown of loans by portfolio and credit quality (carrying amount)

	Bad exposures	Unlikely to pay exposures	Non-performing past due exposures	Performing past due exposures	Performing assets	Total
1. Available-for-sale financial assets	-	-	-	-	186,032	**186,032**
2. Held-to-maturity investments	-	-	-	-	5,000	**5,000**
3. Loans and receivables with banks	-	-	-	-	18,674	**18,674**
4. Loans and receivables with customers	59,975	58,391	1,920	24,271	837,501	**982,058**
5. Financial assets at fair value through profit or loss	-	-	-	-	-	**-**
6. Financial assets held for sale	-	-	-	-	-	**-**
Total at 31/12/2017	**59,975**	**58,391**	**1,920**	**24,271**	**1,047,207**	**1,191,764**
Total at 31/12/2016	**54,327**	**62,792**	**7,075**	**24,873**	**1,053,840**	**1,202,907**

A.1.2 Breakdown of loans by portfolio and credit quality (gross amount and carrying amount)

	Non-performing exposures			Performing exposures			Total (carrying amount)
	Gross amount	Individual impairment	Carrying amount	Gross amount	Collective impairment	Carrying amount	
1. Available-for-sale financial assets	-	-	-	186,032	-	186,032	186,032
2. Held-to-maturity investments	-	-	-	5,000	-	5,000	5,000
3. Loans and receivables with banks	-	-	-	18,674	-	18,674	18,674
4. Loans and receivables with customers	200,412	80,127	120,285	869,792	8,019	861,773	982,058
5. Financial assets at fair value through profit or loss	-	-	-			-	-
6. Financial assets held for sale	-	-	-	-	-	-	-
Total at 31/12/2017	**200,412**	**80,127**	**120,285**	**1,079,498**	**8,019**	**1,071,479**	**1,191,764**
Total at 31/12/2016	**201,252**	**77,059**	**124,193**	**1,086,263**	**7,549**	**1,078,714**	**1,202,907**

No non-performing loans were partially derecognised in 2017.

At the reporting date, there were 29 loans under deed of arrangement for €10,776 thousand, including three with applications filed in 2017 for €394 thousand. Seven positions of €1,580 thousand, classified as under deed of arrangement in 2016, became insolvent in 2017.

One position of €13 thousand, classified as non-performing in 2016, is no longer under deed of arrangement while another two of €169 thousand were settled after full recovery.

In addition, 23 positions, of which 17 classified as non-performing in previous years and six in 2017, of €2,421 thousand filed for winding up during the year.

The unlikely to pay exposures at the reporting date include:

- one position under deed of arrangement (€4,198 thousand);
- three positions under deed of arrangement with reserve (€385 thousand);
- two positions under deed of arrangement in 2016 that were reclassified to bad loans for €365 thousand at the end of 2017;
- one position under deed of arrangement in 2016 that was settled after full recovery;

- one position under deed of arrangement in 2016 that was settled after partial recovery.

	Assets with poor credit quality		Other assets
	Accumulated losses	Carrying amount	Carrying amount
1. Financial assets held for trading	-	-	254,659
2. Hedging derivatives	-	-	-
Total at 31/12/2017	**-**	**-**	**254,659**
Total at 31/12/2016	**-**	**-**	**327,939**

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	627	280	-	-	1,562
5. Financial assets at fair value through profit or loss	-	-	-	-	-
6. Financial assets held for sale	-	-	-	-	-
Total at 31/12/2017	**627**	**280**	**-**	**-**	**1,562**

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 €2,469 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	3,207	375	10	-	9,481	15,542	139
5. Financial assets at fair value through profit or loss	-	-	-	-	-	-	-
6. Financial assets held for sale	-	-	-	-	-	-	-
Total at 31/12/2017	**3,207**	**375**	**10**	**-**	**9,481**	**15,542**	**139**

	Other 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	-	-	-	-	186,032
2. Held-to-maturity investments	-	-	-	-	5,000
3. Loans and receivables with banks	-	-	-	-	18,674
4. Loans and receivables with customers	15,401	2,320	2,921	4	825,585
5. Financial assets at fair value through profit or loss	-	-	-	-	-
6. Financial assets held for sale	-	-	-	-	-
Total at 31/12/2017	**15,401**	**2,320**	**2,921**	**4**	**1,035,291**

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
	Non-performing exposures				Performing exposures			
	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) Bad exposures	-	-	-	-	-	-		-
- including: forborne exposures	-	-	-	-	-	-		-
b) Unlikely to pay exposures	-	-	-	-	-	-		-
- including: forborne exposures	-	-	-	-	-	-		-
c) Non-performing past due exposures	-	-	-	-	-	-		-
- including: forborne exposures	-	-	-	-	-	-		-
d) Performing past due exposures	-	-	-	-	-	-		-
- including: forborne exposures	-	-	-	-	-	-		-
e) Other performing exposures	-	-	-	-	59,565	-		**59,565**
- including: forborne exposures	-	-	-	-	-		-	-
TOTAL A	**-**	**-**	**-**	**-**	**59,565**	**-**	**-**	**59,565**
B. OFF-STATEMENT OF FINANCIAL POSITION								
a) Non-performing exposures	-	-	-	-		-		-
b) Performing exposures					4,403		-	**4,403**
TOTAL B	**-**	**-**	**-**	**-**	**4,403**	**-**	**-**	**4,403**
TOTAL A + B	**-**	**-**	**-**	**-**	**63,968**	**-**	**-**	**63,968**

The amount shown in item "B. OFF-STATEMENT OF FINANCIAL POSITION - b) Performing" 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
	Non-performing exposures				Performing 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) Non-performing exposures	**-**	**-**	**-**	**-**		**-**		**-**
	-	-	-	-		-		-
b) Performing exposures					***4,403***		**-**	4,403
b.1) Deposits for repos					-		-	**-**
b.2) Interbank Deposit Protection Fund (FITD)					4,353		-	***4,353***
b.3) Commitment with CC.OO to purchase securities issued by II.CC.					-		-	**-**
b.4) Interest rate derivatives					50		-	***50***
b.5) Currency forwards					-		-	-
TOTAL B	**-**	**-**	**-**	**-**	**4,403**	**-**	**-**	**4,403**

A.1.4 On-statement of financial position loans and receivables with banks: gross non-performing positions

The bank does not have any non-performing loans and receivables with banks.

A.1.5 On-statement of financial position loans and receivables with banks: changes in non-performing 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
	Non-performing exposures				Performing exposures			
	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) Bad exposures	-	-	-	127,067	-	67,092		**59,975**
- including: forborne exposures	-	-	-	*16,022*	-	*9,357*		***6,665***
b) Unlikely to pay exposures	23,122	3,602	13,767	30,667	-	12,768		**58,390**
- including: forborne exposures	*9,948*	*2,125*	*1,545*	*9,873*	-	*4,372*		***19,119***
c) Non-performing past due exposures	229	548	1,315	95	-	267		**1,920**
- including: forborne exposures	-	*55*	*623*	-	-	*89*		***589***
d) Performing past due exposures	-	-	-	-	24,789		517	**24,272**
- including: forborne exposures	-	-	-	-	*3,688*		*63*	***3,625***
e) Other performing exposures	-	-	-	-	1,249,590		7,502	**1,242,088**
- including: forborne exposures	-	-	-	-	*11,991*		*76*	***11,915***
TOTAL A	**23,351**	**4,150**	**15,082**	**157,829**	**1,274,379**	**80,127**	**8,019**	**1,386,645**
B. OFF-STATEMENT OF FINANCIAL POSITION								
a) Non-performing exposures	825	-	-	-		-		**825**
b) Performing exposures					77,624		-	**77,624**
TOTAL B	**825**	**-**	**-**	**-**	**77,624**	**-**	**-**	**78,449**
TOTAL A + B	**24,176**	**4,150**	**15,082**	**157,829**	**1,352,003**	**80,127**	**8,019**	**1,465,094**

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) Non-performing exposures” and “b) Performing expenses” 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
	Non-performing exposures				Performing exposures			
	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) Non-performing exposures	***825***	**-**	**-**	**-**		**-**		**825**
a.1) Commercial endorsement credits	825	-	-	-		-		***825***
b) Performing exposures					***77,624***		**-**	***77,624***
b.1) Financial endorsement credits					21		-	***21***
b.2) Commercial endorsement credits					20,147		-	***20,147***
b.3) Commitments of uncertain use					52,092		-	***52,092***
b.4) Financing for repos					272		-	***272***
b.5) Commitment with Il.CC to purchase securities issued by CC.OO.					4,298		-	***4,298***
b.6) Interest rate derivatives and forwards					7		-	***7***
b.7) Currency forwards					155		-	***155***
b.8) Risks associated with SFTs (repos)					-		-	**-**
b.9) Interbank Deposit Protection Fund - voluntary scheme					632		-	***632***
TOTAL B	**825**	**-**	**-**	**-**	**77,624**	**-**	**-**	**78,449**

A.1.7 On-statement of financial position loans and receivables with customers: gross non-performing positions

	Bad exposures	Unlikely to pay exposures	Non-performing past due exposures
A. Gross opening balance	**116,077**	**77,352**	**7,823**
- including: positions transferred but not derecognised	-	-	-
B. Increases	**18,262**	**27,177**	**2,890**
B.1 transfers from performing loans	2,840	17,553	2,130
B.2 transfers from other non-performing loan categories	13,272	3,330	-
B.3 other increases	2,150	6,294	760
C. Decreases	**7,272**	**33,371**	**8,526**
C.1 transfers to performing loans	-	10,932	371
C.2 derecognitions	1,606	22	-
C.3 collections	5,666	11,104	2,866
C.4 losses on sales	-	-	-
C.5 losses on sales	-	-	-
C.6 transfers to other non-performing loan categories	-	11,313	5,289
C.7 other decreases	-	-	-
D. Gross closing balance	**127,067**	**71,158**	**2,187**
- including: exposures 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: non-performing	Forborne exposures: performing
A. Gross opening balance	**44,072**	**13,569**
- including: positions transferred but not derecognised	-	-
B. Increases	**11,290**	**9,126**
B.1 transfers from performing exposures not subject to forbearance measures	2,367	7,459
B.2 transfers from performing forborne exposures	2,601	
B.3 transfers from non-performing forborne exposures		869
B.4 other increases	6,322	798
C. Decreases	**15,171**	**7,016**
C.1 transfers to performing exposures not subject to forbearance measures		1,352
C.2 transfers to performing forborne exposures	870	
C.3 transfers to non-performing forborne exposures		2,601
C.4 derecognitions	58	-
C.5 collections	4,273	3,063
C.6 losses on sales	-	-
C.7 losses on sales	-	-
C.8 other decreases	9,970	-
D. Gross closing balance	**40,191**	**15,679**
- including: exposures transferred but not derecognised	-	-

A.1.8 On-statement of financial position loans and receivables with customers: changes in non-performing positions

	Bad exposures		Unlikely to pay exposures		Non-performing past due exposures	
	Total	Including: forborne exposures	Total	Including: forborne exposures	Total	Including: forborne exposures
A. Opening balance	**61,749**	**8,512**	**14,561**	**2,918**	**749**	**102**
- including: positions transferred but not derecognised	-	-	-	-	-	-
B. Increases	**10,201**	**1,328**	**5,004**	**2,905**	**254**	**89**
B.1 impairment losses	6,628	1,244	4,548	2,904	253	89
B.2 losses on sales	-	-	-	-	-	-
B.3 transfers from other non-performing loan categories	3,573	84	456	1	1	-
B.4 other increases	-	-	-	-	-	-
C. Decreases	**4,858**	**483**	**6,797**	**1,451**	**736**	**102**
C.1 fair value losses	2,198	341	2,234	1,288	122	19
C.2 reversals of impairment losses due to collections	1,048	90	1,057	160	66	-
C.3 gains on sales	-	-	-	-	-	-
C.4 derecognitions	1,612	52	21	1	-	-
C.5 transfers to other non-performing loan categories	-	-	3,485	2	548	83
C.6 other decreases	-	-	-	-	-	-
D. Closing balance	**67,092**	**9,357**	**12,768**	**4,372**	**267**	**89**
- including: exposures 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	**20,079**	**9,030**	**259,342**	**11,589**	**1,218**	**-**	**1,174,675**	**1,475,933**
B. Derivatives	**-**	**50**	**-**	**-**	**-**	**-**	**162**	**212**
B.1 Financial derivatives	-	50	-	-	-	-	162	212
B.2 Credit derivatives	-	-	-	-	-	-	-	-
C. Guarantees issued	**-**	**-**	**-**	**-**	**-**	**-**	**25,147**	**25,147**
D. Commitments to disburse funds	**-**	**-**	**2,088**	**-**	**-**	**-**	**55,406**	**57,494**
E. Other	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**20,079**	**9,080**	**261,430**	**11,589**	**1,218**	**-**	**1,255,390**	**1,558,786**

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 exposures:	**770,975**	**510,182**	**-**	**9,242**	**9,444**	**-**	**-**	**-**	**-**	**-**	**4,207**	**2,442**	**3,988**	**220,060**	**759,565**
1.1. Fully guaranteed	737,277	506,901	-	7,903	7,612	-	-	-	-	-	2,802	2,442	3,296	205,560	736,516
- including: impaired	*105,010*	*87,020*	-	*129*	*2,666*	-	-	-	-	-	-	*505*	*93*	*14,483*	*104,896*
1.2. Partly guaranteed	33,698	3,281	-	1,339	1,832	-	-	-	-	-	1,405	-	692	14,500	23,049
- including: impaired	*4,896*	*2,292*	-	-	*6*	-	-	-	-	-	-	-	*3*	*2,298*	*4,599*
2. Off-statement of financial position guaranteed exposures:	**20,048**	**8,571**	**-**	**332**	**1,327**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**40**	**7,563**	**17,833**
2.1. Fully guaranteed	16,166	7,674	-	289	969	-	-	-	-	-	-	-	-	7,182	16,114
- including: impaired	*821*	*200*	-	*10*	*97*	-	-	-	-	-	-	-	-	*514*	*821*
2.2. Partly guaranteed	3,882	897	-	43	358	-	-	-	-	-	-	-	40	381	1,719
- 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 Bad exposures	-	-		-	-	
- including: forborne exposures	-	-		-	-	
A.2 Unlikely to pay exposures	-	-		-	-	
- including: forborne exposures	-	-		-	-	
A.3 Non-performing past due exposures	-	-		-	-	
- including: forborne exposures	-	-		-	-	
A.4 Non-performing exposures	371,855		-	7,317		-
- including: forborne exposures	-		-	-		-
Total A	**371,855**	**-**	**-**	**7,317**	**-**	**-**
B. Off-statement of financial position						
B.1 Bad exposures	-	-		-	-	
B.2 Unlikely to pay exposures	-	-		-	-	
B.3 Other non-performing assets	-	-		-	-	
B.4 Non-performing exposures	4,298		-	42,075		-
Total B	**4,298**	**-**	**-**	**42,075**	**-**	**-**
Total (A + B) at 31/12/2017	**376,153**	**-**	**-**	**49,392**	**-**	**-**
Total (A + B) at 31/12/2016	**467,381**	**-**	**-**	**56,633**	**-**	**-**

	Financial companies			Insurance companies		
	Net amount	Individual impairment	Collective impairment	Net amount	Individual impairment	Collective impairment
A. On-statement of financial position						
A.1 Bad exposures	31	87		-	-	
- including: forborne exposures	*7*	*9*		-	-	
A.2 Unlikely to pay exposures	97	34		-	-	
- including: forborne exposures	*13*	*4*		-	-	
A.3 Non-performing past due exposures	-	-		-	-	
- including: forborne exposures	-	-		-	-	
A.4 Non-performing exposures	24,584		55	1,166		-
- including: forborne exposures	-		-	-		-
Total A	**24,712**	**121**	**55**	**1,166**	**-**	**-**
B. Off-statement of financial position						
B.1 Bad exposures	-	-		-	-	
B.2 Unlikely to pay exposures	609	-		-	-	
B.3 Other non-performing assets	-	-		-	-	
B.4 Non-performing exposures	2,429		-	90		-
Total B	**3,038**	**-**	**-**	**90**	**-**	**-**
Total (A + B) at 31/12/2017	**27,750**	**121**	**55**	**1,256**	**-**	**-**
Total (A + B) at 31/12/2016	**49,262**	**93**	**56**	**396**	**-**	**-**

	Non-financial companies			Other		
	Net amount	Individual impairment	Collective impairment	Net amount	Individual impairment	Collective impairment
A. On-statement of financial position						
A.1 Bad exposures	44,613	54,135		15,331	12,870	
- including: forborne exposures	*3,860*	*8,070*		*2,798*	*1,278*	
A.2 Unlikely to pay exposures	43,013	11,339		15,280	1,395	
- including: forborne exposures	*13,968*	*3,904*		*5,138*	*464*	
A.3 Non-performing past due exposures	976	157		944	110	
- including: forborne exposures	*555*	*87*		*34*	*2*	
A.4 Performing exposures	593,977		6,638	267,461		1,326
- including: forborne exposures	*6,851*		*94*	*8,689*		*45*
Total A	**682,579**	**65,631**	**6,638**	**299,016**	**14,375**	**1,326**
B. Off-statement of financial position						
B.1 Bad exposures	-	-		-	-	
B.2 Unlikely to pay exposures	207	-		-	-	
B.3 Other non-performing assets	10	-		-	-	
B.4 Non-performing exposures	26,070		-	2,663		-
Total B	**26,287**	**-**	**-**	**2,663**	**-**	**-**
Total (A + B) at 31/12/2017	**708,866**	**65,631**	**6,638**	**301,679**	**14,375**	**1,326**
Total (A + B) at 31/12/2016	**665,592**	**62,903**	**6,278**	**305,019**	**14,063**	**1,215**

Item "A.1 Bad - including: forborne exposures" includes 328 exposures, comprising both those with debt rescheduling agreements and those under deed of arrangement.

Item "A.2 Unlikely to pay - including: forborne exposures" includes 218 exposures subject to forbearance measures.

Item "A.3 Non-performing past due - including: forborne exposures" includes eight exposures subject to forbearance measures.

Item "A.4 Performing exposures - including: forborne exposures" comprises 196 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 Bad exposures	59,975	67,092	-	-	-	-	-	-	-	-
A.2 Unlikely to pay exposures	58,391	12,767	-	-	-	-	-	-	-	-
A.3 Non-performing past due exposures	1,920	267	-	-	-	-	-	-	-	-
A.4 Performing exposures	1,171,008	8,016	83,265	2	11,917	-	157	1	12	-
Total A	**1,291,294**	**88,142**	**83,265**	**2**	**11,917**	**-**	**157**	**1**	**12**	**-**
B. Off-statement of financial position										
B.1 Bad exposures	-	-	-	-	-	-	-	-	-	-
B.2 Unlikely to pay exposures	815	-	-	-	-	-	-	-	-	-
B.3 Other non-performing assets	10	-	-	-	-	-	-	-	-	-
B.4 Non-performing exposures	77,624	-	-	-	-	-	-	-	-	-
Total B	**78,449**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total (A + B) at 31/12/2017	**1,369,743**	**88,142**	**83,265**	**2**	**11,917**	**-**	**157**	**1**	**12**	**-**
Total (A + B) at 31/12/2016	**1,496,909**	**84,603**	**29,425**	**3**	**13,779**	**1**	**174**	**1**	**3,997**	**-**

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 Bad exposures	2,220	4,106	205	259	55,657	59,814	1,893	2,913
A.2 Unlikely to pay exposures	2,840	454	4	1	52,764	11,846	2,783	467
A.3 Non-performing past due exposures	-	-	1	-	1,842	258	76	9
A.4 Non-performing exposures	10,361	60	3,078	21	1,095,424	7,392	62,145	542
Total A	**15,421**	**4,620**	**3,288**	**281**	**1,205,687**	**79,310**	**66,897**	**3,931**
B. Off-statement of financial position								
B.1 Bad exposures	-	-	-	-	-	-	-	-
B.2 Unlikely to pay exposures	-	-	-	-	615	-	200	-
B.3 Other non-performing assets	-	-	10	-	-	-	-	-
B.4 Non-performing exposures	704	-	380	-	74,831	-	1,710	-
Total B	**704**	**-**	**390**	**-**	**75,446**	**-**	**1,910**	**-**
Total (A + B) at 31/12/2017	**16,125**	**4,620**	**3,678**	**281**	**1,281,133**	**79,310**	**68,807**	**3,931**
Total (A + B) at 31/12/2016	**23,836**	**4,752**	**3,328**	**238**	**1,413,212**	**76,015**	**56,531**	**3,597**

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 Bad exposures	-	-	-	-	-	-	-	-	-	-
A.2 Unlikely to pay exposures	-	-	-	-	-	-	-	-	-	-
A.3 Non-performing past due exposures	-	-	-	-	-	-	-	-	-	-
A.4 Performing exposures	27,484	-	16,533	-	7,158	-	8,391	-	-	-
Total A	**27,484**	**-**	**16,533**	**-**	**7,158**	**-**	**8,391**	**-**	**-**	**-**
B. Off-statement of financial position										
B.1 Bad exposures	-	-	-	-	-	-	-	-	-	-
B.2 Unlikely to pay exposures	-	-	-	-	-	-	-	-	-	-
B.3 Other non-performing assets	-	-	-	-	-	-	-	-	-	-
B.4 Performing exposures	4,403	-	-	-	-	-	-	-	-	-
Total B	**4,403**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total (A + B) at 31/12/2017	**31,887**	**-**	**16,533**	**-**	**7,158**	**-**	**8,391**	**-**	**-**	**-**
Total (A + B) at 31/12/2016	**44,393**	**-**	**15,371**	**-**	**4,853**	**-**	**1,295**	**-**	**2,289**	**-**

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 Bad exposures	-	-	-	-	-	-	-	-
A.2 Unlikely to pay exposures	-	-	-	-	-	-	-	-
A.3 Non-performing past due exposures	-	-	-	-	-	-	-	-
A.4 Performing exposures	10,459	-	-	-	17,025	-	-	-
Total A	**10,459**	**-**	**-**	**-**	**17,025**	**-**	**-**	**-**
B. Off-statement of financial position								
B.1 Bad exposures	-	-	-	-	-	-	-	-
B.2 Unlikely to pay exposures	-	-	-	-	-	-	-	-
B.3 Other non-performing assets	-	-	-	-	-	-	-	-
B.4 Non-performing exposures	50	-	-	-	4,354	-	-	-
Total B	**50**	**-**	**-**	**-**	**4,354**	**-**	**-**	**-**
Total (A + B) at 31/12/2017	**10,509**	**-**	**-**	**-**	**21,379**	**-**	**-**	**-**
Total (A + B) at 31/12/2016	**15,269**	**-**	**-**	**-**	**29,124**	**-**	**-**	**-**

B.4 Large exposures

	31/12/2017	31/12/2016
a) Carrying amount	590,884	566,245
b) Weighted amount	42,287	36,444
c) Number	6	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 €36,444 thousand to €42,287 thousand at 31 December 2017. It includes exposures to government agencies (€4,195 thousand) and the investment in Bank of Italy (€7,500 thousand) with the remainder mainly consisting of exposures to companies and investment funds (€30,592 thousand) as provided for by Commission Delegated Regulation (EU) no. 1187/2014, 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	31/12/2017	31/12/2016
A. Assets	-	-	-	-	-	-	-	-	-	-	-
1. Debt instruments	-	-	-	-	-	-	-	-	-	-	-
2. Equity instruments	-	-	-	-	-	-	-	-	-	-	-
3. OEIC units	-	-	-	-	-	-	-	-	-	-	-
4. Financing	-	-	-	-	-	-	-	-	-	-	-
B. Derivatives	-	-	-							-	-
2017	-	-	-	-	-	-	-	-	-	-	
- including: non-performing	-	-	-	-	-	-	-	-	-	-	
2016	-	-	-	-	-	-	-	-	-		-
- including: non-performing	-	-	-	-	-	-	-	-	-		-

	Held-to-maturity investments			Loans and receivables with banks			Loans and receivables with customers			Total	
	A	B	C	A	B	C	A	B	C	31/12/2017	31/12/2016
A. Assets	-	-	-	-	-	-	-	-	-	-	-
1. Debt instruments	-	-	-	-	-	-	-	-	-	-	-
2. Equity instruments										-	-
3. OEIC units										-	-
4. Financing	-	-	-	-	-	-	-	-	-	-	-
B. Derivatives										-	-
2017	-	-	-	-	-	-	-	-	-	-	
- including: impaired	-	-	-	-	-	-	-	-	-	-	
2016	-	-	-	-	-	-	-	-	-		-
- 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

	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 31/12/2017	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total at 31/12/2016	**-**	**-**	**-**	**-**	**-**	**-**	**-**

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%) with the remainder consisting of corporate bonds issued by banks and equities (24%).

The AFS portfolio includes securities covered by the asset management mandate given to Epsylon 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 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 securities portfolio's exposure to market risks is checked by the Risk Management Unit using the VaR method.

In the second half of 2016, the board of directors approved the transfer of part of its banking book to a portfolio managed by Epsilon SGR S.p.A. (total amount of €120 million). The bank gave the fund manager an additional cash management mandate of €25 million to optimise excess short-term liquidity in 2017.

The bank checks the operating and total risk limits set in the "Policies for financial risk management" 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 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 and 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

Currency: Euro

	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	**-**	**39,452**	**72,462**	**6,413**	**14,197**	**121,585**	**83**	**-**
1.1 Debt instruments	-	39,452	72,462	6,413	14,197	121,585	83	-
- with early repayment option	-	*704*	*547*	-	-	-	-	-
- other	-	*38,748*	*71,915*	*6,413*	*14,197*	*121,585*	*83*	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. Liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives	**-**	**67,810**	**2,180**	**2,554**	**35,994**	**89,604**	**39,301**	**-**
3.1 With underlying security	-	4,498	400	-	-	2,009	2,080	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	*4,498*	*400*	-	-	*2,009*	*2,080*	-
+ long positions	-	*200*	*200*	-	-	*2,009*	*2,080*	-
+ short positions	-	*4,298*	*200*	-	-	-	-	-
3.2 Without underlying security	-	63,312	1,780	2,554	35,994	87,595	37,221	-
- Options	-	*2*	*114*	*838*	*35,860*	*87,595*	*37,221*	-
+ long positions	-	*1*	*57*	*418*	*17,911*	*43,818*	*18,610*	-
+ short positions	-	*1*	*57*	*420*	*17,949*	*43,777*	*18,611*	-
- Other derivatives	-	*63,310*	*1,666*	*1,716*	*134*	-	-	-
+ long positions	-	*31,716*	*833*	*858*	*67*	-	-	-
+ short positions	-	*31,594*	*833*	*858*	*67*	-	-	-

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	**-**	**-**	**-**	**-**	**-**	**34**	**-**
- long positions	-	-	-	-	-	*34*	-
- short positions	-	-	-	-	-	-	-

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 graphs show the 10-day VaR trend of the HFT portfolio from 1 January to 31 December 2017[8].

VaR (HFT)	Amount (from 1 January to 31 December 2017 - in Euro)
Minimum	352,528
Maximum	3,350,711
Average	1,603,467
Year end	928,225

[8] 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.

The Risk Management Unit measures the banking book's interest rate risk 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 bps 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 also 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

Currency: Euro

	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	**286,748**	**493,657**	**23,603**	**37,232**	**191,175**	**119,987**	**27,345**	**-**
1.1 Debt instruments	-	28,430	3,453	6,225	83,414	63,252	-	-
- with early repayment option	-	*4,758*	-	-	*2,624*	-	-	-
- other	-	*23,672*	*3,453*	*6,225*	*80,790*	*63,252*	-	-
1.2 Financing to banks	396	13,405	-	-	-	-	-	-
1.3 Financing to customers	**286,352**	**451,822**	**20,150**	**31,007**	**107,761**	**56,735**	**27,345**	**-**
- current account	*182,223*	*674*	*316*	*3,129*	*6,011*	*4,285*	-	-
- other financing	*104,129*	*451,148*	*19,834*	*27,878*	*101,750*	*52,450*	*27,345*	-
- with early repayment option	*21,504*	*434,519*	*15,385*	*19,649*	*79,596*	*42,097*	*27,298*	-
- other	*82,625*	*16,629*	*4,449*	*8,229*	*22,154*	*10,353*	*47*	-
2. Liabilities	**1,323,783**	**58,635**	**14,636**	**25,370**	**44,266**	**15**	**47**	**-**
2.1 Due to customers	1,319,951	5,664	4,893	1	11	15	47	-
- current account	*1,204,645*	-	-	-	-	-	-	-
- other payables	*115,306*	*5,664*	*4,893*	*1*	*11*	*15*	*47*	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	*115,306*	*5,664*	*4,893*	*1*	*11*	*15*	*47*	-
2.2 Due to banks	3,042	-	-	-	-	-	-	-
- current account	*3,042*	-	-	-	-	-	-	-
- other payables	-	-	-	-	-	-	-	-
2.3 Debt instruments	790	52,971	9,743	25,369	44,255	-	-	-
- with early repayment option	-	*11,073*	*5,357*	*18,588*	*44,220*	-	-	-
- other	*790*	*41,898*	*4,386*	*6,781*	*35*	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives	**-**	**78,394**	**20,849**	**10,573**	**49,463**	**20,989**	**7,998**	**-**
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	78,394	20,849	10,573	49,463	20,989	7,998	-
- Options	**-**	***78,394***	***20,849***	***10,573***	***49,463***	***20,989***	***7,998***	**-**
+ long positions	-	*3,352*	*4,511*	*10,382*	*48,648*	*19,653*	*7,587*	-
+ short positions	-	*75,042*	*16,338*	*191*	*815*	*1,336*	*411*	-
- Other derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
4. Other off-statement of financial position transactions	**-**	***544***	**-**	**-**	**-**	**-**	**-**	**-**
+ long positions	-	*272*	-	-	-	-	-	-
+ short positions	-	*272*	-	-	-	-	-	-

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 software for management purposes, assuming that the maturity dates do not change for a year.
The bank uses an econometric model (“behaviouralmodel”) 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). For comparative purposes, the bank checks the impact of the shocks on net interest income even when modelling of on-demand items does not take place (“contractual model”).

Analysis of net interest income delta - Shock +100bp, -100bp
Contractual model (without modelling on-demand items)
in Euros

29/12/2017	REPRICING DELTA MI SHOCK +100bp	REPRICING DELTA MI SHOCK -100bp
Assets	***10,776,702***	***-10,228,518***
Other assets	2,247	-2,247
Assets /Cash	110,288	-110,291
Loans and receivables with banks	1,438,197	-1,438,237
Loans and receivables with customers	8,108,745	-8,035,879
Securities portfolio	1,095,759	-620,397
Assets held by asset manager	21,466	-21,467
Off-statement of financial position	***-100***	***98***
Liabilities	***-14,139,867***	***14,134,313***
Securities issued	-652,142	646,042
Due to banks	-72,921	72,924
Due to customers	-13,414,804	13,415,347
Total	***-3,363,265***	***3,905,893***

Analysis of net interest income delta - Shock +100bp, -100bp
Behavioural model – stickiness effect
in Euros

29/12/2017	*REPRICING DELTA MI SHOCK 1*	*REPRICING DELTA MI SHOCK 2*
Assets	**10,696,033**	**-10,165,321**
Other assets	2,247	-2,247
Assets/Cash	110,288	-110,291
Loans and receivables with banks	1,438,197	-1,438,237
Loans and receivables with customers	8,028,076	-7,972,682
Securities portfolio	1,095,759	-620,397
Assets held by asset manager	21,466	-21,467
Off-statement of financial position	**-100**	**98**
Outrights	-98	98
Swaps	**-2**	**0**
Liabilities	**-8,702,366**	**987,904**
Securities issued	-652,142	646,042
Due to banks	-72,921	72,924
Due to customers	-7,977,303	268,938
Total	**1,993,568**	**-9,177,319**

Analysis of net interest income delta - Shock +100bp, -100bp
Behavioural model – stickiness and beta effects
in Euros

29/12/2017	*BETA REPRICING DELTA MI SHOCK 1*	*BETA REPRICING DELTA MI SHOCK 2*
Assets	**10,588,008**	**-10,056,299**
Other assets	2,247	-2,247
Assets/Cash	110,288	-110,291
Loans and receivables with banks	1,438,197	-1,438,237
Loans and receivables with customers	7,920,051	-7,863,660
Securities portfolio	1,095,759	-620,397
Assets held by asset manager	21,466	-21,467
Off-statement of financial position	**-100**	**98**
Outrights	-98	98
Swaps	-2	0
Liabilities	**-4,256,776**	**1,011,091**
Securities issued	-652,142	646,042
Due to banks	-72,921	72,924
Due to customers	-3,531,713	292,125
Total	**6,331,133**	**-9,045,109**

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 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 through hedges agreed by Epsilon SGR S.p.A..

Quantitative disclosure

1. Breakdown of assets, liabilities and derivatives by currency

	Currency					
	US dollar	Pound sterling	Yen	Canadian dollar	Swiss franc	Other currencies
A.1 Financial assets	**8,579**	**253**	**38**	**337**	**86**	**2,726**
A.1 Debt instruments	4,148	-	-	-	-	2,111
A.2 Equity instruments	-	-	-	-	-	-
A.3 Financing to banks	3,682	253	38	337	86	477
A.4 Financing to customers	749	-	-	-	-	138
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	**79**	**55**	**16**	**1**	**9**	**39**
C. Financial liabilities	**3,855**	**297**	**74**	**349**	**85**	**451**
C.1 Due to banks	-	-	74	-	-	-
C.2 Due to customers	3,855	297	-	349	85	451
C.3 Debt instruments	-	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
D. Other liabilities	**-**	**-**	**-**	**-**	**-**	**-**
E. Financial derivatives	**15,289**	**5**	**1,199**	**-**	**-**	**-**
- Options	-	-	-	-	-	-
+ *long positions*	-	-	-	-	-	-
+ *short positions*	-	-	-	-	-	-
- Other derivatives	15,289	5	1,199	-	-	-
+ *long positions*	*6,987*	-	*1,199*	-	-	-
+ *short positions*	*8,302*	*5*	-	-	-	-
Total assets	**15,645**	**308**	**1,253**	**338**	**95**	**2,765**
Total liabilities	**12,157**	**302**	**74**	**349**	**85**	**451**
Difference (+/-)	**3,488**	**6**	**1,179**	**- 11**	**10**	**2,314**

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

	31/12/2017		31/12/2016	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt instruments and interest rates	**54,498**	**-**	**309,772**	**-**
a) Options	29,331	-	34,746	-
b) IRS	167	-	199	-
c) Forwards	-	-	-	-
d) Futures	25,000	-	274,827	-
e) Other	-	-	-	-
2. Equity instruments and share indexes	**34**	**-**	**9,705**	**-**
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	34	-	9,705	-
e) Other	-	-	-	-
3. Currencies and gold	**15,166**	**-**	**28,837**	**-**
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forwards	15,166	-	28,837	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
4. Commodities	**-**	**-**	**-**	**-**
5. Other underlying assets	**-**	**-**	**-**	**-**
Total	**69,698**	**-**	**348,314**	**-**

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

	Positive fair value			
	31/12/2017		31/12/2016	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Supervisory trading book	**212**	**-**	**345**	**-**
a) Options	50	-	96	-
b) Interest rate swaps	7	-	11	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	155	-	238	-
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	**212**	**-**	**345**	**-**

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

	Negative fair value			
	Totale al 31/12/2017		Totale al 31/12/2016	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Supervisory trading book	**200**	**-**	**653**	**-**
a) Options	52	-	99	-
b) Interest rate swaps	7	-	11	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	141	-	543	-
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	**200**	**-**	**653**	**-**

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	**-**	**-**	**14,803**	**25,123**	**-**	**6,937**	**7,868**
- notional amount	-	-	14,630	25,123	-	6,923	7,823
- positive fair value	-	-	50	-	-	-	7
- negative fair value	-	-	7	-	-	14	38
- future exposure	-	-	116	-	-	-	-
2. Equity instruments and share indexes	**-**	**-**	**-**	**34**	**-**	**-**	**-**
- notional amount	-	-	-	34	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
3. Currencies and gold	**-**	**-**	**3,133**	**9,305**	**-**	**3,176**	**-**
- notional amount	-	-	3,011	9,104	-	3,051	-
- positive fair value	-	-	-	61	-	94	-
- negative fair value	-	-	92	49	-	-	-
- future exposure	-	-	30	91	-	31	-
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	**44,520**	**14,447**	**10,730**	**69,697**
A.1 Financial derivatives on debt instruments and interest rates	29,320	14,447	10,730	54,497
A.2 Financial derivatives on equity instruments and share indexes	34	-	-	34
A.3 Financial derivatives on currencies and gold	15,166	-	-	15,166
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 exchange rates and gold	-	-	-	-
A.4 Financial derivatives on other assets	-	-	-	-
31 December 2017	**44,520**	**14,447**	**10,730**	**69,697**
31 December 2016	**317,893**	**16,477**	**13,943**	**348,313**

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 overall 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.

Prometeia's Ermas application and the matrix data feed the internal risk assessment model, which has differentiated weighing ratios depending on the type of asset, liability and commitment and classifies each item into residual maturity categories (maturity ladder). 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 2017. The highly liquid assets, which are the numerator in the LCR ratio, 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 liquidity 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.

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.

Quantitative disclosure

At the reporting date, the structural liquidity analysis models show substantial financial balance:

in Euros

Time bracket	Asset/ availability	Liability/ commitment	Difference	Total difference	Balancing ratio
Highly liquid assets	538,092	-	-	-	-
On demand or revocation	8,976	212,452	334.616	334.616	2.58
Up to 1 month	37,241	26,100	11.141	345.757	2.45
From 1 to 3 months	60,173	47,490	12.683	358.440	2.25
From 3 to 6 months	38,369	14,627	23.742	382.182	2.27
From 6 to 12 months	57,749	25,265	32.484	414.666	2.27
From 1 to 2 years	100,384	39,745	60.639	475.305	2.30
From 2 to 3 years	96,056	3,548	92.508	567.813	2.54
From 3 to 4 years	61,952	1,196	60.756	628.569	2.70
From 4 to 5 years	70,649	0	70.649	699.218	2.89
From 5 to 7 years	73,593	-	73.593	772.811	3.09
From 7 to 10 years	86,066	-	86.066	858.877	3.32
From 10 to 15 years	67,835	-	67.835	926.712	3.50
From 15 to 20 years	19,279	-	19.279	945.991	3.55
After 20 years	4,565	-	4.565	950.556	3.57
TOTAL	**1.320.979**	**-370.423**	**950.556**		

At the reporting date, the top 15 customers (excluding banks) accounted for roughly 9.6% 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	**286,090**	**2,000**	**5,270**	**40,861**	**44,712**	**53,052**	**86,359**	**483,599**	**477,249**	**13,405**
A.1 Government bonds	-	-	38	13,602	127	6,278	5,208	123,444	219,637	-
A.2 Other debt instruments	-	-	-	3,203	228	357	7,404	53,986	7,430	-
A.3 OEIC units	29,722	-	-	-	-	-	-	-	-	-
A.4 Financing	256,368	2,000	5,232	24,056	44,357	46,417	73,747	306,169	250,182	13,405
- Banks	*5,147*	-	-	*122*	-	-	-	-	-	*13,405*
- Customers	*251,221*	*2,000*	*5,232*	*23,934*	*44,357*	*46,417*	*73,747*	*306,169*	*250,182*	-
Liabilities	**1,328,820**	**2,010**	**1,981**	**7,186**	**47,834**	**14,735**	**25,602**	**44,149**	**61**	**-**
B.1 Deposits and current accounts	1,326,356	198	229	1,109	4,202	4,892	-	-	-	-
- Banks	*3,042*	-	-	*74*	-	-	-	-	-	-
- Customers	*1,323,314*	*198*	*229*	*1,035*	*4,202*	*4,892*	-	-	-	-
B.2 Debt instruments	790	1,812	1,752	6,077	43,632	9,841	25,600	44,138	-	-
B.3 Other liabilities	1,674	-	-	-	-	2	2	11	61	-
Off-statement of financial position	**4,493**	**7,695**	**84**	**1,998**	**21,534**	**3,716**	**3,400**	**-**	**4,000**	**-**
C.1 Financial derivatives with exchange of principal	-	7,151	84	1,998	21,534	3,716	3,400	-	4,000	-
- Long positions	-	*1,527*	*42*	*999*	*10,767*	*1,858*	*1,700*	-	*4,000*	-
- Short positions	-	*5,624*	*42*	*999*	*10,767*	*1,858*	*1,700*	-	-	-
C.2 Financial derivatives without exchange of principal	**116**	-	-	-	-	-	-	-	-	-
- Long positions	*57*	-	-	-	-	-	-	-	-	-
- Short positions	*59*	-	-	-	-	-	-	-	-	-
C.3 Deposits and financing to be received	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse	**-**	**544**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- Long positions	-	*272*	-	-	-	-	-	-	-	-
- Short positions	-	*272*	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	4,377	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of principal	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- 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 five years are as follows:
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;
2017: 11 positions for a total of €622 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	**280,617**	**2,000**	**5,220**	**40,632**	**44,687**	**53,015**	**82,137**	**481,746**	**477,249**	**13,405**
A.1 Government bonds	-	-	38	13,602	127	6,278	5,208	123,444	219,637	-
A.2 Other debt instruments	-	-	-	3,203	212	320	3,182	52,133	7,430	-
A.3 OEIC units	29,722	-	-	-	-	-	-	-	-	-
A.4 Financing	250,895	2,000	5,182	23,827	44,348	46,417	73,747	306,169	250,182	13,405
- Banks	*396*	-	-	-	-	-	-	-	-	*13,405*
- Customers	*250,499*	*2,000*	*5,182*	*23,827*	*44,348*	*46,417*	*73,747*	*306,169*	*250,182*	-
Liabilities	**1,323,783**	**2,010**	**1,981**	**7,112**	**47,834**	**14,735**	**25,602**	**44,149**	**61**	**-**
B.1 Deposits and current accounts	1,321,338	198	229	1,035	4,202	4,892	-	-	-	-
- Banks	*3,042*	-	-	-	-	-	-	-	-	-
- Customers	*1,318,296*	*198*	*229*	*1,035*	*4,202*	*4,892*	-	-	-	-
B.2 Debt instruments	790	1,812	1,752	6,077	43,632	9,841	25,600	44,138	-	-
B.3 Other liabilities	1,655	-	-	-	-	2	2	11	61	-
Off-statement of financial position	**4,493**	**6,369**	**42**	**1,000**	**10,766**	**2,058**	**1,700**	**-**	**4,000**	**-**
C.1 Financial derivatives with exchange of principal	-	5,825	42	1,000	10,766	2,058	1,700	-	4,000	-
- Long positions	-	*899*	*42*	*500*	*5,388*	*1,029*	*850*	-	*4,000*	-
- Short positions	-	*4,926*	-	*500*	*5,378*	*1,029*	*850*	-	-	-
C.2 Financial derivatives without exchange of principal	**116**	-	-	-	-	-	-	-	-	-
- Long positions	*57*	-	-	-	-	-	-	-	-	-
- Short positions	*59*	-	-	-	-	-	-	-	-	-
C.3 Deposits and financing to be received	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse	**-**	**544**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- Long positions	-	*272*	-	-	-	-	-	-	-	-
- Short positions	-	*272*	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	4,377	-	-	-	-	-	-	-	-	-
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 breakdowns, 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 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 and investment services.

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 of 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

	31/12/2017	31/12/2016
1. Share capital	**39,241**	**39,241**
2. Share premium	**34,660**	**34,660**
3. Reserves	**74,873**	**72,296**
- income-related	68,743	66,166
a) legal	*18,363*	*17,840*
b) statutory	*53,240*	*51,186*
c) treasury shares	-	-
d) other	- *2,860*	- *2,860*
- other	6,130	6,130
4. Equity instruments	**-**	**-**
5. (Treasury shares)	**-**	**-**
6. Valuation reserves	**12,884**	**13,575**
- Available-for-sale financial assets	706	1,428
- 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	- 2,944	- 2,975
- Share of valuation reserves of equity-accounted investees	-	-
- Special revaluation laws	15,122	15,122
7. Profit for the year	**4,826**	**5,236**
Total	**166,484**	**165,008**

Item “3. Reserves - d) Other” includes the IFRS FTA reserve of €2,860 thousand.

B.2 Fair value reserves: breakdown

	31/12/2017		31/12/2016	
	Fair value gains	Fair value losses	Fair value gains	Fair value losses
1. Debt instruments	1,050	325	1,505	842
2. Equity instruments	168	-	157	98
3. OEIC units	-	186	726	20
4. Financing	-	-	-	-
Total	**1,218**	**511**	**2,388**	**960**

B.3 Fair value reserves: changes

	Debt instruments	Equity instruments	OEIC units	Financing
1. Opening balance	**33**	**342**	**1,053**	**-**
2. Increases	**3,685**	**113**	**-**	**-**
2.1 Fair value gains	1,688	15	-	-
2.2 Reclassification of fair value losses to profit or loss	777	98	-	-
- due to impairment	-	98	-	-
- on sale	777	-	-	-
2.3 Other increases	1,220	-	-	-
3. Decreases	**3,185**	**4**	**1,331**	**-**
3.1 Fair value losses	194	-	248	-
3.2 Impairment losses	-	-	-	-
3.3 Reclassification of fair value gains to profit or loss	2,492	-	1,083	-
3.4 Other decreases	499	4	-	-
4. Closing balance	**533**	**451**	**- 278**	**-**

B.4 Actuarial reserves: changes

	Fip (pension fund)	Post-employment benefits
1. Opening balance	**- 2,049**	**- 926**
2. Increases	**- 19**	**- 25**
2.1 Actuarial gains	-	- 25
2.2 Deferred tax assets	- 19	-
3. Decreases	**69**	**7**
3.1 Actuarial losses	69	-
3.2 Deferred tax liabilities	-	7
4. Total	**- 1,999**	**- 944**

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 2017, the capital ratios included the adjustments required for the transitional period.

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 €71,603 thousand;
- reserves that are taxed upon distribution as per Law no. 218/90 €6,130 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 €4,826 thousand included in own funds as per article 26.2 of the CRR, net of dividends of €2,279 thousand;
- actuarial reserve under revised IAS 19 €2,944 thousand;
- fair value reserve €706 thousand;

D. Elements to be deducted from CET 1

This caption includes:

- intangible assets €180 thousand;
- 20% of the unrealised losses on bank bonds classified in the AFS portfolio of €45 thousand.

E. Transitional regime - Impact on CET 1 (+/-)

This caption includes the following transitional adjustments:

- exclusion of unrealised gains/losses on AFS securities of -€762 thousand;
- positive filter on actuarial reserves (IAS 19) of €749 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 50% of 20% of the unrealised gains on AFS securities of €17 thousand.

Quantitative disclosure

	31/12/2017	31/12/2016
A. Common Equity Tier 1 (CET1) before application of prudential filters	**162,332**	**160,475**
including CET1 instruments covered by the transitional measures	-	-
B. CET1 prudential filters (+/-)	**- 352**	**- 467**
C. CET1 including the elements to be deducted and the effects of the transitional regime (A +/- B)	**161,980**	**160,008**
D. Elements to be deducted from CET1	**- 224**	**- 149**
E. Transitional regime - Impact on CET1 (+/-)	**- 2**	**97**
F. Total Common Equity Tier 1 (CET1) (C– D +/-E)	**161,754**	**159,956**
G. Additional Tier 1 (AT1) including the elements to be deducted and the effects of the transitional regime	**45**	**39**
including AT1 instruments covered by the transitional measures	-	-
H. Elements to be deducted from AT1	**-**	**-**
I. Transitional regime – Impact on AT1 (+/-)	**- 45**	**- 39**
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 (+/-)	**17**	**153**
P. Total Tier 2 (T2) (M - N +/- O)	**17**	**153**
Q. Total own funds (F + L + P)	**161,771**	**160,109**

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 €762 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 15.65%, a Tier 1 Capital Ratio of 15.65% and a Total Capital Ratio of 15.65% at 31 December 2017, 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 €82.6 million refer to credit, operational and market risk. Credit operations account for the most capital with credit risk requirements of €67.7 million.

Risk-weighted assets amount to €1,034 million. There has been an increase in such assets for market risk, while credit risks decreased.

Quantitative disclosure

	Unweighted amounts		Weighted amounts/requirements	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
A. EXPOSURES				
A.1 Credit and counterparty risk	**1,465,068**	**1,366,754**	**847,211**	**840,657**
1. Standardised method	1,465,068	1,366,754	847,211	840,657
2. IRB approach	-	-	-	-
2.1 Basic	-	-	-	-
2.2 Advanced	-	-	-	-
3. Securitisations	-	-	-	-
B. CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			**67,777**	**67,253**
B.2 Credit risk			**13**	**21**
B.3 Regulation risk			**-**	**-**
B.4 Market risk			**5,823**	**8,514**
1. Standard method			5,823	8,514
2. Internal models			-	-
3. Concentration risk			-	-
B.5 Operational risk			**9,083**	**9,590**
1. Basic method			9,083	9,590
2. Standardised method			-	-
3. Advanced method			-	-
B.6 Other calculation elements			**-**	**-**
B.7 Total prudential requirements			**82,696**	**85,378**
C. EXPOSURES AND CAPITAL RATIOS				
C.1 Risk-weighted assets			**1,033,700**	**1,067,225**
C.2 CET 1 capital/Risk-weighted assets (CET1 capital ratio)			**15.65%**	**14.99%**
C.3 Tier 1 capital/risk-weighted assets (Tier 1 capital ratio)			**15.65%**	**14.99%**
C.4 Total own funds/risk-weighted assets (Total capital ratio)			**15.65%**	**15.00%**

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 supervisory 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)

	31/12/2017
C. Managers	**611,647**
Short-term benefits	577,921
Current termination benefits	33,726
Total termination benefits	504,815
A. Directors	**620,234**
Fees	620,234
B. Statutory auditors	**179,356**
Fees	179,356

2. Related party transactions (€'000)

	Assets	Liabilities	Costs	Revenue	Guarantees received
A. Directors	833	1,870	14	49	1,227
B. Statutory auditors	-	136	-	1	40
C. Managers	130	380	1	5	211
D. Family members	69	596	8	21	176
E. Other related parties	10,231	9,588	85	99	11,133
Total	**11,263**	**12,570**	**108**	**175**	**12,787**

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 bond issues existing 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 PROFIT/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 - MACRO-HEDGING ADJUSTMENTS TO FINANCIAL ASSETS - CAPTION 90

- 9.1 Adjustments to hedged assets: breakdown by hedged portfolio
- 9.2 Assets macro-hedged 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

- 10.3 Equity investments: changes
- 10.4 Commitments for investments in subsidiaries
- 10.5 Commitments for interests in jointly controlled entities
- 10.6 Commitments for investments in associates

SECTION11 - PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY - CAPTION 110

- 11.2 Investment property: breakdown of assets measured at cost
- 11.3 Property and equipment: breakdown of revalued assets
- 11.4 Investment property: breakdown of assets at fair value
- 11.6 Investment property: changes
- 11.7 Commitments for acquisitions of property, equipment and investment property (IAS 16.74c)

SECTION 12 - INTANGIBLE ASSETS - CAPTION 120

- 12.3 Other information

SECTION 14 - NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE AND DISPOSAL GROUPS AND ASSOCIATED LIABILITIES - CAPTION 140 OF ASSETS AND CAPTION 90 OF LIABILITIES

- 14.1 Non-current assets classified as held for sale and disposal groups: breakdown by type
- 14.2 Other information
- 14.3 Information about investments in associates not measured at equity

Liabilities

SECTION 1 - DUE TO BANKS - CAPTION 10

- 1.2 Caption 10 “Due to banks”: subordinated debt
- 1.3 Caption 10 “Due to banks”: structured debt
- 1.4 Due to banks: specifically hedged liabilities
- 1.5 Finance lease payables

SECTION 20 - DUE TO CUSTOMERS - CAPTION 20

- 2.2 Caption 20 “Due to customers”: subordinated debt
- 2.3 Caption 20 “Due to customers”: structured debt
- 2.4 Due to customers: specifically hedged liabilities
- 2.5 Finance lease liabilities

SECTION 3 - SECURITIES ISSUED - CAPTION 30

- 3.2 Caption 30 “Securities issued”: subordinated securities
- 3.3 Securities issued: specifically hedged securities

SECTION 4 - FINANCIAL LIABILITIES HELD FOR TRADING - CAPTION 40

- 4.2 Caption 40 “Financial liabilities held for trading”: subordinated liabilities”
- 4.3 Caption 40 “Financial liabilities held for trading”: structured debt
- 4.4 On-statement of financial position financial liabilities held for trading (excluding “short sales”): changes

SECTION 5 - FINANCIAL LIABLITIES AT FAIR VALUE THROUGH PROFIT OR LOSS - CAPTION 50

- 5.1 Financial liabilities at fair value through profit or loss: breakdown by product;

- C.2.3 Transfers with associated liabilities having recourse on the transferred assets: fair value
- B. Financial assets transferred and fully derecognised with recognition of continuing involvement

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

E.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

Section 1 - Transactions carried out during the year

Section 2 - Transactions carried out after the reporting date

Section 3 - Retrospective adjustments

PART I - SHARE-BASED PAYMENTS

A. Qualitative disclosure

B. Quantitative disclosure

PART L - SEGMENT REPORTING

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	478,978.67
Fermo Campoleggio Corso Marconi, 19	103,291.38	274,755.07	42,865.92	432,750.15	43,275.02	389,475.13	62,888.91
Fermo Campoleggio - extension Corso Marconi, 19	-	-	1,549.37	19,039.38	1,903.94	17,135.44	1,408.69
Carassai Piazza Leopardi 8/9	25,822.84	24,273.47	11,362.05	66,563.76	8,653.29	57,910.47	6,820.64
Cupramarittima Via E. Ruzzi, 9	-	211,230.87	47,514.03	436,910.79	-	436,910.79	56,923.84
Grottazzolina Via Verdi, 5	51,645.69	32,020.33	25,306.39	124,894.81	-	124,894.81	12,611.90
Montegranaro P.zza Mazzini	175,595.35	47,867.29	41,501.96	200,509.38	-	200,509.38	19,661.19
Monterubbiano Piazza Calzecchi Onesti, 9	46,481.12	63,007.74	18,592.45	131,741.32	13,174.13	118,567.19	16,156.80
Monte San Pietrangeli Via S. Antonio, 6	-	64,040.66	4,131.66	140,636.48	-	140,636.48	30,940.09
Montottone Piazza Leopardi, 8	37,184.90	29,954.50	14,977.25	85,204.37	10,224.52	74,979.85	8,698.74
Monturano Via Gramsci, 32/A	232,405.60	583,079.84	129,114.22	1,058,503.84	158,775.58	899,728.26	133,180.23
Petritoli Via Mannocchi Tornabuoni, 25	28,405.13	88,314.13	12,911.42	135,285.44	13,528.54	121,756.90	20,042.69
Falerone fraz. Piane di Falerone Viale della Resistenza, 95	51,645.69	205,549.85	26,339.30	301,981.85	75,495.47	226,486.38	38,261.76
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	49,356.72
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	72,099.10
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	862,937.89
S.Elpidio a Mare Via Rome, 31	129,114.22	523,170.84	65,590.03	764,747.17	-	764,747.17	129,527.32
S.Elpidio a Mare 1981 extension Via Rome, 31	-	-	34,602.61	127,207.59	-	127,207.59	7,612.55
S.Elpidio a Mare 1983 extension Via Rome, 31	-	-	33,569.70	139,393.78	-	139,393.78	7,385.35
Fermo P.zza Mascagni, 4	154,937.07	211,747.33	66,106.48	455,484.95	-	455,484.95	61,127.91
Fermo - P.zza Mascagni 1984 extension	-	-	5,164.57	25,169.18	-	25,169.18	1,136.16
Fermo Via Ognissanti	-	11,878.51	4,648.11	29,035.21	3,484.22	25,550.99	3,199.58
Fermo Corso Cavour, 104	-	1,066,999.95	217,428.35	2,647,791.16	264,779.13	2,383,012.03	307,846.67
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	63,629.21
Fermo V.le Trento, 182	-	3,083,247.69	601,672.29	7,454,739.36	1,490,947.88	5,963,791.48	778,647.99
S.Benedetto del Tronto Via Liberazione, 190	-	820,650.01	211,230.87	2,356,260.19	164,938.21	2,191,321.98	260,389.72

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	130,809.61
Porto S. Elpidio - Restructuring Piazza Giovanni XXIII, 14	232,405.60	108,455.95	-	419,019.11	-	419,019.11	289,287.24
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	477,119.46
Montegranaro Via Gramsci	-	-	-	465,720.02	-	465,720.02	207,245.42
Recanati Santacroce 34/E	-	-	-	301,285.46	60,257.09	241,028.37	107,257.66
Rome Via Puglie 15/21	-	-	-	2,932,724.03	-	2,932,724.03	1,744,970.81
Colli del Tronto Via Matteotti, 2	-	-	-	342,295.20	-	342,295.20	205,453.35
Porto S. Elpidio - Restructuring Via S. Giovanni Bosco, 10	-	-	-	497,084.46	99,416.89	397,667.57	236,612.17
Fermo - Loc. Molini Girola	-	-	-	30,250.00	6,050.00	24,200.00	16,514.08
Falerone fraz. Piane - Restructuring Viale of Resistenza, 95	-	-	-	111,836.61	-	111,836.61	81,629.53
Montegiorgio - Loc. Piane Via A. Einstein, 8	-	-	-	869,227.16	116,000.00	753,227.16	639,414.56
Fermo Via G. da Palestrina 13/19	-	-	-	418,945.49	-	418,945.49	354,721.17
Fermo Piazza del Popolo, 38	-	-	-	16,400.00	-	16,400.00	14,202.40
San Benedetto del Tronto Via Francesco Fiscaletti	-	-	-	918,260.22	-	918,260.22	807,885.33
Recanati Via Villa Musone snc	-	-	-	306,356.00	-	306,356.00	277,160.27
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**	**9,558,685.50**

List of equity investments recognised in the available-for-sale financial assets portfolio

OTHER INVESTMENTS	Carrying amount 31/12/2016	Changes in 2017			Carrying amount 31/12/2017	of which for revaluation or transfer	of which measurement
		(+) Purchases	(-) Sales/ reimbursements	(+/-) 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	4,250,000.00	0.00	0.00	7,500,000.00	0.00	0.00
Intesa Sanpaolo S.p.A.	97,299.50	0.00	0.00	14,351.90	111,651.40	0.00	15,525.82
SIA S.p.A.	161,770.00	0.00	0.00	0.00	161,770.00	0.00	139,703.54
Bancomat S.p.A.	0.00	1,144.00	0.00	0.00	1,144.00	0.00	0.00
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
Voluntary scheme - Interbank Deposit Protection Fund (C.R.CESENA)	303,998.31	0.00	0.00	-303,998.31	0.00	0.00	-401,696.68
Voluntary scheme - Interbank Deposit Protection Fund	0.00	790,886.19	0.00	-739,860.00	51,026.19	0.00	-739,860.00
Italian Dream Factory S.r.l.	315,793.00	0.00	0.00	0.00	315,793.00	0.00	0.00
TOTAL AS PER ACCOUNTING RECORDS	**9,412,971.89**	**5,042,030.19**	**0.00**	**-1,029,506.41**	**13,425,495.67**	**0.00**	**-910,327.32**

List of bonds issued at the reporting date

Bond issue ISIN number	Issue date	Maturity date	Amount € '000
ISIN "IT 0004991037"	06/02/2014	06/02/2018	15,000
ISIN "IT 0004998891"	03/03/2014	03/03/2018	25,312
Total			**40,312**

During 2017, bond issues of €91,447 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
Istituto Tecnico Industriale Statale "G. Montani"	FERMO
Liceo Ginnasio "Annibal Caro"	FERMO
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

KPMG S.p.A.
Revisione e organizzazione contabile
Via 1° Maggio, 150/A
60131 ANCONA AN
Telefono +39 071 2901140
Email it-fmauditaly@kpmg.it
PEC kpmgspa@pec.kpmg.it

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

Independent auditors' report pursuant to article 14 of Legislative decree no. 39 of 27 January 2010 and article 10 of Regulation (EU) no. 537 of 16 April 2014

To the shareholders of
Cassa di Risparmio di Fermo S.p.A.

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Cassa di Risparmio di Fermo S.p.A. (the "Bank"), which comprise the statement of financial position as at 31 December 2017, the income statement and the statements of comprehensive income, changes in equity and cash flows for the year then ended and notes thereto, which include a summary of the significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of Cassa di Risparmio di Fermo S.p.A. as at 31 December 2017 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 43 of Legislative decree no. 136/15.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the "Auditors' responsibilities for the audit of the financial statements" section of our report. We are independent of Cassa di Risparmio di Fermo S.p.A. in accordance with the ethics and independence rules and standards applicable in Italy to audits of financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Classification and measurement of loans and receivables with customers

Notes to the financial statements: Part A - Accounting policies: A.1 "General part, Section 4 "Other matters - Use of estimates and assumptions to prepare the financial statements"; A.2.4 "Loans and receivables with customers and banks"; "Part B - Information on the statement of financial positions - Assets": Section 7 "Loans and receivables with customers - Caption 70"; "Part C - Information on the income statement": Section 8 "Net impairment losses/reversals of impairment losses - Caption 130"; "Parte E - Risks and related hedging policies": Section 1 "Credit risk"

Key audit matter	Audit procedures addressing the key audit matter
Lending is one of the Bank's core activities. Loans and receivables with customers amount to €982.1 million at 31 December 2017, accounting for 58.1% of total assets. Net impairment losses recognised in profit or loss during the year totalled €5.2 million. For classification purposes, the directors make analyses that are sometimes complex in order to identify those positions that show evidence of possible impairment after disbursement. To this end, they consider both internal information about the performance of exposures and external information about the reference sector and the debtors' overall exposure to the banking system. Measuring loans and receivables with customers is a complex activity, with a high degree of professional judgement, with respect to which the directors apply valuation models that consider many quantitative and qualitative factors, including historical collection flows, expected cash flows and related collection dates, the existence of any indicators of impairment, the debtors' estimated repayment ability and an assessment of any guarantees. For the above reasons, we believe that the classification and measurement of loans and receivables with customers is a key audit matter.	Our audit procedures included: — gaining an understanding of the Bank's processes and IT environment in relation to the disbursement, monitoring, classification and measurement of loans and receivables with customers; — assessing the design and implementation of controls and performing procedures to assess the operating effectiveness of material controls, especially in relation to the identification of indicators of impairment and the calculation of impairment losses; — analysing the criteria used to classify loans and receivables with customers in the official categories and sample-based test of their classification; — analysing the impairment assessment methods used and checking the reasonableness of the main assumptions and variables included therein; — selecting a sample of exposures tested collectively, checking the application of the assessment methods adopted and checking that the impairment rates applied complied with those provided for in such methods; — selecting a sample of exposures tested individually and checking the reasonableness of the indicators of impairment identified and of the assumptions about their recoverability, including considering the guarantees received;

	— analysing the significant changes in the official categories and in the related impairment rates compared to the previous years' figures and discussing the results with the relevant internal departments; — sending written requests for information to the legal advisors assisting the Bank with credit collection activities and checking the consistency of the information obtained with the elements considered by the directors to classify and measure the loans and receivables with customers; — checking the appropriate disclosures on loans and receivables with customers in the financial statements.

Responsibilities of the directors and board of statutory auditors ("Collegio Sindacale") of Cassa di Risparmio di Fermo S.p.A. for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 43 of Legislative decree no. 136/15 and, within the terms established by the Italian law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the Bank's ability to continue as a going concern and for the appropriate use of the going concern basis in the preparation of the financial statements and for the adequacy of the related disclosures. The use of this basis of accounting is appropriate unless the directors believe that the conditions for liquidating the Bank or ceasing operations exist, or have no realistic alternative but to do so.

The Collegio Sindacale is responsible for overseeing, within the terms established by the Italian law, the Bank's financial reporting process.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA Italia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISA Italia, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance, identified at the appropriate level required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the ethics and independence rules and standards applicable in Italy and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current year and are, therefore, the key audit matters. We describe these matters in our auditors' report.

Other information required by article 10 of Regulation (EU) no. 537/14

On 26 April 2010, the shareholders of Cassa di Risparmio di Fermo S.p.A. appointed us to perform the statutory audit of its financial statements as at and for the years ending from 31 December 2010 to 31 December 2018.

We declare that we did not provide the prohibited non-audit services referred to in article 5.1 of Regulation (EU) no. 537/14 and that we remained independent of the Bank in conducting the statutory audit.

We confirm that the opinion on the financial statements expressed herein is consistent with the additional report to the Collegio Sindacale, in its capacity as audit committee, prepared in accordance with article 11 of the Regulation mentioned above.

Report on other legal and regulatory requirements

Opinion pursuant to article 14.2.e) of Legislative decree no. 39/10

The directors of Cassa di Risparmio di Fermo S.p.A. are responsible for the preparation of the Bank's directors' report at 31 December 2017 and for the consistency of such report with the related financial statements and its compliance with the applicable law.

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion on the consistency of the directors' report with the Bank's financial statements at 31 December 2017 and its compliance with the applicable law and to state whether we have identified material misstatements.

In our opinion, the directors' report is consistent with the financial statements of Cassa di Risparmio di Fermo S.p.A. at 31 December 2017 and has been prepared in compliance with the applicable law.

With reference to the above statement required by article 14.2.e) of Legislative decree no. 39/10, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have nothing to report.

Ancona, 12 April 2018

KPMG S.p.A.

(signed on the original)

Davide Stabellini
Director of Audit