2017

ANNUAL REPORT

64TH FINANCIAL YEAR

ANNUAL REPORT AND ACCOUNTS AS AT 31 DECEMBER 2017

MEDIOCREDITO TRENTINO - ALTO ADIGE - S.P.A.

Full paid capital €58,484,608
Fiscal code and Trento Register of companies no. 00108470220
Bank Register no. 4764
Parent company of Gruppo Bancario Mediocredito Trentino – Alto Adige
Registered with the Banking Group Register

www.mediocredito.it
mc@mediocredito.it

REGISTERED OFFICE AND HEADQUARTERS
38122 Trento, Via Paradisi 1
Tel. 0461/888511

SECONDARY HEADQUARTERS
39100 Bolzano, Via Alto Adige 60
Tel. 0471/305111

BRANCHES

Treviso
Piazza delle Istituzioni 27 - 31100 Treviso
Tel. 0422/216411

Bologna
Via del Lavoro 53 – 40033 Casalecchio di Reno
Tel. 051/3390711

Padua
Via G. Gozzi 24 - 35131 Padua
Tel. 049/8236011

Brescia
Piazza Mons. Almici 23 - 25124 Brescia
Tel. 030/2284211

The English version of the Annual Report is a translation of the Italian text provided for the convenience of international readers. The original document in Italian prevails over any translation.

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KEY RATIOS[1]

(Amounts are in thousands of Euros)

Rating

MOODY'S INVESTOR SERVICE	2017	2016
- Issuer Rating	Ba1	Ba1
- Bank Deposits	Baa3 / P-3	Baa3 / P-3
- Outlook	Stable	Stable

2017
2016

Data sheet and flow data

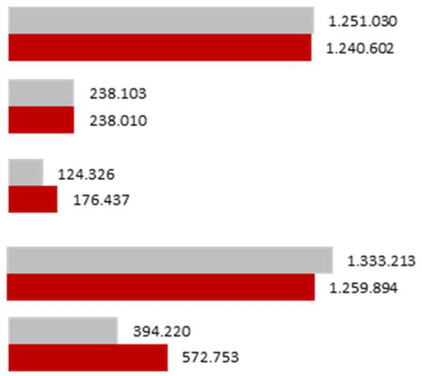
Overall lending to customers and banks

New credit disbursed

Financial assets available for sale

Overall amount of borrowing

New borrowing



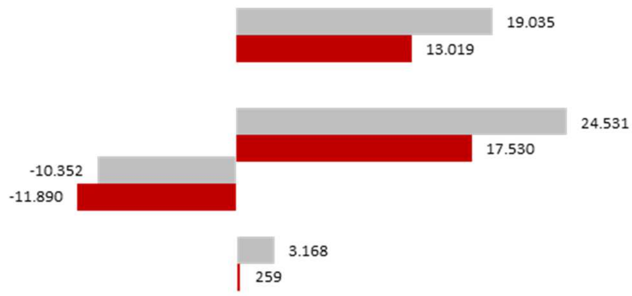
Financial data

Net interest income

Net interest and other banking income

Operating costs

Net income

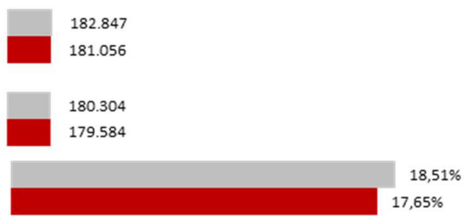


Capital and capital ratios

Equity (after allocation of profit)

Own funds

Total capital ratio



[1] All the ratios in the table are explained clearly in appendix 2 "Glossary of ratios".

Risk ratios

Gross doubtful loans to gross loans to customers

Net doubtful loans to net loans to customers

Gross doubtful loans to own funds

Net doubtful loans to own funds

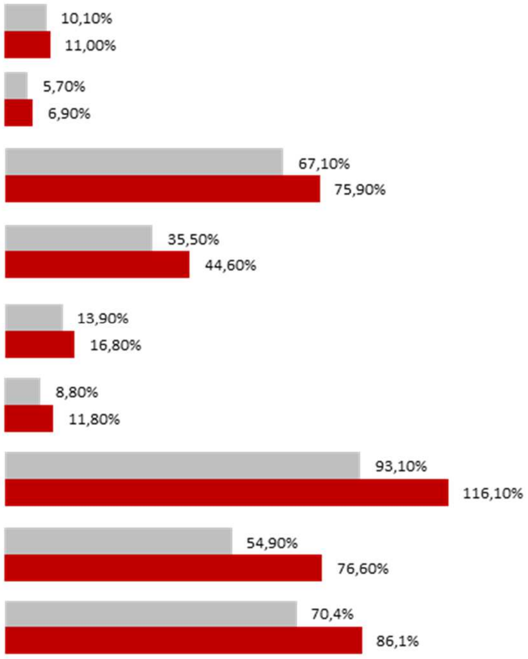
Gross impaired loans to gross loans to customers

Net impaired loans to net loans to customers

Gross impaired loans to own funds

Net impaired loans to own funds

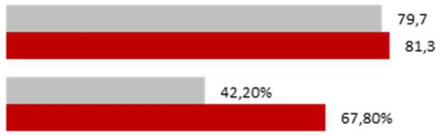
Texas ratio



Other ratios

Average number of employees (part-time weighted)

Cost to income ratio

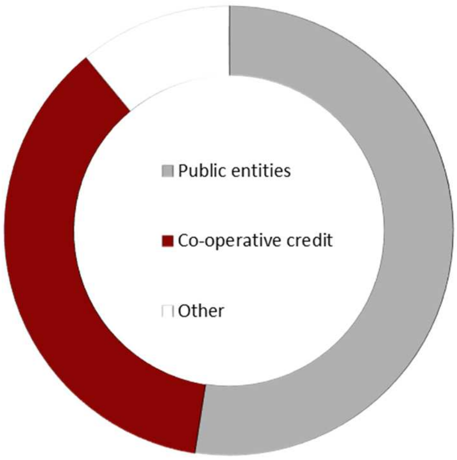


SHAREHOLDERS

Public entities	
17.489%	AUTONOMOUS REGION OF TRENTINO SOUTH TYROL
17.489%	AUTONOMOUS PROVINCE OF TRENTO
17.489%	AUTONOMOUS PROVINCE OF BOLZANO
52.466%	

Co-operative banks	
35.207%	CASSE RURALI - RAIFFEISEN FINANZIARIA also referred to as CRR-FIN S.p.A.
0.213%	BCC DI ROMA -SOCIETA' COOPERATIVA
0.192%	BCC DI VENEZIA, PADOVA E ROVIGO - BANCA ANNIA
0.178%	BANCA PER LO SVILUPPO DELLA COOPERAZIONE DI CREDITO S.p.A.
0.231%	CENTROMARCA BANCA-CREDITO COOPERATIVO DI TREVISO
0.107%	BANCA ALTO VICENTINO CREDITO COOPERATIVO DI SCHIO, PEDEMONTE E ROANA
0.078%	ROVIGOBANCA CREDITO COOPERATIVO SOC.COOP.
0.071%	BANCA DELLA MARCA CREDITO COOPERATIVO – S.C. DI ORSAGO
0.064%	CASSA PADANA BCC – SOCIETÀ COOPERATIVA
0.043%	BANCA VERONESE CREDITO COOPERATIVO DI CONCAMARISE
0.043%	BCC DELLE PREALPI
0.043%	CASSA RURALE ED ARTIGIANA DI VESTENANOVA CREDITO
0.043%	FEDERAZIONE TRENTINA DELLA COOPERAZIONE
0.043%	FEDERAZIONE VENETA BANCHE DI CREDITO COOP.
0.001%	CASSA CENTRALE BANCA SPA
0.001%	CASSA CENTRALE RAIFFEISEN DELL’ALTO ADIGE SPA
36.556%	

Other	
7.802%	CASSA DI RISPARMIO DI BOLZANO SPA
2.895%	BANCA POPOLARE DELL'ALTO ADIGE SPA
0.196%	ITAS
0.085%	VENETO BANCA S.p.A. IN L.C.A.
10.978%	



STATUTORY BOARDS

BOARD OF DIRECTORS

CHAIRMAN
Franco Senesi

DEPUTY CHAIRMAN
Michael Grüner

DIRECTORS

Hansjörg Bergmeister
Rita Dallabona
Giovanni Dies
Zenone Giacomuzzi
Lorenzo Liviero
Enrico Menapace [2]
Giorgio Marchiodi
Stefano Mengoni
Giorgio Pasolini
Mario Sartori
Katrin Teutsch

BOARD OF STATUTORY AUDITORS

CHAIRMAN
Astrid Marinelli

STANDING AUDITORS
Renato Beltrami
Hansjörg Verdorfer

ALTERNATE AUDITORS

Antonio Maffei
Claudia De Gasperi

ADMINISTRATION

GENERAL MANAGER
Diego Pelizzari

OTHER POSITIONS

MANAGER RESPONSIBLE FOR PREPARING THE COMPANY'S FINANCIAL REPORTS
Leo Nicolussi Paolaz

AUDITING COMPANY
PricewaterhouseCoopers S.p.A.

[2] In office from 21 April 2017

SHAREHOLDERS' ORDINARY GENERAL MEETING

The Shareholders are requested to attend the Ordinary General Meeting on 18 April 2018 at 8am for the first meeting date and if necessary on **23 April 2018 as a second option at 11am** at the Company Headquarters in Trento – via Paradisi 1, to deliberate upon the following:

Agenda

1. Annual Report as at 31 December 2017; report on operations by the Board of Directors and Independent Auditors report; report by the Board of Statutory Auditors; related and following resolutions;
2. Appointment of the Chairman, the Deputy Chairman and the other members of the Board of Directors.
3. Appointment of the Chairman and the other members of the Board of Statutory Auditors.
4. Calculation of the remuneration of Directors and Statutory Auditors.
5. Internal policies regarding controls on risk activities and conflicts of interest with regard to related parties.
6. Remuneration policies: approval of new regulations pursuant to Article 6 of the By-laws and information to shareholders.

Pursuant to Article 9 of the Company By-laws, Shareholders have the right to attend the General Meetings and have the right to vote if, at least five days prior to the date on which the meeting is held, they lodged shares with the Company or affiliated Banks or, with reference to Public Entities, with their respective Treasurers. Holders of shares on which an uninterrupted series of endorsements appear also have the right to attend the General Meetings provided they lodged shares as specified above.

The Chairman
Franco Senesi

REPORT ON OPERATIONS

GENERAL ECONOMIC OVERVIEW

Italian and international economic situation

The international economic scenario has finally shown a systematic consolidation of the global economic growth in 2017. World production is estimated to have grown by 3.7%[3] over the year, driven by the United States, Germany, Japan and Korea.
International trade grew strongly over the last few months, supported by a recovery in investments - in particular among advanced economies - and by an increase in manufacturing output in Asia, also driven by the consumer technology sector.
The good overall results of 2017 should also be confirmed in 2018 and 2019, with a revised global growth at 3.9% for both years (0.2% higher than forecast).
As for the old continent, the Eurozone has prospects of continuous growth and improvement of macroeconomic parameters. According to the latest forecasting framework[4] prepared by the Eurosystem, GDP is expected to expand by 2.3% (2.4% estimated by the International Monetary Fund) this year. Expectations of deflation have come to an end, but inflation remains low at 1.4% in December; the underlying component remains weak, held back by the still moderate wage growth in many economies of the area. The Governing Council of the ECB re-calibrated the monetary policy instruments while preserving, even in the future, very expansionary monetary conditions, which are required for a stable return of inflation to values below but close to 2%.
In Italy, in accordance with the most reliable estimates, in the fourth quarter of last year, GDP is expected to have grown at around 0.4%, confirming the favourable trend of recent quarters, even if at levels below the European average. The increase would have affected services and industry in the strict sense of the term: according to the latest forecasts, GDP is expected to have grown by 1.5% over the whole of 2017 and is expected to remain around this rate of growth for the following three years. Statistical analyses indicate a return of business confidence to pre-recession levels and favourable conditions for capital accumulation. These considerations are also confirmed by the acceleration in investment spending. Exports grew in the third quarter of 2017 and company opinions on the trend of orders from abroad are also favourable. The current account surplus remained at high levels, at 2.8% of GDP in the four quarters ending in September, and this naturally contributed to an improvement in the country's net debt position, which fell to 7.8% of GDP.
In December 2017, the trend in lending to non-financial corporations was +0.2% (+0.4% in November 2017, -5.9% in November 2013, the most negative figure). The increase in demand related to the recovery in investments continues to be offset by a high self-financing capacity, which keeps the need for external resources low; the latter has also been met in recent months with the use of bond issues. Growth in lending to companies operating in the manufacturing sector was strengthened (2.6% over twelve months) and the trend in lending to service companies remained positive (0.7%); the credit crunch to construction companies continues.
With reference to lending operations and to interest rates applied to new loans to non-financial corporations[5] for an amount up to €1m, the last available figures (as at December 2017) indicate conditions set at 2.08% in the Eurozone (2.13% in November 2017; 2.23% in December 2016), a value that can be compared with 2% practiced in Italy (2% in November 2017; 2.27% in December 2016). On the other hand, the rates applied to new corporate loans of more than €1m were 1.36% on average in the Eurozone (1.29% in November 2017; 1.41% in December 2016), compared with 1.16% for Italian banks (1.03% in November 2017; 1.12% in December 2016). This confirms the transmission mechanism of the ECB's monetary policies that, paradoxically, caused a greater impact in our Country than in continental Europe that, on average, has much lower yield spreads on sovereign bonds.
The quality of bank lending continues to improve, favoured by the consolidation of growth: the flow of new impaired loans as a proportion of funding fell to 1.7%, below the levels recorded before the global crisis; the

3 International Monetary Fund – World Economic Outlook, January 2018
4 Economic Bulletin of Bank of Italy – January 2018
5 ABI Monthly Outlook – February 2018

ratio of impaired loans to total loans fell (for significant groups from 8.2 to 7.8% net of value adjustments), largely due to the conclusion of sales of doubtful loans.
The capital ratios of banks are beginning to show signs of strengthening.

Economic situation in the areas of interest for the Bank[6]

In the regions where the bank operates, and with particular reference to manufacturing companies, the trends examined at national level are confirmed.
In Trentino, the manufacturing sector performed very well in the first three quarters of 2017. Production and turnover increased (+6.1%) supported by a lively local, national and foreign demand. Looking ahead, this positive phase is expected to continue, at least in the medium term, in consideration of the still significantly favourable figures of the orders and the positive opinions of entrepreneurs on the economic situation of their companies. The most brilliant performances among industrial sectors are achieved by textile-clothing and chemical-rubber-plastic with increases in turnover of more than 10%.
In South Tyrol, a change in GDP of around 1.9% is estimated in 2017. Production and turnover of the manufacturing industry were positively driven by exports, which in September were up 7.4% compared to the same quarter of 2016. The increase concerned all the main sectors, in particular means of transport and related components, machinery and equipment. As a whole, more than half of manufacturing companies report an increase in turnover, partly due to higher sales prices. Moreover, economic operators expect a further increase in turnover in 2018.
In Lombardy, both production (3.7%) and turnover (5.6%) of manufacturing companies grew, supported by a lively dynamic of domestic orders and especially of foreign ones. From a sectoral point of view, the year ended with an overall production result that showed a single negative change in textiles (-0.8%). All the other sectors are growing, with more dynamic steel (+5.9%) and leather-footwear (+5.8%) followed by mechanical, rubber-plastic, chemical and non-metallic minerals. The rate of capacity utilisation increased compared to 2016, standing at around 76.4% compared to 75.1% in the previous year.
In Veneto, industrial production in the first three quarters of the year recorded an increase of 3.3% compared to the same period last year. In terms of size, regional change was determined by the more positive trend of small and medium/large enterprises with changes equal to +3.7 and +3.2%. At sector level, the change in production recorded a positive trend for all sectors with the exception of marble, glass and ceramics (-1.6%). On the other hand, there were positive changes in metal and metal (+4.8%), rubber and plastic (+4.7%) products, machine and mechanical equipment (3.9%) and food and beverage (+3.6%) segments. In this area as well, entrepreneurs' forecasts are once again positive for 2018. In terms of size, medium to large enterprises are the most confident, while micro enterprises register balances below the regional average.
In Emilia Romagna, regional industrial production in the first nine months of 2017 recorded an increase of 2.9% compared to the same period last year. The aggregate result is the consequence of different business trends: the wood and furniture industry did not go beyond an increase of 0.5%, and the result of fashion industries was not brilliant. On the other hand, the mechanical, electrical and transport industries (+4.2%) and metallurgy and the manufacture of metal products (+3.4%) were the main driving forces behind the regional industry. Growth in production in the food and beverage industry is only slightly below the regional average (+2.6%). The trend in production is related to the company size, with the larger companies recording higher increases.

6 Sources: Economic reports of the regional Chambers of Commerce.

MEDIOCREDITO IN 2017

Mediocredito benefited from the favourable context of an economic recovery that further strengthened during the year. In particular, thanks to the positive trend in investments and the activation of new product lines, the bank maintained the operating volumes of the previous year and further improved its economic and financial situation.
Total disbursements amounted to approximately €238m, with a slight increase in the portfolio of typical performing loans and advances (+€2m or 0.2%) after several years of reduction, despite tranches of early repayments, mostly in the energy sector. As a result, the level of credit granted remained high (€267m), also characterised at the same time by a growth in the number of loans and advances granted (298 compared to 292 last year), confirming the usual risk spreading policy. On the other hand, with reference to the risk presented by loans, the performance of the portfolio of impaired loans continued to show a virtuous trend: these decreased overall by approximately 20%, reaching 8.8% in net terms and 13.9% in gross terms, with a progressive approach to pre-crisis levels. The sharp slowdown in the net flow of new impaired loans from performing loans is particularly significant, with a virtuous zeroing in 2017 compared to the already limited phenomenon recorded in the previous year (€12.6m). The impairment trend is benefiting from the improvement in the general economic climate, but also from investments in new credit selection and valuation models, from the improved focus on the market of target customers, mainly SMEs, and from investments in specialist staff training. At the same time, the coverage of the impaired portfolio improved significantly from 34.0% to 41.0%: the indicators, including for the individual categories of NPLs, are gradually and rapidly approaching system averages, underlining however that Mediocredito, also due to the nature of its business, has always maintained a high level of granularity and collateralisation of its portfolio.
As regards liabilities, borrowing operations saw the bank focused on covering the financial need through financial operations of €331m – mostly granted by the system of Cooperative Credit Banks – with withdrawals from Cassa Depositi e Prestiti of €13m under the new Sabatini Law, as well as with the residual participation in refinancing operations with the ECB (TLTRO II) of €49m. During the financial year, confirming the trend of the entire banking system, Mediocredito did not issue or place any bonds on the market, considering the level of cost that makes other forms of interbank fund raising still preferable. In order to cover liquidity risk, the Bank maintains adequate reserves of securities and volumes of credit assets eligible as collateral, which make it possible to keep the supervisory ratios under control.
From an economic standpoint, margins benefited, as expected, from a better repricing of liabilities against a limited profitability of assets related to the persistent maintenance of very low and also negative interest rate benchmarks and to competitive pressure on the spreads applied to the best customer counterparties, mainly small and medium-sized enterprises. The commission component together with dividends from investee companies, significant revenues from trading on government securities and the containment of structural costs also had a positive effect on the results for the year. Therefore, the recovery in efficiency highlighted by the cost-to-income ratio is important, standing at 42.2% compared to 67.8% in 2016. The gross operating income exceeds €16m (with the contribution of a capital gain of €1.8m) compared with €5.6m recorded in the previous year.
The improved performance compared to expectations made it possible to considerably strengthen the coverage of impaired loans through higher adjustments to assets for a total of €12m, which mainly reflect the deterioration in the values expressed by collaterals on less recent positions: therefore, the profit before income taxes was brought to an adequately positive level (€4m).
In summary, 2017 saw the Bank consistently move in the wake of the 2016-2018 business plan, improving its overall positioning, both in terms of business volumes disbursed and economic results, as well as of reabsorption of the incidence of impaired loans. In terms of equity, solidity increased further with the Tier1 and Total Capital Ratio indicators, which strengthened from 17.64% to 18.50% and from 17.65% to 18.51% respectively, while the Texas Ratio also improved considerably from 86.1% to 70.4%.
2017 was also characterised by a particular effervescence in terms of organisation, with the creation of a structure that was consistent with the market focus in which the bank must compete and with the development of a consequent system of internal delegations that is functional to greater efficiency in the decision-making processes necessary to make Mediocredito an increasingly reliable and reference partner for the dynamic production system of SMEs.

BUSINESS REVIEW
LENDING OPERATIONS

Outline of lending operations (thousands of Euros)

Surveyed activities		2017	2016	% Chg.
Credit granted	number	298	292	+2.1
	amount	267,162	267,095	+0.0
Credit disbursed	amount	238,103	238,010	-
		31 Dec 2017	**31 Dec 2016**	**% Chg.**
Total lending		1,251,030	1,240,602	+0.8
- loans and advances to banks		124,326	77,527	+60.4
- loans and advances to customers		1,126,704	1,163,075	-3.1
impaired		*99,018*	*137,616*	*-28.0*
performing		*1,027,686*	*1,025,458*	*+0.2*

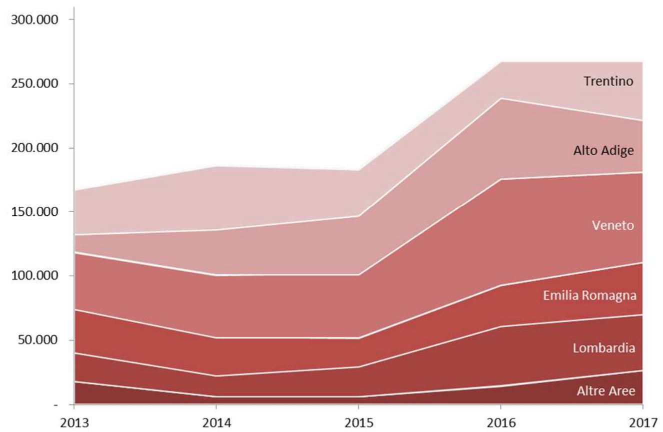
Credit granted

The credit granted in 2017 amounted to €267.2m, stable compared to the result of 2016. In terms of numbers, however, there was an increase of +2.1%: despite this, the average amount approved (€0.9m) remained substantially stable.
In 2017, Veneto attracted 26% of the lending, second only to companies in Trentino-South Tyrol that were recipients of about 32% of the loans. The Lombardy companies, on the other hand, account for 16%, those of Emilia Romagna 15% and those of the Other Areas 10%. Trentino-South Tyrol saw only a limited reduction (-€5m) in the number of resolutions passed last year, thanks to the increase recorded in Trentino (+60%) which partly offset the reduction in South Tyrol. The decrease in this last area is related to the lack of financing to public bodies and to the presence, in 2016, of a lending to a productive enterprise of a significant amount.

Breakdown of credit granted by area (thousands of Euros)

	2017	%	2016	%	Chg	% Chg
Trentino	45,612	17.1	28,463	10.7	+17,149	+60.2
South Tyrol	40,401	15.1	63,037	23.6	-22,636	-35.9
Veneto	70,845	26.5	82,904	31.0	-12,059	-14.5
Emilia Romagna	40,476	15.2	32,045	12.0	+8,431	+26.3
Lombardy	43,542	16.3	46,543	17.4	-3,000	-6.4
Other Areas	26,286	9.8	14,103	5.3	+12,183	+86.4
Total	**267,162**	**100.0**	**267,095**	**100.00**	**+67**	**+0.0**

Trend in credit granted by area 2013-2017



As part of the disbursements of loans to non-financial corporations, it should be noted in particular the increases in concessions in favour of the mining/manufacturing sector (+2.3%), the driving sector of the business activity. Other services and the transport sector also recovered, even if with limited absolute amounts. The energy sector stabilised. On the other hand, public sector lending decreased significantly due to the change in South Tyrolean public finance.

Breakdown of credit granted by counterparty and economic sector (thousands of Euros)

	2017	%	2016	%	Chg	% Chg
Non-financial corporations	**246,508**	**92.3**	**240,279**	**90.0**	**+6,229**	**+2.6**
Mining/manufacturing sector	114,573	42.9	112,008	41.9	+2,564	+2.3
Other services	31,828	11.6	26,050	9.8	+5,778	+22.2
Energy	29,690	11.1	29,412	11.0	+278	+0.9
Market services	19,231	7.2	28,237	10.6	-9,006	-31.9
Real Estate	13,846	5.2	11,295	4.2	+2,551	+22.6
Transport services	11,377	4.3	3,643	1.4	+7,734	+212.3
Hospitality	10,020	3.8	10,907	4.1	-887	-8.1
Building industry	8,643	3.2	13,015	4.9	-4,372	-33.6
Agriculture	7,299	2.7	5,712	2.1	+1,588	+27.8
Government Agencies, families and others	**10,154**	**3.8**	**18,816**	**7.0**	**-8,662**	**-46.0**
Financial corporations and banks	**10,500**	**3.9**	**8,000**	**3.0**	**+2,500**	**+31.3**
Total	**267,162**	**100.0**	**267,095**	**100.0**	**+67**	**+0.0**

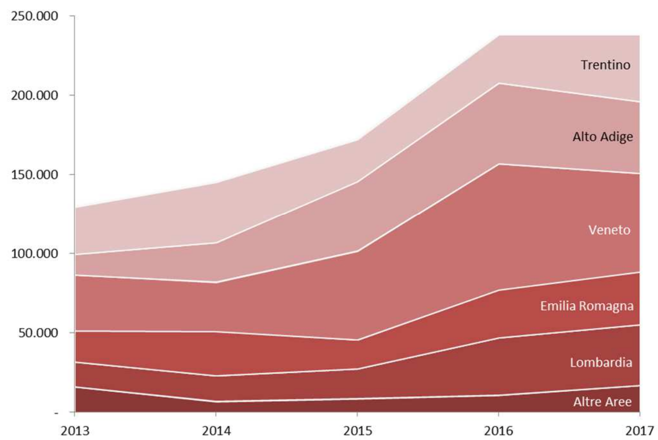
Credit disbursed

The volumes disbursed in the previous year were confirmed in 2017 despite the uneven performance of the Bank's areas of activity: increases were recorded in Trentino (+39.6%), Emilia Romagna (+9.8%), Lombardy (+6.8%) and the Other Areas (+56.1%), while disbursements fell in South Tyrol (-11.8%) and, above all, in Veneto (-21.8%, -€17m).

Breakdown of credit disbursed by area (thousands of Euros)

	2017	%	2016	%	Chg	% Chg
Trentino	42,387	17.8	30,355	12.8	+12,032	+39.6
South Tyrol	44,937	18.9	50,964	21.4	-6,028	-11.8
Veneto	62,262	26.1	79,633	33.4	-17,371	-21.8
Emilia Romagna	33,475	14.1	30,478	12.8	+2,997	+9.8
Lombardy	38,277	16.1	35,842	15.1	+2,434	+6.8
Other Areas	16,766	7.0	10,738	4.5	+6,029	+56.1
Total	**238,103**	**100.0**	**238,010**	**100.0**	**+93**	**+0.0**

Trend in credit disbursed by area 2013-2017



With regard to the distribution of disbursements by counterparty and economic sector, the increase in the mining/manufacturing sector, which is, however, the main credit collector, is less evident than in the case of loans.

Breakdown of credit disbursed by counterparty and economic sector (thousands of Euros)

	2017	%	2016	%	Chg	% Chg
Non-financial corporations	**226,589**	**95.2**	**223,728**	**94.0**	**+2,861**	**+1.3**
Mining/manufacturing sector	99,646	41.9	97,585	41.0	+2,061	+2.1
Other services	28,065	11.8	27,887	11.7	+178	+0.6
Energy	26,094	11.0	28,866	12.1	-2,772	-9.6
Market services	20,904	8.8	26,131	11.0	-5,227	-20.0
Real Estate	14,646	6.2	5,026	2.1	+9,620	+191.4
Hospitality	13,966	5.9	13,481	5.7	+485	+3.6
Building industry	9,847	4.1	12,772	5.4	-2,925	-22.9
Transport services	7,977	3.4	6,256	2.6	+1,721	+27.5
Agriculture	5,445	2.3	5,724	2.4	-279	-4.9
Government Agencies, families and others	**4,014**	**1.7**	**6,282**	**2.6**	-2,268	-36.1
Financial corporations and banks	**7,500**	**3.1**	**8,000**	**3.4**	-500	-6.3
Total	**238,103**	**100.0**	**238,010**	**100.0**	**+93**	**+0.0**

Operations in synergy with the co-operative credit system recorded a slight decrease: when considering, in addition to direct presentations, participations in syndicated loans linked to the co-operative system or in which it is involved, the percentage of disbursements was 24.3% of the total compared to 26.4% registered by the end of 2016.

Minibonds

Tranches of mini-bonds are also included in credit granted and disbursed: in 2017, 2 bond loans were subscribed for a total of €1.4m issued by companies operating in other services whereas, in 2016, 4 bonds were subscribed for a total of €2.4m (of which €1.0m issued by companies operating in other services, €0.4m by companies in the special plant engineering sector and €1.0m issued by financial corporations).

Performing loans[7]

Typical performing loans and advances (customers and banks) show a positive trend (+4.6%) compared to the end of 2016; this phenomenon was supported by the growth in almost all non-regional areas: Lombardy (+7.7%), Emilia Romagna (+6.7%) and Other Areas (+4.8%). On the other hand, portfolios in Trentino-South Tyrol (+0.5%) and Veneto (-1.1%) were substantially stable. The decline recorded in Trentino was largely offset by the growth in South Tyrol, which confirmed its position as the largest area financed by the bank (25.3%); all-in-all, it should be noted that 49% of the performing loans portfolio was granted in favour of investments in Trentino-South Tyrol.

Breakdown of typical gross performing loans and advances by area (thousands of Euros)

	31 Dec 2017	%	31 Dec 2016	%	Chg	% Chg
Trentino	237,438	23.5	243,629	24.6	-6,192	-2.5
South Tyrol	255,449	25.3	246,782	24.9	+8,667	+3.5
Veneto	232,450	23.0	235,056	23.7	-2,606	-1.1
Emilia Romagna	103,596	10.3	97,119	9.8	+6,478	+6.7
Lombardy	112,869	11.2	104,836	10.6	+8,033	+7.7
Other Areas	66,811	6.6	63,767	6.4	+3,043	+4.8
Total typical loans and advances	**1,008,612**	**100.0**	**991,189**	**100.0**	**+17,423**	**+1.8**
current accounts and bank deposits[8]	*151,721*		*118,266*		*+33,455*	*+28.3*
Total performing loans and advances	***1,160,332***		***1,109,455***		***+50,877***	***+4.6***

Loans and advances to non-financial corporations amounted to €890m against €860m at the end of 2016: the increase is mainly due to the recovery of stock of loans in the sectors of manufacturing (+€29m) and other services (+€8m), which offset the decrease in the loan portfolio with counterparties in the agriculture (-€10m) and transport (-€5m) sectors.

Typical performing loans and advances by counterparty and economic sector (thousands of Euro)

	31 Dec 2017	%	31 Dec 2016	%	Chg	% Chg
Non-financial corporations	**890,474**	**88.3**	**860,009**	**86.8**	**+30,466**	**+3.5**
Mining/manufacturing sector	260,457	25.8	231,623	23.4	+28,834	+12.4
Energy	118,236	11.7	120,169	12.1	-1,933	-1.6
Market services	92,230	9.1	90,910	9.2	+1,319	+1.5
Real Estate	90,451	9.0	86,837	8.8	+3,613	+4.2
Other services	87,212	8.6	78,764	7.9	+8,449	+10.7
Hospitality	78,063	7.7	76,696	7.7	+1,368	+1.8
Agriculture	73,491	7.3	83,270	8.4	-9,779	-11.7
Transport services	59,215	5.9	64,088	6.5	-4,873	-7.6
Building industry	31,120	3.1	27,652	2.8	+3,468	+12.5
Government Agencies, families and others	**97,126**	**9.6**	**104,566**	**10.5**	**-7,440**	**-7.1**
Financial corporations and banks	**21,012**	**2.1**	**26,614**	**2.7**	**-5,602**	**-21.1**
Total	**1,008,612**	**100.0**	**991,189**	**100.0**	**+17,424**	**+1.8**

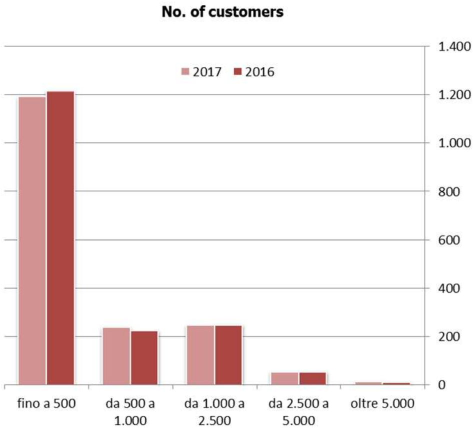
7 Loans and advances are shown in the tables relative to overall amounts, gross of depreciation but net of deposits and current accounts at banks and of contributions in relation to subsidised credit.

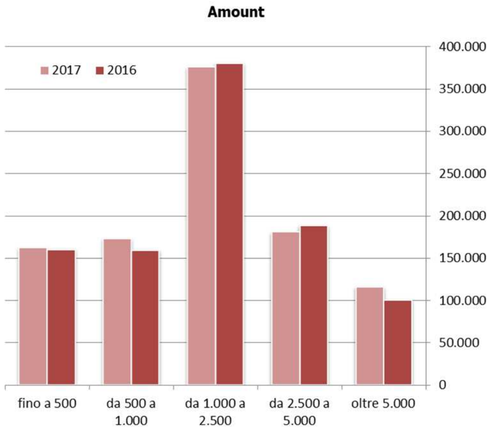
8 The figure includes €27,294 thousand in 2017 and €40,739 thousand in 2016 of loans to SPVs relating to securitisation transactions.

Typical performing loans and advances: breakdown of customers by amount loaned (thousands of Euro)

	No. of customers	Amount	customer %	amount %	Average amount
up to 500	1,194	162,530	68.1	16.1	136.1
from 500 to 1,000	241	172,994	13.7	17.1	717.8
from 1,000 to 2,500	249	376,020	14.2	37.3	1,510.1
from 2,500 to 5,000	55	181,116	3.1	18.0	3,293.0
above 5,000	15	115,951	0.9	11.5	7,730.1
Total	**1,754**	**1,008,612**	**100.0**	**100.0**	**575.0**

Distribution by loan amount – comparison 2017/2016 by number and amount





In relation to the indices of the performing loan portfolio, worth mentioning are the following events:

- the overall amount of transactions with borrowers, with an overall exposure exceeding €2.5m was equal to 29.5% of the total, almost stable against the end of 2016 (29.3%);
- the average amount for performing loans and advances went from €562 thousand to €575 thousand;
- the incidence on the total of the loans for the top transaction (0.9%) remains stable, whereas that of the top 20 transactions increased (from 9.9% to 10.2%) as well as that of the top 100 (from 28.6% to 29.2%).

Typical gross performing loans and advances: top exposures (thousands of Euro)

	Dec 2017	%	Dec 2016	%
Top transaction	8,926	0.9	8,860	0.9
Top 20 transactions	102,700	10.2	97,793	9.9
Top 100 transactions	294,504	29.2	283,264	28.6

With regard to the concentration of individual borrowers, the performing loans portfolio shows that:

- overall exposure to the top borrower fell from 1.3% to 1.1%;
- overall exposure to the top 20 borrowers rose (from 13.4% to 13.9%), and so did the exposure to the top 100 borrowers (36.0% compared to 35.9%);

- overall exposure to the top group of borrowers fell from 1.3% to 1.2%; the top 20 groups equalled 16.2% of the total (15.0% at the end of 2016) and the top 100 groups came to 40.3% (40.0% at the end of 2016).

Typical gross performing loans and advances: top customers (thousands of Euro)

	Dec 2017	%	Dec 2016	%
top borrower	11,380	1.1	13,025	1.3
top 20 borrowers	139,699	13.9	133,137	13.4
top 100 borrowers	363,449	36.0	356,175	35.9

Typical gross performing loans and advances: top groups of borrowers (thousands of Euro)

	Dec 2017	%	Dec 2016	%
top group of borrowers	11,968	1.2	13,025	1.3
top 20 groups of borrowers	162,979	16.2	148,251	15.0
top 100 groups of borrowers	406,682	40.3	396,469	40.0

Exposure to the top group in both periods is due to public bodies.

High exposures

With regard to «high exposures», in accordance with current legislation we can report the following situation as at 31 December 2017:

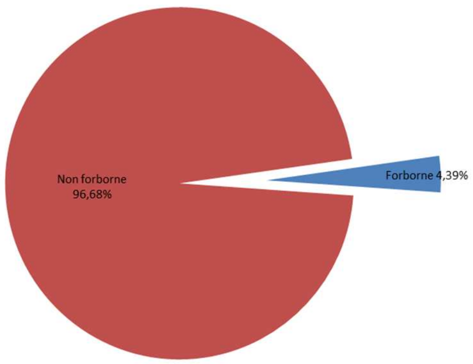
	Dec 2017		Dec 2016	
Counterparty	**Nominal**	**Weighted**	**Nominal**	**Weighted**
Governments	161,668	-	112,789	-
Banks	146,297	146,297	90,593	90,593
Ordinary customers	-	-	-	-
Total	**307,965**	**146,297**	**203,382**	**90,593**

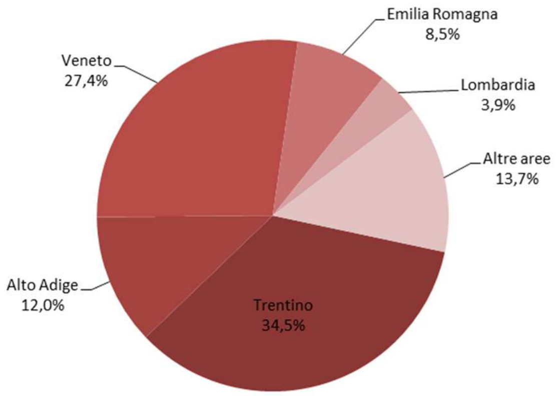
Exposures to Governments refer for the entire amount to securities eligible for refinancing with the European Central Bank.

Performing loans subject to forbearance measures – "Forborne"

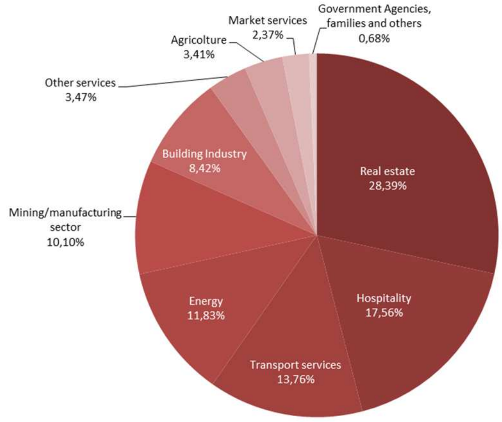
Performing loans subject to forbearance measures amounted to €33.5m, equal to 4.4% of the total, and are mainly concentrated in the provinces of Trento (34.5%) and Veneto (27.4%). The Bank's other areas of business each account for 4% to 14% of loan subject to forbearance measures.

Performing loans subject to forbearance measures (forborne) by geographical area





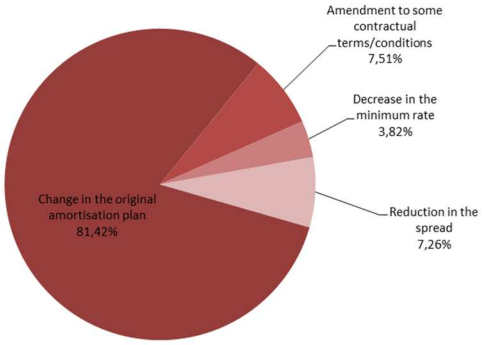
Performing loans subject to forbearance measures (forborne) by counterparty and economic sector



At sector level, just under a third of forbearance measures benefited real estate companies, while the hospitality (17.6%), transport (13.8%) and energy (11.8%) sectors were less favoured. All other sectors include from 2% to 10% of forborne loans, with the exception of households and public bodies (0.7%).

Performing loans subject to forbearance measures (forborne) by type of forbearance measure

Depending on the type of forbearance measure, 81% of loans benefited from a change in the original amortisation plan, 8% from an amendment to some contractual terms/conditions, 7% from a reduction in the spread and 4% from a decrease in the minimum rate.



Impaired loans

The amount of gross impaired loans continued to decrease, down by 19.5%, following the -10.6% of 2016: compared to the balance as at 31 December 2015, the portfolio of impaired loans fell by a total of €65.5m, of which €29.0m due to sale transactions (€14.0m in 2016, €15.0m in 2017). Compared to 2016, there was a decrease both in doubtful loans (-€15.3m, -11.3%) and in unlikely to pay (-€18.3m, -29.3%). Past due loans also decreased (-€7.0m).

Loans and advances to customers (thousands of Euro)

Dec 2017	Gross exposure	Overall adjustments	Net exposure	% gross loans	% net loans	% coverage
Impaired loans	**167,802**	**68,784**	**99,018**	***13.9***	***8.8***	**41.0**
- doubtful	120,994	56,922	64,071	*10.1*	*5.7*	47.0
- unlikely to pay	44,285	11,602	32,683	*3.7*	*2.9*	26.2
- past due	2,524	260	2,264	*0.2*	*0.2*	10.3
Performing loans	**1,036,006**	**8,320**	**1,027,686**	***86.1***	***91.2***	**0.8**
Total loans	**1,203,809**	**77,105**	**1,126,704**	***100.0***	***100.0***	**6.4**

Dec 2016	Gross exposure	Overall adjustments	Net exposure	% gross loans	% net loans	% coverage
Impaired loans	**208,506**	**70,890**	**137,616**	***16.8***	***11.8***	**34.0**
- doubtful	136,334	56,150	80,184	*11.0*	*6.9*	41.2
- unlikely to pay	62,633	14,539	48,094	*5.0*	*4.1*	23.2
- past due	9,540	201	9,339	*0.8*	*0.8*	2.1
Performing loans	**1,031,928**	**6,470**	**1,025,458**	***83.2***	***88.2***	**0.6**
Total loans	**1,240,434**	**77,360**	**1,163,075**	***100.0***	***100.0***	**6.2**

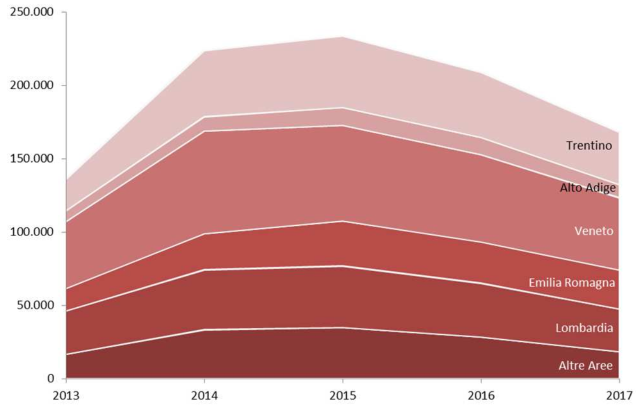
% change 2017/2016	Gross exposure	Overall adjustments	Net exposure
Impaired loans	**-19.5**	**-3.0**	**-28.0**
- doubtful	-11.3	+1.4	-20.1
- unlikely to pay	-29.3	-20.2	-32.0
- past due	-73.5	+29.6	-75.8
Performing loans	**+0.4**	**+28.6**	**+0.2**
Total loans	**-3.0**	**-0.3**	**-3.1**

The decrease in impaired loans, combined with the stability of performing loans to customers (+0.4%), lead to a decrease in the incidence of impaired loans on the total portfolio of loans and advances to customers from 16.8% in December 2016 to the current 13.9%. The figure net of value adjustments, which fell by 3.0%, decreased from 11.8% to 8.8%. The coverage of the total portfolio increased from 34.0% to 41.0%; the coverage of the portfolio of doubtful loans also increased (from 41.2% to 47.0%) – also after the mentioned sale transactions – and that of the portfolio of unlikely to pay loans (from 23.2% to 26.2%).

Typical gross impaired loans and advances by area (thousands of Euros)

	31 Dec 2017	%	31 Dec 2016	%	Chg	% Chg
Trentino	35,812	21.3	44,316	21.3	-8,503	-19.2
South Tyrol	8,664	5.2	11,481	5.5	-2,817	-24.5
Veneto	49,132	29.3	59,467	28.5	-10,335	-17.4
Emilia Romagna	26,710	15.9	28,136	13.5	-1,426	-5.1
Lombardy	29,045	17.3	36,435	17.5	-7,390	-20.3
Other Areas	18,439	11.0	28,671	13.8	-10,232	-35.7
Total typical loans and advances	**167,802**	**100.0**	**208,506**	**100.0**	**-40,704**	**-19.5**

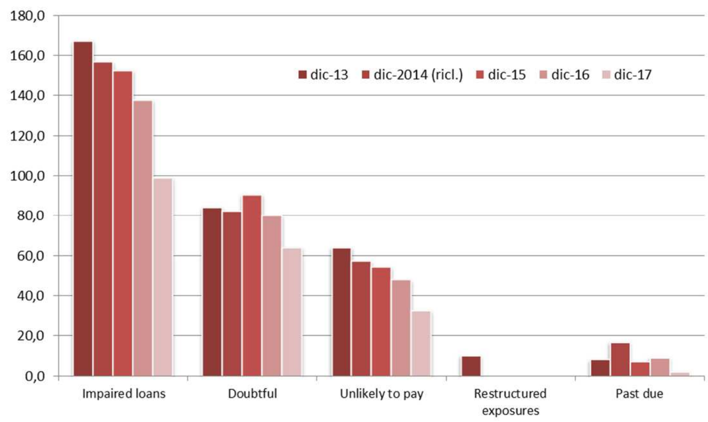
Trend in gross impaired loans and advances by area 2013-2017

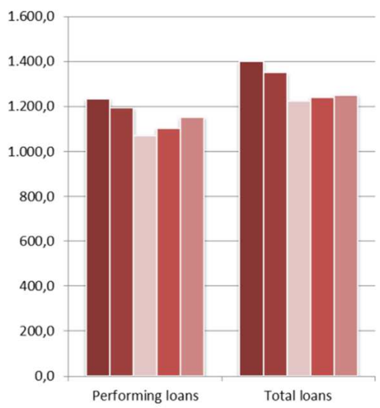


Typical impaired loans and advances by counterparty and economic sector (thousands of Euro)

	31 Dec 2017	%	31 Dec 2016	%	Chg	% Chg
Non-financial corporations	**162,285**	**96.7**	**201,955**	**96.9**	**-39,669**	**-19.6**
Building industry	48,859	29.1	60,925	29.2	-12,066	-19.8
Mining/manufacturing sector	40,112	23.9	47,963	23.0	-7,851	-16.4
Real Estate	34,048	20.3	42,468	20.4	-8,421	-19.8
Hospitality	11,382	6.8	14,943	7.2	-3,562	-23.8
Other services	10,240	6.1	10,242	4.9	-2	-0.0
Agriculture	8,231	4.9	7,295	3.5	+936	+12.8
Transport services	3,832	2.3	6,962	3.3	-3,130	-45.0
Market services	3,451	2.1	7,056	3.4	-3,604	-51.1
Energy	2,131	1.3	4,102	2.0	-1,970	-48.0
Government Agencies, families and others	**2,414**	**1.4**	**4,102**	**2.0**	**-1,688**	**-41.1**
Financial corporations and banks	**3,103**	**1.8**	**2,450**	**1.2**	**+653**	**+26.7**
Total	**167,802**	**100.0**	**208,506**	**100.0**	**-40,704**	**-19.5**

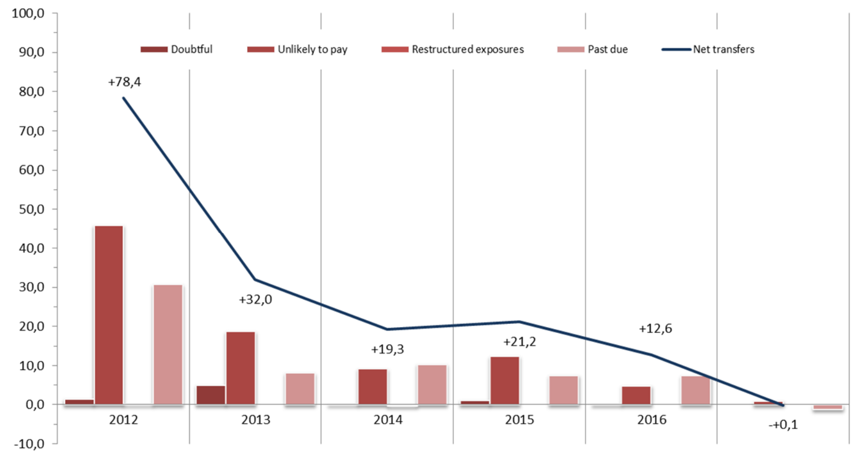
Trend in net loans (millions of Euro)





The net flow of new impaired loans (transfers in net of transfers out to "performing" loans) continued to constantly decrease, after a significant worsening in 2012, which brought it back to zero in 2017.

Net flow of new impaired loans coming from performing loans (millions of Euro)

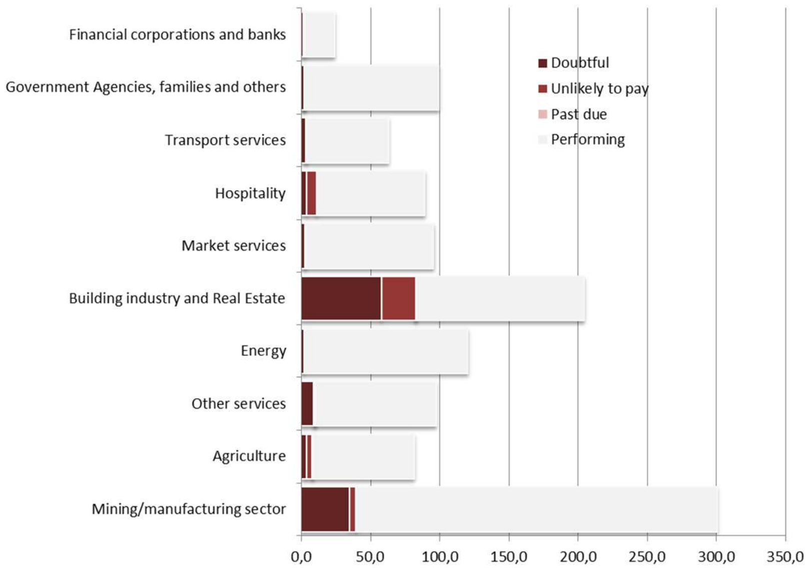


At sector level, the incidence of gross impaired loans on the total typical loans and advances portfolio is particularly relevant in sectors related to construction: 60% of loans to construction companies are impaired and approximately 27% of those to real estate businesses; however, both figures show an improvement compared to the figures of the previous year (70% and 33%, respectively). Approximately 13% of loans to companies operating in the mining/manufacturing industry are also impaired (17% at the end of 2016).

Gross impaired loans: incidence of each status by counterparty and economic sector (data in %)

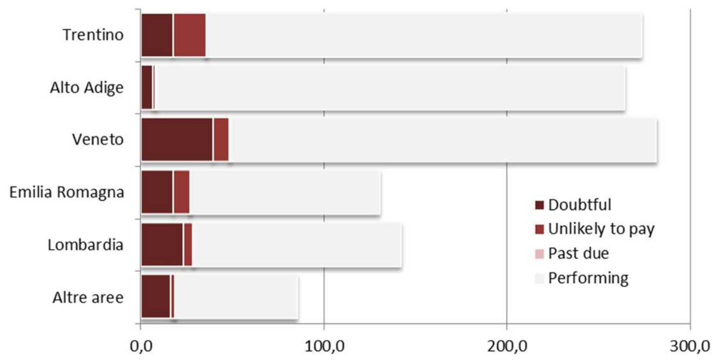
	Doubtful loans	Unlikely to pay	Past due	Total
Non-financial corporations	**11.3**	**4.0**	**0.1**	**15.4**
Mining/manufacturing sector	11.7	1.4	0.2	13.3
Agriculture	4.7	5.1	0.2	10.1
Other services	9.6	0.9	0.0	10.5
Energy	1.8	0.0	0.0	1.8
Real Estate	20.4	6.9	0.0	27.3
Building industry	40.6	20.4	0.0	61.1
Market services	2.7	0.9	0.0	3.6
Hospitality	4.7	8.0	0.0	12.7
Transport services	5.8	0.3	0.0	6.1
Government Agencies, families and others	**2.1**	**0.2**	**0.2**	**2.4**
Financial corporations and banks	**0.0**	**6.6**	**6.3**	**12.9**

Gross impaired loans: overall incidence by counterparty and economic sector (millions of Euro)



Geographically speaking, the reader can see that the impairment of loans is concentrated mostly outside the region: in Trentino impaired loans make up for 14.3% of the loans and in South Tyrol 3.3%. In other areas of operation for the Bank there are incidences ranging from 17.4% in Veneto to 21.6% in Other Areas.

Gross impaired loans: overall incidence by geographical area (millions of Euro)



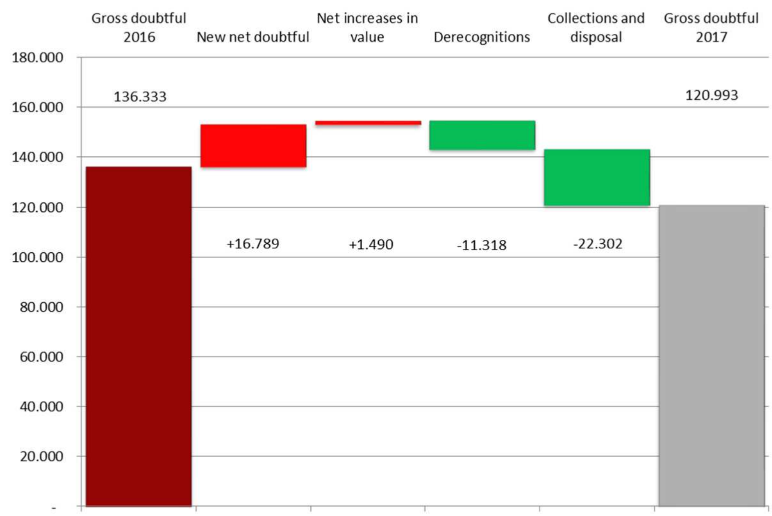
Gross impaired loans: incidence of each status by area (data in %)

	Doubtful loans	Unlikely to pay	Past due	Total
Trentino	6.4	6.6	0.1	14.3
South Tyrol	2.5	0.5	0.3	3.3
Veneto	14.0	3.2	0.3	17.4
Emilia Romagna	13.7	6.8	0.0	20.5
Lombardy	16.3	3.7	0.5	20.5
Other Areas	19.3	2.3	0.0	21.6

Doubtful loans

Doubtful loans gross of write-downs amount to €121.0m, down by €15.3m in comparison to 2016. The trend is characterised by approximately €17m of new doubtful loans, €11m of write-offs and €22m of collections and disposals.

Trend in gross doubtful loans 2016-2017 (thousands of Euros)



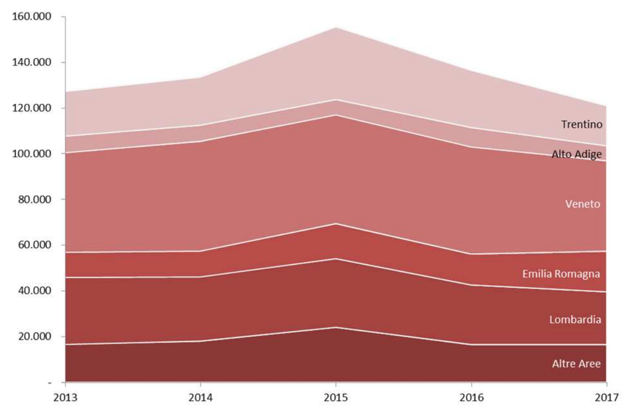
Geographically, doubtful loans are mainly concentrated in Veneto (32.6%); all areas of interest for the Bank showed significant decreases, with the exception of Emilia Romagna, which grew by 31.2%, and of the other areas that remained stable.

Breakdown of gross doubtful loans by area (thousands of Euro)

	31 Dec 2017	%	31 Dec 2016	%	Chg	% Chg
Trentino	17,516	14.5	24,832	18.2	-7,316	-29.5
South Tyrol	6,610	5.5	8,538	6.3	-1,927	-22.6
Veneto	39,412	32.6	46,854	34.4	-7,442	-15.9
Emilia Romagna	17,875	14.8	13,621	10.0	+4,254	+31.2
Lombardy	23,118	19.1	26,033	19.1	-2,915	-11.2
Other Areas	16,462	13.6	16,456	12.1	+6	+0.0
Total	**120,994**	**100.0**	**136,334**	**100.0**	**-15,340**	**-11.3**

The building industry and the real estate sector (approximately €58m) remains the top collector of delinquent loans despite the most significant decrease. There was also a significant decrease in the trade and transport sectors. The other sectors were essentially stable.

Trend in gross doubtful loans by area 2013-2017



Breakdown of gross doubtful loans by counterparty and economic sector (thousands of Euro)

	31 Dec 2017	%	31 Dec 2016	%	Chg	% Chg
Non-financial corporations	**118,923**	**98.3**	**132,637**	**97.3**	**-13,714**	**-10.3**
Mining/manufacturing sector	35,215	29.1	36,239	26.6	-1,025	-2.8
Building industry	32,511	26.9	39,130	28.7	-6,619	-16.9
Real Estate	25,405	21.0	25,695	18.8	-290	-1.1
Other services	9,313	7.7	9,310	6.8	+3	+0.0
Hospitality	4,199	3.5	4,484	3.3	-285	-6.4
Transport services	3,660	3.0	6,140	4.5	-2,479	-40.4
Market services	2,628	2.2	6,161	4.5	-3,533	-57.3
Agriculture	3,863	3.2	3,261	2.4	+602	+18.4
Energy	2,131	1.8	2,217	1.6	-86	-3.9
Government Agencies, families and others	**2,070**	**1.7**	**3,697**	**2.7**	**-1,627**	**-44.0**
Financial corporations and banks	**-**	**0.0**	**-**	**0.0**	**-**	
Total	**120,994**	**100.0**	**136,334**	**100.0**	**-15,340**	**-11.3**

Doubtful loans, net of value adjustments, amounted to €64.1m, down €16.1m compared to the figure in December 2016.
The ratio of net doubtful loans to total net loans to customers was 5.7%, down compared to 6.9% at the end of the previous financial year; the ratio gross of value adjustments went from 11.0% in 2016 to 10.1%. The level of coverage of doubtful loans was 47.0%, clearly up on the percentage at the end of 2016 (41.2%).

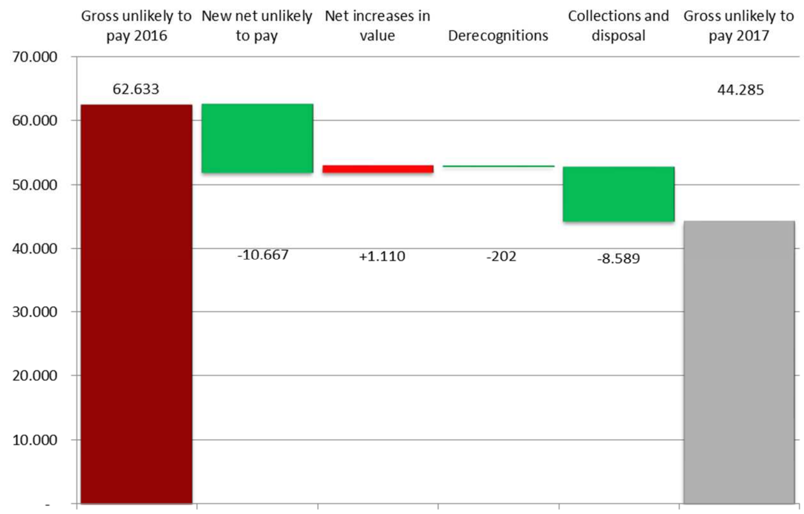
Key ratios relative to doubtful loans

in %	Dec 2017	Dec 2016
Gross doubtful loans / gross loans to customers	10.1	11.0
Gross doubtful loans / own funds	67.1	75.9
Net doubtful loans / net loans to customers	5.7	6.9
Net doubtful loans / own funds	35.5	44.6

Unlikely to pay loans

The "unlikely to pay" category gross of write-downs amounted to €44.3m, a decreased volume compared to that at the end of 2016 (-€18.4m, -29.3%). The trend is characterised by a net outflow to doubtful loans of €16.5m, €5.8m of new unlikely to pay and approximately €9m of collections and disposals.

Trend in gross unlikely to pay 2016-2017 (thousands of Euro)

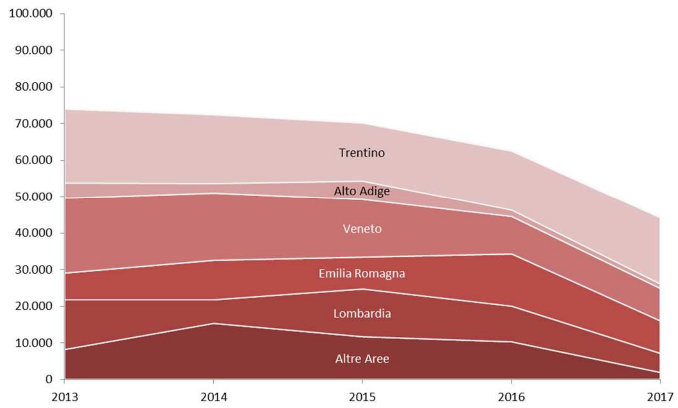


At geographical level, an increase was recorded in the unlikely to pay portfolio in Trentino (+11.8%, +€1.9m), while all other areas recorded decreases.

Breakdown of unlikely to pay by area (thousands of Euro)

	31 Dec 2017	%	31 Dec 2016	%	Chg	% Chg
Trentino	18,101	40.9	16,193	25.9	+1,908	+11.8
South Tyrol	1,197	2.7	1,947	3.1	-750	-38.5
Veneto	8,971	20.3	10,188	16.3	-1,218	-12.0
Emilia Romagna	8,826	19.9	14,318	22.9	-5,492	-38.4
Lombardy	5,214	11.8	9,655	15.4	-4,441	-46.0
Other Areas	1,977	4.5	10,332	16.5	-8,355	-80.9
Total	**44,285**	**100.0**	**62,633**	**100.0**	**-18,347**	**-29.3**

Trend in gross unlikely to pay by area 2013-2017



Breakdown of gross unlikely to pay by counterparty and economic sector (thousands of Euro)

	31 Dec 2017	%	31 Dec 2016	%	Chg	% Chg
Non-financial corporations	**42,538**	**96.1**	**61,400**	**98.0**	**-18,862**	**-30.7**
Building industry	16,341	36.9	21,782	34.8	-5,441	-25.0
Real Estate	8,643	19.5	16,045	25.6	-7,402	-46.1
Mining/manufacturing sector	4,268	9.6	10,062	16.1	-5,794	-57.6
Hospitality	7,183	16.2	7,515	12.0	-332	-4.4
Agriculture	4,183	9.4	3,641	5.8	+543	+14.9
Other services	925	2.1	920	1.5	+5	+0.5
Market services	823	1.9	894	1.4	-71	-8.0
Transport services	171	0.4	541	0.9	-370	-68.4
Energy	-	0.0	-	0.0	0	
Government Agencies, families and others	**167**	**0.4**	**185**	**0.3**	**-18**	**-9.9**
Financial corporations and banks	**1,581**	**3.6**	**1,048**	**1.7**	**+533**	**+50.9**
Total	**44,285**	**100.0**	**62,633**	**100.0**	**-18,347**	**-29.3**

The unlikely to pay category, net of value adjustments, totalled €32.7m, down by 32.0% compared to 31 December 2016. The ratio of net unlikely to pay to total net loans and advances to customers was 2.9% compared to 4.1% at the end of the previous period.

Key ratios relative to unlikely to pay loans

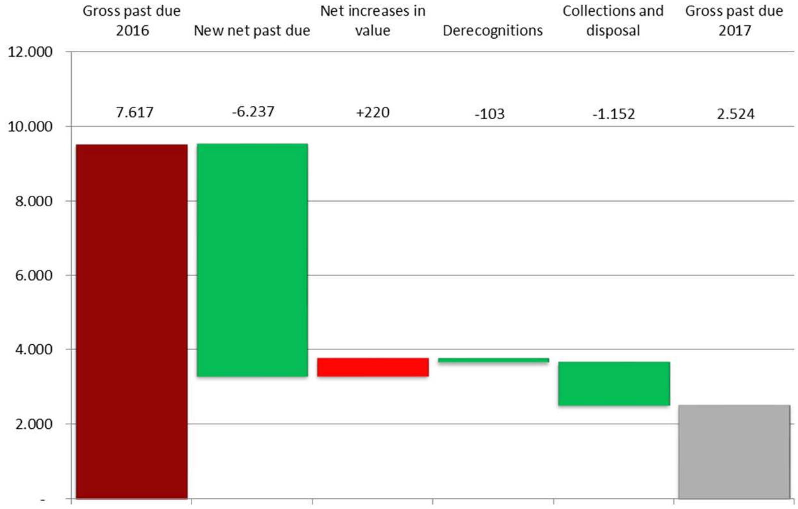
in %	Dec 2017	Dec 2016
Gross unlikely to pay/gross loans to customers	3.7	5.0
Net unlikely to pay/net loans to customers	2.9	4.1

Past due loans

This item is made up of all cash loans to borrowers (not included in the other categories of impaired loans) whose debts are overdue by more than 90 days according to the criteria established by the Supervisory Authority. Net of value adjustments these loans totalled €2.3m, a substantial decrease (-€7.1m) compared to 31 December 2016. The ratio of "past due" loans to total net loans and advances is 0.2% compared to 0.8% in 2016.

Compared to 2016, gross past due loans decreased by €7.4m due mainly to transfers to unlikely to pay loans and doubtful loans of €5.1m, net transfers to performing loans of €1.2m and collections of €1.2m.

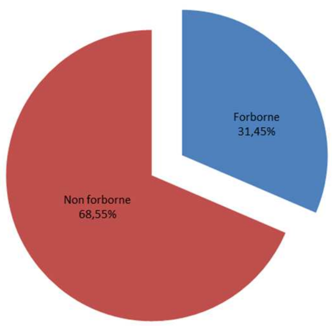
Trend of gross past due loans 2016-2017 (thousands of Euro)

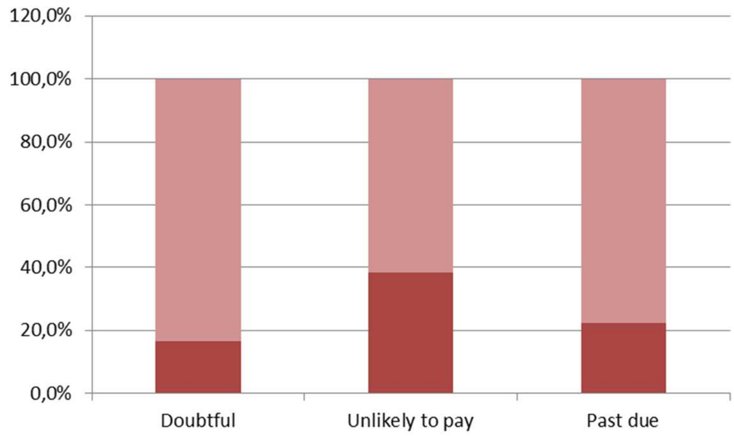


Impaired loans subject to forbearance measures – "Forborne"

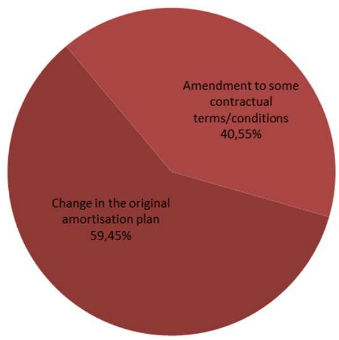
Impaired loans subject to forbearance measures amounted to €52.8m, equal to 31.5% of the total; approximately 17% of doubtful loans, 38% of unlikely to pay loans and 22% of impaired past due loans benefited from forbearance measures.

Impaired loans subject to forbearance measures (forborne) by status





Impaired loans subject to forbearance measures (forborne) by type of forbearance measure



Depending on the type of forbearance measure, approximately 59% of impaired loans benefited from a change in the original amortisation plan while the remaining 41% benefited from an amendment to some contractual terms/conditions.

EQUITY INVESTMENT ACTIVITIES

Equity Investment

Equity investment activities, both direct and through participation in the closed-end securities investment funds "MC^2 Impresa" and «APE III», showed overall amounts of approximately €29.7m, up 50% compared to the figure of December 2016 (+€9.9m) mainly as a result of:

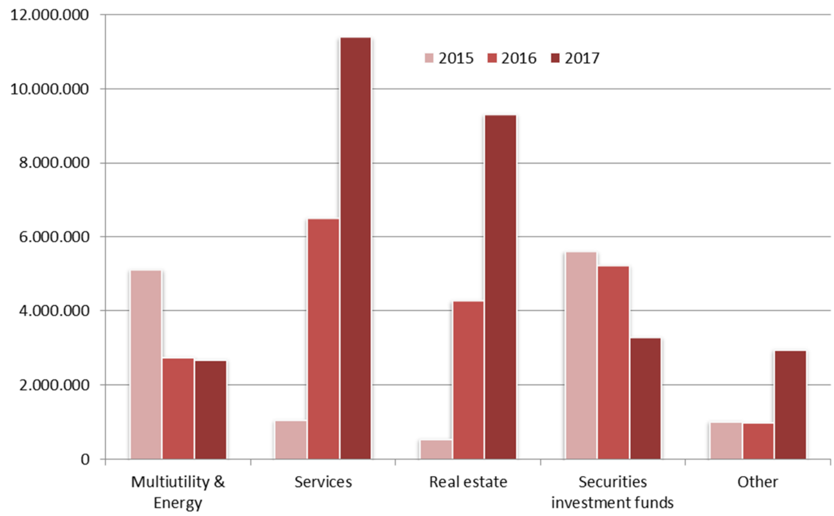
- subscription of new units in the Closed-end real estate investment fund Finint Fenice (€5.6m) as part of the sale of doubtful loans;
- new investments in equity instruments for a total of €6.8m in listed and unlisted companies, mainly in merchant banking.

These investments were partially offset by the repayment of a €2.9m unit of the investment in the closed-end fund «MC^2 Impresa».

Equity Investment (thousands of Euro)

	Dec 2017			Dec 2016		
	Afs	**Equity inv.**	**Total**	**Afs**	**Equity inv.**	**Total**
Merchant banking investments	14,015	-	14,015	8,117	56	8,173
Investments in UCITS	12,587	-	12,587	9,390	-	9,390
Other investments	3,085	26	3,111	2,133	124	2,257
Total	**29,687**	**26**	**29,713**	**19,640**	**180**	**19,820**

Equity investments by economic sector (millions of Euro)



Equity investments (amounts in thousands of Euros)

Paradisidue S.r.l. – Trento

The real estate company, established in 2003 and wholly controlled by the Bank, allows the Bank to participate directly - where appropriate - in judicial auctions of real estate as collateral for disputed financing transactions. The company currently owns four buildings at a value in line with the appraisal value; one of the three buildings underwent enhancement works in 2014 and activities for its placement on the real estate market are currently under way. A building was acquired during the current year as part of the liquidation of the investee Essedi Strategie d'Impresa Srl. The company closed 2017 with a loss of approximately €99 thousand, covered by a payment by the Parent Company.

Other investments	
Balance as at 31/12/2016	**124.4**
Purchases	-
Sales/Redemptions	-
Gains	-
Losses	-98.7
Impairment	-
Balance as at 31/12/2017	**25.7**
Stake held	**100.000**

Biorendena S.r.l. – Pinzolo (TN)

Established to build a biomass driven steam power plant for district heating and domestic hot water serving the area of Madonna di Campiglio. Issues with the authorisation procedure, also following unfavourable judgements of the administrative justice, do not allow the implementation of the plant on the artisan area owned by the company.
In 2017, the Bank sold the equity investment to the reference shareholder generating a capital gain of €324.7 thousand.

Merchant Banking Investments	
Balance as at 31/12/2016	**55.8**
Purchases	-
Sales/Redemptions	-380.5
Gains	+324.7
Losses	-
Impairment	-
Balance as at 31/12/2017	**-**
Stake held	

Notes on merchant banking investments

Dedagroup Stealth S.p.A. - Milan

This is a spin-off of a business unit of a company of the Dedagroup SpA group, which operates in the fashion sector through the production and maintenance of a software (Stealth) for the management of production, distribution, logistics, analysis and control, already used by the most famous Fashion brands.
After the subscription of €2.5m, paid in 2016, the bank subscribed additional shares of €500 thousand during the current year.

Balance as at 31/12/2016	**2,500.0**
Purchases	+501.5
Sales/Redemptions	-
Gains/Losses on disposal	-
Fair value changes	-
Reversal of reserve to income statement	-
Impairment	-
Balance as at 31/12/2017	**3,001.5**
Stake held	**10.000%**

Space 4 S.p.A. -

This is a SPAC (Special Purpose Acquisition Company), activated by Space Holding srl, with the objective of listing on the Milan Stock Exchange and subsequent merger with a target operating company not yet identified. The operation of the promoters, well-known Italian professionals and managers, follows other similar successful previous launches - such as Fila Spa, Avio Spa, Aquafil Spa - and is addressed to Italian target mid/large Cap companies with ethical business. The bank subscribed a value of €2m, equal to 200,000 shares to which 40,000 warrants were assigned. An equal number of warrants will be assigned to the bank in the event that it joins the Business Combination: the right of withdrawal with guaranteed repayment at 98.5% is envisaged. The year-end listing shows a negative change in fair value of Euro 28 thousand.

Balance as at 31/12/2016	**-**
Purchases	+2,002.4
Sales/Redemptions	-
Gains/Losses on disposal	-
Fair value changes	-27.5
Reversal of reserve to income statement	-
Impairment	-
Balance as at 31/12/2017	**1,974.9**
Stake held	**3.896%**

Enercoop S.r.l. – Trento (TN)

This company is a subsidiary of Fincoop S.p.A. (co-operative financial corporation in Trentino) and was set up in 2009 to purchase and manage a minority shareholding in Dolomiti Energia S.p.A. Dolomiti Energia is currently one of the most important Italian multi-utility companies in relation to its size characterised by a stable business.
Enercoop has purchased a 1.8% stake in Dolomiti Energia S.p.A. for around €11m. Mediocredito has purchased a 15% of Enercoop S.r.l. for €1,656 thousand. From this amount €19.8 thousand was in the capital account and €1,635 thousand represented a loan to shareholders intended for the purchase of a share in Dolomiti Energia S.p.A. The valuation as at 31 December 2017 does not express the fair value changes with respect to 2016.

Balance as at 31/12/2016	**1,917.2**
Purchases	-
Sales/Redemptions	-
Gains/Losses on disposal	-
Fair value changes	-
Reversal of reserve to income statement	-
Impairment	-
Balance as at 31/12/2017	**1,917.2**
Stake held	**15.000%**

GPI S.p.A. - Trento

The GPI group, which is headed by the Trentino entrepreneur Fausto Manzana, is one of the leading operators in the management of IT systems for healthcare, ranging from administrative software to maintenance up to the management of single booking centres. It is constantly growing and, in order to nourish the plan for future expansion, it entered the Italian Stock Exchange (AIM segment) through a SPAC (Special Purpose Acquisition Company) vehicle, in which the Bank participated with an investment of €1m, paid during 2016. For the bank, joining GPI represents, in addition to supporting an important local reality, an investment opportunity with good profitability prospects. In 2017, warrants were converted for a capital amount of €285 thousand and there was a positive change in fair value of €50 thousand.

Balance as at 31/12/2016	**1,038.6**
Purchases	+285.0
Sales/Redemptions	-
Gains/Losses on disposal	-
Fair value changes	+50.1
Reversal of reserve to income statement	-
Impairment	-
Balance as at 31/12/2017	**1,373.7**
Stake held	**0.823%**

S.W.S. Group S.p.A. - Trento

Through the subsidiary SWS Engineering S.p.A., the company operates in the area of engineering and design. Through the subsidiary Enginsoft S.p.A., it operates in automation and control engineering, specialising in consultancy, research and development of advanced applications of simulations with mathematical models.
The entry of Mediocredito in the company was finalised in 2011 in order to continue the process of exploitation and development of the company launched by the closed-end fund MC^2 Impresa.
Based on prospective projections, there was a positive change in fair value of €201 thousand.

Balance as at 31/12/2016	**1,201.0**
Purchases	-
Sales/Redemptions	-
Gains/Losses on disposal	-
Fair value changes	-
Reversal of reserve to income statement	-
Impairment	-
Balance as at 31/12/2017	**1,201.0**
Stake held	**14.966%**

Iniziative Bresciane S.p.A. -

The company operates in the renewable energy sector, mainly hydroelectric, with plant located in Lombardy and is listed on the Milan Stock Exchange – AIM segment. The shareholders include Istituto Atesino di Sviluppo Spa and in 2017 the bank subscribed to a stake of approximately €1m.
The company is characterised by excellent profitability margins and constant growth, also considering the recent projects in the start-up phase: the bank's profitability is expected to be good, given its business sector and management capacity.
The year-end listing allowed a positive change in fair value of €125 thousand to be recorded.

Balance as at 31/12/2016	**-**
Purchases	+999.7
Sales/Redemptions	-
Gains/Losses on disposal	-
Fair value changes	+125.0
Reversal of reserve to income statement	-
Impairment	-
Balance as at 31/12/2017	**1,124.8**
Stake held	**1.452%**

Aquafil S.p.A. – Arco (TN)

The investment in Aquafil Spa derives from the listing and business combination process of the SPAC Space 3 vehicle in the STAR segment of the Italian Stock Exchange, activated by Space Holding srl during 2017. The company is one of the main international players in the production and marketing of synthetic fibres used in the textile flooring sectors for the contract and residential markets, as well as the automotive, fashion and sports markets. It is also a pioneer in the regeneration of nylon waste with the Econyl system and the prospects for development and growth are based above all on this type of green product. The bank is expected to achieve good profitability, considering its business sector, its management capacity and the presence of warrants accompanying the shares purchased. The year-end listing allowed a positive change in fair value of €23 thousand to be recorded.

Balance as at 31/12/2016	**-**
Purchases	+999.6
Sales/Redemptions	-
Gains/Losses on disposal	-
Fair value changes	+23.4
Reversal of reserve to income statement	-
Impairment	-
Balance as at 31/12/2017	**1,023.3**
Stake held	**1.601%**

Capital for Progress 2 S.p.A. -

It is a SPAC (Special Purpose Acquisition Company), activated by well-known Italian professionals and managers, with the aim of listing on the Milan Stock Exchange - AIM segment and subsequent merger with a target operating company not yet identified. The operation follows a previous successful launch - GPI Spa - and is aimed at Italian mid/large Cap target companies belonging to diversified sectors. The bank subscribed to a value of approximately €1m by assigning 2 warrants for every 10 shares. A further 3 warrants for every 10 shares will be assigned to the bank in the event that it joins the Business Combination: the right of withdrawal with a 100% guaranteed repayment is envisaged. The year-end listing shows a negative change in fair value of Euro 22 thousand.

Balance as at 31/12/2016	**-**
Purchases	+960.2
Sales/Redemptions	-
Gains/Losses on disposal	-
Fair value changes	-22.3
Reversal of reserve to income statement	-
Impairment	-
Balance as at 31/12/2017	**937.9**
Stake held	**1.434%**

Green Hunter Group S.p.A. – Milan

The company operates in the renewable energy sector. The participation of Mediocredito with its investment of €1m alongside the financing of a project in 2010 coincides with the development of a photovoltaic plant with a power of 20/25 MWp.
Following the approval of "Decreto spalma incentivi" (Incentive spreading decree) and the different reference scenario, an impairment loss was recorded for €437 thousand in 2014, based on an appraisal prepared by an independent advisor. In 2017, dividends of €92 thousand were received and there were no changes in fair value compared to the previous book value.

Balance as at 31/12/2016	**786.7**
Purchases	**-**
Sales/Redemptions	**-**
Gains/Losses on disposal	**-**
Fair value changes	**-**
Reversal of reserve to income statement	**-**
Impairment	-
Balance as at 31/12/2016	**786.7**
Stake held	**3.819%**

Hotel Lido Palace S.p.A. – Riva del Garda (TN)

The company was established to build a luxury hotel on the well-known tourist destination overlooking Lake Garda encouraging the involvement - alongside the public entity - of private shareholders with proven experience in this sector and adequate financial partners. Mediocredito supported this initiative acting as managing bank in the context of a financial operation and purchased a 3.25% equity investment to the amount of €354 thousand, which in 2010 grew to 4.84% following a capital increase. The hotel reached break-even point in 2015 and is developing its turnover and operating profitability margins. The fair value as at 31 December 2017 corresponds to the book value.

Balance as at 31/12/2016	**674.0**
Purchases	-
Sales/Redemptions	-
Gains/Losses on disposal	-
Fair value changes	-
Reversal of reserve to income statement	-
Impairment	-
Balance as at 31/12/2017	**674.0**
Stake held	**4.840%**

Note on investments in UCITS

Closed-end real estate investment fund Finint Fenice

The Fund was set up by Finint Investments SGR of the Finanziaria Internazionale group: as part of the real estate fund management activities, Finint Investments SGR manages a large number of real estate funds with assets under management of more than €1 billion and manages, among other things, Social Housing funds in Friuli and Trentino. The Fenice fund envisages contributions from banks and leasing companies through the purchase and valuation of buildings already repurchased by banks, buildings under auction or bankruptcy proceedings, as well as impaired loans backed by a mortgage guarantee.

The Bank granted certain positions by subscribing units for a total amount of approximately €3.7m in 2016 and approximately €5.6m in 2017. The unit value of the shares, determined by the asset management company, as at 31 December 2017 was 475,618.76, generating a negative change in fair value of €461 thousand.

Balance as at 31/12/2016	**3,683.6**
Purchases	+5,599.5
Sales/Redemptions	-
Gains/Losses on disposal	-
Fair value changes	-461.4
Reversal of reserve to income statement	-
Impairment	-
Balance as at 31/12/2017	**8,821.8**

Closed-end securities investment fund Assietta Private Equity III

This is a Private Equity fund reserved for institutional investors, which aims at investing with majority stakes in small and medium Italian businesses characterised by a good positioning in the reference sector, operating in well-established sectors, with steady cash generation, a defensible competitive positioning and good economic performance. The fund is managed by Assietta Private Equity SGR. In 2017, the Bank paid the VI call relating to the 60 shares subscribed whose unit value - valued as at 31 December 2017 by the asset management company - amounted to €42,370.783, generating a positive change in the equity reserve of €651 thousand.

Balance as at 31/12/2016	**1,531.6**
Purchases	+360.0
Sales/Redemptions	-
Gains/Losses on disposal	-
Fair value changes	+650.6
Reversal of reserve to income statement	-
Impairment	-
Balance as at 31/12/2017	**2,542.2**

Closed-end securities investment fund MC²– Impresa

This is a private equity fund established under an initiative by Mediocredito that concentrates on minority shareholdings in medium sized enterprises. In 2012, the Bank terminated its role as advisor for the fund. The role was handed over in 2014 to Assietta Private Equity SGR. The Fund is currently under disinvestment: during 2017, an amount of €2.9m was repaid to the Bank. The unit value of the 80 shares held was 9,486.179, generating a negative change of €367 thousand in the equity reserve and at the same time a recovery from impairment to the income statement of €295 thousand.

Balance as at 31/12/2016	**3,710.7**
Purchases	-
Sales/Redemptions	-2,880.0
Gains/Losses on disposal	-
Fair value changes	-366.8
Reversal of reserve to income statement	+295.0
Impairment	-
Balance as at 31/12/2017	**758.9**

	Closed-end real estate investment fund Clesio	Fondo immobiliare Leopardi - Milan
Balance as at 31/12/2016	**375.0**	**89.2**
Purchases	-	-
Sales/Redemptions	-	-
Gains/Losses on disposal	-	-
Fair value changes	-	-
Reversal of reserve to income statement	-	-
Impairment	-	-
Balance as at 31/12/2017	**375.0**	**89.2**
Stake held		

Notes on other investments in equity securities

Istituto Atesino di Sviluppo S.p.A. – Trento (TN)

It is a finance company set up in 1929, which is owned by clerical bodies, operating mainly within the Province of Trento: it invests, mainly by acquiring minority shareholdings, in companies with interesting development potential, with the aim of creating a medium-long term relationship with the entrepreneur and achieving satisfactory results for the shareholders. The Bank's entry into the company, managed by leading economic representatives of the provincial territory, took place in 2016 with the purchase of a minority stake of 0.5% for a value of approximately €1m. The current fair value is unchanged from the previous year.

Balance as at 31/12/2016	**977.6**
Purchases	+2.1
Sales/Redemptions	-
Gains/Losses on disposal	-
Fair value changes	-
Reversal of reserve to income statement	-
Impairment	-
Balance as at 31/12/2017	**979.7**
Stake held	**0.500%**

La Finanziaria Trentina S.p.A. – Trento (TN)

It is an industrial holding established in 2004 by a group of entrepreneurs from Trentino bringing together subjects operating in various sectors in order to converge major investments in a single independent entity. In addition to the main corporate mission, private equity operations have been added to support entrepreneurs who have started processes of growth or generational change. The company's operations are carried out mainly in the energy, industry, infrastructure, real estate and venture capital sectors. The Bank's entry into the corporate structure, made up of leading entrepreneurs and economic exponents of the provincial territory, took place in 2016 and at the end of the reporting period there were no changes in fair value compared to the previous year.

Balance as at 31/12/2016	**804.9**
Purchases	-
Sales/Redemptions	-
Gains/Losses on disposal	-
Fair value changes	-
Reversal of reserve to income statement	-
Impairment	-
Balance as at 31/12/2017	**804.9**
Stake held	**1.190%**

	Sviluppo Aree Sciistiche Srl	Assietta Private Equity SGR S.p.A. – Milan	Trevefin S.p.A. Tarzo	Cassa Centrale Banca S.p.a. - Trento
Balance as at 31/12/2016	**-**	**115.5**	**108.8**	**50.2**
Purchases	+1,000.0	-	-	-
Sales/Redemptions	-	-	-	-
Gains/Losses on disposal	-	-	-	-
Fair value changes	-	-	-	-
Reversal of reserve to income statement	-	-	-	-
Impairment	-	-	-47.1	-
Balance as at 31/12/2017	**1,000.0**	**115.5**	**61.7**	**50.2**
Stake held	**3.230%**	**5.000%**	**3.69**	**0.025%**

	Funivie Madonna di Campiglio S.p.A. – Pinzolo (TN)	Funivie Folgarida Marilleva S.p.A. – Pinzolo (TN)	AEDES SIIQ SpA - Milan	Federazione Trentina delle Cooperative Scarl - Trento
Balance as at 31/12/2016	**25.4**	**23.3**	**18.9**	**5.1**
Purchases	-	-	-	-
Sales/Redemptions	-	-	-	-
Gains/Losses on disposal	-	-	-	-
Fair value changes	-	-	-	-
Reversal of reserve to income statement	-	-	-	-
Impairment	-	-	-	-
Balance as at 31/12/2017	**25.4**	**23.3**	**18.9**	**5.1**
Stake held	**0.033%**	**0.033**	**0.030%**	

	Formazione-Lavoro Società consortile per azioni - Trento	Trentino Volley S.r.l. Trento	Koelliker S.p.A. Milan	Lineapiù S.p.A. Prato
Balance as at 31/12/2016	**0.6**	**-**	**-**	**-**
Purchases	-	-	-	-
Sales/Redemptions	-	-	-	-
Gains/Losses on disposal	-	-	-	-
Fair value changes	-	-	-	-
Reversal of reserve to income statement	-	-	-	-
Impairment	-	-	-	-
Balance as at 31/12/2017	**0.6**	**-**	**-**	**-**
Stake held	**0.042%**	**5.350%**		**1.670%**

The equity investments in Funivie Madonna di Campiglio S.p.A., Funivie Folgarida Marilleva S.p.A., Koelliker S.p.A., Lineapiù S.p.A., Aedes SIIQ S.p.A. and Fondo Immobiliare Leopardi (linked to Aedes SIIQ S.p.A.) derive from the restructuring of impaired loans. The equity investment in Sviluppo Aree Sciistiche Srl derives from the participation in the competitive procedures called for the bankruptcy of Aeroterminal Venezia Spa for the purchase, together with other local financial shareholders and Trentino Sviluppo, of the stake of Funivie Folgarida Marilleva contributing, thanks to the progressive aggregation with Funivie Madonna di Campiglio spa, to the establishment of the largest and most profitable ski resort in the Alps located in the Autonomous Province of Trento.

BORROWING OPERATIONS AND TREASURY MANAGEMENT

Borrowing flows for 2017 were essentially represented by deposits with maturities of between 1 and 3 years for €331m largely carried out on Cooperative Credit Banks; in addition, new withdrawals were made from ECB of €49m (T-LTRO II) and from Cassa Depositi e Prestiti of €13m.

Flows of funds (thousands of Euro)

TYPE	FLOWS				
	2017		2016		Chg.
BONDS	**-**	**-**	**-**	**-**	**-**
FUNDS FROM BANKS	**359,320**	**91.1**	**498,500**	**87.0**	**-27.9**
- EIB funds	*-*	*-*	*-*	*-*	*-*
- ECB funds	*49,070*	*12.4*	*230,000*	*40.2*	*-78.7*
- other medium/long term bonds	*294,250*	*74.6*	*238,500*	*41.6*	*+23.4*
- current accounts and short-term deposits	*16,000*	*4.1*	*30,000*	*5.2*	*-46.7*
FUNDS FROM CUSTOMERS	**34,900**	**8.9**	**74,253**	**13.0**	**-53.0**
- CDP funds	*13,337*	*3.4*	*27,835*	*4.9*	*-52.1*
- funds from third parties	*1,063*	*0.3*	*3,918*	*0.7*	*-72.9*
- corporate deposits	*20,500*	*5.2*	*42,500*	*7.4*	*-51.8*
TOTAL	**394,220**	**100.0**	**572,753**	**100.0**	**-31.2**

In terms of overall amounts, bond issues decreased by 32% as a net effect of the lack of new issues and the repayments of matured bonds.
In connection with the new fund described above, borrowings from banks increased by €199m whereas funds from customers increased by approximately €9m, mainly due to new corporate deposits of €19m against the related decrease in funds from third parties and Cassa DD.PP.
The overall amount of funding increased by 5.8% to €1.333m.

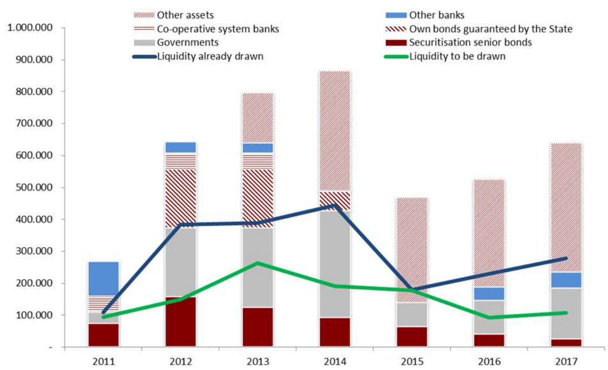
Overall amounts of borrowing operations (in thousands of Euros)

TYPE	OVERALL AMOUNTS				
	Dec 17		Dec 16		Chg.
BONDS	**289,979**	**21.8**	**423,772**	**33.6**	**-31.6**
FUNDS FROM BANKS	**873,637**	**65.5**	**675,298**	**53.6**	**+29.4**
- EIB funds	*82,568*	*6.2*	*98,386*	*7.8*	*-16.1*
- ECB funds	*277,807*	*20.8*	*230,000*	*18.3*	*+20.8*
- other medium/long term bonds	*491,312*	*36.9*	*245,098*	*19.5*	*+100.5*
- current accounts and short-term deposits	*21,950*	*1.6*	*101,814*	*8.1*	*-78.4*
FUNDS FROM CUSTOMERS	**169,597**	**12.7**	**160,824**	**12.8**	**+5.5**
- CDP funds	*47,653*	*3.6*	*50,478*	*4.0*	-5.6
- funds from third parties	*46,803*	*3.5*	*53,957*	*4.3*	-13.3
- corporate deposits	*75,141*	*5.6*	*56,389*	*4.5*	+33.3
TOTAL	**1,333,213**	**100.0**	**1,259,894**	**100.0**	**+5.8**

With regard to the reserves of liquid assets, in the portfolio for a greater amount than at the end of 2016 (+€114m), the new liquid assets available to the ECB as at 31 December 2017 amounted to approximately €107m, thanks also to the contribution by collateralised banking assets (approximately €174m).

Breakdown of eligible securities (thousands of Euro)

Issuer	Eligible	Potential liquidity
Governments	160,000	149,155
Banks	49,570	41,643
Securitisation senior bonds	23,611	21,333
Total bonds	**233,181**	**212,131**
Other collateralised assets	405,059	173,763
Total bonds and other assets	**638,241**	**385,894**
Liquidity already drawn		279,070
Residual available liquidity		**106,824**



SECURITIES PORTFOLIO

The portfolio of debt securities available for sale is made up as follows:

(in thousands Euro)

Issuer	Dec 2017		Dec 2016	
	Nominal Value	Fair Value	Nominal Value	Fair Value
Governments	160,000	161,668	105,000	112,789
Other banks	49,970	52,415	41,970	44,008
Total	**209,970**	**214,084**	**146,970**	**156,797**

The bonds issued by banks have an average life of 2.2 years while government securities (Italian State bonds) have an average life of 6.4 years. 46% of the portfolio is represented by floating rate securities, 43% by inflation-linked securities and 11% fixed-rate/step up securities.

HEDGING TRANSACTIONS AND DERIVATIVES

Cap options

The Bank offers its customers cap options to hedge loans sold to them. Concurrently with the sale of individual contracts, the Bank has been purchasing symmetrical cap options to cover the risks of the operations.
Two contracts were signed with customers in 2017 amounting to a notional €4.4m (one in 2016 amounting to a nominal €1.2m) with related symmetrical hedge.
The table below compares overall nominal amounts as at 31 December 2017 with the previous business period.

Financial derivatives – cap options (in thousands of Euros)

	NEW CONTRACTS		OVERALL NOMINAL AMOUNTS	
	2017	2016	Dec 17	Dec 16
- sales (customers)	*4,440*	*1,157*	*32,263*	*30,816*
- purchases (banks)	*4,440*	*1,157*	*32,263*	*30,816*
TOTAL	**8,880**	**2,314**	**64,525**	**61,632**

Warrants

As part of the acquisition of certain equity investments, the Bank was assigned the following warrants, on a free basis, listed on the Italian Stock Exchange and recognised at fair value (market value).

Issuer	Dec 2017		Dec 2016	
	Quantity (no.)	Fair value (€/thousand)	Quantity (no.)	Fair value (€/thousand)
GPI S.p.A.	-	-	30,000	37.5
Aquafil S.p.A	20,300	53.1	-	-
Capital for Progress 2 S.p.A.	19,200	26.3	-	-
Space 4 S.p.A.	40,000	49.0	-	-
Total	**79,500**	**128.4**	**30,000**	**37.5**

PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

Property, plant, equipment and intangible assets are functional investments that amount to approximately €8.7m, mainly buildings (made up of the Trento headquarters and the Treviso and Bologna branches).
In particular, the item buildings was affected by the purchase of the new Headquarters of Bologna located in Casalecchio di Reno of €680 thousand and by the sale of the building in via Museo in Bolzano that was used as Secondary headquarters, which in 2016 was classified as assets held for sale: this last transaction generated a capital gain of €1.9m.
All the items show a reduction due to the depreciation for the year.

	Dec 2017	%	Dec 2016	%	% Chg.
Functional assets	**8,550**	**98.7**	**9,559**	**98.8**	**-10.6**
- *Land and buildings*	7,509	86.6	8,227	85.0	-8.7
of which held for sale	-	-	*1,144*	*11.8*	*-100.0*
- *Furnishing*	371	4.3	491	5.1	-24.4
- *IT equipment*	73	0.8	83	0.9	-12.0
- *Other equipment*	476	5.5	566	5.9	-15.9
- *Vehicles*	57	0.7	95	1.0	-40.0
- *Software*	64	0.7	97	1.0	-34.0
Investment land	**116**	**1.3**	**116**	**1.2**	**-**
Total	**8,666**	**100.0**	**9,675**	**100.0**	**-10.4**

During 2017, the Bank continued to implement some technical and organisational measures in connection with workplace safety regulations with the purpose of minimising the risk of accidents and mitigating environmental risks. For further details on this, see the chapter on the System of internal controls and regulations compliance; no significant phenomenon or information concerning environmental risks was recorded in any case.
In 2017, the Bank tested the effectiveness of its Disaster Recovery Plan with the outsourcer of the IT System which is managed by SIBT S.r.l. The result of the test was positive, which means that should the need arise, it would be possible to maintain a sufficient level of business continuity for the Bank, characterised by low level relations with its customers.

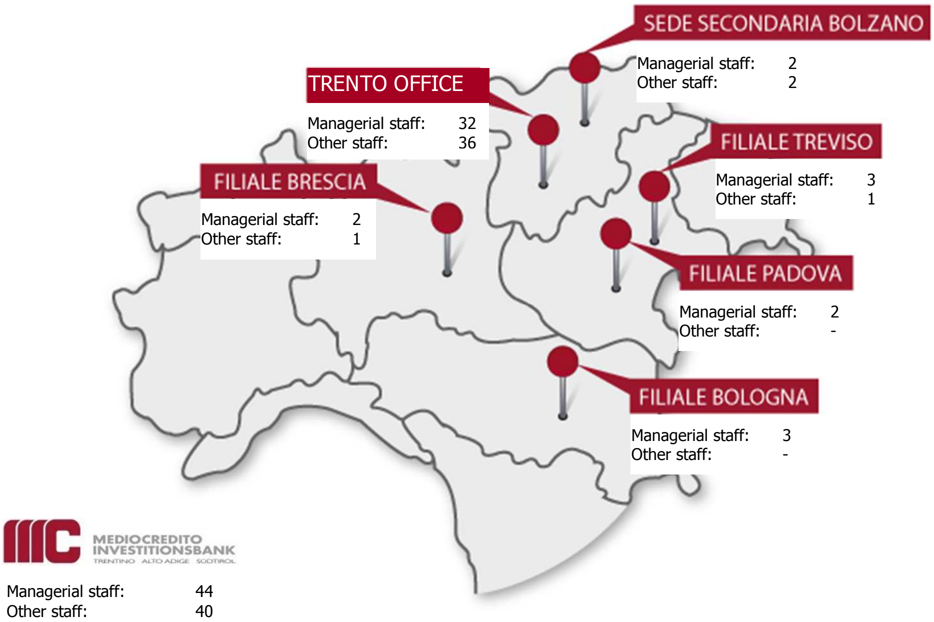
OPERATIONAL STRUCTURE

As at 31 December 2017, the number of employees decreased by 1 unit compared to 31 December 2016. There were 84 employees, 4 of whom on temporary contracts: 65 contracts are full-time and 19 part-time.

Position and movement of employees

	Situation 31/12/2016	Resignation	Recruitments	Change of positions	Situation 31/12/2017
Managerial staff (Executives)	4	-	-	+1	5
Managerial staff	37	-3	+1	+5-1	39
Professional areas	44	-1	+2	-5	40
Total	**85**	**-4**	**+3**	**-**	**84**

Breakdown by area[9]



Breakdown by age

	Men	Women	Total
< 30 years	4	0	4
> 30 years < 45 years	13	9	22
> 45 years	35	23	58
Total	**52**	**32**	**84**

Breakdown by length of service

	Men	Women	Total
< 5 years	8	1	9
> 5 years < 10 years	5	6	11
> 10 years < 20 years	19	8	27
> 20 years	20	17	37
Total	**52**	**32**	**84**

A total of 2,890 hours were dedicated to staff training; the following table shows a breakdown of "classroom days":

Area / Services	Specific training outside the Bank's premises		Technical training at the Bank's premises	
	Classroom days	No. of attendees	Classroom days	No. of attendees
General management	0.20	1	4.40	1
Business area	7.20	5	22.00	5
Legal area	7.60	9	14.20	7
Technical admin. area	254.30	40	26.20	14
Management support staff	2.80	10	18.00	6
Company control functions	21.80	19	13.20	6
Total	**293.90**	**84**	**98.00**	**39**

The Administrative Board carried out their activities through 15 meetings of the Board of Directors, 3 Execuive Committee meetings, 6 meetings of the Board of Statutory Auditors and 1 Ordinary Shareholders' Meeting.

9 The item "Other staff" includes employees belonging to professional areas.

PRINCIPAL TRENDS IN THE FINANCIAL STATEMENTS AND STATE OF AFFAIRS

RECLASSIFIED STATEMENT OF FINANCIAL POSITION (ABRIDGED)

(in thousands Euro)

Assets	31.12.2017	31.12.2016	Chg	% Chg
CASH AND CASH EQUIVALENTS	2	2	-1	-25.3
FINANCIAL ASSETS HELD FOR TRADING	452	231	+221	+95.8
FINANCIAL ASSETS AVAILABLE FOR SALE	243,771	176,437	+67,334	+38.2
LOANS AND ADVANCES TO BANKS	124,326	77,527	+46,799	+60.4
LOANS AND ADVANCES TO CUSTOMERS	1,126,704	1,163,075	-36,371	-3.1
EQUITY INVESTMENTS	26	180	-154	-85.7
PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS	8,666	9,676	-1,010	-10.4
TAX ASSETS	14,551	15,965	-1,414	-8.9
OTHER ASSETS	12,303	11,546	+757	+6.6
TOTAL ASSETS	**1,530,801**	**1,454,639**	**+76,162**	**+5.2**

Equity and liabilities	31.12.2017	31.12.2016	Chg	% Chg
DUE TO BANKS	873,637	675,298	+198,339	+29.4
DUE TO CUSTOMERS	169,597	160,824	+8,774	+5.5
DEBT SECURITIES IN ISSUE	289,979	423,773	-133,794	-31.6
FINANCIAL LIABILITIES HELD FOR TRADING	312	187	+125	+66.8
TAX LIABILITIES	6,183	6,556	-373	-5.7
OTHER LIABILITIES	6,513	6,932	-419	-6.0
VALUATION RESERVES	4,840	4,485	+356	+7.9
CAPITAL AND RESERVES	176,572	176,325	+247	+0.1
NET INCOME FOR THE PERIOD	3,168	259	+2,908	+1,121.9
TOTAL EQUITY AND LIABILITIES	**1,530,801**	**1,454,639**	**+76,162**	**+5.2**

Each amount reported is rounded: any possible discrepancies are due to rounding.

RECLASSIFIED ABRIDGED INCOME STATEMENT[10]

(in thousands Euro)

Items	2017	2016	Chg	% Chg
NET INTEREST INCOME	**19,035**	**13,019**	**+6,016**	**+46.2**
Net fee and commission income	1,514	1,553	-39	-2.5
Dividends	244	218	+26	+12.0
Income from trading	3,738	2,741	+997	+36.4
NET INTEREST AND OTHER BANKING INCOME	**24,531**	**17,530**	**+7,000**	**+39.9**
OPERATING COSTS	(10,352)	(11,890)	+1,539	-12.9
Gross income from discontinued operations	1,856	-	+1,856	
GROSS OPERATING INCOME	**16,035**	**5,650**	**+10,395**	**+184.3**
NET IMPAIRMENT ADJUSTMENTS	(11,939)	(5,473)	-6,466	+118.2
PROFIT (LOSS) BEFORE INCOME TAXES	**4,095**	**167**	**+3,928**	**+2,350.8**
INCOME TAXES	(928)	92	-1,020	-1,106.7
NET INCOME FOR THE PERIOD	**3,168**	**259**	**+2,908**	**+1,121.9**

Each amount reported is rounded: any possible discrepancies are due to rounding.

COMPOSITION OF INTERIM RESULTS WITH RESPECT TO NET INTEREST AND OTHER BANKING INCOME

(data in %)	2017	2016
Net interest income / Net interest and other banking income	77.6	74.3
Gross operating income / Net interest and other banking income	65.4	32.2
Profit (loss) before income taxes / Net interest and other banking income	16.7	1.0
Net income for the period / Net interest and other banking income	12.9	1.5

10 The half-yearly results of the reclassified income statement are presented here to highlight the gross operating income by separating the components related to the business from those arising from impairment processes. This result was obtained by reclassifying profits/losses from the sale of loans from net interest and other banking income to "net impairment adjustments" of €30 thousand (profits) in 2017 and of €226 thousand (losses) in 2016 and the provisions for legal risks relating to disputes on loans from "operating costs" to "net impairment adjustments" of €802 thousand in 2017 and €110 thousand in 2016. Capital gains from the sale of assets of €6 thousand (€23 thousand in 2016) were also reclassified under operating costs. Finally, revenues from equity investments were reclassified as net impairment losses with a negative impact of €99 thousand (negative impact of €277 thousand in 2016) and as income from trading with a positive impact of €332 thousand.

INCOME STATEMENT DYNAMICS

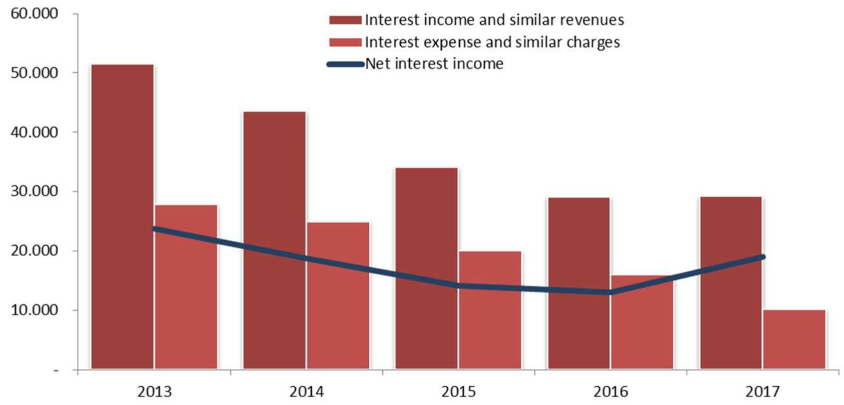
Net interest income

Breakdown of the net interest income (thousands of Euros)

Items	2017	2016	Chg	% Chg
INTEREST INCOME AND SIMILAR REVENUES	29,233	29,117	-116	+0.4
INTEREST EXPENSE AND SIMILAR CHARGES	(10,198)	(16,098)	+5,900	-36.7
NET INTEREST INCOME	**19,035**	**13,019**	**+6,016**	**+46.2**

As a whole, the money management spread (net interest income net of interest on arrears and doubtful loans) reached 1.24% from 0.98% recorded by the Bank in 2016; the improvement in margins is mainly related to the greater reduction in the cost of borrowing (0.67% vs 1.34%, -0.67%) compared to that of interest-bearing assets (2.01% vs 2.33%, -0.32%); this led to an increase in net interest income of approximately €6.0m (+46.2%), after the minimum recorded in the previous year; it should also be noted that net interest income was positively affected by the contribution of the TLTRO II operations for approximately €1.3m.

Trend in net interest income (thousands of Euro)



Net revenues from services and net interest and other banking income

Net commissions, amounting to €1.514m, fell by €39 thousand (-2.5%) following the reduction in corporate commissions, only partially offset by the reduction in Fee and commission expenses.

Net revenue from services (thousands of Euro)

Items	2017	2016	Chg	% Chg
FEE AND COMMISSION INCOME	**1,850**	**1,950**	**-100**	**-5.1**
- survey and investigation	833	812	+21	+2.6
- corporate finance	518	626	-108	-17.3
- expense refunds in relation to administrative deeds	87	89	-2	-2.1
- prepayment penalties	330	381	-51	-13.5
- others	81	41	+40	+97.7
FEE AND COMMISSION EXPENSE	**(336)**	**(397)**	**+61**	**-15.4**
NET COMMISSIONS	**1,514**	**1,553**	**-39**	**-2.5**

In 2017, dividends of €244 thousand (€218 thousand in 2016) were collected; securities portfolio management generated capital gains of €3.3m (compared to €1.1m in 2016), while the sale of equity securities generated capital gains of €332 thousand (€1.6m in 2016).
Net trading income, summary of changes in fair value and of the result of cap and warrant trading, amounted to €139 thousand.
The above-mentioned results, when added to net fees and commissions, bring net interest and other banking income to €24.531m, up by 40% (+€7.0m) with respect to the comparative data of the previous year.

Operating costs

Operating costs came to €10.352m, down by €1.539m compared to the same period of the previous year (€11.890m).
In particular, payroll costs increased (+€72 thousand): savings in terms of salaries (€86 thousand) were offset by the higher provision for monetisation of holidays and leave (€51 thousand) and the higher provision for productivity bonuses (€117 thousand).
On the other hand, other administrative costs decreased compared to the same period of the previous year (-€236 thousand): this result, which is the outcome of a review of current spending, is more significant in terms of advertising expenses (-€49 thousand), services (-€56 thousand), legal and professional services (-€54 thousand) and membership fees (-€136 thousand). IT costs increased (+€54 thousand).

Operating costs (thousands of Euros)

Items	31.12.2017	31.12.2016	Chg	% Chg
ADMINISTRATIVE COSTS:	(9,564)	(11,098)	+1,534	-13.8
a) payroll:	(6,903)	(6,823)	-80	+1.2
- employees costs	*(6,427)*	*(6,355)*	*-72*	*+1.1*
- directors and auditors costs	*(476)*	*(468)*	*-8*	*+1.7*
b) other administrative costs [11]	(2,215)	(2,451)	+236	-9.6
c) contribution to the banking crisis resolution fund [12]	(446)	(1,824)	+1,377	-75.5
NET ALLOCATIONS TO PROVISIONS FOR RISKS AND CHARGES	(54)	(54)	-0	+0.9
NET ADJUSTMENTS TO PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS	(601)	(680)	+79	-11.6
OTHER OPERATING CHARGES/INCOME	(132)	(58)	-74	+126.3
OPERATING COSTS	**(10,352)**	**(11,890)**	**+1,539**	**-12.9**

Net provisions for risks and charges relate to the personnel incentive scheme (€100 thousand), offset by write-backs of €46 thousand relating to the settlement of disputes.
Amortisation and depreciation for the period totalled €601 thousand, down by €79 thousand compared to December 2016. Taking into consideration other net expenses of €132 thousand, operating costs recorded a decrease of €1.539m, bringing the cost to income ratio to 42.2%, compared to 67.8% in 2016; net of the extraordinary component[13], the ratio increased from 41.9% to 60.1% in December 2016.

Efficiency indices

Items	2017	2016	Chg
Operating costs/Net interest and other banking income (%)	42.2	67.8	-25.6
Payroll/Net interest and other banking income (%)	28.1	38.9	-10.8
Average cost per employee (thousands of Euros)	80.7	78.1	+2.6
Net interest and other banking income/average number of employees (thousands of Euros)	307.9	215.4	+92.5
Positive total/average number of employees (thousands of Euros)	19,214.3	17,876.8	+1,337.4

Considering the capital gain from the sale of the building that was used as the Bolzano headquarters (€1.856m), the operating income came to €16.034m, up sharply (+€10.4m, +184.3%) compared with the result for the previous year.

11 Recoveries from customers for indirect expenses and taxes incurred by the Bank (+€621 thousand in 2017, +€595 thousand in 2016) were reclassified, as a direct adjustment of the same, from the item "Other operating charges/income" to the item "Administrative costs". The item "Gains/losses on disposal of investments" (+€6.0 thousand in 2017, +€23 thousand in 2016) was reclassified to the item "Net adjustments to property, plant and equipment and intangible assets".

12 The amount relating to the contribution to the banking crisis resolution fund was split off from the item "other administrative costs" for a better understanding of the trend in the same.

13 The extraordinary contribution to the bank crisis resolution fund (absent in 2017; €1.217m in 2016), early retirement incentives (€70 thousand in 2017 and €81 thousand in 2016) and the Consob contributions paid in 2016 but relating to previous years (€64 thousand) are considered extraordinary components, if any.

Value adjustments

The measurement of the financial statement assets is summarised in the table below:

The analytical valuation (for which the valuation of impaired loans was carried out by discounting the anticipated inflows) produced value adjustments of €15.397m and write-backs of €5.162m of which €575 thousand came from collections. The collective valuation process of the portfolio produced total net adjustments of €1.050m.

During the year, collections on doubtful loans were recorded, classified as loss-generating in previous periods for €106 thousand, while losses booked directly to the income statement came to approximately €113 thousand. The sale of doubtful and unlikely to pay loans generated net gains amounting to €30 thousand.

A value adjustment of around €18 thousand was recorded in relation to guarantees provided, while around €6 thousand was allocated to the interbank deposit protection fund for initiatives already resolved (item 130.d).

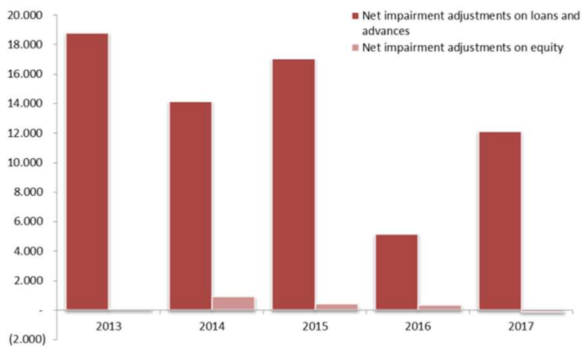
The impairment test on equities available for sale led to the recognition of losses considered permanent of €47 thousand, due to the write-down of the investee company Trevefin Spa, while the valuation of equity investments with the equity method generated net losses of €99 thousand (relating to Paradisidue Srl). A write-back of €295 thousand was also recorded for Fund MC2 Impresa. Net provisions of €802 thousand were made for legal disputes underway, the result of a provision of €859 thousand against a revocatory action and write-backs of €47 thousand due to judgements favourable to the Bank, which did not involve any disbursement.

The total net value adjustments on financial assets reached €11.939m, compared to €5.473m in the previous year.

Details for Item 130. Net impairment adjustments (thousands of Euro)

	2017			2016		
	Adjust.	Write-backs	Net effect	Adjust.	Write-backs	Net effect
LOANS AND ADVANCES	**16,561**	**5,268**	**(11,293)**	**13,344**	**8,070**	**(5,264)**
- analytical valuation	15,397	5,162	(10,235)	12,519	7,617	(4,902)
- portfolio valuation	1,050	-	(1,050)	-	99	99
- loan losses	114	-	(114)	765	-	(765)
- initial FV of loans granted at an interest rate lower than the market rate	-	-	-	50	-	(50)
- collection from transactions concluded in prior periods	-	106	106	-	316	316
PROVISIONS FOR LEGAL DISPUTES	**859**	**58**	**(802)**	**117**	**7**	**(110)**
ASSETS AVAILABLE FOR SALE	**47**	**295**	**248**	**53**	**-**	**(53)**
- valuation of equity securities	47	295	248	53	-	(53)
OTHER TRANSACTIONS	**24**	**-**	**(24)**	**3**	**9**	**6**
- valuation of endorsement loans	18	-	(18)	-	9	9
- allocations for initiatives resolved FITD	6	-	(6)	3	-	(3)
NET GAINS (LOSSES) ON DISPOSAL OF LOANS	**387**	**417**	**30**	**487**	**713**	**226**
NET PROFIT (LOSS) FROM EQUITY INVESTMENTS	**99**	**-**	**(99)**	**277**	**-**	**(277)**
TOTALS	**17,977**	**6,037**	**(11,939)**	**14,272**	**8,799**	**(5,473)**

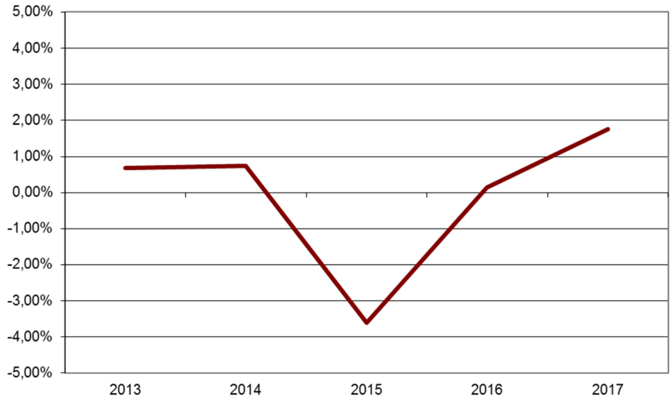
Trend in adjustments to loans and advances (thousands of Euro)



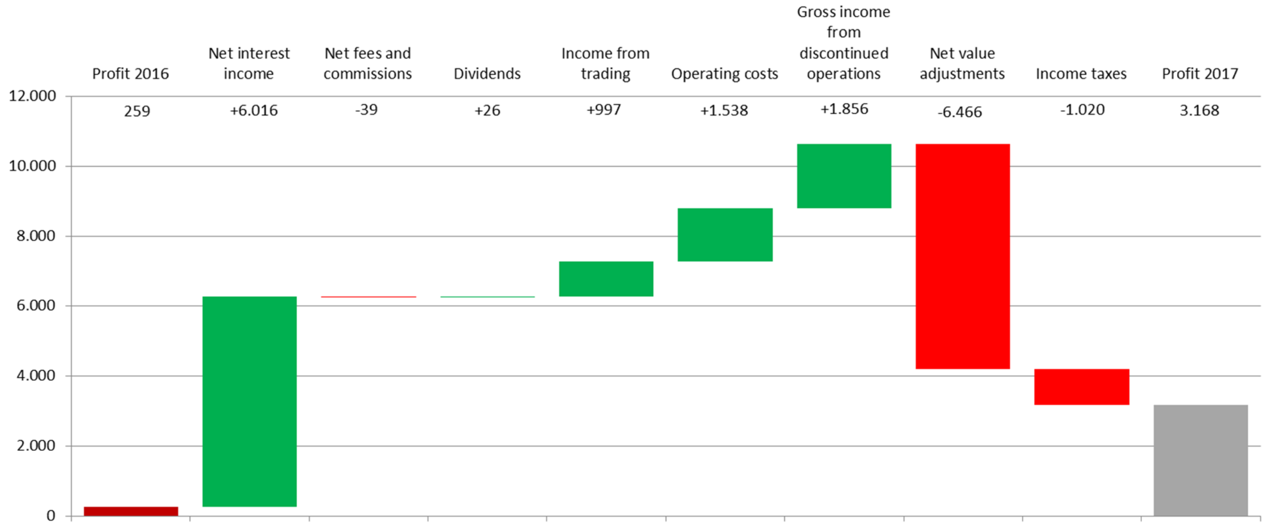
Profit (loss) for the year

The profit on current operations before taxes was €4.095 thousand, marking a return to profit after the substantial break-even of last year (+€167 thousand) and the loss of 2015 (€10.182m). The net profit for the period was €3.168m, after the calculation of the tax burden of €928 thousand[14].

Trend for ROE



Comparison of net profit 2017 and 2016



14 During the calculation of the 2017 tax burden, it was decided to maintain the recognition of deferred tax assets on the tax loss for the 2015 financial year (residual amount of €1.240m) in that the tax profit for the 2018-2020 financial years is expected to allow said credit to be recovered. To support the recognition of deferred tax assets on the tax loss, the Bank updated the so-called "Probability Test" prepared in 2015, based on the assumptions contained in the Business Plan, hence verifying, with reasonable certainty, the presence of taxable income able to allow their re-absorption.

EQUITY AND THE STATE OF AFFAIRS OF THE COMPANY

Equity

Reserves increased by €247 thousand due to the allocation of the profit for 2016, and valuation reserves increased by €356 thousand due to the adjustment of the fair value of assets available for sale and the defined benefit plans (actuarial gains/losses).
As shown in the table below, after taking into account the net income for the period, equity amounted to €184.580m, up by €3.511m.

(in thousands Euro)

	Items	Dec 2017	Dec 2016	Chg
130.	Valuation reserves	4,840	4,485	+356
160.	Reserves	88,246	87,999	+247
170.	Additional paid-in capital	29,841	29,841	-
180.	Share capital	58,485	58,485	-
200.	Income for the period	3,168	259	+2,908
	Total equity	**184,580**	**181,069**	**+3,511**

Own funds requirements

Own funds as well as the capital ratios were calculated on the data taken from the financial statements prepared in application of the international accounting standards IAS/IFRS and the regulatory framework.
With the acknowledgement in Italy of Directive 2013/36/EU (CRD) and in compliance with the provisions of the EBA with the Guidelines on common SREP, the Bank of Italy – in conclusion of the regular supervisory review process (SREP) – revised the bank's capital ratios, requesting additional capital with respect to the minimum regulatory requirements. In particular, starting from 31 March 2017, the bank is required to constantly meet the following capital requirements:

- CET1 ratio of 6.15% (expected 6.85%)[15], including capital conservation buffer of 1.25%[16]. This ratio is binding at 4.90% (minimum of 4.50% and 0.40% of additional SREP requirements);
- Tier 1 ratio of 7.80% (expected 8.70%), including capital conservation buffer of 1.25%. This ratio is binding at 6.55% (minimum of 6.00% and 0.55% of additional SREP requirements);
- Total Capital ratio of 10.00% (expected 11.20%), including capital conservation buffer of 1.25%. This ratio is binding at 8.75% (minimum of 8.00% and 0.75% of additional SREP requirements).

(in thousands Euro)

Items	Dec 2017	Dec 2016
Common Equity Tier 1 (CET1)	180,198	179,511
Additional Tier 1 (AT1)	-	-
Total Tier 1 capital	**180,198**	**179,511**
Tier 2 capital (T2)	106	74
Own funds	**180,304**	**179,584**
CET1 ratio	18.50	17.64
T1 ratio	18.50	17.64
Total capital ratio	18.51	17.65

15 In order to ensure that binding measures are complied with even in the event of a worsening of the economic and financial scenario, the Bank of Italy has also identified capital levels that it expects to be maintained on an ongoing basis.

16 With the 18th update of Circular no. 285/2013, the Bank of Italy revised its decision, made when implementing directive (EU) No. 36/2013 (CRD IV), to anticipate the full application (2.50%) of the Capital Conservation Buffer, in order to adopt the transitional regime envisaged by the CRD IV that envisaged the gradual introduction of the requirement. As a result of this regulatory change, the banks will be required to apply a minimum ratio of capital conservation buffer of:

- 1.25% from 1 January 2017 to 31 December 2017;
- 1.875% from 1 January 2018 to 31 December 2018;
- 2.5% as from 1 January 2019.

Own funds amounted to €180.3m; net of the minimum regulatory requirements, their residual value was as follows:

- €132.5m with respect to the 4.9% threshold set for CET1, reduced to €120.3m to take into account the additional conservation buffer;
- €104.2m with respect to the 7.8% threshold set for total tier 1 capital and
- €82.9m with respect to the 10.0% threshold set for own funds

which are considered adequate to ensure the development of the business activity and future compliance of the minimum equity requirements established by Basel III.

In a letter dated 7 March 2018, the Bank of Italy - at the end of the last supervisory review process (SREP) - revised the Bank's capital requirements that, starting from the date of the final measure imposing the additional requirements[17], must comply with the following limits:

- CET1 ratio of 6.755%[16], including capital conservation buffer of 1.875%. This ratio is binding at 4.88% (minimum of 4.50% and 0.38% of additional SREP requirements);
- Tier 1 ratio of 8.385%, including capital conservation buffer of 1.875%. This ratio is binding at 6.51% (minimum of 6.00% and 0.51% of additional SREP requirements);
- Total Capital ratio of 10.565%, including capital conservation buffer of 1.875%. This ratio is binding at 8.69% (minimum of 8.00% and 0.69% of additional SREP requirements).

With respect to these requirements, which are lower - net of the increase envisaged for the capital conservation buffer[16] – than the binding requirements as at 31 December 2017, the residual values would reach €132.6m for CET1, €98.5m for Tier 1 capital and €77.4m for total own funds.

Trend in own funds

	2017	2016
Opening tier 1 capital	**179,511**	**180,420**
Share capital increase (+)	-	-
Share capital reduction (-)	-	-
Non-distributed income (+)	+247	-
Change in Bank's creditworthiness (-)	-	+15
Change in overall profitability:	+466	(271)
Assets available for sale	+466	(297)
Defined benefit plans	+0	+26
Other	-	-
Changes in goodwill and other intangible assets	+34	+18
Changes in deferred tax assets that depend on future profitability and do not derive from temporary differences	+318	-1,558
Changes in the impact of the transitional regime	-350	-3,155
Losses in the current year		-4,075
Unrealised losses measured at fair value	-90	+90
Unrealised gains measured at fair value	+115	+207
Deduction of deferred tax assets that depend on future profitability and do not derive from temporary differences	-375	+623
Deferred tax assets that depend on future profitability and derive from temporary differences in existence as at 1 January 2014	-	-
Variation in surplus elements to be deducted from additional tier 1 capital with respect to additional tier 1 capital	-	+4,075
Other changes	-28	-32
Changes in additional tier 1 capital (AT1)	-	-
Losses in the current year	-	+4,075
Variation in surplus elements to be deducted from additional tier 1 capital with respect to additional tier 1 capital	-	(4,075)
Closing tier 1 capital	**180,198**	**179,511**

17 Pursuant to the Bank of Italy Regulation of 25 June 2008, the proceedings will be concluded within 90 days from the date of commencement, except in the event of suspension or interruption of the terms provided for by current regulations. The Bank may submit briefs and documents by the middle of that period.

Opening tier 2 capital	**74**	**267**
Share capital increases that cannot be included in tier 1 capital (+)	-	-
Share capital decreases that cannot be included in tier 1 capital (-)	-	-
Changes in the impact of transitional regime:	+32	(193)
Filters and deductions provided for by national regulations in accordance with Basel II (so-called prudential filters)	+32	(193)
Depreciation changes	-	-
Other changes	-	-
Closing tier 2 capital	**106**	**74**
Own funds	**180,304**	**179,584**

Rating

The ratings given to the Bank as at 31 December 2017 remained unchanged compared to the situation as at 31 December 2016.

Moody's Investor Service

Outlook	Stable
Bank Deposits	Baa3 / P-3
Senior Unsecured – Dom Curr (Issuer Rating)	Ba1

THE SYSTEM OF INTERNAL CONTROLS, COMPLIANCE WITH LAWS AND REGULATIONS AND RISK MANAGEMENT

Given its size and business model, the Bank operates in a moderate risk context that remained substantially stable also during 2017. In spite of this, it attaches great importance to risk management and control to ensure reliable and sustainable value creation in a context of controlled risk, protecting its financial soundness and reputation.
The departments involved in risk management and internal controls i.e. Internal Auditing, Compliance and Risk Management, regularly discuss the issues with the General Management and with the Manager responsible for preparing the company´s financial reports directly and through several committee meetings, which have been entrusted with the task of monitoring the different risk profiles and the correct functioning of the control system. These committees include the ALCO Committee, for financial risks, the Credit Risk Management Committee, the Investment Committee for the management and evaluation of venture capital investments as well as the Control Committee that is entrusted with the supervision of the overall system of control and risk management.
For more in-depth information relating to tasks, missions and characteristics of the departments and committees involved, please see the relevant sections in Part E - Notes to Accounts.

AUDITING ACTIVITY

Internal Auditing responsibility is entrusted to the Auditing function that constantly monitors company processes and activities to ensure that they comply with regulations and assess the effectiveness of the overall system of internal controls.
As every year during 2017, the Internal Control System has been monitored by the Internal Auditing Service that, in the reports prepared at the end of the various checks carried out in the course of the year, has always given a focus to such an important aspect. During 2017, Internal Auditing Service activities were also focused on controlling the correct functioning of I and II controls within the Bank. Shortcomings, where encountered and in particular when considered significant, have always been promptly referred to the relevant Operational Unit indicating possible solutions to be adopted, aimed at improving the complex system of internal controls. The Internal Auditing Service monitors that requested changes are implemented in the course of its follow-up activity and monitors the successful implementation of the actions requested by highlighting the results in reports.
A Service Agreement is in effect between the internal auditing function and the compliance function of the Bank in order to avoid duplication in their monitoring responsibilities and obtain better efficiency in the control process. To this end, an IT tool (CSD/SIC platform) is in place, which includes specific functionalities dedicated to the control system and, in 2017, work continued on the review and continuous updating of 1st level controls and their simultaneous replication on the mentioned platform.

Moreover, the Internal Auditing Service reports on a regular basis to the Board of Directors, the Board of Statutory Auditors, the Control Committee and the General Management on the annual and multiannual work programme in advance and with regard to the final results of all the activities carried out, highlighting structural critical points, the most suitable improvements and providing an overall assessment of the internal control system.

COMPLIANCE ACTIVITY

The management of non-compliance risk is assigned to the Compliance and Risk Management Department whose activities consist of identifying and assessing non-compliance risks, proposing organisational changes to mitigate them, providing support and advice to senior management and business units on all matters on which non-compliance risk is significant, monitoring (together with the Internal Auditing Service) to ensure that compliance continues and promoting a business culture characterised by an observance for integrity and law.
The work method adopted was based on a "risk-based" approach – giving priority and structuring compliance activities in relation to the level of exposure to risk – and involved the use of documentary sources and extensive interaction with internal and external stakeholders who, in various capacities, contribute to the management of non-compliance risk.

In 2017 – in addition to the traditional activities of controlling the risk of non-compliance and verification and updating of the internal control system - the compliance function concentrated on:
- compliance with European Directive no. 2015/849/EU (known as "IV Anti-Money Laundering Directive");
- compliance with European Directive no. 2014/65/EU (known as "MiFID Directive") and European Regulation no. 600/2014 (known as "MiFIR Regulation");
- analysis and evaluation of European Directive no. 2014/59/EU ("Bank Recovery and Resolution Directive" - BRRD) and of the relative decrees transposing it into national law (Legislative Decree no. 180 of 16 November 2015 and Legislative Decree no. 181 of 16 November 2015);
- analysis and evaluation of the "Guidance on the management of non-performing loans for Italy's Less significant institutions" (NPL);
- analysis and evaluation of European Directive no. 2016/680/EU and European Regulation no. 2016/679 on the protection of natural persons with regard to the processing of personal data by competent authorities for the purposes of prevention, investigation, detection or prosecution of criminal offences or the execution of criminal penalties, and on the free movement of such data (privacy).

RISK MANAGEMENT ACTIVITY

The management and monitoring of the overall risks for the Bank is entrusted to the "Risk Management" function that, in the organisational chart, reports directly to the Board of Directors - responsible for the overall monitoring of the risk management and control system – with a reporting line into the General Management. The "Risk Management" function attends the board committees in charge of assessing and managing risks and, in particular, is part of the Credit Risk Management Committee and the ALCO Committee for financial risks, and the Control Committee, of which it is the secretary.
The Bank's system of internal controls is based on a model that ensures the organisational separation of the control functions from the business, guaranteeing its independence.
The "Risk Management" function aims to identify, assess and monitor the overall risk of the Bank through the integrated coordination of the various risk profiles (credit, financial, etc.), by offering support to the General Management and the Board of Directors in defining the decisions regarding sustainability and risk tolerance, the policies for the assumption, governance and significant risks for the Bank, in application of the regulatory framework set forth by the Supervisory Authorities.

In 2017, the main areas of intervention of the "Risk Management" function concerned:
- activities in terms of contribution to the definition and implementation of the Risk Appetite Framework (RAF) and Statement (RAS), and the associated risk governance policies and monitoring and control of these risks and subsequent management reporting;
- risk measurement, assessment and control system correlated to the obligations and compliance with the Internal Capital Adequacy Assessment Process (ICAAP), and the quarterly monitoring of the Bank's significant risks;
- for credit risk, the activities relating to the performance monitoring of credit exposures, assessment of the consistency of classifications and the adequacy of provisions for impaired exposures;
- preventive analysis of new regulations/policies and related organisational procedures, as well as their updates in accordance with internal regulations;
- monitoring the risks on public investment services.

COMPLIANCE WITH REGULATIONS

International accounting standard IFRS 9

In 2017, the bank set up a special working group that, in synergy with software suppliers, developed the methods and procedures for applying the new international accounting standard IFRS 9, which came into force on 1 January 2018 to replace IAS 39: the standard introduced important changes with respect to the classification and measurement of financial assets, introducing the Expected Loss approach for impairment testing.
For further details, see Section 17 of Part A.2 of the Notes to the Financial Statements.

IV Anti-Money Laundering Directive (Legislative Decree 90/2017)

With the publication on the Official Gazette, Legislative Decree no. 90 of 25 May 2017, implementing the so-called "IV Anti-Money Laundering Directive" (Directive 2015/849/EU), amending Legislative Decree

231/2007, "the national standard" on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing entered into force.
The Decree in question fully amended Legislative Decree no. 231/2007 also with regard to those standards not directly affected by the decree transposing the European regulations.
In view of the changed regulatory environment, the parties required to comply - including the banks - put in place a series of adjustments to fully implement the new provisions, taking into account the different timing required by the same legislative decree.
In fact, Article 9, paragraph 1, envisages that *"The provisions issued by sector supervisory authorities, pursuant to regulations repealed or replaced due to this decree, continue to apply until 31 March 2018"*. This provision allows the continuation of the validity - and consequently the applicability - of the following implementing measures concerning customer due diligence obligations and registration (A.U.I.) until 31 March 2018 pending the new implementing measures:

- Bank of Italy Measure of 3 April 2013 on customer due diligence;
- Bank of Italy Measure of 3 April 2013 on the keeping of the Archivio Unico Informatico (A.U.I.) (Centralised Computer Archive);
- FIU measure of 23 December 2013 on Aggregate Anti-Money Laundering Reporting (S.AR.A. aggregated data);
- Bank of Italy Measure of 10 March 2011 on organisation, procedures and controls;
- FIU measure of 10 March 2014 laying down the Instructions for the communication of return operations pursuant to Article 23, paragraph 1-bis, of Legislative Decree No. 231 of 2007.

In connection with this composite regulatory environment, Mediocredito launched an adaptation project aimed at introducing new regulations within its system for managing and monitoring the risk of money laundering, by strengthening - where necessary - the specific envisaged controls. The interventions carried out during 2017 concern the following areas:

- management of occasional relations/transactions with "Politically Exposed Persons - PEPs", on the basis of the new and more extensive wording of the new introduction;
- use of the new definitions and the resulting personal data necessary for the purposes of customer due diligence ("residence", "domicile", etc.);
- use of the new principles to identify the beneficial owner;
- introduction of new restrictions on the use of cash and bearer securities;
- management of occasional relations/transactions with subjects residing in "high risk third countries", as part of the enhanced due diligence.

At the date of preparation of this report, the adaptation project is still open pending the issue of second level regulatory provisions by the competent authorities.

MiFID 2 (Directive 2014/65/EU) and MiFIR (Regulation 600/2014/EU)

The new regulation introduced by the so-called "MiFID 2 Directive", in pursuing the same aims as Directive 2004/39/EU (known as "MiFID 1"), consisting in creating a single market for financial services in Europe capable of ensuring transparency and investor protection, essentially confirms the basic choices made in 2004, envisaging provisions that impose on investment service providers precise obligations to provide information to their customers, laying down rules on potential conflicts of interest between the parties and requiring adequate profiling of the saver.
However, in this framework of substantial continuity, MiFID 2 strengthens the protection units for investors, in particular, through the provision of measures of product governance and product intervention powers, as well as through the introduction of independent advice and the reduction of the scope of execution only.
To this end, the Bank was involved in the project to adapt to this Directive with:

- the adoption of new policies aimed at regulating the processes and controls adopted to comply with the regulatory requirements introduced ex-novo by the Directive and not reflected in the previous regulations:
    - Policy on transaction reporting and post-trade transparency;
    - Product Governance Policy;
- the updating of existing policies governing regulatory areas not introduced ex-novo by the Directive, but updated with the introduction of additional controls and rules with respect to those provided for by the previous regulations:
    - Policy for assessing adequacy and appropriateness;
    - Policy for the identification and management of incentives and investment research;
    - Policy for the management of customer orders;

  - o Policy for identifying, preventing and managing conflicts of interest;
  - o Complaint handling policy;
- updating or introducing pre-contractual and contractual documents necessary to regulate the provision of investment services to customers.

Basel III (Bank of Italy Circular no. 285/2013)

Regulation (EU) No. 575/2013 ("CRR"), which introduces the rules defined by the Basil Committee on banking supervision regarding capital adequacy (First Pillar) and public disclosure (Third Pillar) (so-called Basel III) applies since 1 January 2014. The CRR is integrated by Directive 2013/36/EU ("CRD IV"), the Regulatory Technical Standards (RTS) and the Implementing Technical Standards (ITS).
With regard to liquidity risk, in compliance with the EBA guidelines, the internal liquidity adequacy assessment process (ILAAP) was carried out and the related report produced. Further details are provided in the relevant section of Part E of the Notes to the Financial Statements.

First Pillar

Regarding the first pillar, the Bank continued to adopt a simplified version of the Standardised Approach. Such methodology foresees sub-divisions in "portfolios" regarding the exposure of the bank and the application of a specific weighting factor to each portfolio.
The Bank has continued to perfect measures of Credit Risk Mitigation (CRM) in relation to the "exposures secured by property" portfolio. The related monitoring activity also continued in 2017.
The structure comprises organisational controls - activities aimed at identifying and implementing the process stages, and procedural/operational controls. These consist of ways to activate an automated system for appraising the value of real estate (a service offered by an external provider), which is used in conjunction with real estate estimates carried out by the Technical Office of the Bank (an organisational unit which is autonomous and independent from the main business).

Second Pillar

In 2017, the Bank continued the in-depth analysis by the Risk Management function for the whole Internal Capital Adequacy Assessment Process (ICAAP). As in previous years, it carried out this activity by reiterating the process at quarterly intervals to check and possibly improve the overall structure of the process, test the methodologies used to quantify measurable risks and to assess the results of the process both in terms of overall capital absorption and in terms of individual risk. This was done to verify that capital resources are able to cover the unexpected losses deriving from risks for which minimum capital requirements needs have not been established. The basic purpose of ICAAP is to determine Total Capital and check its capacity (in current terms - also introducing stress hypotheses - as well as prospective terms) to cover all relevant risks to which the Bank is exposed.
Out of these activities, the following conclusions have been made:

- confirmation of the procedure for the ICAAP Process and relative regulations both in terms of sphere of competence assigned to bodies and corporate functions, and of operational stages and information flow in relation to the size and nature of Bank activities;
- the consistency between ICAAP and RAF;
- confirmation of current and future capital adequacy.

Third Pillar

During 2017, the Public Disclosure as at 31 December 2016 was prepared and published.
The choices made by the Bank to comply with the disclosure requirements were approved by its supervisory body, which also performs the task - with the participation of the General Management - of adopting the necessary measures to comply with the requirements. Finally, the Board of Statutory Auditors – as body with control function - verifies the adequacy of the procedures adopted.
In particular, the disclosure presents, among other things, the composition of Own Funds with an indication of the capital requirements (including additional capital with respect to the minimum regulatory requirements) that Mediocredito is required to apply following the conclusion of the regular supervisory review process (SREP) by the Supervisory Authority;
Also note that the other mandatory relevant information required by art. 432 of the CRR, namely:

- information pursuant to letter c), paragraph 2 of art. 435 of the CRR in relation to the corporate governance provisions contained in the "Report on corporate governance and ownership structures";

- information pursuant to art. 450 of the CRR regarding the implementation of the "General remuneration and incentive policies”;

is published on the Bank’s website.

European "BRRD" Directive on Recovery plans (“Bank Recovery and Resolution Directive” 2014/59/EU)

Following the final entry into force of Legislative Decrees (Legislative Decree no. 180 and Legislative Decree no. 181) implementing Directive 2014/59/EU, in 2017, the bank adopted and submitted to the Bank of Italy's assessment of completeness and adequacy the recovery plan, which provides for the adoption of appropriate measures to address a significant deterioration in a bank's financial position in order to avoid the most drastic crisis resolution tools. In this context, the Internal Control Functions assessed the regulatory compliance and the consistency with the strategies and framework of reference for risk, deeming it compliant and adequate with the expected characteristics envisaged by the regulations.

Guidance on the management of non-performing loans for Italy’s Less significant institutions (NPL)

The Bank of Italy submitted for public consultation the document called "Guidance on the management of non-performing loans for Italy’s Less significant institutions".
This document, which is consistent with the "Guidance to banks on non performing loans" addressed to "Significant" banks, is intended to promote more active management of impaired loans by banks and represents Supervisory expectations on the management of NPLs.
In its presentation, the Bank of Italy also specified that:

- the Supervisory Function will start a discussion with intermediaries on the application of the Guidelines;
- the banks concerned (LSI) must assess the substantial compliance of their structure with the recommendations and, where necessary, adopt appropriate measures to implement them, pointing out that any deviations must be justified at the request of the Bank of Italy.

In order to comply with the requirements of the new Guidelines, Mediocredito defined a specific internal adjustment project to be completed by the end of the first half of 2018 and structured as follows:

- preparation of a self-assessment on how the NPLs are managed;
- definition of specific policies for the management of NPLs;
- definition of specific policies for the valuation of properties used as collateral for exposures (including those relating to doubtful positions);
- revision of the "Regulation of Information Flows";
- revision of the "Regulation for the incentive system" for the structures involved in the management of NPLs;
- preparation of short-term (1 year) and medium/long-term (3/5 years) operating plans.

European Directive on data protection and movement (Directive 2016/680/EU)

The changed social and economic context, characterised by a strong technological development and dissemination of on-line services, has drawn the attention of the European legislator to an ever greater attention in the management/movement, also across borders, of the personal data of citizens.
For these purposes and with the aim of increasing the security standards for European citizens regarding the processing and circulation of personal data, the so-called "Data Protection Package" was issued, consisting of two separate regulatory deeds:

- Regulation 2016/679/EU on the protection of personal data, approved by the European Parliament on 16 April 2016, published in the OJEU of 4 May 2016. The Regulation, which came into force on 24 May 2016, will be fully applied from 25 May 2018;
- Directive 2016/680/EU on the processing of personal data for the purposes of the prevention, investigation, detection or prosecution of criminal offences, approved by the European Parliament and the Council on 27 April 2016.

In addition to these documents, the new regulatory framework also refers to the Guidelines issued by the European Group of Guarantors for the application of the "Data Protection Package". Specifically, the Guidelines cover the following areas:

- Data Protection Officer – DPO;
- right to data portability;

- criteria for the identification of the lead supervisory authority to act as a national one-stop shop.

The new regulation on privacy will enter into force definitively on 25 May 2018; for this reason, starting in 2017, the Bank envisaged a special two-stage regulatory adjustment project:

- definition of the gap analysis between the Bank's current self-regulatory and operational framework and the standards required by the new regulations;
- adoption and implementation - as part of the company's productivity tools - of the new operating procedures compliant with the "Data Protection Package".

The Bank also constantly monitors the application of the following regulations previously in force:

- Circular no. 285 of 17 December 2013 - 1st Update – First Part, Title IV, Chapter 1 "Corporate governance": the updated version of the Corporate Governance Project is published on the Bank's website (www.mediocredito.it),
- Public system for preventing, from an administrative point of view, fraud in the consumer credit sector, with specific reference to identity theft (Legislative Decree no. 141 of 13 August 2010) – A specific agreement is in place with the managing body (CONSAP) for membership of the system in question;
- Database of Relations (Presidential Decree 605/1973): the submission to the Inland Revenue of the reports as at 31 December 2016 was carried out on 15 February 2017, as prescribed in the regulations in force;
- Foreign Account Tax Compliance Act (FATCA);
- Tax identification of holders of financial accounts (CRS – Law 95/2015 – Directive 2014/107/EU)
- Legality rating (Ministerial Decree no. 57 of 20 February 2014);
- Internal regulations on the Companies' administrative responsibility under Legislative Decree no. 231/2001 supervised by the Supervisory Body assigned to the Board of Statutory Auditors;
- Measure dated 15 July 2015 of the Bank of Italy: Provisions regarding "Transparency of operations and banking and financial services; regularity of the relationships between intermediaries and customers";
- Usury regulations (Law no. 108 of 7 March 1996);
- Measure containing implementing provisions with respect to customer due diligence (art. 7, paragraph 2, of Legislative Decree no. 231 of 21 November 2007);
- Regulations on the Mortgage Credit Directive (2014/17/EU and Legislative Decree 72/2016) on consumer credit agreements relating to residential real estate;
- Compound interests (Legislative Decree 385/93 - Consolidated Banking Act, art. 120 par. 2) on the procedures and criteria for the production of interests in transactions put in place in the course of banking activities;
- Investment services and EMIR Regulation (Regulation (EU) no. 648/2012);
- Regulation governing transparency of financial information (Legislative Decree no. 195/2007 and articles 154-bis and 154-ter of the Consolidated Finance Act) - the Bank, issue of securities listed on regulated European markets, maintained Italy as a member State of origin.
- Risk assets and conflicts of interest in respect of related parties (Bank of Italy Circular no. 263/2006, 9th update): the OPC Committee, appropriately established to express the relevant preventive opinions, expressed 3 non-negative opinions.
- Bank of Italy Circular 285/2013 – Title IV Chapter 4 "The information system": the bank's policy is to define an annual operating plan of the IT initiatives, which sets out the contents of the strategic plan in clear and practical actions; the Plan is approved by the Board of Directors on an annual basis as part of the RAF;
- Bank of Italy Circular 285/2013 – Title IV Chapter 5 "The operational continuity": the Board of Directors examines on an annual basis the management of operational continuity in the event of an emergency and updates the related plan;
- Safety regulation (Legislative Decree no. 81/2008) – in 2015, an assignment was conferred relating to the PPSM and the "employer" function was outsourced in accordance with art. 16 of Legislative Decree no. 81/2008.
- Internal system for reporting violations - Whistle-blowing (Legislative Decree 385/93 - Consolidated Banking Act, articles 52-bis and 52-ter) set up on an independent and autonomous digital platform and such as to guarantee the confidentiality of the whistle-blower and of the alleged person responsible for the violation.

REPORT ON CORPORATE GOVERNANCE AND OWNERSHIP STRUCTURES

(Legislative Decree 58/1998, Article 123-bis and "Supervisory Provisions Concerning Banks' Organisation and Corporate Governance" issued by the Bank of Italy on 4 March 2008)

Article 123-bis of the Consolidated Finance Act specifies that the report on operations of companies issuing securities, admitted to trading on a regulated market, contains a specific section on corporate governance and ownership structures. Paragraph 5 of the same article allows companies not issuing shares that are admitted to trading on a regulated market or in multilateral trading systems, to omit the publication of information regarding paragraphs 1 and 2, excepting those of paragraph 2, letter b). Mediocredito Trentino – Alto Adige S.p.A. falls within the bounds of paragraph 5 and, therefore, provides, in line with the Bank's size and operational and organisational characteristics, the information required as per paragraph 2, letter b), regarding the main characteristics of the risk management and internal control systems in relation to the financial disclosure process. We want to stress that the Bank has a specific process in place for corporate governance whose review has implemented the new regulations introduced by the Bank of Italy Circular no. 285/2013 and, as far as the Bank is concerned, mainly refers to the criteria for the composition and self-assessment of the Administrative Board.
In more details, the project for corporate governance is based on the necessary statutory provisions and regulations and the drawing up of a "Corporate Governance Project" document, which is inspired by the traditional model of governance in function of reduced complexity and costs and organisational impacts related to it. In this "project" are established the rights of the shareholders, the proprietary structure, the statutory and internal regulations pertaining to the Board of Directors and the Board of Statutory Auditors, the System of Internal Controls and Risk Management, remuneration and compliance policies, the role of the manager responsible for preparing the company's financial reports and the organisational model as for Legislative Decree 231/2001.
The Bank has also enforced a limitation on the delegation system in order to encourage maximum involvement of the Board of Directors (Institution of strategic supervision) in the operational management of the Bank.

a) "Corporate Governance Plan": information on the ownership structures.

INFORMATION ON OWNERSHIP STRUCTURES Pursuant to Article 123 bis of the Consolidated Finance Act		
1.	Share capital structure	Ordinary shares
2.	Restrictions on the transfer of securities	No
3.	Major shareholdings	Yes
4.	Securities giving special rights	No
5.	Employee equity participation: mechanism for exercising voting rights	No
6.	Restrictions on voting rights	No
7.	Shareholder agreements	Yes
8.	Appointment and replacement of the Directors and statutory amendments	Yes
9.	Delegations of powers to increase share capital and authorisations of share buyback	No
10.	Change-of-control clauses	No
11.	Indemnities for Directors in the case of resignation, dismissal or cessation of relations	No

b) Update and review of the internal regulations and the internal control and risk management system also with respect to the financial reporting process (paragraph 2, letter b of Article 123-bis of Legislative Decree 58/1998)

With respect to the provisions of paragraph 2, letter b) of Article 123-bis of Legislative Decree 58/1998 (Consolidated Finance Act), in which the Bank is required to document information regarding the main characteristics of existing risk management and internal control systems used in relation to the financial reporting process, the following is detailed.
The risk management and internal control system used in relation to the financial reporting process refers to administrative and accounting procedures (and to relative controls), which feed into/relate to the financial statements and fall under the competence of the manager in charge. The role of the manager in charge, jointly with the definition of the respective tasks, powers and means, is governed by the internal regulations of the Bank that has inserted this body in the wider system of internal controls in which other units of control and management operate in synergy, such as the Board of Statutory Auditors, the Internal Audit department, the Control Committee, the Credit Risk Management Committee, the ALCO Committee, the Investment Committee as well as the Compliance and Risk Management Functions.
In keeping with its own size and operational features, the Bank prepares and applies traditional administrative and accounting procedures that are deemed adequate for allowing the monitoring and mitigation of accounting risks, i.e. risks linked to specific events and transactions that could generate a mistake in accounting data from which accounting reports and financial statements originate. The integrated system of control functions (within which a significant portion of qualified and professionally trained personnel operates) and the presence of regulations and operating procedures provide an adequate safeguard for reaching the objectives of reliability and compliance of the financial disclosures.
In particular, the system in question is affected by a simple organisational Bank structure characterised by limited size and by territorial and economic sector concentration of the business: the organisational structure, in fact, makes provision for a substantial concentration of middle and back office activity in the administrative area in which the monitoring and accounting control function operates, under the direction of the appointed manager. For key and non-key processes, this means a series of accounting and quality checks (adequately documented), arranging a sequence of functions (mostly automated) for the survey of accounting anomalies that are monitored on a daily basis and corrected in close partnership with the Planning and Control function, which operates with the respective systems for checking and viewing information. The monitoring function therefore prepares the appropriate documentation in support of the accounts and accounting entries at the time of preparation of the financial statements and report on operations, verifying that the information deriving from the other areas of the bank (business and legal) are appropriately validated by authorised managers. The same functions routinely carry out control and validation activities on an ongoing basis, mostly on the key processes of disbursement, re-payment and credit valuation within the finance department (liquidity, funding and derivatives). The activities of monitoring and control are shared by the manager in charge with the departments of Internal Auditing and Compliance, Risk Management along with the Board of Statutory Auditors. Finally, the General Management carries out the function of organisational intervention, arranging new control points or operational/functional strengthening where shortcomings are highlighted as part of the risk monitoring process. The formalisation and circulation of information relating to the controls carried out and to any shortcomings noticed is mostly concentrated (for reasons of operative efficiency in a small sized bank) in the Internal Auditing function.
Following the organisational and statutory adjustments linked to the appointment of the Manager in charge, in application of the Savings Law (Law no. 262/05), the Bank refers to the models generally recognised and accepted at international level (CoSO Framework and CObiT) for the design and ongoing review of the procedural and control structure.
With regards to assessing the adequacy of the IT system, the Bank has outsourced the IT Audit service to Federazione Trentina delle Cooperative that has adequate resources specialised in the area and ensures compliance of its analysis and assessment methods with the CObiT standard issued by the international Information Systems Audit and Control Association (ISACA).

EXPECTED BUSINESS TREND AND R&D ACTIVITIES

The bank's operations and operating performance in 2018 will hopefully benefit from the marked improvement in the general economic environment, which also sees Italy embarking on a path of more sustained growth. However, financial markets are and will continue to be affected by spreads diversified by country risk that, as far as the domestic situation is concerned, are likely to be even higher than those of the main European partners. This - together with the average rating level of the Italian banking system - will undoubtedly make access to the international funding market as well as to the bond market unattractive. As far as Mediocredito is concerned, the relationship and support of the Casse Rurali e Raiffeisen system must remain virtuously active.
On the other hand, the continuation of the massive monetary stimulus and Quantitative Easing measures implemented by the European monetary authorities, which makes it possible to support the real economy, inevitably prolongs, at least for the whole of 2018, the squeezing of market rates and the consequent downward pressure on the margins of the banking industry, which is still heavily involved in managing and disposing of the large stock of impaired loans.
The financial markets themselves are and will still be characterised by uncertainty - also linked to possible internal and international political variables - while the Italian banking system will be subject to the difficult and incisive process of industrialisation and organisational and market rationalisation in the presence of increasingly stringent regulations and regulators who are increasingly demanding with regard to risk management processes.
In this context, the Bank will continue to follow the trend of the previous year, while maintaining its traditional and necessary selectivity and an adequate segmentation in the granting of credit, as well as its focus on the business segment outlined in the 2016-2018 business plan, integrating the offers of the individual BCCs on corporate credit and extraordinary finance as well as directly developing primary target customers - with the aim of consolidating the recovery in performing volumes and continuing, as a priority, to reabsorb impaired loans both in absolute terms and gross percentages on performing loans trying to get as close as possible to the 10% threshold, in the presence of an expected maintenance of impairment rates at low levels.
If the targets of disbursement, spread and interest-bearing stock are reached, the outlook for the 2018 income statement will see a strengthening of the growth in net interest income, good stability of sources from commissions and dividends, while the revenues from changes in the securities portfolio cannot be planned but are expected to fall. In the presence of a significantly lower cost of risk compared to 2017 - also considering the effect deriving from the application of the new IFRS 9 accounting standard on impairment and in the absence of extraordinary negative components such as, for example, contributions for resolving bank crisis that cannot be foreseen at present - the 2018 income statement will show performances in terms of profits comparable to those of the financial year just closed.
The financial requirements and subsequent expected liquidity risk was limited, as a result of the implementation of policies on structural funding repositioning through the rescheduling of a large tranche of bonds listed in the European programme maturing at the beginning of 2018, as well as through the renewal of medium-term deposits of Cooperative Credit Banks at competitive costs. The guidelines adopted by the bank also indicate the need to expand and diversify the funding capacity by taking on deposits carried out by leading local institutional investors, packaging domestic bond issues to be placed through the network of cooperative credit partners and activating retail funding formulas through the operating and market opportunities offered by Fintech technologies.
The planned launch in 2018 of the new banking groups of cooperative credit shareholders and the willingness shown by public shareholders to start a process of sale of the shares held in Mediocredito, create a significant opportunity for the Bank to bring its corporate and project finance expertise into contexts that are large in size and widespread throughout the territory, which can ensure significant opportunities for development and further strengthening.

In terms of organisation and logistics, after the sale of the building in via Museo 44 in Bolzano, which was used as the bank's Secondary headquarters with parallel location in the new location in via Alto Adige 60 and the transfer of the Bologna branch to the new offices acquired in the municipality of Casalecchio di Reno, both completed in December 2017, no other significant fixed investments are envisaged for 2018. The bank, on the other hand, will begin a new architectural innovation process of internal IT and communication technology systems, with a view to a general modernisation of processes that are also functional to ensuring greater competitiveness.

With respect to the regulatory adjustments of the Legislator and the Supervisory Authority, the Bank will be committed:

- to the operational application of the new international accounting standard IFRS 9, which came into force on 1 January 2018, replacing IAS 39: the IT models and procedures preparatory to the introduction of the new principle - with respect to the classification and valuation of financial assets (Impairment test based on the so-called Expected Loss) - were implemented by the software supplier in synergy with the Phoenix IT services centre and under the supervision of the working group set up at Cassa Centrale Banca. The processing will be carried out on the CSD platform on the basis of an engine developed with the support of Cerved and Crif.
- the adjustment of strategic processes and the management of impaired loans in the light of the guidelines issued by the Bank of Italy for less significant banks institutions. The guidelines are consistent with the "Guidance to banks on non performing loans" issued at European level by the Single Supervisory Mechanism for Significant Banks and represent the Supervisory Authority's expectations with regard to the management of NPLs.
- in the transposition of the European Directive on the protection and circulation of data (Directive 2016/680/EU) inspired by the changed social and economic framework and by the strong technological development and dissemination of on-line services; consequently, in order to increase the security standards of the personal data of European citizens, the so-called "Data Protection Package" was issued, the provisions of which must be included in the bank's internal regulations.

PROPOSAL FOR THE ALLOCATION OF THE NET PROFIT

Dear Shareholders,

The net profit for 2017 amounts to €3,167,665.71, entirely distributable.
That said, having regard to the indications provided by the Bank of Italy in its circular dated 8 March 2018 on dividend distribution policies and considering the level of capitalisation and overall risk profiles of the Bank, we believe that the Bank's equity is adequate in terms of amount and quality, also with a perspective view and, therefore, it is not necessary to adopt particularly restrictive policies on the distribution of profits.

Profit for the year	**€**	**3,167,665.71**
- non-distributable reserves under article 6, paragraph 2 Legislative Decree no. 38/2005 freed during the year	€	-
- allocation to non-distributable reserves under article 6, paragraph 2 of Legislative Decree no. 38/2005	€	-
Distributable amount	**€**	**3,167,665.71**
- 5% to the legal reserve	€	158,000.00
- at the disposal of the Board of Directors		
for undertakings as per article 21 of the By-laws	€	158,000.00
- dividend to distribute to shareholders (€0.014 for the 112,470,400 shares, which correspond to 2.692% of their nominal value)	€	1,574,585.60
- further allocation to the extraordinary reserve	€	1,277,080.11

We propose to begin paying dividends starting from 2 May 2018.

Following the aforementioned distribution, the equity as at 31 December 2017 is as follows:

- share capital	€	58,484,608.00
- additional paid-in capital	€	29,841,458.06
- legal reserve	€	19,251,007.66
- statutory reserve	€	48,838,753.79
- valuation reserve	€	4,840,488.04
- reserve from the reclassification of risk provision	€	18,936,305.62
- reserve from the FTA as per Legislative Decree 38/2005	€	2,273,855.22
- reserve as for ex IAS 8	€	380,695.00
- non-distributable under article 6, paragraph 2 Legislative Decree 38/2005	€	-
Total	**€**	**182.847.171,39**

The Board of Directors

CERTIFICATION PURSUANT TO ARTICLE 81-TER OF CONSOB REGULATION ON ISSUERS

Certification of the Financial Statements pursuant to Article 81-ter of CONSOB Regulation No. 11971 of 14 May 1999 and its subsequent amendments and additions.

1. The undersigned Franco Senesi, chairman of the Board of Directors and Leo Nicolussi Paolaz, manager responsible for preparing the Mediocredito Trentino – Alto Adige S.p.A.'s financial reports, in consideration of the requirements of Article 154-*bis*, paragraphs 3 and 4, of Legislative Decree No. 58 of 24 February 1998 herewith attest to:
   - the adequacy in relation to the characteristics of the business and
   - the actual application

   of the administrative and accounting procedures for the preparation of financial statements during 2017.

2. No significant matters arose in this respect. It should be pointed out that the bank is now subject to the obligation pursuant to Article 154-bis of Legislative Decree 58/98 to establish the role of "Manager responsible for preparing the company's financial reports", given that the Bank, in the context of the issues of bonds on the Euromarket (EMTN programme - European Medium Term Notes Programme) has issued bonds that are listed on the Luxembourg stock exchange by choosing Italy as member State of origin.
   The assessment of the administrative and accounting procedure for preparing the financial statements for the year ended 31 December 2017 has been based on procedures consistent with the reference standards adopted by the Bank for the internal control system.

3. It also hereby certified that:
   3.1. the financial statements:
      a) have been prepared in accordance with the applicable international accounting standards as endorsed by the European Union under EC Regulation No. 1606/2002 of the European Parliament and Council of 19 July 2002;
      b) correspond to the results of the books and accounting records;
      c) are suitable to provide a true and fair view of the statement of financial position, income statement and financial position of the Issuer;

   3.2. the report on operations includes a reliable analysis of the performance and the operating result as well as the position of the issuer together with a description of the main risks and uncertainties it is exposed to.

Trento, 12 March 2018

The Chairman of the Board of Directors	Manager responsible for preparing the company's financial reports
Franco Senesi	Leo Nicolussi Paolaz

INDEPENDENT AUDITORS' REPORT

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Mediocredito Trentino - Alto Adige SpA

Independent auditor's report
in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010 and article 10 of Regulation (EU) No. 537/2014

Financial statements as of 31 December 2017

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Independent auditor's report

in accordance with article 14 of Legislative Decree No.39 of 27 January 2010 and article 10 of Regulation (EU) No.537/2014

To the shareholders of
Mediocredito Trentino - Alto Adige SpA

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Mediocredito Trentino - Alto Adige SpA (the Company), which comprise the statement of financial position as of 31 December 2017, the income statement, statement of comprehensive income, statement of changes in equity, cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2017, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05 and 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 *Auditor's Responsibilities for the Audit of the Financial Statements* section of this report. We are independent of the Company pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. 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 judgment, were of most significance in our audit of the financial statements of the current period. 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.

PricewaterhouseCoopers SpA

Sede legale e amministrativa: Milano 20149 Via Monte Rosa 91 Tel. 0277851 Fax 027785240 Cap. Soc. Euro 6.890.000,00 i.v., C.F. e P.IVA e Reg. Imp. Milano 12979880155 Iscritta al n° 119644 del Registro dei Revisori Legali - Altri Uffici: **Ancona** 60131 Via Sandro Totti 1 Tel. 0712132311 - **Bari** 70122 Via Abate Gimma 72 Tel. 0805640211 - **Bologna** 40126 Via Angelo Finelli 8 Tel. 0516186211 - **Brescia** 25123 Via Borgo Pietro Wuhrer 23 Tel. 0303697501 - **Catania** 95129 Corso Italia 302 Tel. 0957532311 - **Firenze** 50121 Viale Gramsci 15 Tel. 0552482811 - **Genova** 16121 Piazza Piccapietra 9 Tel. 01029041 - **Napoli** 80121 Via dei Mille 16 Tel. 08136181 - **Padova** 35138 Via Vicenza 4 Tel. 049873481 - **Palermo** 90141 Via Marchese Ugo 60 Tel. 091349737 - **Parma** 43121 Viale Tanara 20/A Tel. 0521275911 - **Pescara** 65127 Piazza Ettore Troilo 8 Tel. 0854545711 - **Roma** 00154 Largo Fochetti 29 Tel. 06570251 - **Torino** 10122 Corso Palestro 10 Tel. 011556771 - **Trento** 38122 Viale della Costituzione 33 Tel. 0461237004 - **Treviso** 31100 Viale Felissent 90 Tel. 0422696911 - **Trieste** 34125 Via Cesare Battisti 18 Tel. 0403480781 - **Udine** 33100 Via Poscolle 43 Tel. 043225789 - **Varese** 21100 Via Albuzzi 43 Tel. 0332285039 - **Verona** 37135 Via Francia 21/C Tel. 0458263001 - **Vicenza** 36100 Piazza Pontelandolfo 9 Tel. 0444393311

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Key Audit Matters	*Auditing procedures performed in response to key audit matters*
Valuation of loans and advances to customers *Notes to the financial statements:* *Part A – Accounting policies* *Part B – Information on the statement of financial position,* *Section 7 of Assets* *Part C – Information on the income statement, Section 8* *Part E – Information on risks and related hedging policies* *Section 1 – Credit risk* The item "loans and advances to customers" as of 31 December 2017 amounted to Euro 1,120 million, corresponding to 73.22% of total assets. Given the significance of the item "loans and advances to customers" and the degree of subjectivity implied in the calculation of the value adjustments, we paid particular attention to this area. Our audit activity included the valuation of the appropriateness of the accounting standards adopted and of the reasonableness of the accounting estimates made by the directors.	As part of our audit, we carried out a preliminary analysis of the internal control environment in order to evaluate the operating efficacy of the controls over the credit valuation process. The verifications performed concerned in particular the comprehension and the analysis of the controls related to the monitoring process of the credit positions, including the analysis of the process for the approval of adjustments determined on an analytical basis, as well as of the models used to evaluate loans on a collective basis. In order to evaluate the estimate process adopted by the directors, we verified a sample of non-performing loans which were analytically valuated, verifying the reasonableness of the assumptions underlying the valuations performed, with particular reference to the evaluation of the underlying guarantees and to the estimated timing for their recovery. Furthermore, we selected a sample of performing loans in order to verify the reasonableness of the classification on the basis of the available information on the debtor status and on the basis of external information. For the adjustments determined on a collective basis related to performing loans, specific verifications were carried out with reference to the determination of the main estimate parameters within the models used and with reference to the completeness and accuracy of the data that feeds such models.

Responsibilities of the Directors and the Board of Statutory Auditors for the Financial Statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No.38/05 and article 43 of Legislative Decree No. 136/15 and, in the terms prescribed by 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 Company's ability to continue as a going concern and, in preparing the financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the financial statements, the directors use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The board of statutory auditors is responsible for overseeing, in the terms prescribed by law, the Company's financial reporting process.

Auditor's 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 International Standards on Auditing (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 the financial statements.

As part of our audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercised our professional judgement and maintained professional scepticism throughout the audit. Furthermore:

- We identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error; we designed and performed audit procedures responsive to those risks; we obtained 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;
- We obtained 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 Company's internal control;
- We evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;

- We concluded 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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's 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 auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- We evaluated 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 communicated with those charged with governance, identified at an appropriate level as 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 identified during our audit.

We also provided those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicated 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 determined those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We described these matters in our auditor's report.

Additional Disclosures required by Article 10 of Regulation (EU) No 537/2014

On 26 April 2010, the shareholders of Mediocredito Trentino - Alto Adige SpA in general meeting engaged us to perform the statutory audit of the Company's financial statements for the years ending 31 December 2010 to 31 December 2018.

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) No.537/2014 and that we remained independent of the Company in conducting the statutory audit.

We confirm that the opinion on the financial statements expressed in this report is consistent with the additional report to those charged with governance, in their capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation.

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Report on Compliance with other Laws and Regulations

Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree No.39/10 and Article 123-bis, paragraph 4, of Legislative Decree No. 58/98

The directors of Mediocredito Trentino - Alto Adige SpA are responsible for preparing a report on operations and a report on the corporate governance and ownership structure of Mediocredito Trentino - Alto Adige SpA as of 31 December 2017, including their consistency with the relevant financial statements and their compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/98, with the financial statements of Mediocredito Trentino - Alto Adige SpA as of 31 December 2017 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the financial statements of Mediocredito Trentino - Alto Adige SpA as of 31 December 2017 and are prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39/10, issued on the basis of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have nothing to report.

Milan, 26 March 2018

PricewaterhouseCoopers SpA

Signed by

Marco Palumbo
(Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers.

BOARD OF STATUTORY AUDITORS' REPORT

(pursuant to the second paragraph of Article 2429 of the Civil Code)

Dear Shareholders,

Mediocredito Trentino – Alto Adige S.p.A. prepared the annual report for the financial year 2017 in accordance with Legislative Decree No. 38 of 28 February 2005, adopting the international accounting standards outlined for drafting the individual annual report of listed companies and banks.
The 2017 annual report for your Bank is composed of the statement of financial position, the income statement, the statement of comprehensive income, the statement of changes in equity, the cash flow statement and the notes to the financial statements. It is also accompanied by the report on operations of the Board of Directors.
Finally, the tables and the notes to financial statements were prepared according to instructions issued by the Bank of Italy, as established under Circular No. 262 of 22 December 2005 and subsequent clarifications and updates. The Board of Directors forwarded the annual report to the Board of Statutory Auditors in a timely manner.
The Board of Statutory Auditors states that the Bank, as an entity of public interest, is subject to external auditing according to Decree No. 39, 27 January 2010, implementing directive 2006/43/EC, by PricewaterhouseCoopers S.p.A. pursuant to art. 2409 *bis et sequitur* of the Italian Civil Code. This company has been entrusted with the task of auditing the annual report of the Bank for the nine year period 2010-2018, under a resolution of the Shareholders' Meeting of 26 April 2010.
For comparative purposes, the annual report shows the equivalent figures for the financial year 2016.

1. We have conducted our audit of the annual report in accordance with the code of conduct of the Board of Statutory Auditors as laid down by the National Institute of Certified Public Accountants and Bookkeepers and under said principles we referred to all the laws currently in force in Italy that regulate the annual report that now includes the new international accounting standards.
2. In the preparation of the annual report, the Board of Directors made no allowances for exceptions to the application of the new IAS/IFRS principles and therefore a "statement of conformity" is included in the general part of the notes to the financial statements. During the financial year 2017, the Board of Directors met fifteen times and the Executive Committee three times.
3. The statement of financial situation as at 31 December 2017 can be summarised as follows:

Statement of financial position				
Total assets			Euro	1,530,801,181.40
Payables and provisions	Euro	1,346,221,424.41		
Share capital and reserves	Euro	181,412,091.28	Euro	1,527,633,515.69
Profit for the year			Euro	3,167,665.71
Income statement				
Net interest and other banking income			Euro	24,228,878.66
Value adjustments			Euro	(11,069,487.98)
Operating costs			Euro	(11,159,001.47)
Revenues from equity investments, property, plant and equipment and intangible assets			Euro	239,166.37
Income taxes on current operations			Euro	(313,916.45)
Profit on current operations			Euro	1,925,639.13
Profit from assets held for sale net of taxes			Euro	1,242,026.58
Profit for the year			Euro	3,167,665.71

4. During the course of 2017, there were changes to the Bank's equity, changes owing to:
   - the recognition of €246,738.54 to reserves of part of the 2016 profit (undistributable portion);
   - net recognition of €355,614.09 net with a positive sign related to the valuation of the securities available for sale and of €17.89 with a negative sign related to defined benefit plans (severance indemnities);
   - the allocation to the fund as per Article 21 of the By-laws of €12,500.00;
   - a net profit of €3,167,665.71 was also recorded for the year 2017.

   The equity of the Bank as at 31 December 2017 amounted to €184,579,756.99, composed of:

- Share capital – item 180:	Euro	58,484,608.00
- Additional paid-in capital – item 170:	Euro	29,841,458.06
- Reserves – item 160:	Euro	88,245,537.18
- Valuation Reserves – item 130:	Euro	4,840,488.04
- Profit for the year – item 200	Euro	3,167,665.71

5. Own Funds entered into the financial statements as at 31 December 2017 were calculated applying the regulations introduced by Directive no. 2013/36/EU related to the prudential supervision of banks (CRD IV - so-called Basel III).
   The result achieved shows how, on the whole, own funds increased by €719,811.56 as at 31 December 2017, compared to 31 December 2016, therefore standing at €180,304,206.35: the Total Capital Ratio stood at 18.51% as at 31 December 2017 compared to 17.65% in 2016. The Board of Statutory Auditors considers this equity adequate in terms of amount and quality, with respect to total risks assumed and suitable for allowing future growth of the Bank.
6. The Board of Statutory Auditors acknowledges the disclosures provided by the Board of Directors in relation to the adoption of the going concern assumption in preparing the financial statements, the illustration of risk measurement and management systems and the level of risk exposure, the testing of assets for impairment and uncertainties in the use of estimations of the values booked to the financial statements. More specifically, it verified that the loan valuation method used is adequate in measuring the Bank's credit risk and that the loan adjustments coherently reflect the current risk. The Board of Statutory Auditors considers this disclosure and related processes adequate to the transparency needs, also in relation to the indications included in the documents issued by the Italian Supervisory Authorities.
   The financial assets valuation process produced the following results in relation to the income statement:

	Adjust.	Write-backs	Net effect
Loans (analytical adjustments)	(15,510,360.38)	5,267,556.81	(10,242,803.57)
Loans (net collective adjustments)	(1,050,305.84)	-	(1,050,305.84)
Assets available for sale	(47,130.53)	295,028.88	247,898.35
Other transactions (endorsement loans)	(24,276.92)	-	(24,276.92)
Total	(16.632.073,67)	5.562.585,69	(11,069,487.98)

7. The Board of Statutory Auditors approved the criteria adopted for determining the amounts of IRES (Corporate income tax) and IRAP (Regional business tax) relating to the year in application of the current tax regulations. The Board of Statutory Auditors acknowledges that in compliance with the new rules, the financial statements show current and deferred taxes in relation to the temporary differences between the book value of an asset or liability and its value for tax purpose, as better explained in the explanatory notes. In particular, deferred tax assets were recognised on the loss for the 2015 year for a residual €1,239,636.87 for which the Board of Directors repeated the recoverability plan that the Board of Statutory Auditors still considers adequate.
8. In application of the reference regulations and provisions, the Bank has adopted regulations aimed at governing the investments held by banks, the risk assets and the conflicts of interest in respect of related parties (Bank of Italy Circular no. 263/06, Title V, Chapter 5) as well as personal cross investments (so-called interlocking prohibition to protect competition, pursuant to Article 36 of Law Decree 201/2011). The Board of Statutory Auditors considers the organisational and risk safeguards identified by the Bank to be appropriate.
9. In compliance with the Bank of Italy's provisions on business continuity and disaster recovery, in 2017 the Bank tested the functionality of disaster recovery with the outsourcer of the IT system managed by IBT/SIBT, which did not reveal any significant problems.
10. Information pursuant to Article 10 of Law 72/83 on the subject of monetary revaluation of property, plant and equipment is provided in the notes to financial statements relative to revalued assets.
11. During the year, the Board of Statutory Auditors, in fulfilment of its duties, controlled the Bank's administration in the year under review. In 2017, the Board of Auditors held six meetings and oversaw the observance of the laws and by-laws governing all Shareholders' meetings, Board of Directors meetings and also Executive Committee meetings. All meetings were held in compliance with the statutory requirements, laws and regulations governing their operation. The Board of Statutory Auditors also verified that no imprudent or hazardous transactions were carried out, or transactions involving a potential conflict of interests, contrary to the resolutions passed by the Shareholders' Meeting, or which may compromise the integrity of the company's assets and minority rights.
    It also verified the correct application of the Bank of Italy Circular no. 285/2013 regarding corporate governance, with reference to the adequacy of the quali-quantitative composition of the company

bodies, the self-assessment of the latter and public disclosure.

12. The Board of Statutory Auditors oversaw the adequacy of the organisational structure, limited to those aspects within its competence, of the internal control system and of the administrative-accounting system and the reliability of the latter in giving a true and fair view of the operations of the Bank. In this regard, the Board of Statutory Auditors acknowledges the report written by the Manager responsible for preparing the company's financial reports of 12 March 2018, which was submitted to the Board of Directors prior to the issuing of the Certification pursuant to Article 81-ter of the Consob Regulation on Issuers.
    The Board of Statutory Auditors oversaw the observance of the Bank's sound management principles, also carrying out an assessment of the organisational system during the year under review, which was used by the offices in charge of monitoring credit, market, interest rate, liquidity, legal and compliance risks that are specific to banking activities. The Board of Statutory Auditors has followed the ICAAP process in relation to risk control and management, which shows that the Company's capital is adequate even in a stress scenario, as well as the process of defining the Recovery Plan, assessing its regulatory compliance and consistency with the strategies and reference framework for risk, considering it compliant and adequate with the expected characteristics set out in the regulations.
    As Supervisory Body, it monitored the observance of the regulation pursuant to Legislative Decree no. 231/2001 regarding the administrative liability of legal entities and the regulation pursuant to Legislative Decree no. 231/2007.
    Lastly, it monitored compliance with the regulations governing professional services and investment activities with the public, and the overall adequacy of the controls of the risk of money laundering, for which no acts or events were highlighted, which came to light during the performance of their duties, which may represent a breach of the regulatory provisions.
13. In 2017, no complaints (reprehensible acts) were submitted to the Board of Statutory Auditors pursuant to Article 2408 of the Civil Code.
14. The Board of Statutory Auditors has constantly kept in touch with the person in charge of external auditing, during which no relevant data or information came to light.
15. The report on operations that accompanies the financial statements is drafted in compliance with the current regulations. In the opinion of the Board of Statutory Auditors, the annual report provides as a whole a correct representation of the statement of financial position, the financial situation and the economic result of the Bank for the year ended 31 December 2017 in compliance with the regulations governing the financial statements. This was illustrated in detail by the Board of Directors in the report on operations and in the notes to the financial statements, providing Shareholders and third parties with adequate information in relation to the Bank's transactions, including transactions with related parties. The Board of Statutory Auditors can also confirm that the annual report includes a description of the main risks and uncertainties to which the company is exposed. The report on operations by the Board of Directors includes all the main events that characterised the year and it focuses on expected business trends.
16. The Board of Statutory Auditors acknowledged the report of the independent auditors PricewaterhouseCoopers S.p.A. of 26 March 2018 for the financial statements as at 31 December 2017, which contains no significant observations. Based on the work done as independent auditors of the financial statements as at 31 December 2017, no elements have come to the attention of the auditors to date that suggests that there are significant deficiencies in the internal control system in relation to the financial reporting process as at said date.

Dear Shareholders,

As a result of the above and considering the information provided by the independent auditors PricewaterhouseCoopers S.p.A. – information that shows the absence of critical aspects – the Board of Statutory Auditors states that there were no occurrences of infringements or non-compliance to the law and expresses its positive opinion to the approval of both the financial statements and the proposal for the allocation of the profit for the year expressed by the Board of Directors. It also informs the shareholders' meeting, despite the costs relating to intangible assets recorded under assets in the accounts still not having been fully amortised, there are still ample reserves to cover the amount of these costs.

Trento, 26 March 2018

Astrid Marinelli	Hansjörg Verdorfer	Renato Beltrami
Chairman	Standing auditor	Standing auditor

COMPANY FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION – ASSETS

	Assets	31.12.2017	31.12.2016
10.	CASH AND CASH EQUIVALENTS	1,860	2,488
20.	FINANCIAL ASSETS HELD FOR TRADING	452,441	231,087
40.	FINANCIAL ASSETS AVAILABLE FOR SALE	243,771,038	176,437,364
60.	LOANS AND ADVANCES TO BANKS	124,326,249	77,527,167
70.	LOANS AND ADVANCES TO CUSTOMERS	1,126,704,694	1,163,074,592
100.	EQUITY INVESTMENTS	25,700	180,180
110.	PROPERTY, PLANT AND EQUIPMENT	8,602,295	8,434,062
120.	INTANGIBLE ASSETS	63,983	97,451
	of which:		
	- goodwill	-	-
130.	TAX ASSETS	14,551,191	15,964,769
	(a) current	1,776,780	1,988,905
	(b) deferred	12,774,411	13,975,864
	pursuant to Law 214/2011	10,518,580	11,613,674
140.	NON-CURRENT ASSETS AND GROUPS OF ASSETS HELD FOR SALE	-	1,144,290
150.	OTHER ASSETS	12,302,730	11,545,618
	TOTAL ASSETS	**1,530,801,181**	**1,454,639,068**

The Financial Statements were drawn up in Euro units with no decimal numbers as figures were previously rounded. The algebraic sum of discrepancies due to rounding off of liabilities is equal to -€2 and is booked to "other assets".

STATEMENT OF FINANCIAL POSITION – EQUITY AND LIABILITIES

	Equity and liabilities	31.12.2017	31.12.2016
10.	DUE TO BANKS	873,637,108	675,298,270
20.	DUE TO CUSTOMERS	169,597,148	160,823,641
30.	DEBT SECURITIES IN ISSUE	289,978,680	423,772,631
40.	FINANCIAL LIABILITIES HELD FOR TRADING	312,421	187,267
80.	TAX LIABILITIES	6,182,799	6,556,199
	(a) current	226,243	-
	(b) deferred	5,956,556	6,556,199
100.	OTHER LIABILITIES	2,986,258	4,003,983
110.	PROVISION FOR SEVERANCE INDEMNITIES	1,397,820	1,470,407
120.	PROVISIONS FOR RISKS AND CHARGES	2,129,190	1,457,674
	(a) pension fund and similar provisions	-	-
	(b) other provisions	2,129,190	1,457,674
130.	VALUATION RESERVES	4,840,488	4,484,892
160.	RESERVES	88,245,537	87,998,799
170.	ADDITIONAL PAID-IN CAPITAL	29,841,458	29,841,458
180.	SHARE CAPITAL	58,484,608	58,484,608
200.	NET INCOME (LOSS) FOR THE PERIOD (+/-)	3,167,666	259,239
	TOTAL EQUITY AND LIABILITIES	**1,530,801,181**	**1,454,639,068**

The Financial Statements were drawn up in Euro units with no decimal numbers as figures were previously rounded.

INCOME STATEMENT

	Items	31.12.2017	31.12.2016
10	INTEREST INCOME AND SIMILAR REVENUES	29,233,032	29,117,151
20	INTEREST EXPENSE AND SIMILAR CHARGES	(10,198,076)	(16,098,220)
30	**NET INTEREST INCOME**	**19,034,956**	**13,018,931**
40	FEE AND COMMISSION INCOME	1,849,510	1,949,603
50	FEE AND COMMISSION EXPENSE	(335,734)	(396,654)
60	**NET FEE AND COMMISSION INCOME (EXPENSE)**	**1,513,776**	**1,552,949**
70	DIVIDENDS AND SIMILAR INCOME	243,793	217,746
80	NET TRADING INCOME	139,232	32,262
100	GAINS (LOSSES) ON DISPOSAL OR REPURCHASE OF:	3,297,121	2,934,066
	a) loans and advances	30,345	225,724
	b) financial assets available for sale	3,266,776	2,708,342
	c) financial assets held to maturity	-	-
	d) other financial liabilities	-	-
120	**NET INTEREST AND OTHER BANKING INCOME**	**24,228,878**	**17,755,954**
130	NET IMPAIRMENT ADJUSTMENTS ON:	(11,069,488)	(5,312,034)
	a) loans and advances	(11,293,109)	(5,264,283)
	b) financial assets available for sale	247,898	(53,451)
	c) financial assets held to maturity	-	-
	d) other financial transactions	(24,277)	5,700
140	**NET INCOME FROM FINANCIAL ACTIVITIES**	**13,159,390**	**12,443,920**
150	ADMINISTRATIVE COSTS:	(10,185,222)	(11,692,736)
	a) payroll	(6,903,124)	(6,823,371)
	b) other administrative costs	(3,282,098)	(4,869,365)
160	NET PROVISIONS FOR RISKS AND CHARGES	(856,065)	(163,827)
170	NET ADJUSTMENT TO PROPERTY, PLANT AND EQUIPMENT	(548,328)	(636,066)
180	NET ADJUSTMENT TO INTANGIBLE ASSETS	(58,387)	(66,652)
190	OTHER OPERATING CHARGES/INCOME	489,001	536,264
200	**OPERATING COSTS**	**(11,159,001)**	**(12,023,017)**
210	PROFIT (LOSS) FROM EQUITY INVESTMENTS	233,325	(276,797)
240	GAINS (LOSSES) ON DISPOSAL OF INVESTMENTS	5,841	22,993
250	**PROFIT (LOSS) ON CURRENT OPERATIONS BEFORE INCOME TAXES**	**2,239,555**	**167,099**
260	INCOME TAXES ON CURRENT OPERATIONS	(313,916)	92,140
270	**PROFIT (LOSS) FROM CURRENT OPERATIONS AFTER TAX**	**1,925,639**	**259,239**
280	PROFIT (LOSS) FROM GROUPS OF ASSETS HELD FOR SALE AFTER TAX	1,242,027	-
290	**INCOME (LOSS) FOR THE YEAR**	**3,167,666**	**259,239**

The Financial Statements were drawn up in Euro units with no decimal numbers as figures were previously rounded.

STATEMENT OF COMPREHENSIVE INCOME

	Items	31.12.2017	31.12.2016
10.	NET INCOME (LOSS) FOR THE PERIOD	**3,167,666**	**259,239**
	Other comprehensive income, net of taxes without reversal to income statement		
40.	DEFINED BENEFIT PLANS	-18	+25,994
	Other comprehensive income, net of taxes with reversal to income statement		
90.	CASH FLOW HEDGES	-	-
100	FINANCIAL ASSETS AVAILABLE FOR SALE:	+355,614	(502,260)
	- Equity securities	+139,297	(515,798)
	- Investments in UCITS	(120,476)	+455,017
	- Debt securities	+336,793	(441,478)
130.	**TOTAL OTHER POST TAX COMPONENTS OF INCOME**	**+355,596**	**(476,265)**
140.	**TOTAL COMPREHENSIVE INCOME (Item 10+130)**	**3,523,262**	**(217,027)**

Disclosures pursuant to paragraph 82A IAS 1 “Presentation of Financial Statements”

The components related to “equity securities”, “investments in UCITS” and “debt securities” shown in the statement of comprehensive income may be subject to reversal in the income statement, in the event of any future sale.

The components relating to cash flow hedging will be subject to transfer to the income statement automatically as a result of the accrual of differentials.

The components related to defined benefit plans will never be subject to reversal in the income statement.

STATEMENT OF CHANGES IN EQUITY 31/12/2016 – 31/12/2017

	Balance on 31.12.2016	Changes in opening balance	Balance on 1.1.2017	Allocation of the previous year's result: Reserves	Allocation of the previous year's result: Dividends and other allocations	Change for the year: Changes in reserves	Transaction booked to equity: Issue of new shares	Transaction booked to equity: Purchase of treasury shares	Transaction booked to equity: Extraordinary distribution of dividends	Transaction booked to equity: Change in equity instruments	Transaction booked to equity: Derivatives on treasury shares	Transaction booked to equity: Stock options	Total comprehensive income (loss) 2017	Equity on 31.12.2017
Share capital:	58,484,608	-	58,484,608	-	-	-	-	-	-	-	-	-	-	**58,484,608**
a) ordinary shares	58,484,608	-	58,484,608	-	-	-	-	-	-	-	-	-	-	**58,484,608**
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Additional paid-in capital	29,841,458	-	29,841,458	-	-	-	-	-	-	-	-	-	-	**29,841,458**
Reserves:	87,998,799	-	87,998,799	+246,739	-	-	-	-	-	-	-	-	-	**88,245,538**
a) from profit	87,998,799	-	87,998,799	+246,739	-	-	-	-	-	-	-	-	-	**88,245,538**
- legal reserve	19,093,008	-	19,093,008	-	-	-	-	-	-	-	-	-	-	**19,093,008**
- statutory reserves[18]	47,314,935	-	47,314,935	+246,739	-	-	-	-	-	-	-	-	-	**47,561,674**
- other profit reserves[19]	21,590,856	-	21,590,856	-	-	-	-	-	-	-	-	-	-	**21,590,856**
b) other	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Valuation reserves:	4,484,892	-	4,484,892	-	-	-	-	-	-	-	-	-	+355,596	**4,840,489**
a) assets available for sale	583,273	-	583,273	-	-	-	-	-	-	-	-	-	+355,614	**938,887**
b) cash flow hedge	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
c) others	3,901,617	-	3,901,617	-	-	-	-	-	-	-	-	-	-18	**3,901,600**
- Severance indemnities	-416,715	-	-416,715	-	-	-	-	-	-	-	-	-	-18	**-416,732**
- property reval. Law 413/91	745,631	-	745,631	-	-	-	-	-	-	-	-	-	-	**745,631**
- property reval. Law 342/2000	3,572,701	-	3,572,701	-	-	-	-	-	-	-	-	-	-	**3,572,701**
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Net income (loss) for the period	259,239	-	259,239	-246,739	-12,500	-	-	-	-	-	-	-	3,167,666	**3,167,666**
Equity	**181,068,995**	**-**	**181,068,995**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**3,523,262**	**184,579,756**

STATEMENT OF CHANGES IN EQUITY 31/12/2015 – 31/12/2016

	Balance on 31.12.2015	Changes in opening balance	Balance on 1.1.2016	Allocation of the previous year's result: Reserves	Allocation of the previous year's result: Dividends and other allocations	Change for the year: Changes in reserves	Transaction booked to equity: Issue of new shares	Transaction booked to equity: Purchase of treasury shares	Transaction booked to equity: Extraordinary distribution of dividends	Transaction booked to equity: Change in equity instruments	Transaction booked to equity: Derivatives on treasury shares	Transaction booked to equity: Stock options	Total comprehensive income (loss) 2016	Equity on 31.12.2016
Share capital:	58,484,608	-	58,484,608	-	-	-	-	-	-	-	-	-	-	**58,484,608**
a) ordinary shares	58,484,608	-	58,484,608	-	-	-	-	-	-	-	-	-	-	**58,484,608**
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Additional paid-in capital	29,841,458	-	29,841,458	-	-	-	-	-	-	-	-	-	-	**29,841,458**
Reserves:	94,790,836	-	94,790,836	-6,792,038	-	-	-	-	-	-	-	-	-	**87,998,799**
a) from profit	94,790,836	-	94,790,836	-6,792,038	-	-	-	-	-	-	-	-	-	**87,998,799**
- legal reserve	19,093,007	-	19,093,007	-	-	-	-	-	-	-	-	-	-	**19,093,008**
- statutory reserves [18]	54,106,972	-	54,106,972	-6,792,038	-	-	-	-	-	-	-	-	-	**47,314,935**
- other profit reserves[19]	21,590,856	-	21,590,856	-	-	-	-	-	-	-	-	-	-	**21,590,856**
b) other	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Valuation reserves:	4,961,157	-	4,961,157	-	-	-	-	-	-	-	-	-	-476,266	**4,484,892**
a) assets available for sale	1,085,533	-	1,085,533	-	-	-	-	-	-	-	-	-	-502,260	**583,273**
b) cash flow hedge	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
c) others	3,875,624	-	3,875,624	-	-	-	-	-	-	-	-	-	+25,994	**3,901,617**
- Severance indemnities	-442,708	-	-442,708	-	-	-	-	-	-	-	-	-	+22,994	**-416,715**
- property reval. Law 413/91	745,631	-	745,631	-	-	-	-	-	-	-	-	-	-	**745,631**
- property reval. Law 342/2000	3,572,701	-	3,572,701	-	-	-	-	-	-	-	-	-	-	**3,572,701**
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Net income (loss) for the period	-6,792,038	-	-6,792,038	+6,792,038	-	-	-	-	-	-	-	-	259,239	**259,239**
Equity	**181,286,022**	**-**	**181,286,022**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(217,027)**	**181,068,995**

18 The item also includes the undistributable reserve pursuant to art. 6 paragraph 2 of Legislative Decree 38/2005.

19 "Other profit reserves" include the reserve from the first-time application of IAS/IFRS (including therein provisions for general bank risks and loan risks).

CASH FLOW STATEMENT (INDIRECT METHOD)

A.	OPERATING ACTIVITIES	2017	2016
1.	**Operations**	**+16,002,241**	**+3,487,403**
-	profit (loss) for the year	+3,167,667	+259,239
-	capital gains/losses on financial assets held for trading and on assets/liabilities at fair value	-96,199	-28,953
-	capital gains/losses on hedging activities	-	-
-	net adjustments /write-backs due to impairment	+11,614,591	+5,138,926
-	net adjustments/write-backs to property, plant and equipment and intangible assets	+617,013	+679,724
-	net provision for risks and charges and other costs/revenues	+879,489	-5,074
-	unpaid duties, taxes and tax credits	+927,600	-28,586
-	other adjustments	-1,107,917	-2,527,873
2.	**Cash flow generated/absorbed by financial assets**	**-89,655,947**	**-115,220,709**
-	financial assets held for trading	-	-
-	financial assets at fair value	-	-
-	financial assets available for sale	-67,074,294	-83,072,196
-	loans and advances to banks: on demand	-46,438,586	-46,020,302
-	loans and advances to banks: other receivables	-360,495	+29,853,787
-	loans and advances to customers	+23,786,995	-7,203,371
-	other assets	+430,433	-8,778,627
3.	**Cash flow generated/absorbed by financial liabilities**	**+71,029,553**	**+112,067,730**
-	due to banks: on demand	-26,500,000	+20,500,000
-	due to banks: other payables	+223,945,180	+261,776,308
-	due to customers	+8,756,585	+3,710,062
-	debt certificates in issue	-132,700,000	-173,402,782
-	financial liabilities held for trading	-	-
-	financial liabilities at fair value	-	-
-	other liabilities	-2,472,212	-515,859
	Net cash flow generated/absorbed by operating activities	**-2,624,153**	**+334,424**

B.	INVESTING ACTIVITY		
1.	**Cash flow generated by**	**+3,396,329**	**+31,982**
-	sale of equity investments	+387,805	-
-	dividends from equity investments	-	-
-	sale of financial assets held to maturity	-	-
-	sale of property, plant and equipment	+3,008,524	+31,982
-	sale of intangible assets	-	-
-	sale of company divisions	-	-
2.	**Cash flow absorbed by**	**-760,301**	**-366,565**
-	purchase of equity investments	-	-250,000
-	purchase of financial assets held to maturity	-	-
-	purchase of property, plant and equipment	-735,382	-67,771
-	purchase of intangible assets	-24,919	-48,794
-	purchase of company divisions	-	-
	Net cash flow generated/absorbed by operating activities	**+2,636,028**	**-334,583**

C.	FINANCING ACTIVITY	2017	2016
-	issue/purchase of treasury shares	-	-
-	issue/purchase of equity instruments	-	-
-	distribution of dividends and other objectives	-12,500	-
	Net liquidity generated/absorbed by financing activities	**-12,500**	**-**
	NET LIQUIDITY GENERATED/ABSORBED DURING THE PERIOD	**-628**	**-160**

RECONCILIATION

Balance sheet items	2017	2016
Cash and cash equivalent at the beginning of the period	**2,488**	**2,648**
Net liquidity generated/absorbed during the period	-628	-160
Cash and cash equivalents: effect of changes in exchange rates	-	-
Cash and cash equivalents at the end of the year	**1,860**	**2,488**

NOTES TO THE FINANCIAL STATEMENTS

PART A - ACCOUNTING POLICIES

A.1 GENERAL PART

SECTION 1 – STATEMENT OF COMPLIANCE WITH INTERNATIONAL ACCOUNTING STANDARDS

The separate financial statements of Mediocredito Trentino - Alto Adige S.p.A. have been prepared in compliance with the applicable International Accounting Standards (IAS/IFRS) issued by the International Accounting Standards Board® and the relative interpretations of the International Financial Reporting Interpretations Committee (IFRIC) as endorsed by the European Commission under EU regulation 1606/2002.
They were prepared according to instructions issued by the Bank of Italy in the exercise of its power, as these were established with Article 9 of Legislative Decree no. 38/2005, with Circular no. 262 of 22 December 2005 and subsequent amendments.

SECTION 2 – GENERAL PRINCIPLES OF PREPARATION

General aspects

The financial statements comprise the Statement of financial position, the Income statement, the Statement of comprehensive income, the Statement of changes in equity, the Cash flow statement[20] and Notes to the financial statements. They are also accompanied by a Board of Directors' report on operations, the economic results and the Bank's financial position.
The financial statements are drawn up in Euros, while data in the Notes to the financial statements are expressed in thousands of Euros, based on the application of the general principles set forth by IAS 1: to this end, we refer to the prospective of the company as a going concern (par. 23), the accrual basis of accounting (par. 25 and 26), consistency in the presentation and classification of items (par. 27), the relevance and aggregation of items, the prohibition regarding offsetting, comparative information as well as the specific accounting principles illustrated in Part A.2 in the Notes to the financial statements.
There were no departures from the application of the IAS/IFRS.
For completeness, with regard to the formats defined by the Bank of Italy, the Notes to the financial statements sometimes contain the titles for the sections that relate to the items that are not accompanied by an amount, either for the year the financial statements cover or for the previous year, whichever is deemed important for providing better information.

Going concern assumption

The international accounting standards - recalled by the coordination table with The Bank of Italy, Consob and Isvap coordination forum on applying IAS/IFRS with document no. 2 of 6 February 2009 "Disclosure in financial reports on the going concern assumption, financial risks, tests of assets for impairment and uncertainties on the use of estimations", and also with document no. 4 of 3 March 2010 "Disclosure in financial reports on impairment of assets, clauses in debt contracts, debt restructuring and on the "fair value hierarchy" require directors to make an especially accurate assessment of whether the going concern assumption is appropriate.
To this end, paragraphs 23-24 of IAS 1 state that: "When preparing financial statements, management shall make an assessment of an entity's ability to continue as a going concern. Financial statements must be prepared on a going concern basis unless management either intend to liquidate the entity or to cease trading, or has no realistic alternative but to do so. In making its assessment, when management is aware of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, those uncertainties must be disclosed. When financial statements are not

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20 The cash flow statement is drawn up by applying the "indirect" method on the basis of which the cash flows from operating activities are represented by the result for the year adjusted for the effects of non-monetary transactions. The cash flows are subdivided into those deriving from operating, investing and financing activities.

prepared on a going concern basis, that fact must be disclosed together with the basis on which the financial statements are prepared and the reason why the entity is not regarded as a going concern".
Despite the economic growth forecast and the performance of the financial markets are showing the first signs of optimism, the continuation of monetary policy measures to support the real economy that is not yet self-sufficient requires a very accurate assessment of the existence of the going concern basis.
Relating to this, the directors of Mediocredito Trentino – Alto Adige S.p.A., after examining the risks and uncertainties that are correlated to the current macroeconomic context, confirm that they are reasonably certain that the Company will continue its operational existence in the near future. Consequently, they have prepared the financial statements for the business year 2017 based on the going concern assumption.
They also confirm that they have not observed any symptom that might cast doubts on the ongoing concern assumption and the actual income generating capacity, either in the economic and financial structure or in the business trend.

SECTION 3 – EVENTS AFTER THE REPORTING DATE

In the period following the closure of the 2017 financial year and the date of approval of these financial statements, it should be noted that, during the first quarter of 2018, the Bank:

- renegotiated the terms and conditions of a bond loan listed under the EMTN programme for a residual €170m, extending its duration by 2.5 years, and repaid bond loans of €89m and at the same time collected €110m in medium-term interbank deposits;
- collaborated with Mazars Spa to provide the information required for evaluating the Bank's shares commissioned by the public shareholders as part of the process of sale of the equity investment.

SECTION 4 – OTHER ASPECTS

Parent company

Exemption from the obligation to prepare consolidated financial statements: the Bank does not prepare consolidated financial statements as the consolidation of the subsidiary Paradisidue S.r.l. (financial statements assets as at 31 December 2017 of €9.1m) is not deemed significant to the improvement of the disclosures provided *(IAS 8 and paragraphs 26, 29, 30 and 44 of the "Systematic framework for the Preparation and Presentation of Financial Statements" or "Framework")*. The subsidiary owns a building whose value, appropriately estimated, corresponds to market values and the equity investment is booked in the financial statements of the Bank at equity.

Auditing

The Bank as an Entity of Public Interest is subject to statutory auditing according to Legislative Decree No. 39 of 27 January 2010, in implementation of directive 2006/43/EC, and the appointed auditing company is PricewaterhouseCoopers S.p.A. Said company had been entrusted with the task of auditing the financial statements of the Bank for the nine-year period 2010-2018, by means of resolution of the Shareholders' Meeting of 26 April 2010.
Pursuant to art. 2427, paragraph 1, 16-*bis*, the agreed fees for 2017 are indicated below:

- External audit of annual accounts: €38,184 plus VAT, expenses and Consob contribution;
- Half-yearly condensed financial statements: €10,188 plus VAT and expenses;
- National guarantee fund: €602 plus VAT and expenses.

Risk and uncertainties due to the use of estimates

The Bank has completed the estimation processes which support the book value of the most significant valuation-related items booked to the financial statements as at 31 December 2017, as set out in the current accounting standards and reference regulations. These processes are largely based on the estimated future possible recovery concerning the values recorded in the financial statements in accordance with the rules laid down by the current regulations and are carried out based on the going concern assumption, i.e. leaving aside hypotheses regarding forced liquidation of the items being measured. For this information we refer you to the report on operations and the Notes to the financial statements, part E.
Checks carried out support the book values of items mentioned on 31 December 2017, although the valuation processes, mostly linked to the loan portfolio, are still particularly complex due to the ongoing difficulties of the economic and market context.

A.2 ILLUSTRATION OF THE MAIN ITEMS IN THE FINANCIAL STATEMENTS

SECTION 1 - FINANCIAL ASSETS HELD FOR TRADING

1.1 Classification criteria
This category includes financial assets that are held with the intention of generating profit in the short term, deriving from the change in the price of said instruments.
This category also includes derivative instruments with a positive fair value not held for hedging purposes and derivative instruments that are linked to assets or liabilities measured at fair value for management purposes.

1.2 Recognition criteria
Initial recognition of financial assets takes place on the date of settlement for debt and equity securities and on the date of subscription for derivative contracts.
Upon initial recognition, financial assets held for trading are measured at cost, defined as the fair value of the instrument, without considering transaction costs or income directly attributable to the instrument.

1.3 Measurement criteria
Subsequent to initial recognition, financial assets held for trading are measured at fair value. If the fair value of a financial asset becomes negative, said asset is treated as a financial liability.
Market prices are used to determine the fair value of financial instruments listed on an active market. In the absence of an active market, estimation methods and valuation models are employed that take into account all risk factors correlated with the instruments and that are based on market data, such as: methods based on the valuation of listed instruments with similar characteristics, discounted cash flow calculations, option price calculation models, and values posted in recent comparable transactions. Where the fair value of equity securities and the correlated derivative instruments may not be accurately determined according to the above guidelines, these are carried at cost.
For more details, please refer to the section on general criteria for measuring fair value (Part A.4).

1.4 Derecognition criteria
Financial assets in this category are derecognised when the contractual rights to cash flows deriving from the assets expire or when the financial assets are disposed of with a substantial transfer of the relative risks and rewards.

1.5 Income component recognition criteria
Interest income on securities and differentials and spreads on derivative contracts classified to this category, but which are linked to other assets/liabilities measured at fair value for management purposes, are recognised on an accrual basis to the income statement items for interest, accounting for any commissions (up-front fees) paid or collected early in a lump-sum.
Profits and losses realised on the disposal or redemption and unrealised profits and losses on changes in the fair value of the trading portfolio are classified to item "80 Net trading income", except for the share relative to derivative contracts that are linked to assets or liabilities measured at fair value for management purposes, which are entered to item "110 Net income/loss from financial assets and liabilities at fair value".

SECTION 2 – FINANCIAL ASSETS AVAILABLE FOR SALE

2.1 Classification criteria
This category includes non-derivative financial assets that have not been classified as Loans and Advances, Assets held for trading or Assets held to maturity. Specifically, shareholdings that are not held for trading and may not be considered to establish a relationship of control, affiliation, or joint control are classified to this item.
Securities in the available-for-sale portfolio may in particular circumstances be transferred into the portfolio of securities held to maturity, whilst financial instruments originally classified to Loans and Advances and Assets held to maturity may be transferred into the available-for-sale portfolio.

2.2 Recognition criteria

Upon initial recognition, assets in this category are entered at cost, which is defined as the fair value of the instrument, including transaction costs and income directly attributable to the instrument. If recognition occurs subsequent to reclassification from assets held to maturity, the value of initial recognition is equal to the fair value at the time of transfer. Interest-bearing instruments are entered at amortised cost according to the effective interest rate method.

2.3 Measurement criteria

Subsequent to initial recognition, securities in this category are measured at fair value when:

a) the fair value of instruments listed on active markets corresponds to the closing market price;
b) the fair value of instruments not listed on active markets corresponds to the current value of expected cash flows, calculated taking into account the various risk profiles inherent in the instruments being measured;
c) the fair value of other instruments not listed on active markets is established using IAS 39, a valuation technique that makes use of market inputs, prices of similar instruments, financial or other methods. If these estimates cannot be made reliably or if they are too costly (in relation to the type and amount of the equity investment) the equity investment must be measured at cost.

For more details, please refer to the section on general criteria for measuring fair value (Part A.4).
Tests to identify the existence of objective evidence of impairment are performed at the end of each financial year or half-yearly accounting period.

2.4 Derecognition criteria

Financial assets in this category are derecognised when the contractual rights to cash flows deriving from the assets expire or when the financial assets are disposed of with a substantial transfer of all risks and benefits of the financial assets.

2.5 Income component recognition criteria

Interest income, calculated according to the effective interest rate method, is entered to item 10. "interest income and similar revenues"; dividends are entered to item 70. "dividends and similar income"; profit and loss on the change in fair value are entered net of any relative tax effect to item 130. of equity, "Valuation reserves", until the financial asset in question is sold or redeemed or impairment is recognised.
If there is any objective evidence that the asset has undergone impairment, the accumulated profit or loss is transferred from item 130. "Valuation reserves" to item 130.b) "Net impairment adjustments" in the income statement. The amount of the transfer is equal to the difference between the book value (the cost of acquisition net of any impairment losses previously entered to the income statement) and fair value.
A significant or prolonged drop in the fair value of an equity instrument below its cost is objective evidence of impairment. In this event, the possible cumulative loss that had been recognised directly in equity is removed from equity and recognised in the income statement even if the financial asset has not been sold or otherwise disposed of. If the fall in fair value is more than 30% below the initial book value or lasts for more than 24 months, the loss of value is considered to be lasting. If either threshold is exceeded, impairment of the instrument is recognised; if the thresholds are not exceeded but there are other indications of impairment, the loss of value must be corroborated by the outcome of specific analyses carried out in relation to the investment.
If the fair value of the financial instrument increases at a later date and the increase may be objectively correlated with an event that occurred subsequent to the event due to which the impairment loss was entered to the income statement, the loss is re-adjusted entering the corresponding amount to the same item (item 130.b) of the income statement in the case of loans or debt securities and to equity (item 130.) in the case of equity securities. The amount of re-adjustment may under no circumstances exceed the amortised cost that the instrument would have had in the absence of previous adjustments.
In the event of gains on investments, unrealised profits and losses previously entered to reserves are transferred to profits/losses on the disposal of available-for-sale assets on the income statement.

SECTION 3 – FINANCIAL ASSETS HELD TO MATURITY

3.1 Classification criteria

This category includes debt securities with fixed or determinable payments and set maturities, which the company has the intention and capacity to hold until maturity. Equity securities are excluded from this category since they do not have set maturity dates and cash flows are not determined according to a pre-established scheme. If the company's intention or capacity changes making it no longer appropriate to carry an investment as held to maturity, then the asset is reclassified to available-for-sale assets.

3.2 Recognition criteria

Initial recognition of financial assets in this category takes place on the settlement date.
Upon initial recognition financial assets in this category are measured at fair value, which is usually equal to the cost incurred, including transaction costs. If the asset is entered to this category upon reclassification from "available-for-sale assets", the fair value of the asset on the date of reclassification is taken as the new amortised cost of the asset.

3.3 Measurement criteria

Subsequent to initial recognition, financial assets held to maturity are measured at amortised cost using the effective interest rate method.
Tests to identify the existence of objective evidence of impairment are performed at the end of each financial year or half-yearly accounting period. If such evidence is found, the amount of the loss is measured as the difference between the book value of the asset and the current value of its estimated future cash flows discounted at the original effective interest rate.

3.4 Derecognition criteria

Financial assets in this category are derecognised when the contractual rights to cash flows deriving from the assets expire, or when the financial assets are disposed of with a substantial transfer of the relative risks and rewards.

3.5 Income component recognition criteria

Profits or losses on assets held to maturity are entered to item 100.c) "Gains (losses) on disposal or repurchase of financial assets held to maturity" of the income statement when said assets are derecognised.
When there is objective evidence of impairment, the book value of the asset is reduced and the amount of the loss is entered to item 130.c) "Net impairment adjustments" of the income statement.
If the reasons for the loss of value no longer apply as a result of an event that occurs after impairment has been recorded, write-backs are carried out and entered to the income statement. The amount of write-backs may not exceed the amortised cost that the instrument would have had in the absence of previous adjustments.

SECTION 4 – LOANS AND ADVANCES

4.1 Classification criteria

Loans consist of financial assets divided into two categories - customers and banks - and are characterised by fixed or determinable payments; they are not listed on active markets and are not classified as held for trading, available-for-sale or measured at fair value.
They include securities not listed on active markets acquired by subscription or by private placement, and loans generated by finance lease transactions.

4.2 Recognition criteria

Loans are entered to equity when the Bank becomes a party to the relevant contract that is at the time of completion of all contractual clauses: what normally is the date of disbursement and, in the case of securities, the date of purchase.
They may only be reclassified into the category of "available-for-sale assets", whilst instruments originally classified to other categories may not be transferred to loans.
Upon initial recognition loans are entered at the amount disbursed or price of subscription, including margin costs and income that may be directly attributed to the individual loan or advance and may be quantified on

the date of initial recognition, even if paid at a later date. The value at initial recognition does not include costs that are reimbursed by the debtor or internal administrative costs.

4.3 Measurement criteria

Subsequent to initial recognition, loans are measured at amortised cost using the effective interest rate method; impairment tests are performed and the results (case-by-case or collective lump-sum reductions) are entered to the income statement. The effective interest rate is the rate that exactly discounts estimated future cash flows (principal and interest) to the net carrying amount of the asset, i.e. the carrying amount plus/minus any directly attributable costs/income, through the expected life of the asset. This accounting method, which is based on a financial approach, allows the economic impact of costs/income to be distributed throughout the loan's expected residual life.
The loan portfolio is measured at the end of the reporting period in order to check whether there is objective evidence of a possible impairment loss (impairment testing).
Measurement may be on a case-by-case or collective basis.
Case-by-case measurement is conducted for items classified as doubtful loans and individual assets from other categories of impaired loans for which impairment is specifically and objectively identified. This sort of measurement is conducted by referring to the estimated future cash flows and dates of collection. The loss amount is calculated as the difference between the book value of the loan when measurement is performed (amortised cost) and the current value of expected cash flows discounted at the loan's original effective interest rate.
The original effective interest rate of each loan remains unchanged over time unless the agreement has been restructured resulting in a change in the contractual interest rate and the loan ceases to bear the contractual interest for practical purposes.
Value adjustments are entered to the income statement.
The original value of loans is restored over subsequent financial years as long as the reasons that lead to the adjustment cease and provided that the measurment is objectively linked to an event that occurs after the date of the original adjustment.
Value readjustments related to the passage of time are entered with value readjustments.
Value readjustments are entered to the income statement and the amount of readjustment may under no circumstances exceed the amortised cost that the instrument would have had in the absence of previous adjustments.
Loans that do not require case-by-case measurement, or if case-by-case-measurement has not led to adjustment, are instead subjected to collective measurement, which is carried out based on categories that are homogeneous in terms of their credit risk profiles: agriculture, construction, manufacturing, consumers and public entities, services, banking counterparties and unlikely to pay loans. The calculation of the associated percentages of loss over one year is estimated on the basis of 5-year historical data sets.
Value adjustments are entered to the income statement.

4.4 Derecognition criteria

Transferred loans are derecognised only when the transfer entails the substantial transfer of all related risks and rewards.
Otherwise, if the risks and benefits of the transferred loans have been retained, said loans continue to be carried as assets, even though legal ownership of the loan has been effectively transferred.
If it is impossible to determine whether risks and rewards have been substantially transferred, such loans are derecognised if no control of any sort has been retained over them. Otherwise, the fact that even partial control has been retained means that the loans must be carried for an amount proportional to the remaining involvement, which is measured by the exposure to changes in the value of the transferred loans and the changes in cash flows they provide.
Finally, transferred loans are derecognised if the contractual rights to receive the relative cash flows are retained, but an obligation is concurrently assumed to pay out to a third party the above mentioned flows.

4.5 Income component recognition criteria

Interest income on loans and securities is entered to item 10. "interest income and similar revenues".
Profits and losses on the disposal of loans and securities are entered to item 100. "Gains (losses) on disposal or repurchase of loans and advances".
Impairment losses and value readjustments to loans and securities are entered to item 130. "Net impairment adjustment on loans and advances".

SECTION 5 - FINANCIAL ASSETS MEASURED AT FAIR VALUE

5.1 Classification criteria

This category includes assets that are intended for measurement at fair value with an impact on the income statement when:

- measurement at fair value allows the elimination or reduction of significant distortions in the accounting representation of financial instruments or between financial instruments and non-financial assets;
- the management and/or measurement of a group of financial instruments at fair value with an impact on the income statement is consistent with a documented risk management or investment strategy oriented along those lines by company management;
- the financial instrument in question contains an implicit derivative that has a significant impact on the cash flows of the host instrument and must be split off.

Equity instruments without a reliable fair value may not be classified to this category.

5.2 Recognition criteria

Upon initial recognition, financial instruments measured at fair value are entered at cost, defined as the fair value of the instrument, without considering transaction costs or revenues directly attributable to the instrument, which are entered to the income statement.

5.3 Measurement criteria

Subsequent to initial recognition, financial assets classified in this category are measured at fair value. For further information regarding the criteria according to which fair value is determined, please refer to the paragraph dealing with the measurement of financial assets held for trading or to the paragraph dedicated to the general criteria for the measurement of fair value (Part A.4). If it is not possible to arrive at a reliable assessment of the fair value of equity securities and the relative derivative instruments by technical valuation, such financial instruments are measured at cost and adjusted for impairment losses.

5.4 Derecognition criteria

Financial assets in this category are derecognised when the contractual rights to cash flows deriving from the assets expire or when the financial assets are disposed of with a substantial transfer of the relative risks and rewards.

5.5 Income component recognition criteria

Interest income on assets in this category are entered on an accrual basis to the income statement items relative to interest, accounting for any commissions (up-front fees) paid or received early in a lump-sum.
Realised and unrealised profits and losses deriving from the change in the fair value of financial assets are entered to item "110. Net change in financial assets and liabilities at fair value".

SECTION 6 – HEDGING DERIVATIVES

6.1 Classification criteria

The purpose of hedging operations is to neutralise potential losses that may be incurred on a certain element or group of elements and is attributable to a certain risk by means of profits earned on a different element or group of elements in the event that the risk in question should actually materialise.
A derivative financial instrument is classified as a hedge if the relationship between the hedging instrument and the hedged element is formally documented, if it is effective when hedging begins, and, prospectively, over the entire life of the hedge.
Consequently, it becomes necessary to verify that the hedge of the derivative instrument is highly effective in offsetting changes in the fair value or expected cash flows of the hedged element both at the beginning of the operation and throughout its duration.
The effectiveness of the hedge depends on the extent to which changes in the fair value of the hedged instrument and the relative expected cash flows are offset by the respective values of the hedging instrument. Effectiveness may therefore be evaluated by comparing the above-mentioned changes, while taking into account the aim pursued by the company when the hedge was created. A hedge is considered effective (within the limits set by the interval 80-125%) if the changes in the fair value of the hedging instrument almost completely neutralise the changes in the hedged instrument for each risk element hedged against.

6.2 Recognition criteria

There are two types of hedges:

- fair value hedges, which aim to cover the exposure to changes in the fair value of hedged assets or liabilities attributable to a specific risk. This type of hedge may be used to hedge against market risks inherent in fixed-rate bond issues;
- cash flow hedges, which aim to cover the exposure to the risk of changes in the expected future cash flows attributable to specific risks associated with items on the financial statements. This type of hedge is specifically used to stabilise floating-rate interest flows on deposits.

The items, "Hedging derivatives" under assets (Item 80.) and liabilities (Item 60.) on the statement of assets and liabilities correspond to the positive and negative values, respectively, of derivatives that are part of effective hedges.

6.3 Measurement criteria

Hedging derivatives are measured at fair value, specifically:

- in fair value hedges, the change in the fair value of the hedged element is offset by the change in the fair value of the hedging instrument. This offset is recognised by entering the changes in value in both the hedged element (as regards changes produced by the underlying risk factor) and the hedging instrument to the income statement. Any difference, which represents the partial ineffectiveness of the hedge, is consequently considered the net economic effect;
- in cash flow hedges, the hedged item continues to be measured according to the original method, whereas changes in the fair value of the derivative are entered to equity for the effective portion of the hedge, and to the income statement, for the ineffective portion of the hedge.

The effectiveness of hedges is verified at the outset and when the financial statements for the period are prepared. If a hedge ceases to be effective, the related derivative contracts are classified as instruments held for trading and entered to Item 20. "Financial assets held for trading" or Item 40. "Financial liabilities held for trading", whereas changes in fair value are entered to Item 80. "Net trading income" of the income statement. The hedged financial instrument is measured according to the method used for the category in which it is classified.

6.4 Derecognition criteria

Hedged financial assets and liabilities are derecognised when the contractual rights to cash flows deriving from the assets expire, or when the financial assets/liabilities are disposed of with a substantial transfer of the relative risks and rewards. Furthermore, operations cease to be regarded as hedges and be accounted for accordingly if the hedge carried out through the derivative ceases or is no longer highly effective, or if the derivative expires, is sold, rescinded or exercised, or the hedged element is sold, expires or redeemed.

6.5 Income component recognition criteria

Income components are allocated to the relative items on the income statement according to the following indications:

- Accrued differentials on derivative instruments hedging against the interest rate risk (as well as interest on the hedged positions) are allocated to item 10. "Interest income and similar revenues" or 20. "Interest expense and similar charges";
- Capital gains and losses on the valuation of hedging derivatives and the positions covered by fair value hedges (which may be attributed to the risk covered) are allocated to item 90. "Net hedging gains (losses)".
- Capital gains and losses deriving from the valuation of derivative instruments used in cash flow hedges (for the effective portion) are allocated to a specific valuation reserve (item 130. "valuation reserve") in equity, "Hedging of future cash flows", net of the deferred tax effect. The ineffective portion of said capital gains and losses is entered to item 90. "Net hedging gains (losses)" of the income statement.

SECTION 7 – EQUITY INVESTMENTS

7.1 Classification criteria

According to IAS, the item "Equity investments" includes equity investments in subsidiaries, affiliates and jointly-controlled companies.

Subsidiaries are defined as companies for which more than half the voting rights are held either directly or indirectly, unless it may be shown that the possession thereof does not constitute control; control is defined as wielding the power to determine financial and management policies.
Jointly-controlled companies are defined as those for which control is shared with other parties according to a contract. Affiliates are defined as companies, for which at least 20% of voting rights are held either directly or indirectly, or over which significant influence is possessed despite holding a lesser share of voting rights; significant influence is defined as the power to participate in determining financial and management policies, without having control or joint control.
The equity investment portfolio includes shareholdings in fully-owned subsidiaries and affiliates over which the Bank exercises influence equal to or greater than 20% of voting rights.
The remaining equity investments, i.e. not in subsidiaries and affiliates, are classified as available-for-sale financial assets and treated accordingly.

7.2 Recognition criteria
Equity investments are entered at cost, including accessory charges, when acquired.

7.3 Measurement criteria
Subsidiaries and affiliates are measured according to the equity method and the impact thereof is entered to the income statement: according to this method, equity investments are initially entered at cost and the book value is increased or decreased to account for the Bank's share in the investee company's profits or losses realised after the date of acquisition. The Bank's share of the investee's profits for the year is entered to the income statement. Dividends received from an investee are entered against the book value of the equity investment. It may become necessary to make adjustments to the book value of equity investments when the share of the Bank's interest in an affiliate is modified.
If there is evidence that the value of an equity investment may have decreased, an estimate of the recovery value of the equity investment is made. If the recovery value is less than the book value, the relative difference is entered to item 210. "Profit (loss) from equity investments". This item also includes any future value re-adjustments where the reasons for the previous write-downs no longer apply.

7.4 Derecognition criteria
Equity investments are derecognised when the contractual rights to cash flows deriving from the assets expire, or when the financial assets are disposed of with a substantial transfer of the relative risks and benefits.

7.5 Income component recognition criteria
Profits and losses realised by investor companies, impairment losses and the effects of measurement according to the equity method are allocated to item 210. "Profit (loss) from equity investments" in the income statement, whereas dividends collected are entered against the book value of the equity investments.

SECTION 8 – PROPERTY, PLANT AND EQUIPMENT

8.1 Classification criteria
Property, plant and equipment include land, instrument real estate, real estate investments, plant, fixtures and furnishings, and all types of equipment.
This category consists of property, plant and equipment held for use in the production or provision of goods and services, to be leased to third parties, or for administrative purposes, and which are believed likely to be used for more than one accounting period.

8.2 Recognition criteria

Property, plant and equipment are initially entered at cost, which includes the price of purchase and any accessory charges that may be directly attributed to the acquisition and commissioning of the assets.
Extraordinary maintenance expenses that entail increase in the future economic benefits of the asset are added to the book value of the asset, whereas other ordinary maintenance costs are entered to the income statement.

8.3 Measurement criteria
Property, plant and equipment, including non-instrumental real estate, are measured at cost, once any depreciation and impairment have been deducted.
Upon first application, real estate is entered at cost, which is defined as past book value adjusted accordingly to specific monetary revaluation laws.
Property, plant and equipment are systematically depreciated on a straight-line basis over their useful life.
Land is not depreciated and is entered separately even when acquired with annexed buildings.
IAS 16 does not provide for depreciation of land since land is an asset with an indefinite useful life; for fully owned properties (from the ground up), this has led to the need to separate the value of land from the annexed buildings by commissioning an expert appraisal.
If there is any evidence that shows that an asset has undergone impairment on the date when financial statements are closed, the asset's book value is compared with its recovery value. Any adjustments are entered to the income statement**.** If the reasons that led to the recording of the loss cease to exist, a value re-adjustment is made, the amount of which may not exceed the value that the asset would have had, net of depreciation calculated in the absence of previous impairment.

8.4 Derecognition criteria

Property, plant and equipment are derecognised when they have been disposed of, or when the assets have been permanently taken out of use and no future economic benefits are expected from disposal.

8.5 Income component recognition criteria

Income components are entered to the relative items on the income statement according to the following indications:
- periodic depreciation, accumulated impairment losses, and write-backs are allocated to item 170. "Net adjustments to property, plant and equipment".
- profits and losses on the disposal of assets are allocated to item 240. "Gains (losses) on disposal of investments".

SECTION 9 – INTANGIBLE ASSETS

9.1 Classification criteria
The portfolio of intangible assets includes intangible factors of production with a useful life of several years, and consists largely of application software.

9.2 Recognition criteria
Said assets are entered at the price of purchase including accessory charges and increased by expenses incurred at a later date to raise their value or initial production capacity.

9.3 Measurement criteria
Intangible assets are amortised according to the straight-line method based on the estimated residual useful life of the assets. If evidence is found indicating the existence of accumulated losses, intangible assets are tested for impairment and any losses in value are recorded; later write-backs may not exceed the amount of the previously recorded impairment losses.

9.4 Derecognition criteria
Intangible assets are derecognised when their economic function has been fully exhausted.

9.5 Income component recognition criteria
Periodic amortisation, accumulated impairment losses, and write-backs are allocated to item 180. "Net adjustments to intangible assets".

SECTION 10 – NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

The item includes non-current assets held for sale and assets and liabilities related to groups held for sale, the sale of which is likely to take place within one year from the date of classification, such as equity

investments in subsidiaries, affiliates and jointly-controlled companies, property, plant and equipment and intangible assets, and assets and liabilities related to company branches held for sale.
They are entered under the items 140. "Non-current assets and groups of assets held for sale" and 90. "Liabilities associated with assets held for sale", respectively.
Assets and liabilities that fall into this category are measured at the lesser of their book value and fair value less costs to sell.
The balance of income and charges (dividends, interest, etc.), whether positive or negative, and the measurements of said assets/liabilities according to the above methods, net of the relative current and deferred taxes, is entered to item 280. "Gains (losses) on groups of assets held for sale, net of taxes" of the income statement.

SECTION 11 – CURRENT AND DEFERRED TAXATION

11.1 Classification criteria
Items related to current taxes include payments in excess of sums actually owed (current assets) and debt obligations to be fulfilled (current liabilities) in relation to income taxes for the year.
The amount of current tax liabilities also takes into account the risks of charges due to tax disputes.
Deferred tax entries are calculated according to temporary differences, without time limits, between the value attributed to an asset or liability according to statutory standards and the corresponding tax values.

11.2 Recognition, measurement and derecognition criteria
The provision for taxation is determined according to a prudential estimate of current, prepaid, and deferred tax charges.
Prepaid and deferred taxes are accounted for at the level of equity with open balances and no offsetting entries, including the former under item 130. "Tax assets" and the second under item 80. "Tax liabilities".
Deferred tax assets on tax losses are booked to the extent it is deemed likely that a future taxable income will be achieved against which the tax losses can be utilised.

11.3 Income component recognition criteria
Current and deferred taxes are entered to item 260. "Income taxes on current operations" of the income statement, except for taxes relative to items directly charged or credited to equity, net of taxes (profits or losses on available-for-sale financial assets, actuarial income/expenses on defined benefit plans (severance indemnities).

SECTION 12 – PROVISIONS FOR RISKS AND CHARGES

12.1 Classification criteria
The provisions for risks and charges consist of sums allocated in relation to current obligations that originated in a past event for which is likely that economic resources will be disbursed to fulfil the obligation, provided that it is possible to estimate the amount to be disbursed in a reliable manner. These are consequently liabilities with uncertain timeframes and amounts.

12.2 Recognition, measurement and derecognition criteria
If the time factor is significant, allocations are discounted at current market rates. Provisions are entered to the income statement.
Provisions are only drawn down to pay the charges for which they were originally made. If it is no longer considered likely that the employment of resources will be required to fulfil the obligation, the allocation is reversed and reattributed to the income statement.

12.3 Income component recognition criteria
Allocations/reversals in relation to provisions for risks and charges are recognised under item 160. "Net provisions for risks and charges".

The Bank only uses the item "Provisions for risks and charges: b) other funds" including the allocations:
- personnel and third-parties for which it is likely that economic resources will be disbursed;

- risks of bankruptcy revocatory actions discounted with the Zero Coupon rate at the Statement of Financial Position date, by estimating the average duration of legal proceedings of this kind, and other risks for ongoing disputes;
- charitable activities and donations allocated upon approval of the financial statements.

SECTION 13 – PAYABLES AND DEBT SECURITIES IN ISSUE

13.1 Classification criteria

Amounts due to banks, customers, and debt securities in issue including various forms of Interbank funding, customer deposits and sums collected through certificates of deposit and outstanding bonds net of any buybacks.

13.2 Recognition and derecognition criteria

Financial assets in this category are first recognised when the sums collected are received or when the debt securities are issued.
Payables and debt securities issue are recognised at their fair value, adjusted as necessary by any charges and income that may be directly attributed to these liabilities. Fair value normally coincides with the sums collected or with the issue price of the securities.
Financial liabilities are derecognised when they have expired or been extinguished. They are also derecognised if previously issued securities are bought back.

13.3 Measurement criteria

Subsequent to initial recognition, financial liabilities in this category are measured at amortised cost using the effective interest rate method.

13.4 Income component recognition criteria

Interest expense is entered to item 20. "interest expense and similar charges".
Profits and losses on the repurchase of liabilities are entered to item 100. "gains (losses) on disposal or repurchase".

SECTION 14 – FINANCIAL LIABILITIES HELD FOR TRADING

14.1 Classification criteria

This item includes the negative value of derivative contracts held for trading measured at fair value.

14.2 Recognition and derecognition criteria

The same criteria are applied, with the necessary adaptations, as are used for the recognition and derecognition of financial assets held for trading (previous Section 1 – Financial assets held for trading).

14.3 Measurement criteria

The same criteria are applied, with the necessary adaptations, as are used for the measurement of financial assets held for trading (see Section 1 – Financial assets held for trading).
For more details, please refer also to the section on general criteria for measuring fair value (Part A.4).

14.4 Income component recognition criteria

The same criteria are applied, with the necessary adaptations, as are used for the measurement of financial assets held for trading (see Section 1 – Financial assets held for trading).

SECTION 15 - FINANCIAL LIABILITIES MEASURED AT FAIR VALUE

15.1 Classification criteria

This category includes financial liabilities that it is intended to measure at fair value with an impact on the income statement when:

- measurement at fair value allows the elimination or reduction of significant distortions in the accounting representation of the instruments;

- the management and/or measurement of a group of financial instruments at fair value with an impact on the income statement is consistent with a documented risk management or investment strategy oriented along those lines by company management;
- the financial instrument in question contains an implicit derivative that has a significant impact on the cash flows of the host instrument and must be split off.

The Bank has adopted measurement at fair value (the Fair Value Option) for bond issues hedged by derivative instruments with the aim of improving the information content of the Financial Statements and in order to eliminate the accounting mismatch in the recognition of components attributable to the interest margin (interest income and expenses) and in the recognition and measurement of profits and losses deriving from the measurement of hedged bonds according to the amortised cost method and instruments held as fair value hedges.
Equity instruments without a reliable fair value may not be classified to this category.

15.2 Recognition criteria

Fixed-rate funding instruments the market risk of which has been systematically hedged are entered to financial liabilities measured at fair value.
Upon initial recognition, financial instruments measured at fair value are entered at cost, defined as the fair value of the instrument, without considering transaction costs or revenues directly attributable to the instrument, which are entered to the income statement.

15.3 Measurement criteria

Subsequent to initial recognition, financial liabilities classified in this category are measured at fair value. Market prices are used to determine the fair value of financial instruments listed on an active market. In the absence of an active market, estimation methods and valuation models are employed that take into account all risk factors correlated with the instruments and that are based on market data, such as: methods based on the valuation of listed instruments with similar characteristics, discounted cash flow calculations, option price calculation models, and values posted in recent comparable transactions.
For more details, please refer to the section on general criteria for measuring fair value (Part A.4).

15.4 Derecognition criteria

Financial liabilities are derecognised when they are extinguished or when the contractual obligation has been fulfilled, rescinded, or has expired.

15.5 Income component recognition criteria

Interest expense in this category is entered on an accrual basis to the income statement items relative to interest; accounting for any commissions (up-front fees) paid or received early in a lump-sum.
Realised and unrealised profits and losses deriving from the change in the fair value of financial assets are entered to item "110. Net change in financial assets and liabilities at fair value".

SECTION 16 – CURRENCY TRANSACTIONS

16.1 Classification criteria

Currency transactions consist of all assets and liabilities denominated in currencies other than the Euro.

16.2 Recognition criteria

Transactions in foreign currencies are entered at the exchange rate on the date of the transaction.

16.3 Measurement criteria

At the end of each accounting period, items in foreign currencies are given values as follows:
- monetary items are converted at the exchange rate at the closing of the year;
- non-monetary items measured at historical cost are converted at the exchange rate on the date of the operation;
- monetary items measured at fair value are converted using the exchange rates at the closing of the year; in this case, exchange differences are entered:
  - to the income statement, if the asset or liability is classified to the trading portfolio;
  - to revaluation reserves, if the asset is classified as available for sale.

16.4 Income component recognition criteria

Positive and negative exchange differences on foreign operations other than those designated at fair value and hedging operations are entered to item 80. "Net trading income" of the income statement.

SECTION 17 – OTHER INFORMATION

17.1 Provision for severance indemnities

Following the reform of supplementary pensions implemented by Legislative Decree No. 252/2005 those amounts of the severance indemnities that had accrued as at 31 December 2006 remain under the management of the Bank while amounts accruing starting from 1 January 2007 must either be paid into supplementary pension schemes or to the fund managed by INPS (according to the choice expressed by the employee).

The coming into force of the above mentioned reform made for a change in the way the fund was recorded both with regard to amounts accrued as at 31 December 2006 and to amounts accruing starting from 1 January 2007.

In particular:

- amounts accruing starting from 1 January 2007 go to a "defined-contribution plan" regardless of whether the employee opted for a supplementary pension scheme or for the treasury fund managed by INPS. The Bank therefore records amounts paid into these funds as payroll without employing actuarial criteria;
- amounts accrued as at 31 December 2006 go to a "defined-benefit plan" and are entered at the value calculated according to actuarial criteria in compliance with IAS 19. The liability in relation to the accrued severance indemnity is calculated on an actuarial basis with no pro-rata calculation of services rendered, as the service that must be measured has entirely accrued.

Classification, recognition, derecognition and measurement criteria

The provision for severance indemnities – for the amount accrued as at 31 December 2006 – is entered at the value calculated according to actuarial criteria provided in IAS 19 for defined-benefit programmes for employees and is certified by independent actuaries.

The Projected Unit Credit Method is used for discounting; this method involves predicting future disbursements according to historical and statistical analyses and the demographic curve and then discounting these flows according to a market interest rate. The discount rates are calculated according to the term structure of interest rates as obtained, by a bootstrap procedure, from the swap rate curve for the dates of measurement.

The amount that started accruing from 1 January 2007 is not added to the severance indemnities fund but rather it is paid into the pension funds and/or the treasury fund managed by INPS.

Income component recognition criteria

With regard to the recognition of the annual changes resulting from the actuarial calculations of the components of the "defined benefit plans", the IAS 19 previously in force consisted of two options:

1. the recognition in the income statement
2. the recognition in equity (statement of comprehensive income).

Until 31 December 2012, the Bank had adopted the first method, accounting in the income statement for all changes in employee severance indemnities accrued during the period.

With EC Regulation no. 475 of 5 June 2012, the new version of IAS 19 "Employee Benefits" was approved. Such regulation, applicable as per mandatory requirements, for accounting periods beginning on or after 1 January 2013, provides a single method for accounting of actuarial gains/losses, which have to be included immediately in the calculation of net liabilities to employees, as contra-entry for an equity item (OCI - Other Comprehensive Income) to be included in the statement of comprehensive income for the period.

Based on the above regulation, the Bank adopted the revised IAS 19 starting from the financial statements for 2013, implementing the recognition in the income statement of gains and losses attributable to the actuarial nature of these differences directly in equity, with data related to financial statements for 2012 reclassified in accordance with IAS 8.

For more detailed information concerning the composition and values of the items affected by the estimates, please refer to the specific sections in the notes to the financial statements.

Payments into the supplementary pension schemes are booked to the income statement under item 150.a) "Payroll" in relation to defined contribution programmes.

17.2 Leasehold improvements

The costs sustained for restructuring property belonging to third parties are capitalised in consideration of the fact that for the duration of the rental contract the using company has control of the assets and may receive their future economic benefits. Such costs, recorded in "Other assets" as provided for by the instructions of the Bank of Italy, are amortised over a period which must not exceed the duration of the rental contract, and amortisation quotas are recorded in "Other maintenance charges".

17.3 Recognition of revenues

Revenues are recognised when they are received, or when it is likely that future benefits will be received or said benefits may be reliably quantified. In particular:

- interest income is recognised on an accrual basis according to the contractual interest rate or the effective interest rate if the amortised cost method is applied;
- interest on arrears, when provided for by a contract, is recognised in the income statement only when it is actually collected;
- dividends are recognised to the income statement when it is resolved to distribute them, which coincides with when they are collected.

17.4 Provisions for guarantees and commitments

Allocations and write-downs due to the impairment of guarantees granted to the Bank are determined applying the same rate set for investment credit and entered to "Other liabilities" as established by the Bank of Italy.

17.5 Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition net of any principal repayments, plus or minus cumulative amortisation, calculated using the effective interest rate method, of any difference between initial amount and amount at maturity and net of any reduction for impairment.
The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or through the subsequent date for recalculation of the price to the net carrying amount of the financial asset or financial liability. In the calculation of the present value, the effective interest rate is applied to the flow of future cash receipts or payments through the entire useful life of the financial asset or liability – or for a shorter period when certain conditions are met (for example review of market interest rates).
After initial recognition, amortised cost enables allocation of revenues and costs directly by decreasing or increasing the value of the instrument over its entire expected life via the amortisation process. The determination of amortised cost is different depending on whether financial assets/liabilities have fixed or variable rates and, in this last case, if the volatility of the rate is known or not beforehand. For instruments with fixed rate or fixed rate by time bands, future cash flows are quantified on the basis of the known interest rate (sole or variable) over the life of the financing. For financial assets/liabilities with a variable rate, for which the volatility is not known beforehand (for example because it is linked to an index), the determination of cash flows is carried out based on the last rate available. At every revision of the interest rate the amortisation plan and the effective interest rate for the entire life of the investment, until maturity, are recalculated. Any changes are recorded in the income statement as income or loss.
Financial assets and liabilities traded at market conditions are initially recognised at fair value, which normally corresponds to the amount disbursed or paid including, for instruments measured at amortised cost, transaction costs and any directly attributable fees.
Transaction costs include internal or external marginal costs and income attributable to the issue, the acquisition or the disposal of a financial instrument which are not debited to the client. Such commissions, which must be directly attributable to the single financial asset or liability, modify the original effective interest rate; thereby the effective interest rate associated to the transaction differs from contractual interest rate.
Transaction costs do not include costs/income relating to more than one transaction and the components related to events which may occur during the life of the financial instrument, but which are not certain at the time of the initial agreement, such as for example commissions for distribution, for non-use and for advance termination. Amortised cost does not include costs the Bank would sustain independently from the transaction (e.g. administrative and communication costs, stationery expenses), those, which though directly attributable to the transaction are part of standard practice for the management of lending (e.g. activities related to the loan granting process, administrative management of syndicated loans) as well as

commissions on services received following structured finance activities that would in any case have been received independently from the subsequent financing of the transaction.
With reference to loans, fees paid to distribution networks are considered costs directly attributable to the financial instrument.
Regarding securities issued, amortised cost considers placement commissions on bond issues paid to third parties, while it does not consider legal and advisory/review expenses for the annual update of prospectuses.

17.6 Fair value measurements

General qualitative and quantitative information on criteria for measuring fair value can be found in Part A.4.

17.7 Disclosure on the application of IFRS9

Regulation (EU) 2016/2067 of the European Commission endorsed the international accounting standard "International Financial Reporting Standard 9 Financial Instruments", which will replace IAS 39 as of the financial statements for the year as at 1 January 2018.
The impacts of this transition relate mainly to three aspects:

1. Classification of financial assets;
2. New impairment model;
3. New hedge accounting criteria.

Classification of financial assets

IFRS 9 requires financial assets to be classified in portfolios other than those required by IFRS 9:

- **FVTPL (fair value through profit & loss):** financial assets measured at fair value through profit or loss; this item also includes assets under the fair value option;
- **FVOCI (fair value through Other Comprehensive Income):** financial assets measured at fair value with effects on shareholders' equity that will never be reversed to the income statement, either in the event of impairment or in the event of sale (derecognition)**;**
- **Amortised cost.**

Financial assets are classified in one or other portfolio on the basis of the characteristics of the contractual cash flows of each instrument as well as on the basis of the business models adopted by the company for the management of financial assets.
As far as business models are concerned, IFRS 9 envisages the following:

- **Held to collect**: the aim is to hold the financial assets in order to collect their contractual cash flows. Sales should not be an integral part of the business model. However, they are allowed if they are insignificant even if frequent, infrequent even if they are significant, close to the maturity of the instrument or due to an increase in credit risk;
- **Held to collect and sell**: the aim is both to hold the financial assets in order to collect the relative contractual cash flows and to sell the financial assets. Sales are an integral part of the held to collect & sell business model; there is no need to evaluate their significance or frequency;
- **Other (trading, FVO)**: the aim is any other business objective that is not held to collect or held to collect & sale. The aim is to maximise contractual flows through sales for which there are no restrictions.

The assets included in "other business models" must be measured at fair value and classified in the financial statements under the FVTPL category, while for the assets included in the HTC and HTC&S business models, it is necessary to carry out the so-called SPPI test (Solely Payments of Principal and Interest) in order to determine the allocation portfolio.

The SPPI test aims to verify, through the analysis of contractual cash flows of each debt instrument, whether they are composed only of the payment of principal and interest and whether the return of the instrument is strictly related to the amount financed and reflects both the time value of money and the credit risk related to the instrument.
If the test is passed, the assets included in the Held to collect business model must be measured at amortised cost (with impairment) while those included in the Held to collect and sell business model must be measured at Fair value through Other Comprehensive Income (with impairment). Otherwise, regardless of the business model, assets must be measured at fair value through profit and loss.

This is not the case for equity instruments, for which on initial recognition it is possible to exercise an irrevocable option to classify such instruments in the FVOCI portfolio, if not held for sale. In this case, the impairment test is no longer necessary.

New impairment model

IFRS 9 for determining impairment on debt instruments measured at amortised cost or under FVOCI and lease receivables recognised on the basis of IAS 17, introduced an "Expected Loss" (EL) approach, replacing the current "Incurred Loss" (IL) approach that characterises IAS 39.
This approach is characterised by the following key elements:

- three portfolios accommodating financial assets according to their level of impairment are created. In particular:
    - portfolio 1 consists of financial assets with no (or insignificant) level of impairment of credit quality; provisions are on a portfolio basis;
    - portfolio 2 consists of financial assets for which creditworthiness is negatively affected by some events but for which the losses are not yet analytically observable; provisions are on a portfolio basis;
    - portfolio 3 consists of financial assets for which losses have been identified.
- all the originating financial assets and a significant part of those purchased are initially classified in portfolio 1. Purchased instruments for which there is an explicit expectation of loss (purchased credit-impaired assets) are instead allocated to portfolios 2 or 3;
- provisions relating to portfolios 2 and 3 are based on the "lifetime expected loss", those for portfolio 1 on the other hand are defined on the basis of the "expected loss" in connection with an event of loss expected in the following 12 months;
- any favourable or unfavourable change in the expected recoverability of cash flows must be recorded in the income statement;
- in estimating expected losses (EL), each entity will have to consider information that is reasonably available without undue costs and efforts. The estimate of expected losses will have to take into account:
    - all reasonable and supportive information that is to be considered relevant in a forward looking estimate; all available historical, current and prospective information;
    - a range of possible results and the probability and reasonableness of these results (i.e. not only an estimate of the most likely result); this is a weighted average probability;
    - the time value of money; in some circumstances, there is the option of choosing a rate between the risk-free rate and the effective rate for positions in the financial statements.

New hedge accounting criteria.

The new IFRS9 standard introduces elements of simplification and greater flexibility, eliminating some of the constraints and rigidities present in IAS 39, such as the effectiveness test with an 80%-125% threshold, replaced by an objective test that verifies the economic relationship between the hedged instrument and the hedging instrument. IFRS 9 also expands the application of hedge accounting and simplifies its management by broadening the category of hedged instruments: while previously only financial assets and liabilities were considered as such, now all elements and groups of elements can fall into this category as long as the risk is separately identifiable and measurable. Moreover, the new model of hedge accounting requires a greater level of descriptive information on hedged risks and instruments used.

Impact assessment

The Bank launched a project to reclassify its portfolio of financial assets and liabilities to First Time Adoption (FTA), to define business models and to define criteria for classification and measurement on an ongoing basis.
In terms of reclassifications, the Bank has adopted the following guidelines:

- all loans and advances to customers, owing to the fact that they have passed the SPPI test, continue to be classified at amortised cost;
- debt securities classified as loans and advances to customers ("minibonds") passed the SPPI test and therefore continue to be classified at amortised cost; however, the amount of the portfolio is not significant;

- the portfolio available for sale will be classified as FVOCI for the component represented by debt securities, having passed the SPPI test, and as FVTPL for the component represented by equity in the financial year of merchant bank as well as investments in UCITS. For equity securities of companies and entities of an institutional nature, the OCI option is adopted.
- trading derivatives should be classified as FVTPL.

With regard to the impact of the new impairment, at present only some preliminary elaborations of the CSD-Crif model are available, which indicate a tightening of the provisioning for performing portfolios (stage 1 and 2) as well as a further increase of the non-performing portfolio in relation to the component expected to be sold in 2018.
The indicative quantification, carried out at the time of the 2017 half-yearly financial statements and based on the following assumptions:
- classification in portfolio 1 of all performing loans that have not been in arrears for more than 30 days and are not classified as forborne: for these loans, impairment was estimated by applying the PD (at 1 year) and LGD used as at 31 December 2016 for the impairment test pursuant to IAS 39;
- classification in portfolio 2 of all performing loans that have been in arrears for more than 30 days or are classified as forborne: for these loans, impairment was estimated by applying the LGD used as at 31 December 2016 for impairment pursuant to IAS 39 and by calculating a proxy for PD lifetime projecting the PD at 1 year over the average life of the loan portfolio;
- classification in portfolio 3 of all impaired loans: for these loans, the impairment recorded in the financial statements as at 31 December 2016 was maintained;

in all likelihood, it will be less than the results that will be definitively available at the end of the process under way.

The impact of the changes introduced on hedge accounting, since the Bank does not have any hedging transactions in place, is zero.

Pending the final figure for provisioning, the Bank notified the Bank of Italy that it does not intend to make use of the transitional provisions set out in Regulation (EU) 2017/2395, therefore, it is allowed to dilute the prudential impact of applying the new rules for the write-down of financial statement assets set out in IFRS 9 over 5 years, and to adopt the mechanism for the full absorption of the higher write-downs on equity and to request the withdrawal of the choice only if the final results should deviate significantly and unsustainably from current estimates.

A.3 Information on transfers of financial assets between portfolios

During 2017, the Bank did not make any transfers of financial assets between portfolios and therefore this section is not completed.

A.4 Fair value disclosure

Qualitative information

This section deals with methods for determining fair value in relation to the types of assets and liabilities of the Bank.
The 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 at the measurement date (i.e. not a forced liquidation or below cost sale). The fair value is an evaluation criterion of the market, not specific to the entity. An entity shall measure the fair value of an asset or a liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.
For financial instruments, fair value is determined through the use of prices obtained from financial markets in the case of instruments quoted on active markets or via internal valuation techniques for other financial instruments.
A market is regarded as active if quoted prices, representing actual and regularly occurring market transactions considering a normal reference period, are readily and regularly available from an exchange, dealer or brokered market, industry group, pricing service or regulatory agency.
When the market is not functioning regularly, that is when the market does not have a sufficient and continuous number of trades, the fair value of the financial instruments is mainly determined through the use of valuation techniques whose objective is the establishment of the price of a hypothetical independent arm's length transaction, motivated by normal business considerations, as at the measurement date.
With regard to financial instruments, IFRS 13 establishes a hierarchy of criteria based on the origin, type and quality of information used in the calculation. The "fair value hierarchy" defines three levels for the measurement of the fair value.

- Level 1: the fair value of instruments classified in this level is determined based on quotation prices observed in active markets for identical assets or liabilities;
- Level 2: the fair value of instruments classified in this level is determined based on valuation models that use inputs that can be observed either directly or indirectly in the market (other than quoted prices in level 1;
- Level 3: the fair value of instruments classified in this level is determined based on valuation models that use inputs that cannot be observed in the market.

The choice of these methodologies is not optional but must be applied according to a hierarchy since this classification has the objective to establish a hierarchy in terms of the reliability of the values depending on the degree of discretion applied by the companies, giving priority to the use of observable market inputs that reflect the assumptions that participants would use in the valuation (pricing) of the asset/liability. The objective of the hierarchy is also to increase consistency and comparability in fair value measurements.
The valuation method defined for a financial instrument is adopted over time and is changed only as a result of significant changes in market conditions or for the issuer of the financial instrument.
The Bank's activities considered quoted on an active market (Level 1) are: equities and bonds quoted on a regulated market and also securities for which at least two recent executable prices are continuously available with a bid-ask spread under an interval deemed to be congruous.
The fair value of securities – in relation to which the FVO has been elected and executable prices are not continuously available on the market – and of interest rate hedging derivatives relating to FVO, is determined based on valuation models that mainly use inputs that can be observed in the market (Level 2). These are Over the counter instruments which are bilaterally exchanged with market counterparties and are valued through specific pricing models, fed by input parameters (such as interest rate curves) adjusted to consider the credit quality of the issuer. Creditworthiness is measured with reference to the spread of the most recent bond issues which is taken as an indication of the current rating.
With regard to OTC derivatives, a methodological approach was adopted that allows to include credit risk in determining the fair value of financial instruments: in particular, to fulfil the requirements of the new IFRS 13, it enhances the effects of changes in the counterparty creditworthiness (Credit Value Adjustment - CVA)

and the effects of changes in own creditworthiness (Debit Value Adjustment - DVA). The adjustment values are dependent on exposure, the probability of default (PD) and loss given default (LGD) of the counterparties.

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

Fair value Level 2

The following instruments are valued on the basis of techniques that make use of market parameters (Level 2):

- bonds under the FVO for which it is not possible to use fair value Level 1;
- bonds classified under the available for sale portfolio for which it is not possible to use fair value of Level 1;
- bonds classified under the cash flow hedge portfolio (only for the purposes of testing the hedge effectiveness);
- OTC interest rate derivative.

In detail, for each of the categories of instruments identified above we apply the valuation models mentioned below.

Bonds under FVO

The methods used for the valuation of these bonds are:

- amortisation plan with future coupons estimated based on forward rates and yield curve including credit spread for variable rate securities;
- amortisation plan with estimated future coupons and yield rate including credit spread for fixed rate securities.

Bonds classified under the available for sale portfolio

The methods used for the valuation of these bonds are:

- amortisation plan with future coupons estimated based on forward rates and yield curve including credit spread for variable rate securities;
- amortisation plan with estimated future coupons and yield rate including credit spread for fixed rate securities.

Bonds and interest rate derivatives entered into a hedged portfolio using Hedge Accounting

The calculation of the fair value for hedging derivatives is done by adopting the "Notional Cash Flow After Last Known Coupon" model and the yield curve including issue spread for the valuation of the variable rate component: evaluation differences between this model and the more correct model based on amortisation plan with future coupons estimated based on forward rates are considered negligible.

For consistency the same model is also applied to the hedged bonds only for the purpose of verifying the effectiveness of the hedge[21].

For the evaluation of the fair value of the fixed rate component, we use a model taking into account amounts specified in the amortisation plan and estimating future coupons based on the current coupon rate and the yield curve including issue spread.

Interest rate derivatives related to the FVO

The methods used for the evaluation of these derivatives are similar to those used for the determination of the fair value of hedging derivatives:

- for the variable rate component, "Notional Cash Flow After Last Known Coupon" model and the yield curve including credit spread;
- amortisation plan with estimated future coupons and yield rate including credit spread for the fixed rate component.

Any fair value components arising from options are measured using the values provided from time to time by qualified counterparties whose methods are considered to be consistent with those outlined in the policy.

21 The Cash Flow Hedge system envisages that the hedged instrument adheres to the rules of the IAS category in which it is classified.

Interest rate trading derivatives

For the evaluation of trading derivatives, the fair value provided by qualified providers whose methods are considered to be consistent with those outlined in this policy is adopted, applying to them the necessary correction to take account of counterparty risk (CDA/DVA).

Fair value Level 3

For certain types of financial instruments (unquoted equity investments), the determination of fair value is based on valuation models that must assume the use of parameters that are not directly observable on the markets, therefore implying estimates and assumptions on the part of the evaluator (Level 3). In particular, the valuation of the financial instrument is based on a calculation model that is based on financial or similar methods. The cost of purchase is used if the valuation is objectively not possible or if the cost and effort to obtain it is too high (for the characteristics and extent of participation).

Assets and liabilities at amortised cost

To integrate the above information in relation to individual financial statement items, for assets and liabilities reported at amortised value, the fair value shown in the Notes to the financial statements is calculated as follows:

– For loans and advances to customers and banks, the fair value (Level 2) is calculated by discounting the future contractual flows on the basis of the market rates curve at the closing of the year according to an approach based on the discount rate adjustments, which provides that risk factors - represented by the PD and LGD parameters used in calculating impairment of the portfolios - are taken into account in the rate used to discount the future flows, also considering the general worsening of the risk differentials recorded under current market conditions;
– For bonds issued and in the portfolio, the fair value (Level 2) is calculated with the help of external providers, based on the discounting of future cash flows expected from the contractual plan of the security on the basis of the market rates curve at the closing of the year, adjusted as necessary to take into account the risk profile of the issuer;
– The fair value of loans and amounts due to customers and banks on demand is estimated from the book value (Level 3).

QUANTITATIVE INFORMATION ON RELEVANT NON-OBSERVABLE INPUTS USED IN THE EVALUATION OF FAIR VALUE

It is noted that Level 3 instruments, which have more discretion in determining the fair value, represent only a small percentage (less than 2%) of total assets. The quantitative impact of unobservable inputs used in measuring fair value is therefore deemed insignificant.

A.4.2 Processes and sensitivity of valuations

The methodologies for determining the fair value of financial instruments and the criteria for allocation of the instruments themselves within the Fair Value Hierarchy are governed by the policy of valuation of assets and liabilities adopted by the Bank.

The Policy Assessment identifies for each product/family of products:

- the input parameters and their sources
- the assessment methodologies

The valuation models used must be consistent with the degree of complexity of the products offered/negotiated, reliable in estimating values, used and known by other market participants.

The evaluation process consists of the following phases:

1. The first phase identifies the types of product, the financial parameters and their sources to be used, which must be of proven reliability and be widely accepted among market participants.
2. The second phase of the evaluation process specifies the method for determining the fair value, for each type of product.

In phase 1, for securities classified under Level 2 of the fair value hierarchy, the process of determining the spread of the issuer creditworthiness is particularly relevant, as detailed below.

Issuer's creditworthiness

For assets/liabilities on the wholesale market, the credit spread applied is recorded for each issuer (including Mediocredito Trentino – Alto Adige SpA), according to one of the following methodologies, in order of priority:

1. spread applied to the most recent bond issue of significant amount, placed with no connected eligible counterparties;

2. spread determined taking into account the credit rating of each counterparty (including Mediocredito Trentino – Alto Adige S.p.A.) and contingent conditions of the funding market;
3. latest credit spread as reported by Reuters for Moody's rating level.

For liabilities in the retail market, the credit spread applied is the one recognised for the issuer Mediocredito Trentino – Alto Adige S.p.A. by considering the most recent bond issue placed with retail counterparties.
For the assessment of unsecured bonds by corporate counterparties, in the absence of significant issues on the basis of which it is possible to estimate the credit spread, the spread is set to the minimum provided for unsecured financing transactions of the same original duration.

Credit Valuation Adjustment (CVA) and Debit Valuation Adjustment (DVA)
The inclusion of the counterparty and own credit risk, for the purpose of determining the fair value of derivatives, as required by IFRS 13, implies that the value calculated on the basis of risk-free rates (MTM) is subject to an adjustment. Such adjustment is referred to as CVA for derivative asset and DVA for derivative liabilities in the Statement of Financial Position.
For the determination of the Credit Valuation Adjustment (CVA) for derivatives purchased from bank counterparties and Debit Valuation Adjustment (DVA) of derivatives sold to customers, we use the methodologies developed by the Fair Value Hedge Accounting Working group, coordinated by Federcasse. Such a Working Group is made up of representatives of local federations, second-level banks and IT companies in the sector (including the outsourcer for the Bank).
IFRS 13 requires the use of valuation techniques that maximize the use of observable market data and data which are attributable to factors taken into account in the valuation of financial instruments by all market participants. Given the characteristics of the transactions entered into and the type of banks as counterparties, it is reasonable to estimate the PD (Probability of Default), both for the Bank’s own credit risk and the bank counterparties’, using the historical approach. This represents a suitable alternative to the market approach, by referencing to the tables of default historical data reported by the rating agency Moody's using the default rates associated with rating classes (Report “Default and Recovery Rates of European Financial and Non-Financial Corporate Issuers”, table “European and global issuer-weighted cumulative default rates – Europe”).
As regards LGD (Loss Given Default), in accordance to the methodology of the above-mentioned working group, a loss of 60% of the EAD is assumed in line with practices for unsecured derivatives.

A.4.3 Hierarchy of fair value
The choice of the level of fair value is not optional, but must be applied in a hierarchical order, as this classification has the objective to establish a hierarchy in terms of the reliability of the values depending on the degree of discretion applied, giving priority to the use of observable market inputs that reflect the assumptions that market participants would use in the evaluation (pricing) of assets/liabilities. The objective of the hierarchy is also to increase consistency and comparability in fair value measurements.
The valuation method defined for a financial instrument is adopted over time and can only be changed as a result of significant changes in the market or the financial instrument issuer conditions.

A.4.4 Other Information
All non-financial assets, whether they are measured at fair value on a recurring or non-recurring basis, are used at their maximum potential and in the best way.

QUALITATIVE INFORMATION

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 levels

	2017			2016		
Financial assets/liabilities measured at fair value	**Level 1**	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
1. Financial assets held for trading	128	325		37	194	
2. Financial assets at fair value						
3. Financial assets available for sale	207,075	13,462	23,234	152,544	5,310	18,583
4. Hedging derivatives						
5. Property, plant and equipment						
6. Intangible assets						
Total	**207,203**	**13,787**	**23,234**	**152,581**	**5,504**	**18,583**
1. Financial liabilities held for trading		312			187	
2. Financial liabilities at fair value		-			-	
3. Hedging derivatives		-			-	
Total		**312**			**187**	

In 2017, the Bank did not carry out transfers of financial assets/liabilities between Level 1 and Level 2.

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

	Financial assets held for trading	Financial assets at fair value	Financial assets available for sale	Hedging derivatives	Property, plant and equipment	Intangible assets
1. Opening balance			**18,583**			
2. Increases			**8,409**			
2.1 Purchases[1]			7,463			
2.2 Profits in:			946			
2.2.1 Income statement[2]			295			
- of which: capital gains			-			
2.2.2 Equity[3]			651			
2.3 Transfers from other levels			-			
2.4 Other increases			-			
3. Decreases			**3,758**			
3.1 Sales			-			
3.2 Redemptions			2,880			
3.3 Losses in:			878			
3.3.1 Income statement[4]			50			
- of which: capital losses			2			
3.3.2 Equity[5]			828			
3.4 Transfer to other levels			-			
3.5 Other decreases			-			
4. Closing balance			**23,234**			

1 The amount refers for €360 thousand to the units of the closed-end fund Assietta Private Equity III, for €5.6m to the units of the closed-end real estate fund Finint Fenice, for €501 thousand to the investment in Dedagroup Stealth S.p.A., for €1m to the equity investment in Sviluppo Aree Sciistiche S.p.A.

2 This relates to the write-back from impairment on the Fund MC^2 Impresa.

3 This relates to the positive change in the fair value of the closed-end fund Assietta Private Equity III.

4 This relates for €47 thousand to the write-down on the equity investment in Trevefin S.p.A. and for €2 thousand to capital losses deriving from the closure of the indirect investment in Cassa di Risparmio di Cesena, held through the Voluntary Scheme set up within the Interbank Deposit Protection Fund to carry out interventions to support banks in crisis (the amount is also represented in the item "- of which capital losses".

5 This relates to the negative change in fair value of the closed-end fund MC^2 Impresa for €367 thousand and the closed-end real estate fund Finint Fenice for €461 thousand.

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

The Bank does not hold any financial liabilities measured at fair value on a recurring basis for Level 3 in the current year nor in the period of comparison.

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

Type of transaction/Amount	2017				2016			
	BV	FV			BV	FV		
		Lev 1	Lev 2	Lev 3		Lev 1	Lev 2	Lev 3
1. Financial assets held to maturity	-	-	-	-	-	-	-	-
2. Loans and advances to banks	124,326	-	-	124,326	77,527	-	-	77,527
3. Loans and advances to customers	1,126,704	-	1,042,983	110,091	1,163,075	-	1,024,433	147,042
4. Property, plant and equipment held for investment purposes	116	-	-	116	116	-	-	116
5. Non-current assets and groups of assets held for sale	-	-	-	-	1,144	-	-	3,000
Total	**1,251,146**	**-**	**1,042,983**	**234,533**	**1,241,862**	**-**	**1,024,433**	**227,685**
1. Due to banks	873,637	-	839,294	21,950	675,298	-	552,977	101,814
2. Due to customers	169,597	-	47,528	121,944	160,824	-	50,185	110,345
3. Debt securities in issue	289,979	-	290,225	-	423,773	-	423,440	-
4. Liabilities associated with assets held for sale	-	-	-	-	-	-	-	-
Total	**1,333,213**	**-**	**1,177,047**	**143,894**	**1,259,895**	**-**	**1,026,602**	**212,159**

A.5 Information on day one profit/loss

There are no items for the table A.5 Information on "day one profit/loss", set forth by the Bank of Italy.

PART B
INFORMATION ON THE STATEMENT OF FINANCIAL POSITION

ASSETS

SECTION 1 – CASH AND CASH EQUIVALENTS - ITEM 10

1.1 Cash and cash equivalents: breakdown

	2017	2016
a) Cash	2	2
b) Demand deposits with Central Banks	-	-
Total	**2**	**2**

SECTION 2 – FINANCIAL ASSETS HELD FOR TRADING - ITEM 20

2.1 Financial assets held for trading: breakdown by type:

Items/amounts	2017			2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A Cash assets						
1. Debt securities						
1.1 Structured securities						
1.2 Other debt securities						
2. Equity securities						
3. Investments in UCITS						
4. Loans						
4.1 Repurchase agreements						
4.2 Others						
Total A						
B Derivative instruments						
1. Financial derivatives	128	324		37	194	
1.1 trading [1]	128	324		37	194	
1.2 related to fair value option						
1.3 others						
2. Credit derivatives						
2.1 trading						
2.2 related to fair value option						
2.3 others						
Total B	**128**	**324**		**37**	**194**	
Total (A+B)	**128**	**324**		**37**	**194**	

1 These consist, in Level 1, of 3 warrants listed on the Italian Stock Exchange acquired on a free basis as part of the same number of equity investment purchases, and in Level 2, of cap options with banks as counterparties whose characteristics mirror those with ordinary customers as counterparties, shown in item 40 of liabilities, which should be consulted for a more in-depth description. The fair value takes into account the CVA for €6 thousand in 2017 and €4 thousand in 2016.

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

Items/amounts	2017	2016
A. Cash assets		
1. Debt securities	**-**	**-**
a) Governments and Central Banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other issuers	-	-
2. Equity securities	**-**	**-**
a) Banks	-	-
b) Other issuers:	-	-
- insurance companies	-	-
- financial corporations	-	-
- non-financial corporations	-	-
- others	-	-
3. Investments in UCITS	**-**	**-**
4. Loans	**-**	**-**
a) Governments and Central Banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other issuers	-	-
Total A	**-**	**-**
B. Derivative instruments	**452**	**231**
a) Banks	324	194
- fair value	324	194
b) Customers	128	37
- fair value	128	37
Total B	**452**	**231**
Total (A+B)	**452**	**231**

Financial assets held for trading: annual changes

	Trading derivatives	Financial derivatives relating to the fair value option	Total
A. Opening balance	**231**	**-**	**231**
B. Increases	**320**	**-**	**320**
B1. Purchases	-	-	-
B2. Positive changes in fair value	320	-	320
B3. Other changes	-	-	-
C. Decreases	**99**	**-**	**99**
C1. Sales	-	-	-
C2. Redemptions	-	-	-
C3. Negative changes in fair value	61	-	61
C4. Transfers to other portfolios	-	-	-
C5. Other changes	38	-	38
D. Closing balance	**452**	**-**	**452**

The item "C.5 other changes" includes the capital loss resulting from the exercise of the GPI S.p.A. warrant.

SECTION 4 – FINANCIAL ASSETS AVAILABLE FOR SALE – ITEM 40

4.1 Financial assets available for sale: breakdown by type

Items/amounts	2017			2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities[1]	200,622	13,462	-	151,486	5,310	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	200,622	13,462	-	151,486	5,310	-
2. Equity securities	6,453	-	10,647	1,058	-	9,193
2.1 Measured at fair value	6,453	-	10,365	1,058	-	8,862
2.2 Carried at cost[2]	-	-	282	-	-	331
3. Investments in UCITS	-	-	12,587	-	-	9,390
4. Loans	-	-	-	-	-	-
Total	**207,075**	**13,462**	**23,234**	**152,544**	**5,310**	**18,583**

1 These consist of €160.0m of government securities and €36.6m of bonds issued by banks (Level 1) and €13.0m of bonds issued by banks (Level 2), of which €209.6m purchased by the Bank to create reserves of readily liquid assets eligible for refinancing with the ECB and €0.4 million for other purposes.

2 Unlisted equity securities carried at cost amounted to €0.3m in both years: they consist of minority equity investments purchased at less than €0.5m for which fair value cannot be estimated in a reliable manner.

4.2 Financial assets available for sale: breakdown by debtor/issuer

Items/amounts	2017	2016
1. Debt securities	**214,084**	**156,796**
a) Governments and Central Banks	161,668	112,788
b) Other public entities	-	-
c) Banks	52,416	44,008
d) Other issuers	-	-
2. Equity securities	**17,100**	**10,251**
a) Banks	50	53
b) Other issuers	17,050	10,198
- insurance companies	-	-
- financial corporations	7,578	4,711
- non-financial corporations	9,472	5,487
- others	-	-
3. Investments in UCITS[1]	**12,587**	**9,390**
4. Loans	-	-
a) Governments and Central Banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other issuers	-	-
Total	**243,771**	**176,437**

1 This item is largely made up (€0.8m) of units of the closed-end investment fund "MC2 Impresa", which invests mainly in unlisted financial instruments in regulated markets i.e. in shares, convertible bonds and other securities – mainly minority shareholdings but also majority shareholdings; it also includes portions of limited liability companies and limited liability co-operative societies and units of the closed-end real estate investment fund Finint Fenice (€8.8m); furthermore, it includes units of the closed-end real estate investment fund Clesio (€0.4m), the closed-end fund Assietta Private Equity III (€2.5m) and the real estate fund Leopardi (€0.1m).

Financial assets available for sale: annual changes

	Debt securities	Equity securities	Investments in UCITS	Loans	Total
A. Opening balance	**156,796**	**10,251**	**9,390**	**-**	**176,437**
B. Increases	**446,172**	**6,949**	**6,906**	**-**	**460,027**
B1. Purchases	441,582	6,750	5,960	-	454,292
B2. Positive changes in fair value	998	199	651	-	1,848
B3. Write-backs	-	-	295	-	295
- through profit or loss	-		295	-	295
- in equity	-	-	-	-	-
B4. Transfers from other portfolios	-	-	-	-	-
B5. Other changes	3,592[1]	-	-	-	3,592
C. Decreases	**388,884**	**100**	**3,709**	**-**	**392,693**
C1. Sales	384,336	-	-	-	384,336
C2. Redemptions	-	-	2,880	-	2,880
C3. Negative changes in fair value	515	50	828	-	1,393
C4. Write-downs due to impairment	-	50	-	-	50
- through profit or loss	-	*50*	-	-	*50*
- in equity	-	-	-	-	-
C5. Transfers to other portfolios	-	-	-	-	-
C6. Other changes	4,033[2]	-	-	-	4,033
D. Closing balance	**214,084**	**17,100**	**12,587**	**-**	**243,771**

Further details on movements are provided in the Report on Operations.

1 This originates from the capital gain realised on the sale of government bonds for €3.269m, from the positive change in amortised cost for €200 thousand and from the reversal to income of negative reserve following the sale of government bonds for €122 thousand.
2 This originates for €109 thousand for the reversal to income of the positive reserve following the sale of government bonds and for €3.924m of the negative change in amortised cost.

Commitments relating to equity investments classified in the available for sale portfolio

Subsidiary	2017	2016
Investments in UCITS	1,828	1,188

The amount refers to the residual commitment to subscribe the shares in the closed-end real estate investment fund Assietta Private Equity III (€828 thousand) and subscribe the shares in the closed-end real estate investment fund Finint Classis Credit Value (€1.0m).

SECTION 6 – LOANS AND ADVANCES TO BANKS – ITEM 60

6.1 Loans and advances to banks: breakdown by type

Type of transaction/Amount	2017				2016			
	BV	FV			BV	FV		
		Lev 1	Lev 2	Lev 3		Lev 1	Lev 2	Lev 3
A. Deposits with central banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Time deposit	-				-			
2. Mandatory reserve	-				-			
3. Repurchase agreements	-				-			
4. Other	-				-			
B. Loans and advances to banks	**124,326**	**-**	**-**	**124,326**	**77,527**	**-**	**-**	**77,527**
1. Loans	124,326	-	-	124,326	77,527	-	-	77,527
1.1. Current accounts and demand deposits	123,774				77,343			
1.2. Time deposits	552				184			
1.3 Other loans:	-				-			
- Repurchase agreements	-				-			
- Finance lease	-				-			
- Other	-				-			
2. Debt securities	-	-	-	-	-	-	-	-
2.1 Structured securities	-				-			
2.2 Other debt securities	-				-			
Total (book value)	**124,326**	**-**	**-**	**124,326**	**77,527**	**-**	**-**	**77,527**

Mediocredito has met its mandatory reserve obligations to the Bank of Italy indirectly through Cassa Centrale Banca S.p.A., with which it holds a deposit made for this purpose equal to €552 thousand as at 31 December 2017 (€184 thousand as at 31 December 2016) and is included in item B.1.2.

SECTION 7 – LOANS AND ADVANCES TO CUSTOMERS - ITEM 70

7.1 Loans and advances to customers: breakdown by type

Type of transaction/Amount	2017						2016					
	Book value			Fair value			Book value			Fair value		
	Performing	Impaired		L1	L2	L3	Performing	Impaired		L1	L2	L3
		Purchased	Other					Purchased	Other			
Loans	**1,021,906**	**-**	**99,018**	**-**	**1,037,008**	**110,091**	**1,019,728**	**-**	**137,616**	**-**	**1,018,480**	**147,042**
1. Current accounts	11,073	-	0				9,426	-	0			
2. Repurchase agreements	-	-	-				-	-	-			
3. Mortgages	821,131		83,679				805,912		117,165			
4. Credit cards, personal loans including "salary-backed loans"	-	-	-				-	-	-			
5. Finance Lease[1]	57,761		3,966				35,688		4,306			
6. Factoring	-	-	-				-	-	-			
7. Other loans[2]	131,942		11,373				168,702		16,145			
Debt securities	**5,779**	**-**	**-**	**-**	**5,975**	**-**	**5,730**	**-**	**-**	**-**	**5,953**	**-**
8 Structured securities	-	-	-				-	-	-			
9 Other debt securities	5,779	-	-				5,730	-	-			
Total (book value)	**1,027,686**	**-**	**99,018**	**-**	**1,042,983**	**110,091**	**1,025,458**	**-**	**137,616**	**-**	**1,024,433**	**147,042**

1 The amount is net of the portion disbursed in relation to third-party funds, which is included in the item "other loans" to the amount of €6.0m in 2017 and €6.9m in 2016.

2 They also include building leasing turnkey operations for €2.7m in 2017 and €15.5m in 2016.

Information on the nature of the management operations on funds made available by the State or other public entities ("third party fund administration").

Item “other loans” includes €46.8m of funding provided from funds made available by the Autonomous Province of Trento for €1.9m, the Autonomous Province of Bolzano for €37.8m and the Veneto Region, directly or through the instrumental company Veneto Sviluppo, for €7.1m.
All of the above funds, intended for particular funding operations as envisaged and governed by specific legislation[22], require Mediocredito to fully assume the risk.

7.2 Loans and advances to customers: breakdown by debtor/issuer

Type of transaction/Amount	2017			2016		
	Performing	Impaired		Performing	Impaired	
		Purchased	Other		Purchased	Other
1. Debt securities:	**5,779**			**5,730**		
a) Governments						
b) Other public entities						
c) Other issuers	5,779			5,730		
- non-financial corporations	5,779			4,718		
- financial corporations	-			1,012		
- insurance companies						
- others						
2. Loans to:	**1,021,906**		**99,018**	**1,019,728**		**137,616**
a) Governments						
b) Other public entities	82,197			86,838		
c) Other debtors	939,709		99,018	932,890		137,616
- non-financial corporations	855,174		93,955	829,196		131,385
- financial corporations	65,759		3,092	86,139		2,901
- insurance companies						
- others	18,777		1,971	17,555		3,330
Total	**1,027,686**		**99,018**	**1,025,458**		**137,616**

7.4 Finance lease

Items/amounts	31/12/2017			31/12/2016		
	Minimum future payments	Present value of minimum lease payments	Deferred financial income	Minimum future payments	Present value of minimum lease payments	Deferred financial income
Within 1 year	9,430	7,645	1,785	6,480	5,061	1,419
1 - 5 years	40,011	34,136	5,875	28,461	23,970	4,491
Over 5 years	25,242	22,517	3,026	15,182	13,654	1,528
Total	**74,683**	**69,998**	**10,685**	**50,123**	**42,685**	**7,438**

	Gross	Adjust.	Net	Gross	Adjust.	Net
Receivables in the statement of financial position	70,102	2,380	**67,722**	48,652	1,726	**46,926**

22 In particular:
- for the Autonomous Province of Trento: Regional Laws 21/93 and 3/91, Provincial Law 6/99;
- for the Autonomous Province of Bolzano: Regional Laws 21/93 and 3/91, Provincial Law 9/91 and Law 817/71;
- for the Veneto Region: Regional Law 18/94, 598/94, 6/96, 1/99, 5/2001, 33/2002 and 40/2003.

SECTION 10 – EQUITY INVESTMENTS – ITEM 100

10.1 Equity investments: information on equity relations

Names	Registered office	Operating office	% stake %	% of votes available %
A. Subsidiaries				
1. Paradisidue S.r.l.	Trento	Trento	100.000	100.000
B. Joint ventures				
C. Companies under significant influence				

10.4 Insignificant equity investments: accounting information [1]

Names	Book value of equity investments	Total assets	Total equity and liabilities	Total revenues	Profit (Loss) from current operations after taxes	Net profit (loss) from groups of assets held for sale	Net income (loss) for the year (1)	Other income components net of taxes (2)	Total comprehensive income (loss) (3)=(1)+(2)
A. Subsidiaries	**26**	**9,120**	**9,094**	**130**	**(99)**	**-**	**(99)**	**-**	**(99)**
1. Paradisidue S.r.l.	26	9,120	9,094	130	(99)	-	(99)	-	(99)
B. Joint ventures									
C. Companies under significant influence									

1 Statement of Financial Position data as at 31 December 2017.

10.5 Equity investments: annual changes

	2017	2016
A. Opening balance	**180**	**207**
B. Increases	**332**	**250**
B.1 Purchases	-	250
B.2 Write-backs	-	-
B.3 Revaluations	-	-
B.4 Other changes [1]	332	-
C. Decreases	**486**	**277**
C.1 Sales	387	-
C.2 Value adjustments	99	277
C.3 Other changes	-	-
D. Closing balance	**26**	**180**
E. Total revaluations	-	-
F. Total adjustments	458	786

1 This relates to the capital gain on the sale of the equity investment in Biorendena Srl (€325 thousand) and to the capital gain from the liquidation of the equity investment in Essedi Strategie d'Impresa Srl (€7 thousand).

Commitments relating to equity investments in subsidiaries

The Bank has granted the subsidiary Paradisidue S.r.l. a loan account with a credit limit of €10.0m – for which the amount of €8.914m was drawn as at 31 December 2017 for the purpose of acquiring and renovating a building mainly as part of bankruptcy proceedings.

SECTION 11 – PROPERTY, PLANT AND EQUIPMENT – ITEM 110

11.1 Property, plant and equipment for operational use: breakdown of assets valued at cost

Assets/Amount	2017	2016
1. Assets owned	**8,487**	**8,318**
a) land[1]	1,950	1,950
b) buildings[2]	5,559	5,133
c) furniture	371	491
d) IT equipment	73	83
e) others	533	661
2. Assets purchased under finance lease	**-**	**-**
a) land	-	-
b) building	-	-
c) furniture	-	-
d) IT equipment	-	-
e) others	-	-
Total	**8,487**	**8,318**

1 This is the historical cost of the land, fully owned by the Bank, on which the registered office in Trento stands; under the fifty-eighth paragraph of IAS 16 land is accounted for separately.
2 Subject to revaluation under special laws of which: €106.3 thousand under Law 576/75, €409.6 thousand under Law 72/83, €887.7 thousand under Law 413/91 and €4,410.7 thousand under Law 342/2000.

11.2 Property held for investment purposes: breakdown of assets valued at cost

Assets/Amount	2017				2016			
	Book value	Fair Value			Book value	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Assets owned	**116**	**-**	**-**	**116**	**116**	**-**	**-**	**116**
a) land[1]	116	-	-	116	116	-	-	116
b) building	-	-	-	-	-	-	-	-
2. Assets purchased under finance lease	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) land	-	-	-	-	-	-	-	-
b) building	-	-	-	-	-	-	-	-
Total	**116**	**-**	**-**	**116**	**116**	**-**	**-**	**116**

1 This is a plot of land obtained as a result of debt recovery proceedings.

Depreciation of property, plant and equipment was calculated on the basis of the following annual depreciation charges that are deemed to adequately express the residual useful life of the assets.

Land..not depreciated (indefinite useful life)
Lands incorporated from buildings owned........................not depreciated (indefinite useful life)
Buildings for operational use.. 3.00%

Furnishing 12.00%
Air conditioning and various equipment.. 15.00%
Plants and lifts.. 7.50%
Furnishings.. 15.00%
Electronic equipment.. 20.00%
Cars and motor vehicles.. 25.00%
Telephone systems.. 12.50%

11.5 Property, plant and equipment for operational use: annual changes

	Land	Buildings	Furnishing	IT equipment	Other	Total
A. Gross opening balance	**1,950**	**9,483**	**2,199**	**593**	**1,979**	**16,204**
A.1 Total net decreases	-	4,350	1,708	510	1,318	7,886
A.2 Net opening balance	**1,950**	**5,133**	**491**	**83**	**661**	**8,318**
B. Increases:	-	**680**	**134**	**35**	**111**	**961**
B.1 Purchases		680	12	35	8	735
B.2 Capitalised expenditure on improvements						
B.3 Write-backs						
B.4 Positive fair value changes booked to						
a) equity						
b) income statement						
B.5 Exchange differences						
B.6 Transfers from property held for investment purposes						
B.7 Other changes			122		103	225
C. Decreases:	**-**	**254**	**254**	**45**	**239**	**792**
C.1 Sales [1]			122		94	216
C.2 Depreciation		254	132	45	117	548
C.3 Adjustments due to impairment booked to						
a) equity						
b) income statement						
C.4 Negative fair value changes booked to						
a) equity						
b) income statement						
C.5 Exchange losses						
C.6 Transfers to:						
a) property held for investment purposes						
b) assets held for sale						
C.7 Other changes					28	28
D. Net closing balance	**1,950**	**5,559**	**371**	**73**	**533**	**8,487**
D.1 Total net write-downs	-	4,604	1,717	555	1,332	8,209
D.2 Gross closing balance	**1,950**	**10,163**	**2,089**	**628**	**1,865**	**16,695**
E. Carried at cost	-	-	-	-	-	-

1 Amounts in the item "sales" refer to the transfer of fully or partially amortised assets whose cash flow, equalling €7.0 thousand, is included in the item "Cash flow generated by sale of property, plant and equipment" of the cash flow statement. For balancing purposes (for item "Total net write-downs") the change of the depreciation fund relating to such assets, of equal amount, is shown in item "Increases B.7 – other changes".

All assets for operational use are carried at cost inclusive of monetary revaluation under special laws.

11.6 Property held for investment purposes: annual changes

No changes were recorded during the period in relation to property held for investment purposes (carried at cost). Gross opening balance, net opening balance, gross closing balance and net closing balance and the valuation at fair value equal €116 thousand.

11.7 Commitments to purchase property, plant and equipment (IAS 16/74.c)

At the end of these financial statements, the Bank had no contractual commitments for purchasing property, plant and equipment.

SECTION 12 – INTANGIBLE ASSETS – ITEM 120

12.1 Intangible assets: breakdown by type of asset

Assets/Amount	2017		2016	
	Limited duration	Unlimited duration	Limited duration	Unlimited duration
A.1 Goodwill				
A.2 Other intangible assets	**64**	**-**	**97**	**-**
A.2.1 Assets carried at cost:	64	-	97	-
a) Intangible assets generated internally	-	-	-	-
b) Other assets	64	-	97	-
A.2.2 Assets carried at fair value:	-	-	-	-
a) Intangible assets generated internally	-	-	-	-
b) Other assets	-	-	-	-
Total	**64**	**-**	**97**	**-**

Depreciation was calculated:

- on the basis of the expected useful life at a percentage of 33.33% with regard to application software;
- on the basis of the duration of the outsourcing contract (5 years) with regard to the cost of software for the company's new IT system;
- applying the rate of 20% for the software of the internal data and network infrastructure.

12.2 Intangible assets: annual changes

	Goodwill	Other intangible assets: generated internally		Other intangible assets: others		Total
		Limited duration	Unlimited duration	Limited duration	Unlimited duration	
A. Gross opening balance	**-**	**-**	**-**	**3,097**	**-**	**3,097**
A.1 Total net decreases	-	-	-	3,000	-	3,000
A.2 Net opening balance	**-**	**-**	**-**	**97**	**-**	**97**
B. Increases	**-**	**-**	**-**	**25**	**-**	**25**
B.1 Purchases	-	-	-	25	-	25
B.2 Increase in intangible assets generated internally		-	-	-	-	-
B.3 Write-backs		-	-	-	-	-
B.4 Positive fair value changes:		-	-	-	-	-
- equity		-	-	-	-	-
- income statement		-	-	-	-	-
B.5 Exchange gains	-	-	-	-	-	-
B.6 Other changes	-	-	-	-	-	-
C. Decreases	**-**	**-**	**-**	**58**	**-**	**58**
C.1 Sales	-	-	-	-	-	-
C.2 Value adjustments	-	-	-	58	-	58
- Amortisation		-	-	58	-	58
- Write-downs:	-	-	-	-	-	-
+ equity		-	-	-	-	-
+ income statement	-	-	-	-	-	-
C.3 Negative changes in fair value:	-	-	-	-	-	-
- equity		-	-	-	-	-
- income statement		-	-	-	-	-
C.4 Transfer to non-current assets held for sale	-	-	-	-	-	-
C.5 Exchange losses	-	-	-	-	-	-
C.6 Other changes	-	-	-	-	-	-
D. Net closing balance	**-**	**-**	**-**	**64**	**-**	**64**
D.1 Net adjustment values	-	-	-	3,058	-	3,058
E. Gross closing balance	**-**	**-**	**-**	**3,122**	**-**	**3,122**
F. Carried at cost	-	-	-	-	-	-

Intangible assets are carried at cost.

12.3 Intangible assets: other information

The Bank does not have:
- Revaluated property, plant and equipment;
- Intangible assets acquired by way of government concessions;
- Intangible assets pledged as collateral for liabilities;
- Commitments to purchase intangible assets;
- Leased intangible assets.

SECTION 13 – TAX ASSETS AND TAX LIABILITIES - ITEM 130 OF ASSETS AND ITEM 80 OF LIABILITIES

13.1 Deferred tax assets: breakdown

	2017	2016
	12,774	**13,976**
A. With contra-entry to income statement	**12,408**	**13,647**
Adjustments to loans deductible in future years	10,519	11,614
Tax loss - 2015	1,240	1,558
Depreciation of buildings for operational use	18	58
Other	631	417
B. With contra-entry to equity	**366**	**329**
Financial assets held for sale at fair value	314	275
Other	52	54

Deferred tax assets are considered fully recoverable, taking into account the expected taxable income to be generated in subsequent periods.

13.2 Deferred tax liabilities: breakdown

	2017	2016
	5,956	**6,556**
A. With contra-entry to income statement	**5,421**	**6,268**
Provision for loan risks	5,290	5,396
Adjustments to loans exceeding the tax deductibility limit	-	741
Depreciation of buildings for operational use	108	108
Change in employee leaving indemnity	23	23
B. With contra-entry to equity	**535**	**288**
Financial assets held for sale at fair value	535	288

Percentages used in the calculation of deferred taxes:

for IRES: 27.50%;
for IRAP[23]: 5.57% for 2018
4.65% for the years 2019 and onwards

23 Provincial Law no. 21 of 30 December 2015 established the temporary 0.92% increase in the rate applicable to banks for the tax period following the one in progress as at 31 December 2016 and for the next one.

13.3 Change in deferred tax assets (with contra-entry to income statement)

	2017	2016
1. Opening balance	**13,647**	**14,119**
2. Increases	**291**	**187**
2.1 Deferred tax assets recognised during the period	287	187
a) related to previous periods	-	-
b) due to change in accounting policies	-	-
c) write-backs	-	-
d) other	287	187
2.2 New taxes or increases in tax rates	4	-
2.3 Other increases	-	-
3. Decreases	**1,530**	**659**
3.1 Deferred tax assets derecognised during the period	1,396	183
a) reversals	1,396	183
b) written down as now considered unrecoverable	-	-
c) change in accounting policies	-	-
d) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	134	476
a) transformation of tax credits pursuant to Law no. 214/2011	134	437
b) other [1]	-	39
4. Final balance	**12,408**	**13,647**

1 In 2016, this amount represents the reversal of deferred tax assets recognised in 2010 against the impairment of a security available for sale, which recognised in the year a write-back recorded with contra-entry to equity (see footnote to Table 18.1 Part C).

The deferred tax assets deriving from tax losses that can be carried forward to subsequent years totalled €1.240m, relating entirely to IRES on the 2015 tax loss.

13.3.1 Change in deferred tax assets pursuant to Law 241/2011 (with contra-entry in income statement)

	2017	2016
1. Opening balance	**11,614**	**12,102**
2. Increases	**23**	**115**
3. Decreases	**1,118**	**603**
3.1 Reversals	984	166
3.2 Transformation to tax credits	134	437
a) deriving from losses for the year	-	437
b) deriving from tax losses	134	-
3.3 Other decreases	-	-
4. Final balance	**10,519**	**11,614**

13.4 Change in deferred tax liabilities (with contra-entry to income statement)

	2017	2016
1. Opening balance	**6,268**	**6,402**
2. Increases	**-**	**-**
2.1 Deferred tax liabilities recognised during the period	-	-
a) related to previous periods	-	-
b) due to change in accounting policies	-	-
c) others	-	-
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**847**	**134**
3.1 Deferred tax liabilities derecognised during the period	847	134
a) reversals	847	134
b) due to change in accounting policies	-	-
c) others	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	-	-
4. Final balance	**5,421**	**6,268**

13.5 Change in deferred tax assets (with contra-entry to equity)

	2017	2016
1. Opening balance	**329**	**148**
2. Increases	**319**	**206**
2.1 Deferred tax assets recognised during the period	319	206
a) related to previous periods	-	-
b) due to change in accounting policies	-	-
c) others	319	206
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**281**	**25**
3.1 Deferred tax assets derecognised during the period	281	25
a) reversals	281	25
b) written down as now considered unrecoverable	-	-
c) due to change in accounting policies	-	-
d) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	-	-
4. Final balance	**367**	**329**

13.6 Change in deferred tax liabilities (with contra-entry to equity)

	2017	2016
1. Opening balance	**288**	**169**
2. Increases	**403**	**306**
2.1 Deferred tax liabilities recognised during the period	308	306
a) related to previous periods	-	-
b) due to change in accounting policies	-	-
c) others	308	306
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	95	-
3. Decreases	**156**	**187**
3.1 Deferred tax liabilities derecognised during the period	156	145
a) reversals	156	145
b) due to change in accounting policies	-	-
c) others	-	-
3.2 Reduction in tax rates	-	3
3.3 Other decreases [1]	-	39
4. Final balance	**535**	**288**

1 In 2016, this amount represents the reversal of deferred tax assets recognised in 2010 against the impairment of a security available for sale, which recognised in the year a write-back recorded with contra-entry to equity (see footnote to Table 18.1 Part C).

13.7 Other information

The item "current tax assets" amounted to €1.777m and refers to receivables due from the Tax Authorities for IRES and IRAP; in 2016, this receivable totalled €1.989m. The item "current tax liabilities" amounted to €226 thousand and refers to the payable for the substitute tax on the remittance of the write-down of receivables (former EC box).
Prepaid taxes relating to the tax loss booked under deferred tax assets amounted to €1.240m. These were recognised[24] on the basis of a specific "probability test", which made it possible to verify the future tax income capacity of the Bank (estimate made for the years 2017-2020) to permit the absorption of the above deferred tax assets in the years in which they will be reversed.
In relation to the deferred tax assets pursuant to Law no. 214/2014 of €10.5m, relating entirely to adjustments to receivables deductible in future years, by contrast it should be noted that, in compliance with the contents of the joint Bank of Italy/Ivass/Consob document of 15 May 2012, the so-called "probability test" is considered automatically satisfied given there is substantial certainty as to their full recovery.

24 IAS 12, art. 34, sets forth that "*a deferred tax asset for tax losses (…) must be recognised to the extent it is probable that taxable profit will be available against which (…) the tax losses can be utilised*".

SECTION 14 – NON-CURRENT ASSETS AND GROUPS OF ASSETS HELD FOR SALE AND ASSOCIATED LIABILITIES – ITEM 140 OF THE ASSETS AND ITEM 90 OF THE LIABILITIES

14.1. Non-current assets and groups of assets held for sale: breakdown by type of asset

		2017	2016
A.	**Individual assets**		
A.1	Financial assets	-	-
A.2	Equity investments	-	-
A.3	Property, plant and equipment	-	1,144
A.4	Intangible assets	-	-
A.5	Other non-current assets	-	-
	Total A	**-**	**1,144**
	of which carried at cost	-	*1,144*
	of which measured at fair value level 1	-	-
	of which measured at fair value level 2	-	-
	of which measured at fair value level 3	-	-
B.	**Discontinued operations**		
	Total B	**-**	**-**
C.	**Liabilities associated with individual assets held for sale**		
	Total C	**-**	**-**
D.	**Liabilities associated with groups of assets held for sale**		
	Total D	**-**	**-**

Information pursuant to IFRS5, paragraph 41, letters a), b) and d)

Assets held for sale related to the building that was used as the Secondary Office in Bolzano; the Bank - through preliminary deed of 25 June 2014 - undertook the commitment to sell these premises not earlier than three years and in any case before a time period of four years. The price was set at €3m, of which €300 thousand as initial deposit and €2.7m plus VAT when signing the notary's deed of sale.
The sale was completed in December 2017, subject to the conditions described above.
In segment reporting pursuant to IFRS 8, primary segment "Distribution by geographical area", the effects of the transaction are represented in the geographical area "Structure/Head office".

SECTION 15 – OTHER ASSETS – ITEMS 150

15.1 Other assets: breakdown

	2017	2016
Illiquid assets	7,089	7,421
Tax assets (indirect taxes and substitute tax)	2,743	1,940
Items in processing[1]	1,680	1,410
Amounts due in relation to invoices – issued or not	384	23
Various prepayments and advances	220	316
Accrued income and prepayments	166	218
Amounts due for unpaid commissions	7	203
Other liabilities	14	15
Total	**12,303**	**11,546**

1 In 2017, the amount mainly refers to the payment of an amount subject to revocation, for which an appeal to the Supreme Court is pending.

LIABILITIES

SECTION 1 – DUE TO BANKS – ITEM 10

1.1 Due to banks: breakdown by type

Type of transaction/Amount		2017	2016
1.	**Amounts due to central banks**	**277,800**	**230,000**
2.	**Due to banks**	**595,837**	**445,298**
2.1	Current accounts and demand deposits	8	26,508
2.2	Time deposit	21,941	75,306
2.3	Loans	573,886	343,484
	2.3.1 Repurchase agreements	-	-
	2.3.2 Other	573,886	343,484
2.4	Liabilities in respect of commitments to repurchase treasury shares	-	-
2.5	Other debts	-	-
	Total	**873,637**	**675,298**
	Fair value – level 1	-	-
	Fair value – level 2	839,294	552,977
	Fair value – level 3	21,950	101,814
	Total *Fair value*	**861,244**	**654,791**

1.4 Due to banks: payables subject to micro-hedging

Among the Bank's liabilities, there are no amounts due to banks that are subject to micro-hedging, neither in 2017 nor in the previous year.

SECTION 2 – DUE TO CUSTOMERS – ITEM 20

2.1 Due to customers: breakdown by types

Type of transaction/Amount	2017	2016
1. Current accounts and demand deposits	59,693	50,017
2. Time deposit	15,448	6,447
3. Loans	47,653	50,479
3.1 Repurchase agreements	-	-
3.2 Others	47,653	50,479
4. Liabilities in respect of commitments to repurchase treasury shares	-	-
5. Other amounts due [1]	46,803	53,881
Total	**169,597**	**160,824**
Fair value – level 1	-	-
Fair value – level 2	47,528	50,185
Fair value – level 3	121,944	110,345
Total Fair value	**169,472**	**160,530**

1 Item "Other amounts due" includes funds managed on behalf of third parties to the amount of €46,803 thousand in 2017 and €53,881 thousand in 2016, according to supervisory regulations.

SECTION 3 – DEBT SECURITIES IN ISSUE – ITEM 30

3.1 Debt securities in issue: breakdown by type

Type of transaction/ Amounts	2017				2016			
	Book value	Fair value[2]			Book value	Fair value[2]		
		Lev.1	Lev.2	Lev.3		Lev.1	Lev.2	Lev.3
A. Securities								
1. Bonds	289,948	-	290,195	-	423,743	-	423,410	-
1.1 structured	-	-	-	-	-	-	-	-
1.2 others	289,948	-	290,195	-	423,743	-	423,410	-
2. Other securities	30	-	30	-	30	-	30	-
2.1 structured	-	-	-	-	-	-	-	-
2.2 others [1]	30	-	30	-	30	-	30	-
Total	**289,978**	**-**	**290,225**	**-**	**423,773**	**-**	**423,440**	**-**

1 This item is made up of matured but not redeemed certificates of deposit (not cashed in by customers).
2 The Fair Value of debt securities in issue is classified under level 2 because it is determined using measurement models based on market parameters (yield curve) other than quotations of the financial instrument. This also refers to bonds that had been issued in the context of the EMTN programme and that are listed on the Luxembourg stock exchange which, according to the rules adopted by the Bank in relation to fair value hierarchy, does not make at least two recent executable prices continuously available with a bid-ask spread under an interval deemed to be consistent.

SECTION 4 – FINANCIAL LIABILITIES HELD FOR TRADING – ITEM 40

4.1 Financial liabilities held for trading: breakdown by type

Type of transaction/Amount	2017					2016				
	NV	FV			FV *	NV	FV			FV *
		Lev.1	Lev.2	Lev.3			Lev.1	Lev.2	Lev.3	
A. Cash liabilities										
1. Due to banks										
2. Due to customers										
3. Debt securities										
3.1 Bonds										
3.1.1 structured										
3.1.2 other bonds										
3.2 Other securities										
3.2.1 structured										
3.2.2 others										
Total A										
B. Derivative instruments										
1. Financial derivatives	**32,263**		**312**		**324**	**30,816**		**187**		**194**
1.1 held for trading			312					187		
1.2 related to fair value option										
1.3 others										
2. Credit derivatives										
2.1 held for trading										
2.2 related to fair value option										
2.3 others										
Total B	**32,263**		**312**		**324**	**30,816**		**187**		**194**
Total (A+B)	**32,263**		**312**		**324**	**30,816**		**187**		**194**

Legend
FV = fair value
FV* = fair value calculated without including value changes due to change in creditworthiness
of issuer since the date of issue
NV = nominal or notional value

Financial cash liabilities held for trading (excluding "uncovered short positions"): annual changes

	Trading derivatives	Financial derivatives relating to the fair value option	Total
A. Opening balance	**187**	**-**	**187**
B. Increases	**184**	**-**	**184**
B1. Issues	-	-	-
B2. Sales	-	-	-
B3. Positive changes in fair value	184	-	184
B4. Other changes	-	-	-
C. Decreases	**59**	**-**	**59**
C1. Purchases	-	-	-
C2. Redemptions	-	-	-
C3. Negative changes in fair value	59	-	59
C4. Other changes	-	-	-
D. Closing balance	**312**	**-**	**312**

The items "other changes", if present, consist of changes to accrued expenses and deferred income in connection with these derivatives.

SECTION 8 – TAX LIABILITIES – ITEM 80

See section 13 of Assets.

SECTION 10 – OTHER LIABILITIES – ITEM 100

10.1 Other liabilities: breakdown

	2017	2016
Items in processing[1]	682	1,817
Amounts due to suppliers	677	642
Amounts due to third parties[2]	442	419
Withholdings made as tax collection agent	437	413
Commission fees to be paid	400	398
Withholdings on employee compensation	239	238
Accrued liabilities and deferred income	70	56
Provision for risks for guarantees issued	26	8
Other liabilities	13	13
Total	**2,986**	**4,004**

1 In 2016, they relate for €1.2m to the payable for the extraordinary contribution to the banking crisis resolution fund.
2 They relate mostly to the payable for the monetisation of holidays and leave time not used of €173 thousand, to the amount due for the recognition of the extra time of managerial staff of €45 thousand and to the payable for 2017 company bonuses of €195 thousand.

SECTION 11 – PROVISION FOR SEVERANCE INDEMNITIES – ITEM 110

11.1 Provision for severance indemnities: annual changes

	2017	2016
A. Opening balance	**1,470**	**1,508**
B. Increases	**23**	**2**
B.1 Provisions for the period [1]	23	2
B.2 Other changes [2]	0	-
C. Decreases	**95**	**40**
C.1 Indemnities paid	90	0
C.2 Other changes [3]	5	40
D. Closing balance	**1,398**	**1,470**

1 the amount corresponds to the provisions shown in table 9.1 "Payroll: breakdown" of Part C "Information on the income statement" (€23 thousand in 2017 and €2 thousand in 2016).
2 In 2017, this item includes the amount of the actuarial gains recognised as a contra-entry in the specific equity reserve (€25).
3 This item includes the use to cover the substitute tax (€5 thousand in 2017, €4 thousand in 2016) and, in 2016 alone, the amount relating to actuarial gains recognised as a contra entry to the specific equity reserve (€36 thousand).

11.2 Other information

Pursuant to IAS 19 paragraphs 64 and 65, the Provision for severance indemnities is calculated utilising the "Projected Unit Credit Cost Method" (also known as accrued benefits valuation method or as benefit method/working years).
According to this method, the liability is calculated in proportion to the services already rendered at the Statement of Financial Position date with respect to those which could presumably be rendered in total.

To be more precise, the work of the actuary is structured into the following phases:
- projection on the basis of a series of economic and financial hypotheses of the future amounts that could be disbursed to each employee in the case of retirement, death, disability, resignation, request for early payment, etc. The estimate also includes future revaluations as for art. 2120 of the Italian Civil Code;
- calculation of the average present value of the flows regarding the future payment on the basis of the discount rate adopted and of the probability that each amount has of being disbursed;
- assessment of the pension liabilities by relating the average present value of the flows regarding the future payment to the service already rendered by the employee at the date of valuation;
- identification of the provision valid under IAS – on the basis of the determined liabilities and amounts set aside in the reserve.

According to IAS 19 paragraph 78 the discount rate must be selected so that, at the maturity dates of the amounts that are being calculated, it coincides with the guaranteed rate of return of bonds issued by leading companies and institutions.

SECTION 12 – PROVISIONS FOR RISKS AND CHARGES – ITEM 120

12.1 Provisions for risks and charges: breakdown

Items/amounts	2017	2016
1 Post-retirement benefit obligations	-	-
2. Other provisions for risks and charges	2,129	1,458
2.1 legal disputes	1,576	820
2.2 personnel expenses	100	54
2.3 others	453	584
Total	**2,129**	**1,458**

12.2 Provisions for risks and charges: annual changes

	Post-retirement benefit obligations	Other provisions	Total
A. Opening balance	**-**	**1,458**	**1,458**
B. Increases	**-**	**971**	**971**
B.1 Provisions for the period [1]	-	959	959
B.2 Changes over time	-	-	-
B.3 Changes due to discount rate adjustments	-	-	-
B.4 Other changes	-	12	12
C. Decreases	-	**300**	**300**
C.1 Use during the period [2]	-	197	197
C.2 Changes due to discount rate adjustments	-	-	-
C.3 Other changes [3]	-	103	103
D. Closing balance	**-**	**2,129**	**2,129**

1 This amount relates entirely to the provision for legal disputes underway of €859 thousand and to provisions for the personnel incentive scheme of €100 thousand.
2 This amount is made up of €143 thousand for donations as per article 21 of the By-laws and of €54 thousand for the payment of the performance bonus to personnel.
3 The amount relates to the write-back on the provision for legal disputes that were settled in favour of the Bank.

12.4 Provisions for risks and charges – other provisions

Item "legal disputes" is made up of sums set-aside for uncertain expenses in connection with revocatory actions and other ongoing disputes.
The item "other provisions" covers the total amount of the provision under Article 21 of the By-laws which is at the disposal of the Board of Directors for supporting initiatives in social-economic, research, study, charitable and promotional fields.
The provision for "personnel expenses" is made up, if present, of amounts set aside to cover the cost of the personnel incentive schemes.

SECTION 14 – EQUITY OF THE COMPANY – ITEMS 130, 150, 160, 170, 180, 190, 200

14.1 "Share capital" and "Treasury shares": breakdown

The fully paid up share capital is €58,484,608.00 represented by 112,470,400 ordinary shares of a nominal €0.52 each.

14.2 Share capital – Number of shares: annual changes

Item/Types	Ordinary	Other
A. Shares in issue at the beginning of the year	112,470,400	-
- fully paid up	112,470,400	-
- not fully paid up	-	-
A.1 Treasury shares (-)	-	-
A.2 Shares in issue: opening balance	**112,470,400**	**-**
B. Increases	-	-
B.1 New issues	-	-
- against payment:	-	-
- business combinations	-	-
- conversion of bonds	-	-
- exercise of warrants	-	-
- others	-	-
- on a free basis:	-	-
- in favour of employees	-	-
- in favour of directors	-	-
- others	-	-
B.2 Sale of treasury shares	-	-
B.3 Other changes	-	-
C. Decreases	-	-
C.1 Cancellation	-	-
C.2 Purchase of treasury shares	-	-
C.3 Sale of companies	-	-
C.4 Other changes	-	-
D. Shares in issue: closing balance	**112,470,400**	**-**
D.1 Treasury shares (+)	-	-
D.2 Shares in issue at the end of the year	112,470,400	-
- fully paid up	112,470,400	-
- not fully paid up	-	-

14.4 PROFIT RESERVES: OTHER INFORMATION

Relating to this section, please see the "Statement of changes in equity"

The following table shows the nature and purpose of each reserve included in the equity, as per paragraph 79 of IAS 1 letter b) and Article 2427, paragraph 7-bis of the Civil Code.

Nature/Description	Amount	Possible use	Available amount	of which distributable portion
Capital reserves:	**29,841**		**29,841**	**29,841**
- Additional paid-in capital [1]	29,841	A-B-C	29,841	29,841
Profit reserves:	**88,246**		**76,549**	**73,894**
- Legal reserve unavailable [2]	11,697	B	-	-
- Available legal reserve	7,396	A-B-C	7,396	7,396
- Statutory reserves	47,562	A-B-C	47,562	47,562
- Reserve under Legislative Decree no. 38/2005	2,655	A-B	2,655	-
- Unavailable reserve under article 6 Legislative Decree no. 38/2005	-		-	-
- Other reserves	18,936	A-B-C	18,936	18,936
Valuation reserves:	**4,840**		**4,840**	**-**
- Valuation reserve under Laws 413/91 and 342/2000	4,318	A-B	4,318	-
- Reserve under Legislative Decree no. 38/2005: revaluation of AFS securities	939		939	-
- Reserve under Legislative Decree no. 38/2005: pension plans	(417)		(417)	-
Total	**122,927**		**111,230**	**103,735**

Legend:
A: for share capital increases
B: to cover losses
C: for distribution to the shareholders

1 According to Article 2431 of the Civil Code the whole amount of this reserve can be distributed only on condition that the legal reserve has reached the limit set forth by Article 2430 of the Civil Code.

2 The use of the legal reserve must comply with the limits set forth by Article 2430 of the Civil Code. The unavailable portion is equal to 20% of share capital.

Proposal for the allocation of the net profit

The net profit for 2017 amounts to €3,167,665.71, entirely distributable.
That said, the Board of Directors proposes the following allocation of net profit:

profit for the year	€	**3,167,665.71**
- non-distributable reserves under article 6, paragraph 2 Legislative Decree no. 38/2005 freed during the year	€	-
- allocation to non-distributable reserves under article 6, paragraph 2 of Legislative Decree no. 38/2005	€	-
Distributable amount	**€**	**3,167,665.71**
- 5% to the legal reserve	€	158,000.00
- at the disposal of the Board of Directors for undertakings as per Article 21 of the By-laws	€	158,000.00
- dividend to distribute to shareholders (€0.014 for the 112,470,400 shares, which correspond to 2.692% of their nominal value)	€	1,574,585.60
- further allocation to the extraordinary reserve	€	1,277,080.11

OTHER INFORMATION

1. Guarantees issued and commitments

Transactions	2017	2016
1) Financial guarantees issued	**1,258**	**1,258**
a) Banks	1,034	1,034
b) Customers	224	224
2) Commercial guarantees issued	**4,080**	**1,206**
a) Banks	-	-
b) Customers	4,080	1,206
3) Irrevocable commitments to disburse funds	**10,370**	**20,312**
a) Banks	-	-
i) certain usage	-	-
ii) uncertain usage	-	-
b) Customers	10,370	20,312
i) certain usage	1,828	1,188
ii) uncertain usage [1]	8,542	19,124
4) Commitments underlying credit derivatives: sales of protection	-	-
5) Assets pledged as collateral for third-party debts	-	-
6) Other commitments	**-**	**-**
Total	**15,708**	**22,776**

1 In both financial years, the item also includes the commitment to the Voluntary Scheme set up within the Interbank Deposit Protection Fund to carry out interventions to support banks in crisis of €3 thousand; this amount is represented as "Irrevocable commitments to disburse funds to customers" in accordance with the provisions of the draft technical note "Equity instruments" issued by the Bank of Italy on 26 January 2017.

2. Assets used to guarantee own liabilities and commitments

Portfolios	2017	2016
1. Financial assets held for trading	-	-
2. Financial assets at fair value	-	-
3. Financial assets available for sale	114,060	84,125
4. Financial assets held to maturity	-	-
5. Loans and advances to banks	-	-
6. Loans and advances to customers	498,625	398,306
7. Property, plant and equipment	-	-

Eurosystem credit operations

Securities not reported in assets in the statement of financial position to guarantee borrowings

Loans and advances to customers to guarantee mortgage borrowings

Full information on the activities recorded and not registered in the accounts pledged as collateral for liabilities and loans (including credit operations with the Eurosystem), is given in the sections "Disclosure on balance sheet assets pledged as a guarantee" and "Disclosure on off-balance sheet own assets pledged as a guarantee" (Part E, Sec. 3).

4. Management and intermediation on behalf of third parties

Type of services	2017	2016
1. Execution of orders on behalf of customers	**-**	**-**
a) Purchases	-	-
1. settled	-	-
2. not settled	-	-
b) Sales	-	-
1. settled	-	-
2. not settled	-	-
2. Asset management	-	-
a) individual	-	-
b) collective	-	-
3. Safekeeping and administration of securities	**360,077**	**323,109**
a) third party securities on deposit: connected with performance as custodian bank (excluding asset management)	-	-
1. securities issued by the Bank that prepares the financial statements	-	-
2. other securities	-	-
b) other third-party securities on deposit (excluding portfolio management): other	44,849	46,902
1. securities issued by the Bank that prepares the financial statements	27,800	27,800
2. other securities	17,049	19,102
c) third-party securities on deposit with third parties	9,849	11,901
d) own securities on deposit with third parties [1]	315,228	276,207
4. Other transactions	**769**	**945**
of which Transactions on behalf of the Autonomous Provinces	*404*	*580*
Risk provisions set up by various entities	*260*	*260*
Management of state contributions under Law no. 488/92	*105*	*105*

[1] This item includes Senior and Junior securities originating from the securitisation operation and lodged with Montetitoli S.p.A. for the overall amount of €82,290 thousand in 2016 and €107,333 thousand in 2016.

PART C
INFORMATION ON THE INCOME STATEMENT

SECTION 1 - INTEREST – ITEMS 10 AND 20

1.1 Interest income and similar revenues: breakdown

	Items/Technical Forms	Debt securities [1]	Loans [2]	Other transactions	Total 2017	Total 2016
1	Financial assets held for trading	-	-	-	-	-
2	Financial assets available for sale	1,410	-	-	1,410	343
3	Financial assets held to maturity	-	-	-	-	-
4	Loans and advances to banks	-	1,454	-	1,454	225
5	Loans and advances to customers	262	26,107	-	26,369	28,549
6	Financial assets at fair value	-	-	-	-	-
7	Hedging derivatives			-	-	-
8	Other assets			-	-	-
	Total	**1,672**	**27,561**	**-**	**29,233**	**29,117**

Changes in connection with interest income – with respect to the results of the period of comparison (2016) – are shown in the Report on Operations in the section "Income statement dynamics", to which reference should be made.
We also state that:

1 Interest income on debt securities consist of:
- paid coupons of bonds issued by non-banking concerns (see item "loans and advances to customers") that the Bank purchased for the purpose of financing the issuers and hence classified as credits;
- paid coupons of government bonds and bonds issued by banks (see item "assets available for sale") purchased by the Bank with the intention of using them as collateral for loans by the European Central Bank as well as for the purpose of financing the issuers.

Their balances are shown on tables 6.1 and 7.1 of Part B – Sections 6 and 7 respectively.

2 Interest on financing relating to the item loans and advances to banks includes €2 thousand in fees accrued on current accounts and deposits (credit) whose balances are outlined in table 6.1 of part B – Section 6 of assets, and €1.452m in fees accrued on current accounts and deposits (debit), whose balances are outlined in table 1.1 of part B – Section 1 of Liabilities. These also include the accrual on T-LTRO II operations with the ECB.

Interest on impaired positions, calculated with reference to the interest accrued over the entire year on positions held by customers classified as at 31 December 2017 as impaired loans (doubtful, unlikely to pay, past due loans) amounted to €1.870m (€2.089m in 2016).

1.3 Interest income and similar revenues: other information

1.3.1 Interest income from financial assets denominated in currency

	2017	2016
Interest income from financial assets denominated in currency	19	17

1.3.2 Interest income on finance lease transactions

	2017	2016
Deferred financial income	10,685	7,438
Potential rent recorded as revenues for the period	(446)	(506)

1.4 Interest expense and similar charges: breakdown

Items/Technical Forms	Amounts due[1]	Securities[2]	Other transactions	Total 2017	Total 2016
1. Amounts due to central banks	-		-	-	70
2. Due to banks	3,969		-	3,969	2,722
3. Due to customers	610		-	610	2,736
4. Debt securities in issue		5,619	-	5,619	10,570
5. Financial liabilities held for trading	-	-	-	-	-
6. Financial liabilities at fair value	-	-	-	-	-
7. Other liabilities and provisions			-	-	-
8. Hedging derivatives			-	-	-
Total	**4,579**	**5,619**	**-**	**10,198**	**16,098**

Changes in connection with interest expense – with respect to the results of the period of comparison (2016) are shown in the Report on Operations in the section "Income statement dynamics", to which reference should be made.
We also state that:

1 Interests on payables under the item "due to banks" include amounts accrued on active current accounts (€6 thousand): their balances are shown on table 6.1 of Part B – Section 6 of Assets.

2 Interest expense accrued on securities relates to bonds issued by the Bank and classified under item 30 of liabilities in the Statement of Financial Position. Interest expense has been calculated – in relation to items recognised at amortised cost – using the effective interest rate method.

1.6 Interest expense and similar charges: other information

1.6.1 Interest expense on liabilities denominated in currency

	2017	2016
Interest expense on liabilities denominated in currency	2	2

SECTION 2 - FEES & COMMISSIONS – ITEMS 40 & 50

2.1 Commission income: breakdown

Type of service/Amounts	2017	2016
a) guarantees issued	28	37
b) credit derivatives		
c) management, brokerage and consultancy services:	12	-
8. consultancy	12	-
8.1 investments		
8.2 structured finance	12	-
d) collection and payment services	1	1
e) securitisation servicing		
f) services for factoring transactions		
g) tax collection services		
h) management of multilateral trading facilities		
i) management of current accounts	1	0
j) other services [1]	1,808	1,912
Total	**1,850**	**1,950**

Changes of single items against the data for the accounting period 2016 are illustrated and motivated in the Report on Operations in the section "Income statement dynamics", to which reference should be made.

1 This item is mainly made up of various commissions on loans granted for €1.250m and of commissions for corporate finance activities for €518 thousands.

2.3 Commission expense: breakdown

Services/Amounts	2017	2016
a) guarantees received	124	134
b) credit derivatives		
c) management and brokerage services:	17	15
4. safekeeping and administration of securities	17	15
d) collection and payment services	1	1
e) other services[1]	194	247
Total	**336**	**397**

Changes of single items with respect to the data for the period of comparison (2016) are adequately illustrated and explained in the Report on Operations in the section "Income statement dynamics", to which reference should be made.

1 Of which €68 thousand is for the processing of funding applications and €126 thousand for other banking services.

SECTION 3 – DIVIDENDS AND SIMILAR INCOME – ITEM 70

3.1 Dividends and similar income: breakdown

Items/Income	2017		2016	
	Dividends	Income from investments in UCITS	dividends	Income from investments in UCITS
A. Financial assets held for trading	-	-	-	-
B. Financial assets available for sale	244	-	218	-
C. Financial assets at fair value	-	-	-	-
D. Equity investments	-		-	
Total	**244**	**-**	**218**	**-**

The amount of €244 thousand consists mainly of dividends received from Enercoop S.r.l. (€75 thousand), Green Hunter Group S.p.A. (€92 thousand), GPI S.p.A. (€30 thousand) and La Finanziaria Trentina S.p.A. (€27 thousand).

SECTION 4 – NET TRADING INCOME – ITEM 80

4.1 Net trading income: breakdown

Transactions/Income items	Capital gains (A) [1]	Trading profits (B) [2]	Capital losses (C) [3]	Trading losses (D) [4]	Net result [(A+B) - (C+D)]
1. Financial assets held for trading	**-**	**-**	**-**	**-**	**-**
1.1 Debt securities					-
1.2 Equity securities					-
1.3 Investments in UCITS					-
1.4 Loans					-
1.5 Others					-
2. Financial liabilities held for trading	**-**	**-**	**-**	**-**	**-**
2.1 Debt securities					-
2.2 Amounts due					-
2.3 Others					
3. Other financial assets and liabilities: exchange differences					**(0)**
4. Derivative instruments	**379**	**269**	**245**	**263**	**140**
4.1 Financial derivatives:	379	269	245	263	140
- On debt securities and interest rates	251	269	245	226	49
- On equity securities and share indices	128			37	91
- On currencies and gold					
- Other					
4.2 Credit derivatives					
Total	**379**	**269**	**245**	**263**	**139**

1 The item "Capital gains" includes positive fair value changes as at 31 December 2017 on Cap options purchased by banks for €192 thousand, the negative fair value changes on Cap options sold to customers for €59 thousand and the positive fair value change on warrants for €128 thousand.
2 The item "Trading profits" includes premiums received in relation to Cap options sold to customers.
3 The item "Capital losses" includes negative fair value changes accrued on Cap options purchased by banks for €61 thousand and the positive fair value changes on Cap options sold to customers for €184 thousand.
4 The item "Trading losses" includes premiums paid in relation to Cap options purchased from banks for €226 thousand and capital loss generated by the exercise of the GPI S.p.A. warrant for €37 thousand.

SECTION 6 – GAINS (LOSSES) ON DISPOSAL/REPURCHASE – ITEM 100

6.1 Gains (losses) on disposal or repurchase: breakdown

Items/Income items	2017			2016		
	Gains	Losses	Net result	Gains	Losses	Net result
Financial assets						
1. Loans and advances to banks	-	-	-	-	-	-
2. Loans and advances to customers [1]	417	387	30	713	487	226
3. Financial assets available for sale	3,269	2	3,267	2,711	3	2,708
3.1 Debt securities [2]	3,269	-	3,269	1,085	3	1,082
3.2 Equity securities [3]		2	(2)	1,626	-	1,626
3.3 Investments in UCITS	-	-	-	-	-	-
3.4 Loans	-	-	-	-	-	-
4. Financial assets held to maturity	-	-	-	-	-	-
Total assets	**3,686**	**389**	**3,297**	**3,424**	**490**	**2,934**
Financial liabilities						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Debt securities in issue	-	-	-	-	-	-
Total liabilities	**-**	**-**	**-**	**-**	**-**	**-**

1 The amounts recorded under item 2. of the financial assets relate to the capital gain resulting from the sale of doubtful loans.
2 The amounts recorded under item 3.1 of the financial assets relate to the gain realised on the sale of Government securities.
3 The amounts recorded under item 3.2 of the financial assets relate to the capital losses deriving from the closure of the indirect investment in Cassa di Risparmio di Cesena, held through the Voluntary Scheme set up within the Interbank Deposit Protection Fund to carry out interventions to support banks in crisis.

SECTION 8 – NET IMPAIRMENT ADJUSTMENTS – ITEM 130

8.1 Net value adjustments for impairment of loans: breakdown

Transactions/Income items	Value adjustments (1)			Write-backs (2)				Total 2017	Total 2016
	Specific		Portfolio[3]	Specific[4]		Portfolio			
	Write-offs[1]	Other [2]		A	B	A	B		
A. Loans and advances to banks									38
- loans									38
- debt securities									
B. Loans and advances to customers	(114)	(15,397)	(1,850)	2,885	3,183	-	-	(11,293)	(5,302)
Purchased impaired loans									
- loans									
- debt securities									
Other loans	(114)	(15,397)	(1,850)	2,885	3,183	-	-	(11,293)	(5,302)
- loans	(114)	(15,397)	(1,850)	2,885	3,183	-	-	(11,293)	(5,302)
- debt securities								-	-
C. Total	**(114)**	**(15,397)**	**(1,850)**	**2,885**	**3,183**	**-**	**38**	**(11,293)**	**(5,264)**

Legend A= from interests B= other write-backs

1 The item "write-downs – specific - write-offs" (€114 thousand) coincides with the "loan losses" item in the table "Item 130. Net impairment adjustments" shown in the report on operations.
2 The item "write-downs – specific – other" (€15.397m) coincides with the "case-by-case measurement – adjustments" item in the table "Details of item 130. Net impairment adjustments" shown in the report on operations.
3 The amount shown (€1.850m) differs from what was shown in the report on operations in the section devoted to the dynamics of the income statement, table "Details of item 130. Net impairment adjustments" - portfolio valuation - net effect (€1.050m of write-backs) - (we refer to the amount shown in the column "net effect" because in the table shown in the Report on operations portfolio write-downs/write-backs are shown with reference to portfolios while in this table the amounts shown are those based on the classification of customers by category) for the amount of €800 thousand described under note 4.
4 The total value of specific write-backs of €6.068m differs from the sum of values reported in the Report on Operations in the paragraph dedicated to the income statement dynamics, table "Details of item 130. Net impairment adjustments" the items "case-by-case measurement – write-backs" (€5.162m) and "Collections on transactions completed in previous years" (€106 thousand) - for the amount of €800 thousand equal to net portfolio adjustments to unlikely to pay and impaired past due loans, which, as shown in Circular 262/2005 of the Bank of Italy were recognised under "Specific write-backs - other write-backs"

8.2 Net value adjustments for impairment of financial assets available for sale: breakdown

Transactions/Income items	Value adjustments (1)		Write-backs (2)		Total 2017 (3)=(1)-(2)	Total 2016 (3)=(1)-(2)
	Specific		Specific			
	Write-offs	Other	A	B		
A. Debt securities						
B. Equity securities		(47)			(47)	(53)
C. Investments in UCITS				295	295	
D. Loans and advances to banks						
E. Loans and advances to customers						
F. Total		**(47)**		**295**	**(248)**	**(53)**

Legend
A= from interests
B= other write-backs

8.4 Net value adjustments for impairment of other financial transactions: breakdown

Transactions/Income items	Value adjustments (1)			Write-backs (2)				Total 2016 (3)= (1)-(2)	Total 2015 (3)= (1)-(2)
	Specific		Portfolio	Specific		Portfolio			
	Write-offs [1]	Other		A	B	A	B		
A. Guarantees issued	(6)	-	(18)	-	-	-	-	(24)	6
B. Credit derivatives	-	-	-	-	-	-	-	-	-
C. Commitments to disburse funds	-	-	-	-	-	-	-	-	-
D. Other transactions	-	-	-	-	-	-	-	-	-
E. Total	**(6)**	**-**	**(18)**	**-**	**-**	**-**	**-**	**(24)**	**6**

Legend
A= from interests
B= other write-backs

1 The item "adjustments - specific - write-offs" (€6,111.67) refers to the provisions in favour of interbank deposit protection fund for initiatives already resolved.

SECTION 9 – ADMINISTRATIVE COSTS – ITEMS 150

9.1 Payroll: breakdown

Type of expenses/Amounts	Total 2017	Total 2016
1) Employees	6,427	6,355
a) wages and salaries	4,382	4,352
b) social insurance	1,189	1,175
c) severance indemnities [1]	253	256
d) social security contributions	-	-
e) provision for severance indemnities	23	2
f) provision for post-retirement benefits and other obligations:	-	-
- defined contribution	-	-
- defined benefit	-	-
g) payments to external supplementary pension funds:	151	153
- defined contribution [2]	151	153
- defined benefit	-	-
h) costs deriving from payment agreements based on own capital instruments	-	-
i) other employee benefits	429	417
2) Other personnel currently employed	-	-
3) Directors and Auditors	476	468
4) Retired personnel	-	-
5) Cost recovery in relation to employees seconded to other companies	-	-
6) Cost recovery in relation to third party employees seconded to the company	-	-
Total	**6,903**	**6,823**

1 In accordance with implementing rules issued by the Bank of Italy, this item is made up of amounts of severance indemnities paid out directly to INPS (National Social Security Institute) and to other externally defined contribution funds.
2 This amount includes contributions to the supplementary pension schemes.

9.2 Average number of employees by category[1]

	2017	2016
Employees:	**75**	**77**
a) executives	4	3
b) managerial staff	39	37
c) remaining employees	32	37
Other personnel	-	-

1 The annual average is obtained by calculating the average number of employees at the end of each month.

In order to give a better representation of the Bank's workforce, the table below shows the average number of employees calculated taking into account the actual number of hours for each part-time contract.

	2017	2016
Employees:	**79.7**	**81.3**
a) executives	4.3	3.5
b) managerial staff	39.5	37.7
c) remaining employees	35.9	40.0
Other personnel	-	-

9.4 Other employee benefits

	2017	2016
Insurance policies	138	136
Training	88	50
Lunch vouchers	69	71
Costs for early termination of employment	70	81
Benefits in kind	16	17
Other short-term benefits	48	62
Total	**429**	**417**

9.5 Other administrative costs: breakdown

	2017	2016
1. IT costs	**739**	**684**
- outsourcing costs	439	426
- other EDP (Electronic Data Processing) costs	300	258
2. Property related expenses	**425**	**435**
a) rental expenses	104	118
- property rental expenses	*104*	*118*
b) other expenses	321	317
- office cleaning	*83*	*84*
- building service charges	*32*	*25*
- maintenance and repair costs	*56*	*55*
- electricity, heating, water	*76*	*75*
- motor vehicles maintenance	*74*	*78*
3. Purchase of non-professional goods and services	**270**	**325**
- books, magazines, subscriptions	32	35
- information and cadastral services	57	78
- stationery, printing supplies, storage media	8	12
- surveillance	84	87
- databases and value-added networks	63	83
- post and telephones	26	30
4. Purchase of professional services	**795**	**793**
- legal and procedural costs	495	532
- professional fees	300	261
5. Insurance premiums	**26**	**32**
- other insurance policies	26	32
6. Advertising expenses	**122**	**171**
- advertising and sponsorships	102	154
- entertainment and gifts	20	17
7. Indirect taxes and duties	**131**	**158**
- substitute tax	24	35
- registration tax and dues	40	32
- local tax on real estate	42	53
- other taxes and duties (advertising, tosap - tax on occupation of public property - stamp duty)	25	38
8. Other	**774**	**2,271**
- contributions to the banking crisis resolution fund	446	1,823
- membership fees [1]	183	320
- other expenses	145	128
Total	**3,282**	**4,869**

1 It is mainly due to the subscription to ABI (Italian Bank Association), Consob and to the Federazione Trentina delle Cooperative.

SECTION 10 - NET PROVISIONS FOR RISKS AND CHARGES – ITEM 160

10.1 Net provisions for risks and charges: breakdown

	Total 2017	Total 2016
Provision for personnel incentive schemes	(100)	(54)
Net provisions for legal disputes underway	(756)	(110)
Total	**(856)**	**(164)**

SECTION 11 – NET ADJUSTMENTS TO PROPERTY, PLANT AND EQUIPMENT – ITEM 170

11.1 Net adjustments to property, plant and equipment: breakdown

Assets/Income items	Depreciation (a)	Impairment adjustments (b)	Write-backs (c)	Net result (a + b - c)
A. Property, plant and equipment	(548)			(548)
A.1 Owned	(548)			(548)
- For operational use	(548)			(548)
- For investments				
A.2 Assets purchased under finance lease				
- For operational use				
- For investments				
Total	**(548)**			**(548)**

SECTION 12 – NET ADJUSTMENTS TO INTANGIBLE ASSETS – ITEM 180

12.1 Net adjustments to intangible assets: breakdown

Assets/Income items	Amortisation (a)	Impairment adjustments (b)	Write-backs (c)	Net result (a + b - c)
A. Intangible assets	(58)			(58)
A.1 Owned	(58)			(58)
- Generated internally by the company				
- Others	(58)			(58)
A.2 Purchased under finance lease				
Total	**(58)**			**(58)**

SECTION 13 – OTHER OPERATING CHARGES/INCOME – ITEM 190

13.1 Other operating charges: breakdown

	Total 2017	Total 2016
Self-securitisation costs refunded to the SPV	(208)	(265)
SPV ongoing and retranching operating expenses	(189)	(98)
Sundry operating expenses	(56)	(3)
Total	**(453)**	**(366)**

13.2 Other operating income: breakdown

	Total 2017	Total 2016
Recovery of procedural expenses	531	484
Servicer commission income in relation to self-securitisation	208	265
Tax refund/recovery	80	93
Sundry operating income	123	60
Total	**942**	**902**

SECTION 14 – PROFIT (LOSS) FROM EQUITY INVESTMENTS – ITEM 210

14.1 Profit (loss) from equity investments: breakdown

Income items/Amounts	2017	2016
A. Income	**332**	**-**
1. Revaluations	-	-
2. Gains on disposal [1]	332	-
3. Write-backs	-	-
4. Other income	-	-
B. Charges	**(99)**	**(277)**
1. Write-downs[2]	(99)	(113)
2. Adjustments due to impairment	-	(164)
3. Losses on disposal	-	-
4. Other charges	-	-
Net result	**233**	**(277)**

1 Gains on disposal derive from the sale of the equity investment in Biorendena Srl (€325 thousand) and from the liquidation of the equity investment in Essedi Strategie d'Impresa Srl (€7 thousand).

2 Charges deriving from the application of the equity method to the valuation of equity investments refer to the subsidiary Paradisidue S.r.l.

SECTION 17 – GAINS (LOSSES) ON DISPOSAL OF INVESTMENTS – ITEM 240

17.1 Gains (losses) on disposal of investments: breakdown

Income items/Amounts	2017	2016
A. Buildings	-	-
- Gains on disposal	-	-
- Losses on disposal	-	-
B. Other assets	6	23
- Gains on disposal [1]	7	23
- Losses on disposal	(1)	-
Net result	**6**	**23**

1 In 2017, this item relates to gains on the sale of fully depreciated property, plant and equipment of €7 thousand and in 2016, this item relates to gains on the sale of partially depreciated property, plant and equipment of €32 thousand.

SECTION 18 – INCOME TAXES ON CURRENT OPERATIONS – ITEM 260

18.1 Income taxes on current operations: breakdown

	Items/Amounts	Total 2017	Total 2016
1.	Current taxes (-)	(56)	(46)
2.	Change in current taxes of previous periods (+/-)		-
3.	Decrease in current taxes of the period (+)		-
3.bis	Decrease in current taxes in the year for tax credits pursuant to Law no. 214/2011 (+)	+134	+437
4.	Change in deferred tax assets (+/-)	-1,239	-433
5.	Change in deferred tax liabilities (+/-)	+847	+134
6.	**Income taxes for the period (-) (-1+/-2+3+3*bis*+/-4+/-5)**	**(314)**	**92**

18.2 Reconciliation between theoretical tax charge and actual tax charge

Items/Amounts		Taxable	Tax	Rates
Profit on current operations before taxes (item 250 IS)		**2,240**		
Corporate income tax (IRES) – theoretical values:		**-**	**(616)**	**27.50%**
IRES variation due to decreases in the taxable income		(4,158)	661	27.50%
IRES variation due to increases in the taxable income		1,575	(450)	27.50%
Tax loss - 2017		**(343)**	**-**	
Substitute tax on the remittance of the write-down of receivables (former EC box)			(323)	27.50%
Other components			346	27.50%
Decrease in current taxes in the year for tax credits pursuant to Law 214/2011			134	
A. Actual tax charge – current corporate income tax (IRES)			**156**	
Increases in deferred tax assets			285	27.50%
Decreases in deferred tax assets			(1,413)	27.50%
Increases in deferred tax liabilities			-	
Decreases in deferred tax liabilities			847	27.50%
B. Total effect of deferred corporate income tax (IRES)			**(281)**	
C. Total actual IRES charge (A+B)			**(125)**	**5.58%**
Regional tax on industrial activities IRAP – application of nominal tax rate **(difference between net interest and other banking income and deductible expenses)**		**7,220**	**(402)**	**5.57%**
IRAP variation due to a decrease in production value		(6,543)	364	5.57%
IRAP variation due to an increase in production value		2,499	(139)	5.57%
Net value of production - 2017		**3,176**	**(177)**	**5.57%**
Decrease in current taxes in the year for tax credits pursuant to Law 214/2011				
D. Actual tax charge – Current regional tax on industrial activities (IRAP)			**(79)**	
Increases in deferred tax assets			6	4.65%
Decreases in deferred tax assets			(117)	5.57%
Increases in deferred tax liabilities			-	
Decreases in deferred tax liabilities			-	
E. Total effect of deferred regional tax on industrial activities (IRAP)			**(110)**	
F. Total actual IRAP charge	**(D+E)**		**(189)**	**2.62%**
Total current taxes IRES/IRAP (item 260 IS)	**(A+D)**		**77**	
Total actual tax charges IRES/IRAP (item 260 IS)	**(C+F)**		**(314)**	**14.02%**

SECTION 19 – NET PROFIT (LOSS) FROM GROUPS OF ASSETS HELD FOR SALE – ITEM 280

19.1 Net profit (loss) from groups of assets/liabilities held for sale: breakdown

Income items/Amounts	2017	2016
1. Income	-	-
2. Charges	-	-
3. Result of measurements of group of assets and of associated liabilities	-	-
4. Capital gains/losses	1,856	-
5. Taxes	(614)	-
Net result	**1,242**	**-**

The values shown in the table refer to the sale of the secondary office of Bolzano that as at 31 December 2016 was reclassified as assets held for sale in that the Bank – through preliminary deed of 25 June 2014 – undertook the commitment to sell the secondary office not earlier than three years and in any case before a time period of four years for €3m. The sale in question took place in December 2017.

19.2 Breakdown of income taxes relating to groups of assets/liabilities held for sale

Income items/Amounts	2017	2016
1. Current taxes (-)	(614)	-
2. Change in deferred tax assets (+/-)	-	-
3. Change in deferred tax liabilities (-/+)	-	-
4. Income taxes for the year (-1+/-2 +/-3)	**(614)**	**-**

The current taxes shown in the table are calculated by applying the current IRES and IRAP rates (27.5% for €510 thousand and 5.57% for €104 thousand, respectively).

SECTION 20 – OTHER INFORMATION

Parent company: exemption from the requirement of drawing up the consolidated financial statements

The Bank, in compliance with the legislation in force (Legislative Decree No. 356/1990) and with the regulations of the Supervisory Authority, is the parent company of "Gruppo Bancario Mediocredito Trentino–Alto Adige S.p.A.", duly registered with the Banking Group Register. The real estate company Paradisidue S.r.l., 100% controlled, is also part of the Group.
The Bank does not prepare consolidated financial statements as the consolidation of the subsidiary Paradisidue S.r.l. (assets as at 31 December 2017 of €9.1m) is not deemed significant to the improvement of the disclosures provided (IAS 8 and paragraphs 26, 29, 30 and 44 of the "Systematic Framework for the Preparation and Presentation of Financial Statements", known as Framework). The subsidiary owns a building whose value, appropriately estimated, corresponds to market values and the equity investment is booked in the financial statements of the Bank at equity.
Additionally, since the volume of business of its subsidiary is below the set threshold Mediocredito is not required to submit to the Bank of Italy consolidated statistical reports under the existing supervisory regulations.

SECTION 21 – EARNINGS PER SHARE

21.1 Average number of ordinary shares on the dilution of share capital

During the year 2016, there was no dilution of Mediocredito's share capital as neither the number of its shares nor their nominal value changed. The average number of shares is therefore, 112,470,400, equal to the exact value.

21.2 Other information

Taking into consideration the profit for the year of €3.168m, the profit per share is €0.0282.

Earnings per share

	2017	2016
Earnings (loss) per share	0.0282	0.0023
Diluted earnings (loss) per share	0.0282	0.0023

PART D
COMPREHENSIVE INCOME

ANALYTICAL STATEMENT OF COMPREHENSIVE INCOME

	Items	Gross amount	Income tax	Net amount
10.	INCOME (LOSS) FOR THE YEAR			**3,168**
Other comprehensive income without reversal to income statement				
40.	DEFINED BENEFIT PLANS	**(0)**	**(0)**	**(0)**
Other comprehensive income with reversal to income statement				
100.	FINANCIAL ASSETS AVAILABLE FOR SALE:	**468**	**(113)**	**355**
	a) fair value changes	454	(109)	345
	b) reversal to income statement	14	(4)	10
	- adjustments due to impairment	-	-	-
	- capital gains/losses	14	(4)	10
	c) other changes	-	-	-
130.	TOTAL OTHER INCOME COMPONENTS	**468**	**(113)**	**355**
140.	TOTAL COMPREHENSIVE INCOME (Item 10+130)			**3,523**

PART E
INFORMATION ON RISKS AND RELATED HEDGING POLICIES

INTRODUCTION

As mentioned earlier, given its size and its business model that is primarily focused on medium to long-term credit, the Bank's risks are generally related to credit risk and liquidity risk. Market risk - concentrated in the banking book - is largely attributable to the portfolio of Italian government securities, most of which were deposited with the Bank of Italy to guarantee refinancing operations. Operational risks are less impactful. For a more thorough examination of the system of controls and risk management, please refer to the following sections as well as the sections of the report on operations dedicated to these issues.
In 2017, the Bank maintained its system of controls, planning and management of risks to comply with the innovations included in Bank of Italy Circular no. 285/2013. The management is committed to include objectives linked to the promulgation of risk culture, as part of the company policies and staff training and evaluation.

SECTION 1 – CREDIT RISK

QUALITATIVE INFORMATION

1. GENERAL ASPECTS

The credit risk to which the Bank is exposed derives mainly from the typical activity of granting medium to long term loans to businesses, in different technical forms and largely secured by the necessary suitable guarantees.
However, we point out that at the date of this annual report the Bank was not exposed either directly or indirectly to the credit products of the ABS (Asset Backed Securities) and CDO (Collaterised Debt Obligation) type linked to sub-prime and Alt-A loans or to financial products that the market perceives as risky.

2. CREDIT RISK MANAGEMENT POLICY

2.1 Organisational aspects

Credit risk is defined as the risk of facing an unexpected loss/impairment of value/earnings because of the failure of the debtor, in other words the "Risk arising out of a credit exposure as a result of an unforeseen change in the creditworthiness of the borrower that involves a change in the value of the exposure itself". At Mediocredito, it also includes the counterparty risk, i.e. the risk that the counterparty could default before the final settlement of all the cash flows linked to the operation.

In the light of the provisions contained in Part One, Title IV, Chapter 3 of the Bank of Italy Circular 285/2013 regarding internal controls and the significance attached to the efficiency and effectiveness of the credit process and associated control system, the Bank has set up a dedicated organisational structure to achieve the objectives of credit risk management and control, indicated by the above prudential regulations.

The whole process of credit management and control is governed by internal regulations that:

- identify the proxies and the signing powers concerning credit disbursement;
- define the criteria for the assessment of creditworthiness;
- define the methods for the renewal of credit;
- define the methods of performance monitoring and credit risk measurement and the types of actions to be taken in case of detection of anomalies.

These rules define internal control activities, management and mitigation for credit risk by developing a structured system that involves different organisational functions whose activities are within the complex global risk control and management system adopted by the Bank.

The credit risk organisational process management is based on the principle of separation between its own investigation process activities and those of credit management. This principle has been implemented through the establishment of separate organisational structures.

With regard to the operating methods that characterise the lending activities of the Bank, credit management is split into the following macro areas:

- credit planning: carried out in accordance with the development and risk/reward policies as defined by the Board of Directors as part of the Risk Appetite Statement;
- granting and review: this phase covers the whole credit granting process from the request for funding (or the review of existing credit lines granted) to the application assessment and the decision by the competent body. The rules governing such stages are contained in the company procedures (mapped into the filing system) and in the Internal Regulations.
- monitoring: includes all activities necessary for the timely detection and subsequent management of risky phenomena that may occur during the credit process. The monitoring is managed by the Credit Services - Monitoring and Restructuring Office. The body, dedicated to constantly checking credit quality, reports every two months to the Credit Risk Management Committee and manages the restructuring of impaired loans;
- dispute management: refers to all the activities carried out following the classification of a position under doubtful loans and other impaired loans as identified by the Credit Risk Management Committee to safeguard the interests of the Bank. The various phases of the process are entrusted to the Legal Department, which proactively manages the recovery initiatives.

The process of assumption and control of credit risk, incorporated in an internal policy, is monitored by the Credit Service which supervises the processes of credit granting, disbursement, management and monitoring and defines rules, instruments and criteria for assessing creditworthiness, besides assisting the Market Service units in preliminary risk evaluation.
The Bank grants credit on the basis of a detailed monographic analysis of the company seeking financing that takes into account not only its economic-financial situation but also its position on the market, productive structure, management, forecast business plan and guarantees; with a special reference to industrial and commercial companies, the preliminary analysis is supplemented by the assignment of an internal scoring/rating that allows customers to be classified according to risk categories and the pricing policy to be applied in a more calibrated manner.
The loan portfolio is monitored by the Monitoring and Restructuring Department and the most impaired loans in the portfolio by the Legal Department. The Risk Management Office cooperates with the Management, also as part of the Credit Risk Management Committee, to define and monitor risk policies and for the assessment of lending.

2.2 Management, measurement and control systems

Policies aimed at maintaining portfolio integrity are implemented through an intense and systematic monitoring action, above all with regards to exposures most at risk (performed by the Monitoring and Restructuring Department) through direct relations with customers and/or the acquisition and assessment of financial statements, accounts or other documents, sometimes also jointly with Regional Units. These policies are summarised at the frequent meetings of the Credit Risk Management Committee, a body responsible for defining the relevant guidelines and examining the outcome of specific operations carried out by the Offices in charge.
Operational methods, already introduced to the monitoring process a few years ago, designed to increase the speed of identification and efficiency of managing loans characterised by a deteriorated risk profile, allow the advance submission of positions that are believed could deteriorate in the future (despite regular repayments) to the attention of the Credit Risk Management Committee.
Reporting to the Credit Risk Management Committee is structured into:

- loan control and monitoring activities;
- analysis of past due loans and/or characterised by forbearance measures (forborne);
- analysis and control of possibly problematic performing loans;
- collection of adjusted doubtful loans.

Within the context of loan control and monitoring activities, the following are also shown:

- the yearly outcome of the appraisal by the Monitoring and Restructuring Department (generated with the help of an automated process) with regards to compliance with financial covenants that had accompanied the granting of the loan;

- the yearly outcome of the appraisal by the Monitoring and Restructuring Department, targeted at examining signs that could indicate a possible worsening of the risk profile of the debtor, aimed at performing loans that fall within a marked perimeter, focused primarily on the analysis of data of the Centrale Rischi (central credit register) and the main company accounting data from the latest approved financial statements and/or consolidated financial statements.

In addition to the functions mentioned above, the activities of the Planning and Control Department and Risk Management Department fall within the scope of credit risk monitoring. In particular, the aforementioned functions conduct quarterly and half-yearly analyses on the evolution and trend in credit risk, periodically reporting to the top management and the Board of Directors.
For the purpose of determining the internal capital against the credit risk, the Bank uses the standardised approach adopted for the determination of capital requirements in respect of credit risk. During the interim review of the Internal Capital Adequacy Assessment Process (ICAAP) and of the monitoring of the actual risk profile as part of the Risk Appetite Statement (RAS), the internal capital absorbed to cover the credit risk is determined on a quarterly basis, also by carrying out stress testing.

2.3 Credit risk mitigation techniques

In accordance with the Bank's specific fields of operation, Credit Risk Mitigation techniques consist mainly of "Exposures secured by real estate".
The relative process of the policies for the eligibility of guarantees and the mapping of business processes related to the management of real estate as collateral for loans has been defined, and approved by the Board of Directors.
Regarding the size of guarantees securing the loan portfolio – which is classified on the basis of the incidence of guarantee coverage in terms of Loan to Value - most of the risk portfolio is secured by guarantees so that the risk is either reduced (e.g. delegations of payment for operations in favour of public bodies in the Region, full bank guarantees, guarantees of institutional funds on first demand with LTV below certain thresholds) or normal (higher LTV and within certain thresholds); these guarantees are often supplemented by other endorsement guarantees.
In the period under examination, disbursements in relation to less guaranteed operations (defined, on the basis of an internal classification, as "full risk", with an LTV higher than that determined for "normal risk" positions, but often assisted by guarantees, at least partial, or by covenants) amounted to €129.1m (€101.3m in 2016). As at 31 December 2017, the ratio of the operations to loans due to expire came to 33.5% (29.6% at the end of 2016), a ratio within the tolerances set for the year (35.0%).
Operations within the construction sector remained very low. In the whole of 2017, disbursements came to just €1.8m (€1.6m in 2016) equal to 3.9% of the total loans at year end (down compared to 4.9% in December 2016, 5.9% in December 2015, 6.8% in December 2014 and 7.5% in December 2013 - excluding doubtful loans) and below the set limits for the financial year 2017 (7%).
In addition to the building sector, which is still the most problematic sector albeit sharply declining, the higher concentration of the portfolio is represented by operations in the energy sector. The composition of the energy portfolio in terms of type and location of the financed production infrastructures shows that 72% of loans are located in northern Italy (in particular, in Trentino-South Tyrol, Emilia Romagna, Lombardy and Veneto) and only 9% in the south; that the main types are photovoltaic (36%) and hydroelectric (35%) plants, followed by 21% biomass and cogeneration (6%), while wind farms are still marginal (3%). The total by debtor's residence clearly shows that more than 90% of the loans are to customers located in the areas chosen by the Bank, in particular in Trentino - South Tyrol (58%) and Lombardy.

Looking again at the overall portfolio of outstanding loans, a breakdown by geographical area of the initiatives shows that the concentration profile of the activities in the target areas remains substantially unchanged: the loan portfolio is concentrated for 45.7% in Trentino-South Tyrol, 23.9% in Veneto, 11.1% in Emilia Romagna, 12.1% in Lombardy and 7.2% in other areas.
In relation to "significant risks", three loans are reported as at 31 December 2017: one of which with central governments (Italian government securities), and the other two with supervised credit intermediaries.

2.4 Impaired financial assets

The situations that present some level of anomaly are initially monitored by the Credit Service – aided by the local commercial units - which implements all timely management actions with the aim of achieving a return to normality.

In the event of a particular deterioration in the relationship, the position is transferred to the Legal Department, which manages the re-entry phase, if necessary through the launch of enforcement proceedings. Therefore, the Legal Department presides over a part of unlikely to pay loans and all doubtful loans.
The detailed analysis of significant positions is bought to the attention of the Credit Risk Management Committee, which meets at least every two months, evaluates the actions to be taken and decides whether to alter the status of the impaired loans.
Reporting to the Credit Risk Management Committee relating to the analysis of the situation of past due loans is broken down by risk severity and duration into:

- Past due Status "Past due by less than 90 days";
- Past due Status "Past due 90";
- Past due Status "Past due 180";
- Past due Status "Unlikely to pay".

Every six months, the organisational units of the Credit Risk Management Committee, in coordination with the General Management, carry out an evaluation on the positions in question, to verify the existence of objective evidence of possible impairment losses (impairment test). The evaluation process makes provision for an analytical examination of impaired positions by applying the methodologies and criteria set out in Part A – Accounting Policies. In compliance with the amendments introduced by the updates of the supervisory provisions that acknowledge the ITS EBAs of January 2015 regarding non-performing loans, the Bank has an appropriate policy for the classification, measurement and management of impaired loans; it requires, in particular, the determination of recovery forecasts to be formalised in detail for each position analysed to allow the evaluation and calculation process to be traced and reconstructed.
Verification of the correct monitoring of the individual exposures and the assessment of the consistency of the classifications, the congruence of the provisions and the adequacy of the recovery process is carried out by the risk control function which, verifies, among the other tasks, the work of the operating and credit recovery units, ensuring the correct classification of the impaired exposures and the adequacy of the related degree of unrecoverability.
As regards the risk indicator of the portfolio developed by the Bank of Italy[25] it is reported that when analysing the historical performance of the most significant aggregate for our operations (non-financial corporations in North-eastern Italy), the Bank's average value is below the result of the System. In the last five years, in particular, as is well known, characterised by a severe economic crisis, the average (3.1% calculated on amounts) is below that of the system (3.6%), with a figure that clearly improved over the last two years (1.9% against 2.8%).

[25] Data updated as at 30 September 2017

QUANTITATIVE INFORMATION

A. CREDIT QUALITY

For the purpose of quantitative disclosure on credit quality and in compliance with the provisions of the Bank of Italy, the expression "credit exposures" does not include equity securities and Investments in UCITS, while the expression "exposures" does include them.

A.1 Impaired and performing credit exposures: amounts, value adjustments, trend, economic and geographical distribution

A.1.1 Distribution of credit exposures by relevant portfolio and credit quality (book values)

Portfolio/quality	Doubtful loans	Unlikely to pay	Impaired past due exposures	Performing past due exposures	Performing assets	Total
1. Financial assets available for sale					214,084	**214,084**
2. Financial assets held to maturity						
3. Loans and advances to banks					124,326	**124,326**
4. Loans and advances to customers	64,071	32,683	2,264	19,827	1,007,859	**1,126,704**
5. Financial assets at fair value						
6. Financial assets to be sold						
Total 2017	**64,071**	**32,683**	**2,264**	**19,827**	**1,346,269**	**1,465,114**
Total 2016	**80,184**	**48,094**	**9,339**	**21,226**	**1,238,556**	**1,397,399**

Details of loans and advances to customers subject to forbearance measures (forborne)

Portfolio/quality	Doubtful loans	Unlikely to pay	Impaired past due exposures	Performing past due exposures	Performing assets	Total
4. Loans and advances to forborne customers	15,849	22,932	580	3,611	29,366	**72,337**

Detailed information on performing loans

Net exposure of performing loans by period overdue

Portfolio/quality	Regular loans	Period overdue			
		Up to 3 months	From 3 to 6 months	From 6 months to 1 year	More than 1 year
4. Loans and advances to banks	124,326	-	-	-	-
5. Loans and advances to customers	1,007,859	14,607	683	3,974	563
Subject to renegotiation under collective agreements [1]	-	-	-	-	-
Other exposures	*1,007,859*	*14,607*	*683*	*3,974*	*563*

Details of amounts overdue for performing loans by period overdue

Portfolio/quality	Net exposure	Period overdue			
		Up to 3 months	From 3 to 6 months	From 6 months to 1 year	More than 1 year
4. Loans and advances to banks	124,326	-	-	-	-
5. Loans and advances to customers	1,027,686	471	26	48	14
Subject to renegotiation under collective agreements [1]	-	-	-	-	-
Other exposures	*1,027,686*	*471*	*26*	*48*	*14*

[1] The Bank no longer holds exposures that benefit from renegotiations granted under agreements between ABI and the trade associations.

A.1.2 Distribution of credit exposures by relevant portfolio and credit quality (gross and net values)

	Impaired assets			Performing assets			
	Gross exposure	Specific adjustments	Net exposures	Gross exposure	Portfolio adjustments	Net exposures	Total (net exposure)
1. Financial assets available for sale				214,084	-	214,084	**214,084**
2. Financial assets held to maturity							
3. Loans and advances to banks				124,326	-	124,326	**124,326**
4. Loans and advances to customers	167,802	68,784	99,018	1,036,006	8,320	1,027,686	**1,126,704**
5. Financial assets at fair value							
6. Financial assets to be sold							
Total 2017	**167,802**	**68,784**	**99,018**	**1,374,416**	**8,320**	**1,366,096**	**1,465,114**
Total 2016	**208,506**	**70,890**	**137,616**	**1,266,252**	**6,470**	**1,259,782**	**1,397,399**

The Bank did not carry out partial cancellations of any impaired financial assets in the portfolio.

	Assets of clearly low credit quality		Other assets
	Accumulated losses	Net exposures	Net exposures
1. Financial assets held for trading	-	-	452
2. Hedging derivatives	-	-	-
Total 2017	**-**	**-**	**452**
Total 2016	**-**	**-**	**231**

A.1.3 Balance sheet and off-balance sheet credit exposures to banks: gross values, net values and past due brackets

Type of exposure/Amounts	Gross exposure					Specific adjustments	Portfolio adjustments	Net exposures
	Impaired assets				Performing assets			
	Up to 3 months	more than 3 months to 6	more than 6 months to 1	Over 1 year				
A. CASH EXPOSURES								
a) Doubtful loans	-	-	-	-		-		-
- of which exposures subject to forbearance measures	-	-	-	-		-		-
b) Unlikely to pay	-	-	-	-		-		-
- of which exposures subject to forbearance measures	-	-	-	-		-		-
c) Impaired past due exposures	-	-	-	-		-		-
- of which exposures subject to forbearance measures	-	-	-	-		-		-
d) Performing past due exposures					-		-	-
- of which exposures subject to forbearance measures					-		-	-
e) Other performing exposures [1]					176,742		-	176,742
- of which exposures subject to forbearance measures					-		-	-
TOTAL A	**-**	**-**	**-**	**-**	**176,742**	**-**	**-**	**176,742**
B. OFF-BALANCE SHEET EXPOSURES								
a) Impaired	-	-	-	-		-		-
b) Performing					1,362		-	1,362
Of which derivatives					*324*		*-*	*324*
Commitments					*3*			*3*
Guarantees issued					*1,034*		*-*	*1,034*
TOTAL B	**-**	**-**	**-**	**-**	**1,362**	**-**	**-**	**1,362**
TOTAL A+B	**-**	**-**	**-**	**-**	**178,104**	**-**	**-**	**178,104**

1 Other performing exposures include €52.0m in bank bonds that satisfy the requirements for eligibility for ECB refinancing and €413 thousand in bank bonds purchased to finance the counterparty. For more information, please refer to the report on operations chapter "The securities portfolio".

A.1.6 Balance sheet and off-Balance sheet credit exposures to customers: gross values, net values and past due brackets

Type of exposure/Amounts	Gross exposure					Specific adjustments	Portfolio adjustments	Net exposures
	Impaired assets				Performing assets			
	Up to 3 months	From more than 3 months to 6 months	more than 6 months to 1 year	Over 1 year				
A. CASH EXPOSURES								
a) Doubtful loans	2,793	794	2,070	115,336		56,922		64,071
- of which exposures subject to forbearance measures	2,349	794	1,990	19,212		8,496		15,849
b) Unlikely to pay	24,985	239	4,225	14,836		11,602		32,683
- of which exposures subject to forbearance measures	23,566	233	3,301	599		4,769		22,932
c) Impaired past due exposures	5	0	1,200	1,318		260		2,264
- of which exposures subject to forbearance measures	-	-	-	723		143		580
d) Performing past due exposures					20,097		270	19,827
- of which exposures subject to forbearance measures					3,669		58	3,611
e) Other performing exposures [1]					1,177,578		8,050	1,169,527
- of which exposures subject to forbearance measures					29,849		483	29,366
TOTAL A	**27,783**	**1,033**	**7,495**	**131,490**	**1,197,675**	**68,784**	**8,320**	**1,288,372**
B. OFF-BALANCE SHEET EXPOSURES								
a) Impaired	33	-	-	-		0		33
of which commitments	28	-	-	-		-		28
Guarantees issued	5	-	-	-		0		5
b) Performing					12,964		26	12,938
of which commitments					*8,511*		-	*8,511*
Derivatives					*128*		-	*128*
Guarantees issued					*4,325*		*26*	*4,299*
TOTAL B	**33**	**-**	**-**	**-**	**12,964**	**0**	**26**	**12,971**
TOTAL A+B	**27,849**	**1,033**	**7,495**	**131,490**	**1,210,639**	**68,784**	**8,346**	**1,301,343**

1 These are securities issued by the Italian Government eligible for ECB refinancing (€161.7m). For details, please refer to the report on operations chapter "The securities portfolio".

Information on exposures subject to forbearance measures which, in the "cure period" were not past due (of which past due bracket "up to 3 months")

Type of exposure/Amounts	Gross exposure	Specific adjustments	Portfolio adjustments	Net exposures
Doubtful loans subject to forbearance measures	2,349	93	-	2,256
Unlikely to pay subject to forbearance measures	19,474	3,023	-	16,451
Impaired past due exposures subject to forbearance measures	-	-	-	-

A.1.7 Balance sheet and off-balance sheet credit exposures to customers: trend in impaired exposures

Reasons/Categories	Doubtful loans	Unlikely to pay	Past due exposures
A. Gross opening balance	**136,334**	**62,633**	**9,540**
- of which: exposures sold and not derecognised	-	-	-
B. Increases	**18,290**	**7,033**	**2,109**
B.1 transfers from performing loans	-	1,039	1,632
B.2 transfers from other categories of impaired exposures	16,789	4,795	-
B.3 other increases [1]	1,501	1,199	477
C. Decreases	**33,630**	**25,381**	**9,125**
C.1 transfers to performing loans	-	-	2,786
C.2. derecognitions	5,150	-	103
C.3 collections [1]	18,168	4,046	1,152
C.4 sale proceeds	4,134	4,543	-
C.5 losses on disposal	6,168	202	-
C.6 transfers to other categories of impaired exposures	-	16,501	5,083
C.7 other decreases	10	89	1
D. Gross closing balance	**120,994**	**44,285**	**2,524**
- of which: exposures sold and not derecognised	-	-	-

1 The column doubtful loans also includes €106 thousand related to collections of doubtful loans completed in the previous years as per the instructions of the Bank of Italy (Circular 262/2005).

A.1.7*bis* Credit exposures to customers: trend in gross exposures subject to forbearance measures broken down by credit quality

Reasons/Categories	Exposures subject to forbearance measures: impaired	Exposures subject to forbearance measures: performing
A. Gross opening balance	**53,290**	**43,538**
- of which: exposures sold and not derecognised		
B. Increases	**8,541**	**9,936**
B.1 transfers from performing loans not subject to forbearance measures	960	8,491
B.2 transfers from performing loans subject to forbearance measures	592	
B.3 transfers from impaired loans subject to forbearance measures		741
B.3 other increases [1]	6,989	704
C. Decreases	**9,063**	**19,956**
C.1 transfers to performing loans not subject to forbearance measures		9,712
C.2. transfers to performing loans subject to forbearance measures	741	
C.3 transfers to impaired loans subject to forbearance measures		592
C.4 derecognitions	2	-
C.5 collections	5,714	9,652
C.6 sale proceeds	2,143	-
C.7 losses on disposal	-	-
C.8 other decreases	463	-
D. Gross closing balance	**52,768**	**33,518**
- of which: exposures sold and not derecognised	-	-

1 The column "Exposures subject to forbearance measures: impaired" includes the amount of €5.8m related to the transfers from impaired loans not subject to forbearance measures.

A.1.8 Impaired credit exposures to customers: trend in overall impairment

	Reasons/Categories	Doubtful loans		Unlikely to pay		Past due exposures		Performing loans	
		Total	Of which: exposures subject to forbearance measures	Total	Of which: exposures subject to forbearance measures	Total	Of which: exposures subject to forbearance measures		
A.	**Overall opening adjustments**	**56,150**	**2,033**	**14,539**	**7,668**	**201**	**44**	**6,470**	
	- of which: exposures sold and not derecognised	-	-	-	-	-	-	-	
B.	**Increases**	**16,586**	**7,381**	**3,739**	**2,309**	**252**	**143**	**1,851**	
B.1	value adjustments	11,520	3,276	3,739	1,846	252	143	1,851	
B.2	losses on disposal	387	-	-	-	-	-	-	
B.3	transfers from other categories of impaired exposures	4,574	4,102	-	-	-	-	-	
B.4	other increases [1]	105	3	-	463[4]	-	-	-	
C.	**Decreases**	**15,814**	**918**	**6,676**	**5,209**	**192**	**44**	**-**	
C.1	write-backs from valuation	3,702	886	1,622	1,017	63	24	-	
C.2	write-backs from collection [1]	660	30	18	1	2	-	-	
C.3	gains on disposal	133	-	284	109	-	-	-	
C.4	derecognitions	5,150	2	-	-	103	-	-	
C.5	transfers to other categories of impaired exposures	-	-	4,550	4,082	24	20	-	
C.6	other decreases	6,169[2]	-	202[3]	-	-	-	-	
D.	**Overall closing adjustments**	**56,922**	**8,496**	**11,602**	**4,768**	**260**	**143**	**8,320**	
	Losses due to below market rates	-	-	-		-		-	
	Total net credit adjustments	**7,157**		**2,099**		**186**		**1,851**	**11,293[5]**
	Net loss on disposal	**(254)**		**284**		**-**		**-**	**30[6]**

1 The column doubtful loans also includes €106 thousand related to collections of doubtful loans completed in the previous years as per the instructions of the Bank of Italy (Circular 262/2005).
2 The column doubtful loans includes the amount of €6.169m relating to losses on the disposal, of which €5.782m are covered by the Allowance for Doubtful Accounts and €0.387m are not covered by allowance for doubtful accounts (see item B.2), accordingly with indication by the Bank of Italy Circular no. 262/2005.
3 The column Unlikely to pay includes the amount of €202 thousand relating to losses on the disposal, entirely covered by the Allowance for Doubtful Accounts, accordingly with indication by the Bank of Italy Circular no. 262/2005.
4 The amount refers to value adjustments as at 31 December 2016 relating to unlikely to pay that benefited from forbearance measures during 2017.
5 The amount corresponds to the amount in table 8.1 part C item "Total B – Loans and advances to customers".
6 The amount resulting from the sum of B.2 and C.3 corresponds to the value in table 6.1 Part C item "Loans and advances to customers – Net result"

Sale transactions

During the financial year, the Bank participated as the "transferor" to a sale without recourse, under Law 130/99, of non-performing loan portfolios promoted and managed by Finanziaria Internazionale Investments SGR S.p.A. and having as its counterpart, as the "transferee", the company Sole SPV S.r.l. The transaction does not involve the Bank as servicer nor as an underwriter of the securities issued by the transferee to finance the purchase; as the Bank does not provide warranty of any kind, the requirements for the derecognition of the loans transferred from the Bank's assets are met.
The sale involved a non-performing loan portfolio with a gross book value of €10.1m at the time of the sale, already impaired as at 31 December 2016 to a value of €4.4m. Given these values, the transferee paid to the Bank an amount of €5.6m that led the Bank to a gross loss of €4.5m. Net of existing allowance for doubtful accounts, the operation has weighed on the income statement of the Bank for net €96 thousand, the result of losses on disposal of €369 thousand and gains on disposal of €272 thousand.
The amount received from the transferee was reinvested in units of the Finint Fenice closed-end real estate fund, managed by Finanziaria Internazionale SGR S.p.A., which includes the properties used to guarantee doubtful loans sold through Sole SPV S.r.l.
During the year, three sales were made of individual doubtful loans with a gross book value of €4.9m at the time of the sale, already impaired as at 31 December 2016 to a value of €2.0m. Given these values, the transferees paid to the Bank an amount of €3.1m that led the Bank to a gross loss of €1.9m. Net of existing allowance for doubtful accounts, these transactions contributed a net profit of €127 thousand to the Bank's

income statement.
The effects described above are shown in the tables "A.1.7 Balance sheet and off-balance sheet credit exposures to customers: trend in impaired exposures", under items "C.4 Sale proceeds" and "C.5 Losses on disposal", and "A.1.8 Credit exposures to customers: trend in overall impairment", under items "B.2 Losses on disposal", "C.3 Gains on disposal" and "C.5 Other decreases".

A.2 Classification of exposures based on external and internal ratings

A.2.1 Breakdown of balance sheet and off-balance sheet exposures by external rating class

Exposures	External rating class							
	AAA/AA-	A+/A-	BBB+/BBB-	BB+/BB-	B+/B-	Lower than B-	No rating	Total
A. Balance sheet exposures	**-**	**-**	**213,670**	**-**	**-**	**-**	**1,251,443**	**1,465,113**
B. Derivatives	**-**	**-**	**324**	**-**	**-**	**-**	**128**	**452**
B.1 Financial derivatives	-	-	324	-	-	-	128	452
B.2 Credit derivatives	-	-	-	-	-	-	-	-
C. Guarantees issued	**-**	**-**	**-**	**-**	**-**	**-**	**5,338**	**5,338**
D. Commitments to disburse funds	**-**	**-**	**-**	**-**	**-**	**-**	**8,539**	**8,539**
E. Other	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**-**	**-**	**213,994**	**-**	**-**	**-**	**1,265,448**	**1,479,442**

Reconciliation between the "External rating classes" and the ratings of the main agencies

Rating class	Standard & Poor's	Moody's	Fitch
AAA/AA-	AAA AA+ AA AA-	Aaa Aa1 Aa2 Aa3	AAA AA+ AA AA-
A+/A-	A+ A A-	A1 A2 A3	A+ A A-
BBB+/BBB-	BBB+ BBB BBB-	Baa1 Baa2 Baa3	BBB+ BBB BBB-
BB+/BB-	BB+ BB BB-	Ba1 Ba2 Ba3	BB+ BB BB-
B+/B-	B+ B B-	B1 B2 B3	B+ B B-
Lower than B-	from CCC+ to D	form Caa1 to C	from CC+ to D

The balance sheet exposures with counterparties with a rating relate entirely to Government or Bank bonds classified in the available for sale portfolio.
With regard to the loan portfolio of the Bank, mainly made up of loans to small and medium sized enterprises, the amount of exposures attributed an external rating are rather negligible, for which the entire exposure is presented under the column "no rating".
With regard to financial derivatives the overall notional amount is €32.3m and is distributed as follows: €31.9m with counterparties rated Baa2 and €0.4m with counterparties rated Baa3.

A.2.2 Breakdown of balance sheet and off-balance sheet exposures by internal rating class

The Bank has only recently begun to use an internal customer rating model, but to date it only marginally covers its loan portfolio, which is only assigned at the initial stage of the credit line and to new industrial and commercial customers; therefore, it is not yet sufficiently representative of the overall portfolio. However, it should be noted that following the introduction of the models functional to the application of the new accounting standard IFRS9, the Bank may have additional elements to assign a rating class to the entire loan portfolio together with the traditional in-depth monographic analysis of the economic, financial and sector situation of each customer to whom it grants credit.

A.3 Breakdown of secured exposures by type of guarantee

A.3.2 Secured balance sheet credit exposures to customers

	Value of exposure	Collaterals (1)				Personal guarantees (2)									Total (1)+(2)
						Credit derivatives					Endorsement loans				
							Other derivatives								
		Properties - mortgages	Properties – finance lease	Securities	Other collaterals	Credit linked notes	Government & central banks	Other public entities	Banks	Others	Government & central banks	Other public entities	Banks	Others	
1. Secured Balance sheet credit exposures															
1.1 fully secured	567,699	398,893	63,905	3,892	2,682							2,006	25,631	70,691	567,699
- of which impaired	82,073	79,021	149	230	569							-	-	2,104	82,073
1.2 partially secured	256,609	26,117	-	4,177	2,775							2,795	95,205	4,331	135,400
- of which impaired	12,623	10,133	-	-	-							963	191	-	11,287
1. Secured off-Balance sheet credit exposures															
1.1 fully secured	2,835	1,749	-	--	-								-	1,086	2,835
- of which impaired															
1.2 partially secured	297	81	-	-	-								60	99	240
- of which impaired	-	-	-	-	-									-	-

B. Distribution and concentration of credit exposures

B.1 Breakdown of balance-sheet and off-balance-sheet credit exposures to customers by main business sector (book value)

Exposures/Counterparties	Governments			Other public entities			Financial corporations			Insurance companies			Non-financial corporations			Others		
	Net exposures	Specific adjustments	Portfolio adjustments	Net exposures	Specific adjustments	Portfolio adjustments	Net exposures	Specific adjustments	Portfolio adjustments	Net exposures	Specific adjustments	Portfolio adjustments	Net exposures	Specific adjustments	Portfolio adjustments	Net exposures	Specific adjustments	Portfolio adjustments
A. Balance sheet exposures																		
A.1 Doubtful loans							783	2,459					61,628	54,054		1,660	409	
of which exposures subject to forbearance measures													15,849	8,496				
A.2 Unlikely to pay							994	587					31,539	10,999		150	17	
of which exposures subject to forbearance measures							994	587					21,938	4,181				
A.3 Impaired past due exposures							1,315	207					789	36		160	17	
of which exposures subject to forbearance measures							569	142					11	0				
A.4 Performing exposures	161,668			82,197		126	65,759		195				860,953		7,962	18,777		38
of which exposures subject to forbearance measures													32,749		541	228		1
Total A	**161,668**			**82,197**		**126**	**68,851**	**3,253**	**195**				**954,909**	**65,089**	**7,962**	**20,747**	**443**	**38**
B. Off-balance sheet exposures																		
B.1 Doubtful loans													5	0				
B.2 Unlikely to pay													28					
B.3 Other impaired assets																		
B.4 Performing loans							79						12,817		26	42		
Total B							**79**						**12,850**	**0**	**26**	**42**		
Total (A+B) (2017)	**161,668**			**82,197**		**126**	**68,930**	**3,253**	**195**				**967,759**	**65,089**	**7,988**	**20,789**	**443**	**38**
Total (A+B) (2016)	**112,789**			**86,838**		**132**	**90,052**	**2,788**	**178**				**985,707**	**67,331**	**6,127**	**21,066**	**771**	**40**

B.2 Breakdown of balance sheet and off-balance-sheet credit exposures to customers by area (book value) [26]

Exposures/Geographic areas	Italy		*of which North-East*		*of which other areas*		Other European Countries	
	Net exposures	Total value adjustments	*Net exposures*	*Total value adjustments*	*Net exposures*	*Total value adjustments*	Net exposures	Total value adjustments
A. Balance sheet exposures								
A.1 Doubtful loans	64,071	56,922	*43,027*	*38,543*	*21,044*	*18,380*		
A.2 Unlikely to pay	32,683	11,602	*24,667*	*10,324*	*8,016*	*1,278*		
A.4 Impaired past due exposures	2,264	260	*947*	*53*	*1,316*	*207*		
A.5 Performing exposures	1,189,354	8,320	*869,281*	*6,838*	*320,073*	*1,483*		
Total A	**1,288,372**	**77,104**	***937,923***	***55,757***	***350,450***	***21,348***	**-**	**-**
B. Off-balance sheet exposures								
B.1 Doubtful loans	5	0	*5*	*0*				
B.2 Unlikely to pay	28	-	*8*		*19*			
B.3 Other impaired assets	-		*-*					
B.4 Performing loans	12,938	26	*10,810*	*26*	*2,128*	*-*		
Total B	**12,971**	**26**	***10,824***	***26***	***2,147***	***-***	**-**	**-**
Total (A+B) 2017	**1,301,343**	**77,130**	***948,746***	***55,783***	***352,597***	***21,348***	**-**	**-**
Total (A+B) 2016	**1,294,374**	**77,258**	***988,691***	***53,378***	***305,686***	***23,880***	**2,077**	**109**

B.3 Breakdown of balance-sheet and off-balance-sheet credit exposures to banks by area (book value)

	Italy		Other European Countries		America		Asia		Rest of the world	
	Net exposures	Total value adjustments	Net exposures	Total value adjustments	Net exposures	Total value adjustments	Net exposures	Total value adjustments	Net exposures	Total value adjustments
A. Balance sheet exposures										
A.1 Doubtful loans	-	-	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
A.4 Impaired past due exposures	-	-	-	-	-	-	-	-	-	-
A.5 Performing exposures	176,742	-	-	-	-	-	-	-	-	-
Total A	**176,742**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B. Off-balance sheet exposures										
B.1 Doubtful loans										
B.2 Unlikely to pay										
B.3 Other impaired assets										
B.4 Performing loans	1,362									
Total B	**1,362**								**-**	**-**
Total (A+B) 2017	**178,104**								**-**	**-**
Total (A+B) 2016	**122,763**								**-**	**-**

B.4 Significant exposures

	2017	2016
a) Amount (book value)	307,965	203,382
b) Amount (weighted value)	146,297	90,593
c) Number	3	3

26 The data represented here are slightly different from the data in the breakdown by geographical area in the Report on Operations. This is due to the fact that the Bank of Italy's criteria used in the notes to the financial statements requires the geographical breakdown to be based on the counterparty's area of residence, while the method used in the Report on Operations uses the destination of the investment as its area.

C. SECURITISATION TRANSACTIONS

C.1 Securitisation transactions

QUALITATIVE INFORMATION

In order to increase the liquidity of its assets, the Bank took part in the multi-originator securitisation transaction that was arranged and managed by Cassa Centrale Banca S.p.A. pursuant to Law 130/99 called "Cassa Centrale Finance 3" as well as "BCC SME Finance 1" started in 2009 and 2012, respectively. The sole purpose of the transaction is to enable financial assets to be eligible for refinancing operations with the European Central Bank.
Both transactions involved the repurchase by the Bank of all the Senior and Junior securities issued by the SPV. As a result, they are considered "self-securitisations" and, in compliance with the Bank of Italy's regulations, such transactions cannot be recorded in the tables of the Notes to the financial statements of part E, section C "securitisation transactions and sales of assets".
A description of this transaction is provided in the section dealing with liquidity risk.

SECTION 2 – MARKET RISK

2.1 INTEREST RATE RISK AND PRICE RISK – REGULATORY TRADING PORTFOLIO

The Bank owns a limited number of financial instruments classified in the regulatory trading portfolio, with regard to both numbers and amount: these relate, in particular, to 42 cap options on interest rates, of which 21 contracts with ordinary customers and 21 corresponding contracts with banking counterparties and three listed warrants acquired on a free basis as part of transactions that led to the purchase of shares (classified as assets available for sale). The measurement of the interest rate risk of these operations is carried out in the context of the Asset & Liability Management process of the overall portfolio.
It is highlighted that in keeping with its risk profile the Bank was not exposed either directly or indirectly to the credit products of the ABS (Asset Backed Securities) and CDO (Collaterised Debt Obligation) type linked to sub-prime and Alt-A loans or to financial products that the market perceives as risky, at the date of this annual report and accounts. Price risk is not measured because the Bank does not own any financial instrument sensitive to price risk (equities or UCITS) that are classified in the regulatory trading portfolio.

2.2 INTEREST RATE RISK AND PRICE RISK – BANKING PORTFOLIO

Qualitative information

A. General aspects, management processes and methods of measuring interest rate risk

The interest risk incurred by the Bank in relation to its banking portfolio largely ensues from the main service (loans and securities) it performs as an intermediary, active in the process of maturity transformation and is mainly due to the imbalance between asset and liability items in terms of the amortisation plan with regard to amount and maturity, financial duration and type of interest rate.
In accordance with the instructions of the Board of Directors, set out in the risk profiles adopted parallel to the annual operational budget, the "Planning and control" function is the organisational structure charged with monitoring and controlling the interest rate risk to which the banking portfolio is exposed. The interest rate risk is measured and controlled using the processes and methods set forth by the Asset & Liability Management procedure: we refer in particular to Duration Gap Analysis (which measures the sensitivity of the market value of shareholders' equity to changes in interest rate i.e. it examines the sensitivity of future economic results), to Maturity Gap Analysis (which measures the sensitivity of the maturing net interest income and in particular highlights "base risk" exposure) and to Simulation Analysis (which measures changes to cash flows and to the economic results for the period in scenarios characterised by diversified forward interest rates). The management of this financial risk in question is carried out monthly other quarterly and at least through the quarterly meetings of the ALCO Committee (Asset/Liability Committee) are convened; a periodic report is submitted to the Board of Directors.

B. Fair value hedging

The Bank did not carry out any fair value hedging activities. Hedging management techniques were not used to mitigate interest rate risk in connection with the adoption of the fair value option.

C. Cash flow hedging

The Bank did not initiate any cash flow hedging transaction.

Quantitative information

Banking book: internal models and other sensitivity analysis methods

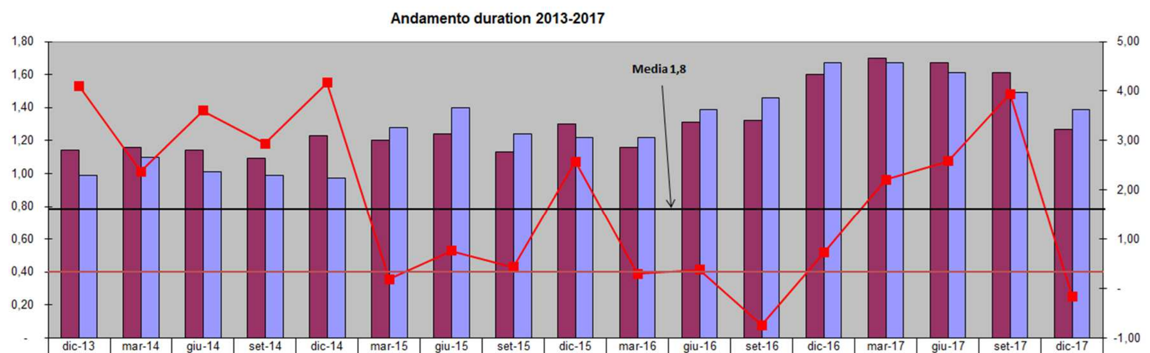
As we have already mentioned, the Bank uses asset liability management techniques to measure the impact ("sensitivity") that changes in the interest rates structure could have on the expected financial margin and on the market value of equity in relation to the overall portfolio of the Bank.
The Asset/Liability Management System estimates the change over a year (within the context of the maturity gap model) that a shift in the interest rate yield curve would have on the financial margin. The model groups all the assets and liabilities into a series of time intervals (initially shorter and then increasingly longer intervals) according to the repricing timescales. The algebraic sum of the items of each "time bucket" of one year is the basis for simulating the effect on the interest margin of a rate shock (specifically given an instantaneous, unique and parallel shift in general market rates of plus/minus 100 basis points). With regard to the market value of the assets, the duration gap methodology measures the sensitivity of the present value of the portfolio net of all active and passive operations.
The following table shows the effects (calculated with the maturity gap model) on the interest margin and on the net income.

Volatility of the net interest income and of net income calculated using the Gap model (thousands of Euro)

Instantaneous and parallel shift in the interest rate yield curve	+100 bp	-100 bp
Net interest income change	+3,234	-3,234
Net income change	+2,134	-2,134

The analysis of the effect on the margin shows a volatility substantially in line with that of the previous year (+/- €3,688 thousand in 2016), the result of the volumes of assets subject to repricing over the year higher than the volumes of liabilities over the reference time horizon. The main cause of this mismatching is the use of largely fixed-rate forms of funding, not accompanied by as many fixed-rate loans. As highlighted by the model, any increase in interest rates would have hugely positive effects on the annual margin accruing. It should also be remembered that the maturities of liabilities are characterised by maturities rarely exceeding 24 months and therefore the turnover, and the relevant repricing, is close when compared with that of fixed rate mortgages.
With regard to the market value of the assets, the duration gap methodology measures the sensitivity of the present value of the portfolio net of all active and passive operations.

The main sensitivity data relative to the financial years 2013 – 2017 are shown below:



	dic-13	mar-14	giu-14	set-14	dic-14	mar-15	giu-15	set-15	dic-15	mar-16	giu-16	set-16	dic-16	mar-17	giu-17	set-17	dic-17
Attivo	1,14	1,16	1,14	1,09	1,23	1,20	1,24	1,13	1,30	1,16	1,31	1,32	1,60	1,70	1,67	1,61	1,27
Passivo	0,99	1,10	1,01	0,99	0,97	1,28	1,40	1,24	1,22	1,22	1,39	1,46	1,67	1,67	1,61	1,49	1,39
Portafoglio	4,10	2,38	3,60	2,93	4,17	0,18	0,76	0,44	2,57	0,30	0,38	-0,74	0,73	2,21	2,58	3,94	-0,16

The processing of the Duration Gap model as at 31 December 2017 recorded a fall in the synthetic volatility indicator, which stood at a level close to zero (-0.158), clearly below the five-year average (1.8 years). The increase in the duration during 2017 was mainly due to the purchase of fixed-rate government securities and the progressive shortening of funding and its duration in the presence of a more granulated and stable typical asset. However, in the last quarter of the year, the Bank changed the composition of its securities portfolio and this made a significant contribution to reducing the duration of its assets. The renewal of important tranches of funding maturing in the first few months of 2018, at a fixed rate and with a duration of between two and three years, will help to bring the duration back to levels in line with the average figure measured over the last five years.

The stress test of +/-100 b.p shows a clear reduction in the effect on equity, which fell from -/+ €0.7m in December 2016 to -/+ €0.2m in December 2017, therefore representing a lower sensitivity of equity to a change in interest rates.

Volatility of the market value of equity (thousands of Euro)

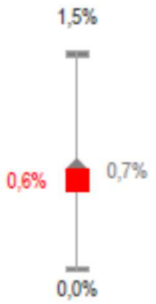
Instantaneous and parallel shift in the interest rate yield curve	+100 bp	-100 bp
Change in the value of equity	+168	-168

Price risk – Banking portfolio

In keeping with its risk profile the Bank did not engage in purely speculative transactions and therefore exposure of its securities portfolio to price risk is not deemed to be still limited for the evaluation of the Bank's situation.
With regard to Merchant Banking, the Bank is engaged in Equity Investment activities in relation to the purchase of minority shareholdings, mostly in industrial companies. The role of the Bank in these investee companies is that of strategic shareholder and the selection and assessment of initiatives is carried out, based on internal procedures, by specialised organisational units created on an ad-hoc basis and subject to review by the Investment Committee. Lastly, investment transactions are resolved by the Board of Directors after ascertaining that they comply with the prudential limitations set forth by the Supervisory Authority.
Every six months, just like for other financial statement items, an in-depth valuation process is conducted, subject to validation by the Investment and Committee and adequately documented, aimed at verifying the existence of objective evidence of impairment (impairment test). This portfolio does not exceed 2% of total financial statement assets.
Specific procedures are implemented for managing the price risk of debt securities classified mainly in the portfolio of assets available for sale. The Bank purchased Government and bank bonds that are eligible for refinancing with the European Central Bank. For the evaluation of such assets, the Bank has internal policies that define the criteria and methodologies for determining the current fair value and the operational and size limits of the portfolio in question.

The 10-day parametric VaR analysis carried out on the debt securities portfolio revealed the following amounts:

	Value at risk (million Euros)
Actual data as at 29/12/2017	1.331
Minimum (06/12/2017)	0.961
Maximum (10/02/2017)	3.687
Average	2.025



The figures in the table show that the riskiness of the securities portfolio has decreased over the course of the year: the maximum and minimum values were recorded in February and December, respectively, and the precise figure at the end of the year was lower than the average figure for the 12 months.
Further confirmation was provided by the fact that VaR, expressed as a percentage of the portfolio's value, was halved compared to 2016 (0.6% compared to 1.2%), remaining in line with the average levels of the banking system (0.7% at the end of 2017).

2.3 EXCHANGE RISK

Qualitative information

Foreign currency lending transactions pertain to the Bank's main non-trading activity and are marginal items with respect to the overall portfolio: they are financed with short-term foreign currency deposits with correspondent banks essentially for the same amounts as the exposure to customers, thus covering the exchange rate risk.
The management of exchange rate risks involves extremely limited exposures in terms of amount and number in the main currencies: only Swiss francs for 2016.

Quantitative information

1. Breakdown by currency of assets, liabilities and derivatives

Items	Currency					
	US Dollar	Sterling	Yen	Canadian Dollar	Swiss Franc	Other currencies
A. Financial assets					**857**	
A.1 Debit securities						
A.2 Equity securities						
A.3 Loans and advances to banks						
A.4 Loans and advances to customers					857	
A.5 Other financial assets						
B. Other assets						
C. Financial liabilities					**857**	
C.1 Amounts due to banks					857	
C.2 Amounts due to customers						
C.3 Debt securities						
C.4 Other financial liabilities						
D. Other liabilities						
E. Financial derivatives						
- Options						
+ long positions						
+ short positions						
- Other derivatives						
+ long positions						
+ short positions						
Total assets					**857**	
Total liabilities					**857**	
Difference (+/-)					**-**	

2.4 FINANCIAL DERIVATIVES

A. Financial derivatives

A.1 Regulatory trading portfolio: notional values at end of the period

Underlying assets/Types of derivative	2017		2016	
	Over the counter	Clearing House	Over the counter	Clearing House
1. Debt securities and interest rates	64,525		61,632	-
a) Options[1]	64,525		61,632	
b) Swaps				
c) Forwards				
d) Futures				
e) Others				
2. Equity instruments and share indices				-
3. Currencies and gold				-
4. Commodities				
5. Other underlyings				
Total	**64,525**		**61,632**	**-**

1 These relate to cap options sold to ordinary customers and the associated counter-hedges purchased from bank counterparties.

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

Underlying assets/Types of derivative	Positive Fair value			
	2017		2016	
	Over the counter	Clearing House	Over the counter	Clearing House
A. Regulatory trading portfolio	196	128	194	37
a) Options[1]	196	128	194	37
b) Interest rate swaps				
c) Cross currency swaps				
d) Equity swaps				
e) Forwards				
f) Futures				
g) Others				
B. Banking portfolio – hedging derivatives	-		-	
C. Banking portfolio – other derivatives	-		-	
Total	**196**	**128**	**194**	**37**

1 These relate for €196 thousand to OTC cap options purchased from bank counterparties to counter-hedge corresponding options sold to ordinary customers and for €128 thousand of listed warrants.

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

Underlying assets/Types of derivative	Positive Fair value			
	2017		2016	
	Over the counter	Clearing House	Over the counter	Clearing House
A. Regulatory trading portfolio	312		187	-
a) Options[1]	312		187	
b) Interest rate swaps				
c) Cross currency swaps				
d) Equity swaps				
e) Forwards				
f) Futures				
g) Others				
B. Banking portfolio – hedging derivatives				-
C. Banking portfolio – other derivatives				-
Total	**312**		**187**	**-**

1 These are cap options sold to ordinary customers.

A.5 OTC financial derivatives - regulatory trading portfolio: notional values, gross positive and negative fair value by counterparty - contracts not included in netting agreements

Contracts not included in netting agreements	Government & central banks	Other public entities	Banks	Financial corporations	Insurance companies	Non-financial corporations	Others
1) Debt securities and interest rates							
- notional values			32,263			32,263	
- positive fair value			196			-	
- negative fair value			-			312	
- future exposure			396			396	
2) Equity securities and share indices							
3) Currencies and gold							
4) Other instruments							

A.9 OTC financial derivatives – residual life: notional values

Underlying/Residual maturity	Up to 1 year	Between 1 and 5 years	Over 5 years	Total
A. Regulatory trading portfolio	**5,035**	**31,959**	**27,531**	**64,525**
A.1 Financial derivative contracts on debt securities and interest rates	5,035	31,959	27,531	64,525
A.2 Financial derivative contracts on equity securities and share indices				
A.3 Financial derivative contracts on exchange rates and gold				
A.4 Financial derivative contracts on other values				
B. Banking portfolio				
B.1 Financial derivative contracts on debt securities and interest rates				
B.2 Financial derivative contracts on equity securities and share indices				
B.3 Financial derivative contracts on exchange rates and gold				
B.4 Financial derivative contracts on other values				
Total 2017	**5,035**	**31,959**	**27,531**	**64,525**
Total 2016	**4,393**	**20,599**	**36,640**	**61,632**

A.10 OTC financial derivatives: counterparty risk/ financial risk - Internal models

The Bank does not use EPE (Expected Positive Exposure) internal models to assess counterparty risk and therefore does not compile this table (it does however compile tables from A.3 to A.7).

SECTION 3 – LIQUIDITY RISK

Qualitative information

A. General aspects, management processes and methods of measuring liquidity risk

The liquidity risk originates from the time mismatch between positive and negative cash flows in relation to both the short and a medium-long period. This could cause the Bank to fail to meet its payment obligations due to the inability to raise new funds and / or sell its assets on the market or to be forced to incur very high costs to meet these commitments. The sources of liquidity risk to which the Bank is exposed are represented mainly by the processes of Financing/Funding and Loans.
The measurement and management of the liquidity risk is carried out by means of financial planning tools (in particular Liquidity Gap Analysis in the context of the ALM system that through simulations generates a maturity ladder of all the cash flow generated, with or without the effect of the new volumes) which choose the most suitable funding policies in the medium-long term.
The Bank continues to pay special attention in order to keep a substantial equilibrium between the duration of borrowing and lending, and to diversify the sources and types of funds it raises to mitigate non-systemic liquidity risks.

The liquidity risk management policy includes, essentially:
- tasks for governing bodies with particular focus on the role of the ALCO Committee (Assets & Liabilities Committee);
- a liquidity risk tolerance threshold in the short term and for structural liquidity, obtained by identifying measurement indicators, attention indicators and operating limits (maturity ladder, cover ratio LCR, NSFR (Net Stable Funding Ratio), maturity transformation indicator);
- risk mitigation tools;
- contingency funding plans: stress testing and contingency plan to deal with adverse situations in raising funds;
- formalisation of the existing management system of internal funds transfer pricing;
- reporting between the corporate structures and bodies.

The rules for managing liquidity risk are based on two principles:
- **short-term liquidity management**, aiming to ensure the ability to meet its foreseen and unforeseen payment obligations by maintaining a sustainable balance between incoming and outgoing cash flows in the short-term (1 year). Short-term liquidity management is an essential condition for the normal operational continuity of the bank. Typical actions taken for this purpose are:
    - to manage access to the Market for Interbank Deposits, to the collection on demand or short-term constraint collection, to the European Central Bank;
    - to manage cash disbursements to be made and to monitor the consistency and degree of utilisation of cash reserves.
- **management of structural liquidity**, aiming to maintain an appropriate balance between passivity and activity in the medium / long term (over 1 year) in order to avoid pressures on sources, current and future in the short-term. Typical actions taken for this purpose are related to:
  management of maturity transformations;
  increase of stable funding sources;
  diversification of liquidity sources and optimisation of funding costs.

In particular the monitoring of the Bank's liquidity position is achieved by checking both the interval mismatches (interval gap) and the cumulative mismatches (cumulative gap) on different time frames of the maturity ladder (7 days, 1 month and 3 months for the short-term and beyond 1 year for the structural liquidity) by reports produced by the Planning and Control function.

The liquidity report is dynamic i.e. it summarises the liquidity needs and the associated ability to cover them in monthly periods, quantified using stress scenarios based on liquidity profiles. The Bank is aware that the validity of the stress tests should be considered within the (particularly adverse) working context (by testing the resistance); therefore, the Bank has decided to emphasise stress tests, in light of current market scenarios.
The preliminary analysis activities for the definition of the scenarios were carried out by evaluating the following factors:

- objectives for the 2017 budget;
- the current economic climate and possible changes in the time frame of reference;
- difficult access to stable forms of financing in the medium/long term;
- a rating downgrade with simultaneous increase in the cost of funding;
- changes in the shareholding structure and/or shareholders' agreements;
- situation of unpaid amounts and default positions.

We also evaluated other factors not exclusively related to liquidity risk, in particular those considered as a trigger for liquidity risk in the short-term and also the possible impact of organisational/operational malfunctions that do not allow the use of short-term forms of funding such as MID.
Operationally speaking, we therefore prepared a Maturity Ladder with a highly stressed scenario in which all flows of liabilities falling due are considered non-renewable and simultaneously we assume a freeze on new volumes of assets (with the exception of commitments). We also conservatively consider 10% of expected cash flows on loans are unpaid. Regarding the transformation of maturities, the Bank follows a careful policy of mismatching monitoring with the primary objective of keeping cash inflows and outflows under control and the transformation of maturities within sustainable areas. This objective is achieved by correlating the average duration of funding with that of loans.
The results of the analyses are periodically examined in the ALCO Committee which submits the tolerance thresholds and risk indicators to adopt and the amount of cash reserves to maintain to the Board of Directors on an annual basis.
In 2017, the Bank did not issue any bonds due to both high costs and low attractiveness and financial requirements were mainly covered by financing operations (€331m), mostly coming from the system of Cooperative Credit Banks, withdrawals from Cassa Depositi e Prestiti under the new Sabatini Law (€13m) and participation in refinancing operations with the ECB of €49m. The latter, added to the €230m of 2016, brings the total exposure to the ECB as at 31 December 2017 to €279m (+21% compared with 230 as at 31 December 2016) consisting entirely of TLTRO II. The use of MID funding, solely on Overnight expiries, made it possible to optimise the treasury, benefiting from negative rates for the entire year.
To cover liquidity risk, throughout 2017, the Bank maintained sufficient margins of residual available liquidity, averaging around €90m. As at 31 December 2017, the total eligible collateral amounted to €386m, up (+22%) compared to 31 December 2016 (€322m) following both the purchase of new government and bank securities and the increase in collateralised assets (ABACO), which rose from €145m at the end of 2016 to €174m (+20%). At the end of 2017, the residual available liquidity from the ECB amounted to approximately €107m. Most of the securities in the portfolio fall due after 2018 and, therefore, the availability of collaterals envisaged for 2018, assuming that from collateralised banking assets (ABACO) is stable, will be reduced only as a result of the natural decalage of the two self-securitisations for values that are now residual compared to the total.
With respect to the liquidity requirement (LCR) pursuant to EU Delegated Regulation 2015/61, as at 31 December 2017, the Bank recorded a ratio of 360%, well above the minimum requirement of 80% (100% from 1 January 2018).
The 2018 financial requirement will be covered mainly by resorting to the interbank deposit market, bonds – should the hesitant signs of reopening of the capital market be consolidated - and, as the driving force capable of absorbing both moments of sudden need and peaks of liquidity, ECB refinancing. Considering that most of the funding maturing in 2018 is supported by cooperative credit, with which a profitable relationship has now been consolidated, and considering the large amount of residual available liquidity, it is considered that, at least over the annual reference time horizon, liquidity risk is adequately monitored.
It should also be noted that the Bank is analysing the possibility of drawing on other sources of funding, with a view to diversifying funding and reducing concentration risk. In particular, online forms of funding were analysed both on the domestic and foreign markets with the support of Fintech platforms. Both channels are classified as fast and flexible resources to be drawn on in contingency situations. At the same time, it is important to maintain a dialogue with traditional counterparties for the activation of bond issues as well as to reactivate the corporate deposit channel with a view to stabilising direct funding.
In 2017 as well, the report of the internal liquidity adequacy assessment process (ILAAP) was prepared: it is particularly important as part of the broader supervisory review and evaluation process (SREP) that CRD IV requires supervisory authorities to carry out and represents the bank’s self-assessment of liquidity risks and the capacity to cover these risks in terms of processes and adequate resources. In fact, article 86 of the CRD IV requires “competent authorities to ensure that entities have robust strategies, policies, processes and systems in place to identify, measure, manage and monitor the liquidity risk over an appropriate set of time horizons, including on a daily basis, so as to ensure that entities maintain adequate levels of liquidity reserves".

Taking these factors into account and considering the business model, the level of complexity of the financial-statement structure and liquidity profile as well as the actual strategic link with the industrial partner Credito Cooperativo, the Bank has deemed the liquidity process, its controls and the ability of static and dynamic indicators to provide informed guidance on decisions concerning the preparation of operating and economic budgets and funding plans to be adequate.

Securitisation transactions

In order to increase the liquidity of its assets, the Bank has taken part in the multi-originator securitisation transaction that was arranged and managed by Cassa Centrale Banca S.p.A., pursuant to Law 130/99 and was called "Cassa Centrale Finance 3" and "BCC SME Finance 1". The sole purpose of the transaction is to create financial assets eligible for refinancing with the European Central Bank for Mediocredito and for Casse Rurali – Co-operative credit banks.

Cassa Centrale Finance 3

The transaction was finalised in the last quarter of 2009 and entailed the transfer by the Bank of a portfolio of performing loans, characterised by a historically low level of risk, to a Special Purpose Vehicle: the loan portfolio mainly consisted of agricultural loans secured by first mortgages and subsidies from the Autonomous Province of Trento plus a portion of some commercial loans to primary resident counterparties and secured just the same.
The Special Purpose Vehicle in its turn issued listed and rated Senior notes and Junior notes. Both types of notes were purchased pro rata by the Bank that will use the class Senior notes to guarantee its funding at the ECB through refinancing operations.
The Bank acts as a servicer in this operation in the collection of securitised loans.
According to IAS 39 § 15-23 and AG 34-52, this operation is not of a "non-recourse" nature for accounting purposes (so-called no derecognition), with the Bank maintaining all risks and rewards of the securitised portfolio. The securitised loans therefore remain in the Bank's financial statements and until this condition is met, all corresponding capital and income relations of the operation are netted off from an accounting point of view, including derivative contracts stipulated between the Bank and the SPV.
The operation in question involved, as mentioned, the repurchase by the Bank of all the Senior and Junior notes issued by the SPV, the operation takes the form of "self-securitisation".
The overall gross nominal value of the assigned loans are equal to €425.3m out of which €116.6m refer to the Bank; in correspondence with such loans, Senior notes in the amount of €368.5m and Junior notes in the amount of €56.8m were issued (€93.3m and €23.3m respectively in relation to the Bank). The table below sums up the main features of the notes.

Notes	Classes	Rating	ISIN Code	Dates of issue	Payment Dates	Maturity Dates	Interest date
Class A	Senior	Aa2/AA+	IT0004561632	22.12.2009	29/04 – 29/10	31/10/2049	6ME+14
Class B	Junior	No rating	IT0004561665	22.12.2009	29/04 – 29/10	31/10/2049	Chg.

The Class A notes were issued in a dematerialised form and were wholly and exclusively deposited with Monte Titoli S.p.A., listed on the Irish Stock Exchange. The Class B notes were divided into tranches, each tranche for an amount proportional to the amount of the loans that were respectively transferred by each individual bank. The transferring banks have fully underwritten the Class A and Class B notes thus nullifying any flow of cash between the Bank and the SPV.
The two different types of notes have a different degree of subordination in relation to priority of payments, both with regard to principal and interest.
Repayment of the notes will occur in a pass through form i.e. in relation to each collection period for each flow of funds to the SPV, and will be used to keep up with disbursements (both with regard to principal and interest) that will have to be made on the date of the following payment.
Class B notes (the so-called Junior issue) are not rated and are subordinated to Class A notes in relation to repayments. These types of notes do not feature a fixed coupon and are remunerated only if there are residual funds after covering all period costs (cost and interest for Class A Senior).
The repayment of the principal of Class B notes is last in the hierarchy of payments both in the case of prepayment and of payment on the regular redemption dates of the notes.

This transaction is also secured by liquidity line of €25.7m, of which €10.4m relating to the Bank. To cover interest rate risk the SPV signed a basis swap contract with J.P. Morgan Securities LTD to hedge the portfolio with indexed rate and signed an interest rate swap with Mediocredito Trentino Alto Adige S.p.A. to hedge the fixed rate portfolio.

In relation to the internal systems for measuring and controlling securitisation risk, the following applies:
- the Bank acts as servicer with regard to the loan portfolio it transferred according to the criteria specified in the servicing contract; specifically it handles the management, administration and collection of advances and also credit recovery; the Bank performs this role (for which it receives a commission) following a procedure that allows the coordinating all related activities and availing itself of its competent company structures;
- according to the Servicing Contract, each securitisation portfolio is constantly monitored based on the monthly, quarterly and half-yearly reports prepared for the SPV company and the counterparties of the transaction, showing the status of the loans and the trend in collections;
- in relation to its disclosures to the SPV company, the Bank has published an assignment notice on the Insertion Sheet of the Official Gazette no. 144 of 15 December 2009;
- in relation to the privacy law, the Bank has informed the individual assigned debtors with a specific notification.

The following subjects were involved in their respective roles:
- Arranger: Cassa Centrale Banca - Credito Cooperativo del Nord Est Spa.
- Vehicle company: Cassa Centrale Finance 3 S.r.l., a company incorporated under Law no. 130/99, with its registered office in Rome - Largo Chigi 5; the company is registered with the Business Register of Rome (registration number 05652970962) and enrolled in the general register pursuant to art. 106 of the Consolidated Law on Finance at no. 39334, ABI code 33370. We confirm that the Bank does not hold any interest nor do its employees hold any corporate positions in the SPV Cassa Centrale Finance 3 S.r.l. whose shares are entirely held by the Dutch foundation "Stichting Babele" – Amsterdam (Netherlands) Claude Debussylaan 24.
- Back up Servicer: Cassa Centrale Banca, Credito Cooperativo del Nord Est Spa
- Account Bank: Cassa Centrale Banca, Credito Cooperativo del Nord Est Spa
- Agent Bank: Deutsche Bank Milan
- Corporate Servicer Provider: FIS Spa, Rome
- Rating Agencies: Moody's Investors Service and DBRS Rating
- Law Firm: Orrick, Herrington & Sutcliffe – Rome
- Portfolio Auditors: Reconta - Ernst & Young Spa.
- SPV's Auditors: Deloitte and Touche Spa

BCC SME Finance 1

The transaction was finalised in August 2012 and required the Bank to transfer to a Special Purpose Vehicle a portfolio of performing loans secured by a first mortgage.
The Special Purpose Vehicle in its turn issued listed and rated Senior notes and Junior notes. Both types of notes were purchased pro rata by the Bank that will use the class Senior notes to guarantee its funding at the ECB through refinancing operations.
The Bank acts as a servicer in this operation in the collection of securitised loans.
According to IAS 39 § 15-23 and AG 34-52, this operation is not of a "non-recourse" nature for accounting purposes (so-called no derecognition), with the Bank maintaining all risks and rewards of the securitised portfolio. The securitised loans therefore remain in the Bank's financial statements and until this condition is met, all corresponding capital and income relations of the operation are netted off from an accounting point of view.
The operation in question involved, as mentioned, the repurchase by the Bank of all the Senior and Junior notes issued by the SPV, the operation takes the form of "self-securitisation".
The overall gross nominal value of the assigned loans are equal to €2,189.7m out of which €150.3m refer to the Bank; in correspondence with such loans, Senior notes in the amount of €1,533.0m and Junior notes in the amount of €656.7m were issued (€105.2m and €45.1m respectively in relation to the Bank).
The table below sums up the main features of the notes.
In December 2017, the SPV carried out a retranching of the junior security (class B), which was reduced to €205.8m (of which €10.6m relating to the Bank) against the issue of a class A2 security for a total of €449.9m (of which €24.8m relating to the Bank).

Notes	Classes	Rating	ISIN Code	Dates of issue	Payment Dates	Maturity Dates	Interest date
Class A1	Senior	Aa2/AA	IT0004846116	10.08.2012	29/05 – 29/11	29/05/2060	6ME+20
Class A2	Senior	Aa2	IT0005315004	06.12.2017	29/05 – 29/11	29/05/2060	6ME+00
Class B	Junior	No rating	IT0004846058	10.08.2012	29/09 – 29/11	29/05/2060	Chg.

The Class A notes were issued in a dematerialised form and were wholly and exclusively deposited with Monte Titoli S.p.A., listed on the Irish Stock Exchange. The Class B notes were divided into tranches, each tranche for an amount proportional to the amount of the loans that were respectively transferred by each individual bank. The transferring banks have fully underwritten the Class A and Class B notes thus nullifying any flow of cash between the Bank and the SPV.
The two different types of notes have a different degree of subordination in relation to priority of payments, both with regard to principal and interest.
Repayment of the notes will occur in a pass through form i.e. in relation to each collection period for each flow of funds to the SPV, and will be used to keep up with disbursements (both with regard to principal and interest) that will have to be made on the date of the following payment.
Class B notes (the so-called Junior issue) are not rated and are subordinated to Class A notes in relation to repayments. These types of notes do not feature a fixed coupon and are remunerated only if there are residual funds after covering all period costs (cost and interest for Class A Senior).
The repayment of the principal of Class B notes is last in the hierarchy of payments both in the case of prepayment and of payment on the regular redemption dates of the notes.
This transaction is also secured by liquidity line of €20.7m, of which €1.1m relating to the Bank (€65.9m before retranching, €4.5m of which related to the Bank). To cover interest rate risk, the SPV signed a basis swap contract with J.P. Morgan Securities LTD to hedge the portfolio with indexed rate.

In relation to the internal systems for measuring and controlling securitisation risk, the following applies:
- the Bank acts as servicer with regard to the loan portfolio it transferred according to the criteria specified in the servicing contract; specifically it handles the management, administration and collection of advances and also credit recovery; the Bank performs this role (for which it receives a commission) following a procedure that allows the coordinating all related activities and availing itself of its competent company structures;
- according to the Servicing Contract, each securitisation portfolio is constantly monitored based on the monthly, quarterly and half-yearly reports prepared for the SPV company and the counterparties of the transaction, showing the status of the loans and the trend in collections;
- in relation to its disclosures to the SPV company, the Bank has published an assignment notice on the Insertion Sheet of the Official Gazette no. 93 of 9 August 2012;
- in relation to the privacy law, the Bank has informed the individual assigned debtors with a specific notification.

The following subjects were involved in their respective roles:
- Arranger: Cassa Centrale Banca - Credito Cooperativo del Nord Est Spa.
- Vehicle company: BCC SME Finance 1 S.r.l., a company incorporated under Law no. 130/99 on Securitisations, with its registered office in Rome - Largo Chigi 5; the company is registered with the Business Register of Rome (registration number 06646750965) and enrolled in the general register of securitisation SPVs, ABI code 35037. We confirm that the Bank does not hold any interest nor do its employees hold any corporate positions in the SPV BCC SME Finance 1 S.r.l., whose shares are fully held by the Dutch foundation "Stichting Babele" – Amsterdam (Netherlands) Claude Debussylaan 24.
- Back up Servicer: Cassa Centrale Banca, Credito Cooperativo del Nord Est Spa
- Account Bank: Cassa Centrale Banca, Credito Cooperativo del Nord Est Spa
- Agent Bank: Deutsche Bank AG, London Branch
- Corporate Servicer Provider: FIS Spa, Rome
- Rating Agencies: Moody's Investors Service and DBRS Rating
- Law Firm: Orrick, Herrington & Sutcliffe – Rome

- Portfolio Auditors: Reconta - Ernst & Young Spa.
- SPV's Auditors: Crowe Horwath AS S.r.l.

Quantitative information

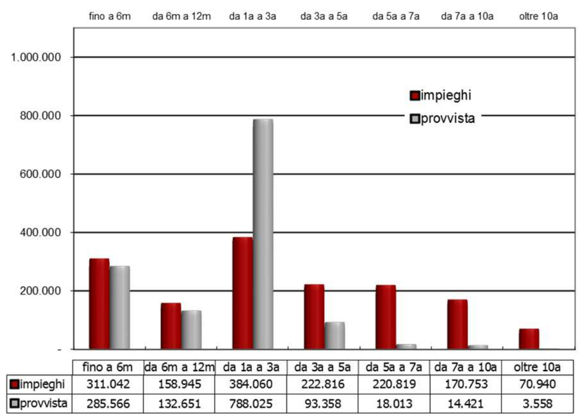
1. Time distribution by residual contractual duration of financial assets and liabilities [27]

Items/Maturities	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	Beyond 5 years	Undetermined duration
Cash assets	**176,639**	**470**	**13146**	**2,423**	**25,764**	**92,602**	**158,945**	**606,876**	**462,513**	**552**
A.1 Government securities	-	-	43	-	-	342	384	-	160,000	-
A.2 Other debt securities	-	-	203	34	46	716	3,784	51,230	983	-
A.3 Investments in UCITS	12,587	-	-	-	-	-	-	-	-	-
A.4 Loans	164,052	470	12,900	2,389	25,718	91,544	154,777	555,646	301,530	552
- banks	123,773	-	-	-	-	-	-	-	-	552
- customers	40,279	470	12,900	2,389	25,718	91,544	154,777	555,646	301,530	-
Cash liabilities	**45,834**	**12,506**	**-**	**41,820**	**136,979**	**48,426**	**132,651**	**881,383**	**35,993**	**-**
B.1 Deposits and current accounts	45,725	12,506	-	3,500	857	15,027	9,000	10,476	-	-
- banks	5,053	1,003	-	-	857	15,027	-	-	-	-
- customers	40,662	11,503	-	3,500	-	-	9,000	10,476	-	-
B.2 Debt securities	30	-	-	32,300	59,667	174	7,174	191,300	-	-
B.3 Other liabilities	79	-	-	6,020	76,455	33,225	116,477	679,607	35,993	-
Off-balance sheet transactions	**9,797**	**4,658**	**-**	**-**	**-**	**-**	**19**	**1,087**	**3,167**	**-**
C.1 Financial derivatives with exchange of capital										
- long positions										
- short positions										
C.2 Financial derivatives without exchange of capital	-	-	-	-	-	-	-	60	332	-
- long positions	-	-	-	-	-	-	-	30	166	-
- short positions	-	-	-	-	-	-	-	30	166	-
C.3 Deposit and loans to be received										
- long positions										
- short positions										
C.4 Irrevocable commitments to disburse funds	8,539	4,658	-	-	-	-	19	1,027	2,835	-
- long positions	-	4,658	-	-	-	-	19	1,027	2,835	-
- short positions	8,539	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	1,258									
C.6 Financial guarantees received										
C.7. Credit derivatives with exchange of capital										
- long positions										
- short positions										
C.8. Credit derivatives without exchange of capital										
- long positions										
- short positions										

For a better representation of flows generated by the Bank's operations, prevalently medium/long-term ones and with an amortisation plan, and of the related maturity transformation, we show in a graphical form the time distribution of cash assets and liabilities, adopting the number and scope of the most significant bands.

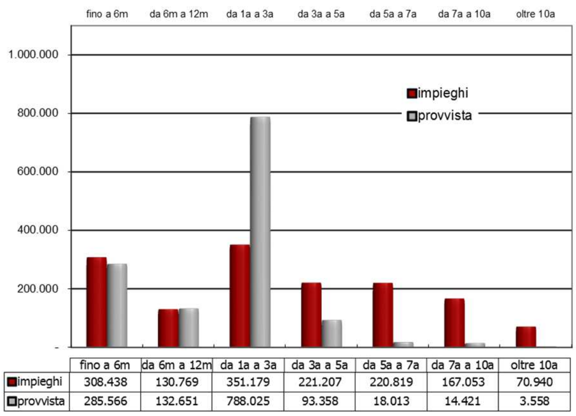
In particular, we highlight the following points in the graph below:

- a positive gap of €25m in the short-term band (up to 6 months), the result of the rescheduling of important maturing funding tranches;



27 The data are presented solely in Euro given that the overall weight of assets, liabilities and "off-balance sheet" transactions denominated in foreign currencies (Swiss Francs) is irrelevant with respect to the total of the Bank's assets, liabilities and "off-balance sheet".

- a positive gap of about €26m in the "up to 1 year" band, due to the presence of significant expected flows on doubtful loans;
- a negative gap in the "1 to 3 year" band of about €404m (€437m net of estimated flows of doubtful loans) characterised by the maturity of bonds issued for €190m and the presence of expiring TLTRO-II operations of €230m;
- a positive gap in the "3 to 5 year" band of €129m (€128m net of estimate flows of doubtful loans) albeit in the presence of expiring T-LTRO operations of €49m;
- the other bands show positive gaps also net of flows of doubtful loans, due to the scarcity of maturities for long-term funding.



Disclosure on balance sheet assets pledged as a guarantee[28]

Technical form	Pledged		Not Pledged		Total 2017	Total 2016
	Book value	Fair value	Book value	Fair value		
1. Cash and cash equivalents			2		2	2
2. Debt securities	114,060	114,060	105,803	105,998	219,863	162,528
3. Equity securities	-	-	17,126	17,126	17,126	10,430
4. Loans[1]	513,564		731,687		1,245,251	1,234,872
5. Other financial assets	-		13,040		13,040	9,621
6. Non-financial assets	-		8,666		8,666	9,676
Total 2017	**627,624**	**114,060**	**876,324**	**123,124**	**1,503,948**	
Total 2016	**507,460**	**84,125**	**919,669**	**89,055**		**1,427,129**

1 In addition to the loans pledged as guarantees for liabilities, loans also include assets sold to the SPV and not derecognised of €14.9m (€25.0m in 2016).

Disclosure on off-balance sheet own assets pledged as a guarantee

Technical forms	Pledged	Not Pledged	Total 2017	Total 2016
1. Financial assets	23,611	58,678	82,289	107,333
- Securities	23,611	58,678	82,289	107,333
- Others	-	-	-	-
2. Non-financial assets	-	-	-	-
Total 2017	**23,611**	**58,678**	**82,289**	
Total 2016	**38,937**	**68,396**		**107,333**

Eurosystem credit operations

The Bank has entered into four liability-funding operations with ECB for a face value of €279.1m[29] , guaranteed by securities classified as financial assets available for sale (Table 2. Item 2.), in addition to other securities not reported under assets as specified below, of which:

- €50.0m for a transaction concluded on 29/06/2016 (expiry 24/06/2020);
- €60.0m for a transaction concluded on 28/09/2015 (expiry 30/09/2020);
- €120.0m for a transaction concluded on 21/12/2016 (expiry 16/12/2020);
- €49.1m for a transaction concluded on 29/03/2017 (expiry 24/03/2021).

According to the requirements of IFRS 7 § 14, we state that:

a) with the above-mentioned contracts, the Bank has transferred the securities used as a guarantee to the ownership of the counterparty, to guarantee the full right, with their full value and related appurtenances, the exposure of the same, and any other credit or other right due to the counterparty arising from the financing operation, although not liquid or payable, including arising before or after disbursement of the financing;

28 Assets are split into "pledged" and "not pledged" based on the provisions of the legislation in force for the reporting of "Restricted assets on an individual basis" (so-called Asset Encumbrance – AEI information base)

29 These transactions are those of the so-called targeted refinancing operations (TLTRO-II).

b) the value of the guarantee deposit is determined by deducting from the market value, the haircut defined by the European Central Bank for the specific activities, as well as an additional haircut defined by Cassa Centrale Banca for the loan brokered.

Securities not reported in assets in the statement of financial position to guarantee borrowings

At year-end, the Bank deposited a nominal €23.6m in securities at the Bank of Italy that are not reported in the statement of financial position assets. Such securities serve in part as a guarantee for the €279.1m financing (see paragraph "Eurosystem credit operations" for details).

Loans and advances to customers to guarantee borrowings

At year-end, the Bank tied with the Bank of Italy, through the ABACO procedure, a loan portfolio with a book value of €405.1m, as part guarantee for the €279.1m financing (see paragraph "Eurosystem credit operations" for details).

Loans and advances to customers to guarantee mortgage borrowings

The Bank has, as assets pledged to guarantee its own liabilities and commitments, entered into loan assignment contracts relating to public works financing in favour of the EIB with two loans signed on 28 November 2005 and 9 December 2008, respectively.
According to the requirements of IFRS 7 § 14, we state that:

a. the book value of the financial assets pledged as collateral amounts to €18.9m in relation to the contract signed on 28 November 2005 and to €36.8m in relation to the contract signed on 9 December 2008;
b. by signing the above-mentioned contracts the Bank irrevocably assigned with recourse to the EIB amounts it is owed by the municipalities as a guarantee of the full and punctual fulfilment of all the pecuniary obligations assumed by the Bank based on the loan agreement with the EIB. The credit assignments amount to at least 110% of the loan liabilities to the EIB, from time to time remaining as the result of principal payments made by the Bank under the loan contract itself;
    1. according to the contract signed on 28 November 2005, the assignment of loans would take effect only in the case of the Bank's non-fulfilment of its obligations to the EIB arising from the said loan contract (which is recorded under the Bank's liabilities); the loan assignment contracts are therefore "subject to conditions precedent";
    2. according to the contract signed on 9 December 2008 the assignment of the loans, for the sole purpose of guarantee, takes effect immediately and remains valid until the guaranteed obligations are fully fulfilled. The EIB has also granted the Bank a mandate for the management of the assigned receivables. The credit risk remains with the Bank and, unless the Bank defaults, the credits will be automatically transferred back to the Bank ownership at the time of their collection.

In November 2012, the Bank obtained a new credit facility of €50m by the EIB, against which a first contract for €16m has been signed and fully utilised. Such a contract will be guaranteed by the recourse transfer of receivables due to Mediocredito from the final beneficiaries.
According to the requirements of IFRS 7 § 14, we state that:

a. the book value of the financial assets pledged as guarantee amounted to €22.6m;
b. with the contract referred to above, the Bank transferred irrevocably with recourse to the European Investment Bank, the receivables of any nature due from the final beneficiaries, to guarantee the full and punctual fulfilment of all the obligations of a pecuniary nature assumed by the Bank under the loan agreement with the EIB. The credit assignments amount to at least 100% of the loan liabilities to the EIB, from time to time remaining as the result of principal payments made by the Bank under the loan contract itself;
   The contract provides that (for the exclusive purpose of guarantee) the effectiveness of the supply of credit is immediate and remains valid until the full and complete fulfilment of the obligations guaranteed. The EIB has also granted the Bank a mandate for the management of the assigned receivables. The credit risk remains with the Bank and, unless the Bank defaults, the credits will be automatically transferred back to the Bank ownership at the time of their collection.

In July 2013, a second contract for the remaining €34m was signed, secured by a surety from the Autonomous Region of Trentino-South-Tyrol. The contract has been utilised entirely. The surety from the

Autonomous Region of Trentino-South Tyrol is counter-secured by the sale with recourse of the receivables due to Mediocredito from the final beneficiaries.
According to the requirements of IFRS 7 § 14, we state that:

a. the book value of the financial assets pledged as guarantee amounted to €29.5m;
b. through the aforesaid guarantee contract the Bank transferred with recourse to the Autonomous Region of Trentino-South Tyrol the receivables of any nature, including reimbursement or repayment, due from the final beneficiaries on the basis of the loan agreement that benefits from the EIB resources and of the related guarantee by the Region.
   In accordance with the agreement, the effectiveness of the assignment of the loan is dependent on the actual disbursement by the Region of a payment in favour of EIB.

In March 2013, the Bank signed an agreement with Cassa Depositi e Prestiti for the granting of one or more loans on a ceiling amount to be used for granting loans to SMEs. Loans for a residual amount of €47.7m had been granted as at 31 December 2017.
These loans will be guaranteed by the transfer with recourse of receivables due to Mediocredito from the final beneficiaries.
According to the requirements of IFRS 7 § 14, we state that:

a. the book value of the financial assets pledged as guarantee amounted to €47.7m;
b. by signing the above-mentioned contract, the Bank transferred with recourse to Cassa Depositi e Prestiti its future credit rights, of any nature, and any other advantageous legal position in relation to these credit rights towards Assigned Debtors and Guarantors in relation to all receivables.
   The contract provides that (for the exclusive purpose of guarantee) the effectiveness of the supply of credit is immediate and remains valid until the full and complete fulfilment of the obligations guaranteed. The CDP has also granted the Bank a revocable mandate for the management of the assigned receivables. The credit risk remains with the Bank and, unless the Bank defaults, the credits will be automatically transferred back to the Bank ownership at the time of their collection.

SECTION 4 – OPERATIONAL RISKS

Qualitative information

A. General aspects, management processes and methods of measuring operational risk

The current capital accord (Basel III) adds operational risks amongst the Pillar I risks – risks for which one is under the obligation to set aside a part of own funds. The operational risk is defined as the risk of loss resulting from inadequate or dysfunctional internal processes, human resources and systems or from external events. This definition includes legal risk (in terms of exposure to fines, or penalties stemming from measures taken by the bank Supervisory Authority) but excludes strategic and reputation risk.
The Basel Committee acknowledges that "operational risk" is a term that may have different meanings to different banks. Still, a clear appreciation and understanding by banks of what is meant by operational risk is critical to the effective management and control of this risk category.
The Basel Committee has identified the following types of operational risk events as having the potential to result in substantial losses: fraud (internal and external), violation of employee health and safety rules, violation of rules regulating the client-bank relationship, damage to property, plant and equipment, business disruption and system failure and finally operational and/or procedural non-compliance.
The Bank has evaluated systems and opportunities for managing operational risk, paying special attention to installation and maintenance costs and to organisational costs and has chosen to adopt a basic model. In the future, it might adopt an advanced internal model only after the business model has significantly evolved and diversified.
The Bank, within the scope of internal control systems, developed and continues to develop activities and initiatives on the theme of monitoring and management of operational risk. In particular, the following is worth noting:

- the adoption of the non-compliance risk management model focusing on periodic reports by the responsible department (reports, audit reports, opinions, etc.) to the governing bodies, the General Management and the control structures or functions of the Bank and targeted not only at risk monitoring but at spreading a corporate ethos based on the principles of honesty, fairness and compliance with the rules;
- the composition and activity of the Control Committee: in addition to the corporate control functions, the General Manager and the manager responsible for preparing the company's financial reports of the Bank also take part in the Committee; the Committee constantly monitors sensitive phenomena with respect to the system of internal control assessing their overall effectiveness in relation to the objectives and limits included in the RAF, coordinates the programmes of activity of the risk control functions and reviews the annual ICAAP report;
- the focus on the administrative responsibility of the company (Legislative Decree no. 231/2001), whose monitoring is entrusted to the Board of Statutory Auditors in cooperation with the internal structures;
- the creation of the anti-money laundering function dedicated to overseeing regulations under Legislative Decree 231/07;
- the continuation of the traditional assessment of the risk profiles, also on the themes of organisation and IT technologies, as part of the preparation and revision of the Risk Appetite Framework;
- the outsourcing of IT auditing to the "Federazione Trentina della Cooperazione" which has the specific tools and skills for the task that are regularly updated;
- the ongoing updating, in accordance with the "New regulations for the prudential supervision of banks" (Bank of Italy Circular no. 285 of 17 December 2013 and subsequent amendments), of a Regulation for the Flow of Information, in order to promote structured forms of communication and exchange of complete, timely and accurate information inside the corporate bodies, between different organs and the governing bodies;
- agreement between the compliance functions and internal audit to enhance the interaction between the two structures and make the functioning of internal controls more efficient, providing forms of cooperation for the conduct of audits; in particular, in this context, it should be noted that the interventions are shared during the drafting of the relative annual plans of the activities and that some audit activities are carried out jointly - each for its own areas of competence;
- the separation of the internal control (compliance, risk management and internal audit) from the operational structures of the Bank, reporting directly to the Board of Directors (the body with strategic

supervision and management functions) in order to ensure maximum autonomy of action, hierarchical independence and freedom of access to all information sources of the Bank;

- the continuous process of updating and upgrading of the Internal Control System, with particular reference to maintaining the mapping of business activities and the definition / expansion of the internal second level controls, both for compliance and risk-management;
- the constant updating of the operational processes of the Bank (also through the introduction of automated systems for operational support and control), with particular reference to the related regulations on transparency and anti-money laundering;
- the introduction of an internal system for reporting violations - Whistle-blowing (computer system for reporting violations that guarantees the confidentiality of the reporter) and the adoption of a specific regulation.

The above-mentioned organisational and operational activities are functional to the constant adjustment of the compliance process with the supervisory regulations, which will see gradual improvement with the support of operational and coordination initiatives to make it possible to gradually apply the best practices on the subject of operational risk management more effectively.

Legal risks

The risks associated with litigation that involves the Bank are constantly monitored by the Legal Department. Where a legal and accounting analysis shows the possibility of a negative outcome with a probable outflow of financial resources, the Bank shall put aside sufficient allocations to the provisions for risks and charges as a precaution, based on an estimate as reliable as possible, as well as implement settlement policies, if possible.

In particular it is noted that:

- the allocation of the amount at risk of 21,751.26 allocated in 2013 for the revocatory action brought by the extraordinary administration of Giacomelli Sport was redetermined following the recent judgement of the Court of Appeal, which declared further payments totalling €11.6m to the company to be ineffective. When the procedure will be implemented, Mediocredito will be required to repay approximately €1.2m. However, considering the appeal pending before the Court of Cassation against this judgement and in any case the objection that, following the judgement of the Court of Cassation, may be raised against the loan syndicate leader in the negative case, the provision for legal risks was adjusted to 75% of the amount requested for reimbursement, thus setting aside a further amount of €859,086.11;
- in 2014, the existence of a contingent liability related to the claim for damages by the plaintiff on the Carolina Srl position for a total of €3.6m was the subject of evaluation; to date, there is no concrete evidence that would support the acceptance of the claims of bankruptcy. For this reason, the creation of a special provision dedicated to litigation risks is not considered justifiable at the current state of play;
- for some years now, the Bank has been claiming for a contested receivable of €193 thousand from the company Prominvestment S.p.A. for fees in connection with the preparation of preliminary reports for the granting of contributions pursuant to Law 488/92 and for which the Bank had allocated, in the course of the previous financial years, a provision of €80,000, equal to approximately 30% of the receivable; the final composition agreement recognises a receivable of €280 thousand to the bank, 85% of which will be paid. As a result, the allocation to the provision for legal risks was recalculated at €34,479.27, recording a recovery of €45,520.73 in the income statement;
- in conclusion of a dispute with the Autonomous Province of Trento relating to a mortgage agreement, in relation FRAM funds, stipulated with the company Manifattura di Trento S.p.A., the Bank was ordered to reimburse, to the public entity, the amounts relating to the late repayment of funding. Pending a formal request from the Province, the amounts to be reimbursed continued to be set aside, estimated at €485 thousand in interest on FRAM funds repaid late, plus €115 thousand in interest on arrears on said amounts.

PART F
INFORMATION ON EQUITY

SECTION 1 - EQUITY

A. QUALITATIVE INFORMATION

The equity is composed of share capital (ordinary shares) and additional paid-in capital and reserves. The reserves are the aggregate of the legal reserve, the extraordinary reserve, and the reserves created in application of IAS/IFRS. The valuation reserves are the aggregate of fair value reserves related to assets available for sale, reserves from actuarial gains/losses related to defined benefit plans (severance indemnities) and those reserves that originate from the monetary revaluation of real estate. The adequacy of the equity is also monitored in relation to the minimum capital requirements specified by the Supervisory Authority.

B. QUANTITATIVE INFORMATION

B.1 Equity: breakdown

Items/amounts	2017	2016
1. Share capital	58,485	58,485
2. Additional paid-in capital	29,841	29,841
3. Reserves	88,246	87,999
- profits	88,246	87,999
a) legal	19,093	19,093
b) statutory	47,562	47,315
c) treasury shares	-	-
d) other	21,591	21,591
- others	-	-
4. Equity instruments	-	-
5. (Treasury shares)	-	-
6. Valuation reserves	4,840	4,485
- Financial assets available for sale	939	584
- Property, plant and equipment	-	-
- Intangible assets	-	-
- Hedges of foreign investments	-	-
- Cash flow hedges	-	-
- Exchange differences	-	-
- Non-current assets classified as held for sale	-	-
- Actuarial gains (losses) on defined benefit plans	(417)	(417)
- Valuation reserves from investments accounted for	-	-
using the equity method	-	-
- Special revaluation laws	4,318	4,318
7. Net income (loss) for the year	3,168	259
Total	**184,580**	**181,069**

B.2 Valuation reserves for available-for-sale assets: breakdown

Assets/Amount	2017		2016	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	449	346	115	349
2. Equity securities	469	48	282	-
3. Investments in UCITS	515	100	766	230
4. Loans	-	-	-	-
Total	**1,433**	**494**	**1,163**	**579**

B.3 Valuation reserves for available-for-sale assets: annual changes

	Debt securities	Equity securities	Investments in UCITS	Loans
1. Opening balance	**(234)**	**282**	**536**	**-**
2. Positive changes	**751**	**187**	**441**	**-**
2.1 Fair value increases	677	187	441	-
2.2 Reclassification through profit or loss of positive reserves	74	-	-	-
- due to impairment	-	-	-	-
- following disposal	74	-	-	-
2.3 Other changes	-	-	-	-
3. Negative changes	**414**	**47**	**562**	**-**
3.1 Fair value decreases	349	47	562	-
3.2 Adjustments due to impairment	-	-	-	-
3.3 Reclassification through profit or loss of positive reserves:	-	-	-	-
following disposal	65	-	-	-
3.4 Other changes	-	-	-	-
4. Closing balance	**103**	**421**	**415**	**-**

B.4 Valuation reserves relating to defined benefit plans: annual changes

	2017	2016
A. Opening balance	**(417)**	**(443)**
B. Increases	**0**	**-**
B.1 Actuarial losses	0	-
C. Decreases	**-**	**26**
C.1 Actuarial gains	-	26
D. Closing balance	**(417)**	**(417)**

SECTION 2 - OWN FUNDS AND CAPITAL RATIOS

Own funds as well as the capital ratios were calculated on the data taken from the financial statements prepared in application of the international accounting standards IAS/IFRS and the regulatory framework.

2.1 OWN FUNDS

A. Qualitative information

1. Common Equity Tier 1 capital – CET1

Mediocredito's Tier 1 capital consists of the share capital (€58.485m), additional paid-in capital (€29.841m), the reserves (the aggregate of the legal reserve, the extraordinary reserve and the reserve created in compliance with IAS/IFRS) for an overall amount of €92.564m[30].

It includes also the valuation reserves related to the equity securities, the investments in UCITS and just the debt securities issued by banking counterparties classified as available for sale amounting to €1.059m (positive) and the actuarial gains/losses on defined benefit plans amounting to €417 thousand (negative).

It is adjusted by negative elements attributable to intangible assets of €64 thousand and to deferred tax assets that depend on future profitability and do not derive from temporary differences of €1.240m, from supplementary value adjustments to regulatory capital of €66.2 thousand and from the impact of the regulations set forth for the transitory period (2014-2017) relating, for €212 thousand, to the deduction of 20% of the amount of positive valuation reserves relating to equity securities and investments in UCITS classified as available for sale and for €248 thousand to the recovery of 20% of the amount of deferred tax assets that depend on future profitability and do not derive from temporary differences deducted from own funds.

30 The calculation of CET1 does not include the profit for the year in that the requirements set forth in Article 26, paragraph 2 of EU Regulation 575/2013 as specified by Decision EU 2015/656 of 4 February 2015 are not complied with.

2. Additional Tier 1 Capital (AT1)

The capital structure of the Bank does not present elements included in the Additional Tier 1 capital.

3. Tier 2 capital (T2)

Tier 2 capital amounts to €106 thousand and corresponds entirely to the effects of the rules set out for the transitory period. More specifically, the amount refers to 20% of the valuation reserves of equity securities, investments in UCITS and just the debt securities issued by banking counterparties classified as available for sale and admissible in the Tier 2 capital in accordance with the regulations previously in force[31].

B. Quantitative information

	2017	2016
A1. CET 1 before the application of prudential filters	**181,532**	**180,819**
of which CET1 instruments subject to transitional provisions	1,059	593
B. Prudential filters of the CET1 (+/-)	-66	-39
C. CET1 gross of the elements to be deducted and of the effects of the transitional regime (A+/- B)	**181,466**	**180,780**
D. Elements to be deducted from CET1	**+1,304**	**+1,656**
E. Transitional regime – Impact on CET1 (+/-)	**+36**	**+386**
F. Total CET 1 (C-D+/-E)	**180,198**	**179,511**
G. AT1 gross of the elements to be deducted and of the effects of the transitional regime	-	-
of which AT1 instruments subject to transitional provisions	-	-
H. Elements to be deducted from AT1	**-**	**-**
I. Transitional regime - Impact on AT1 (+/-)	**-**	**-**
L. Total AT1 (G-H+/-I)	**-**	**-**
M. T2 gross of the elements to be deducted and of the effects of the transitional regime	-	-
of which T2 instruments subject to transitional provisions	-	-
N. Elements to be deducted from T2	**-**	**-**
O. Transitional regime - Impact on T2 (+/-)	**+106**	**+74**
P. Total T2 (M-N+/-O)	**+106**	**+74**
Q. Total own funds (F+L+P)	**180,304**	**179,584**

The Bank availed itself of the right, granted by art. 467, parag. 2.2 of CRR, not to include any element of own funds – unrealised profits or losses relating to exposures to central administrations classified in the category "financial assets available for sale". In 2017, the amount of these changes was a negative €345 thousand, therefore the impact on CET1 would have totalled a negative €276 thousand, zero impact on AT1, negative impact of €69 thousand on T2 and negative impact of €345 thousand on total own funds.

2.2 CAPITAL ADEQUACY

A. Qualitative information

The Own Funds are the first safeguard against risks that a bank has to deal with and, looking forward, the level of capitalisation is a crucial lever for developing the typical business of the Bank whilst simultaneously preserving its stability.
The statement included in part B. details the single items which contribute to determining the "risk-weighted assets", for the purposes of calculating the "solvency ratios", applying the standard method, as per the rules laid down by Basel III regulations;
in particular:

- CET1 ratio: CET1 data / risk-weighted assets;
- T1 ratio: Tier 1 capital data / risk-weighted assets;
- Own funds ratio: Own funds data / risk-weighted assets.

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31 According to the regulations previously in force, the valuation reserves of assets allocated to the available for sale portfolio were included in Tier 2 capital according to the asymmetric approach that made provision for the partial inclusion (50%) of capital gains and the full inclusion of capital losses.

With the acknowledgement in Italy of Directive 2013/36/EU (CRD) and in compliance with the provisions of the EBA with the Guidelines on common SREP, the Bank of Italy – in conclusion of the regular supervisory review process (SREP) – revised the bank's capital ratios, requesting additional capital with respect to the minimum regulatory requirements. In particular, starting from 31 March 2017, the bank is required to constantly meet the following capital requirements:

- CET1 ratio of 6.15% (expected 6.85%)[32], including capital conservation buffer of 1.25%[33]. This ratio is binding at 4.90% (minimum of 4.50% and 0.40% of additional SREP requirements);
- Tier 1 ratio of 7.80% (expected 8.70), including capital conservation buffer of 1.25%. This ratio is binding at 6.55% (minimum of 6.00% and 0.55% of additional SREP requirements);
- Total Capital ratio of 10.00% (expected 11.20%), including capital conservation buffer of 1.25%. This ratio is binding at 8.75% (minimum of 8.00% and 0.75% of additional SREP requirements).

At 31 December 2017 these ratios (respectively equal to 18.50%, 18.50% and 18.51%) were adequate in relation to the supervisory limits for separate financial statements, as an indicator of the capital adequacy in relation to the size of the Bank and of the characteristics of its activities.

In the course of May 2017, the Bank prepared and published the report required by Basel III Pillar 3, i.e. public disclosure as at 31 December 2016. The disclosure is issued on an annual basis by publishing on the Bank's website (www.mediocredito.it) the information required by Title II "Technical criteria on transparency and disclosure" of Part 8 "Disclosures by entities" of EU Regulation 575/2013 on the basis of the articles included therein related to information deemed relevant for the Bank.

B. Quantitative information

Category/amounts	Non-weighted amounts		Weighted amounts	
	2017	2016	2017	2016
A. RISK-WEIGHTED ASSETS				
A.1 Credit risk and counterparty risk				
1. Standardised approach	1,584,061	1,502,031	940,870	984,684
2. Internal ratings-based approach				
2.1 Basic				
2.2 Advanced				
3. Securitisations				
B. REGULATORY CAPITAL REQUIREMENTS				
B.1 Credit risk and counterparty risk			75,270	78,775
B.2 Credit valuation adjustment risk				
B.3 Settlement risk				
B.4 Market risk				
1. Standardised approach				
2. Internal models				
3. Concentration risk				
B.5 Operational risk				
1. Basic approach			2,671	2,630
2. Standard approach				
3. Advanced approach				
B.6 Other calculation elements				
B.7 Total prudential requirements			**77,941**	**81,405**
C. RISK-WEIGHTED ASSETS AND CAPITAL RATIOS				
C.1 Risk-weighted assets			974,256	1,017,565
C.2 CET1/Risk-weighted assets (CET1 capital ratio)			18.50	17.64
C.3 Tier 1 capital/Risk-weighted assets (Tier 1 capital ratio)			18.50	17.64
C.4 Total own funds/Risk-weighted assets (Total capital ratio)			18.51	17.65

32 In order to ensure that binding measures are complied with even in the event of a worsening of the economic and financial scenario, the Bank of Italy has also identified capital levels that it expects to be maintained on an ongoing basis.

33 With the 18th update of Circular no. 285/2013, the Bank of Italy revised its decision, made when implementing EU directive No. 36/2013 (CRD IV), to anticipate the full application (2.50%) of the Capital Conservation Buffer, in order to adopt the transitional regime envisaged by the CRD IV that envisaged the gradual introduction of the requirement. As a result of this regulatory change, the banks will be required to apply a minimum ratio of capital conservation buffer of 1.25% from 1 January 2017 to 31 December 2017, of 1.875% from 1 January 2018 to 31 December 2018 and of 2.5% as from 1 January 2019.

PART H
RELATED PARTY TRANSACTIONS

1. INFORMATION ON REMUNERATION OF MANAGERS WITH STRATEGIC RESPONSIBILITIES

The remuneration shown refers to the Directors and Managers with strategic responsibilities who held these positions in 2017, as per IAS 24 paragraph 17.
The remuneration paid to members of the Board of Directors and to the Board of Statutory Auditors is established in the appropriate Shareholders' Meeting resolution.

	Emoluments and social security contributions	Bonuses and other short-term benefits	Severance indemnities and pension fund
Directors	292		
General manager and managers with strategic responsibilities	310	4	26
Statutory Auditors	124		

2. RELATED PARTY TRANSACTION DISCLOSURE

The following tables were prepared according to IAS 24 and in particular, the breakdown of transactions performed with related parties was carried out in accordance with the instructions outlined in paragraphs 18 and 19 of the same standard.

Receivables and payables

Related parties	Assets available for sale	Loans and advances to banks	Loans and advances to customers	Other assets	Due to banks	Due to customers	Derivatives (notional)	Sundry payables
Entities that have joint control and significant influence over the Company	-	118,426	6,089	8,609	118,522	70,548	367	13
Subsidiary companies	-	-	8,926	-	-	-	-	-
Affiliated companies	-	-	-	-	-	-	-	-
Joint ventures	-	-	-	-	-	-	-	-
Managers with strategic responsibilities	-	-	3	-	-	-	-	-
Other related parties	-	-	-	-	-	-	-	-
Total	**-**	**118,426**	**15,018**	**8,609**	**118,522**	**70,548**	**367**	**13**

Loans and advances to banks
These are made up for €73.4m of cash on current accounts and for €45.0m of deposits with counterparty Cassa Centrale Banca SpA.

Loans and advances to customers
With regard to the amounts shown in the "Entities that have joint control and significant influence over the Company", these refer to loans and advances granted to the two Autonomous Provinces.

Under the heading "Subsidiary companies", the value refers to a credit facility granted by the Bank to the subsidiary Paradisidue S.r.l. (based in Trento - Via Paradisi 2, Tax Code 01856850225), for the acquisition and renovation of properties in the context of bankruptcy proceedings. The loan was granted for €10.0m with revocable maturity, with remuneration at the 1-month Euribor.

Other assets
These relate mostly illiquid assets in a bank account with Cassa Centrale Banca for €8.6m.

Due to banks
These are made up for €0.9m of currency deposits and for €117.7m of deposits with counterparty Cassa Centrale Raiffeisen.

Due to customers
These are made up for €30.1m of deposits from a functional company in the Autonomous Province of Trento and for €40.4m of the funds of the two Autonomous Provinces under administration.

Derivatives
These relate to cap options booked to the financial statements for a positive fair value of €773.

Costs and revenues

Related parties	Interest income	Fee and commission income	Dividends/ other revenues	Interest expense	Fee and commission expenses	Other expenses
Entities that have joint control and significant influence over the Company	146	4	0	948	152	25
Subsidiary companies	11	-	-	-	-	-
Affiliated companies	-	-	-	-	-	-
Joint ventures	-	-	-	-	-	-
Managers with strategic responsibilities	0	-	-	-	-	-
Other related parties	-	-	-	-	-	-
Total	**157**	**4**	**0**	**948**	**152**	**25**

Transactions with entities that have joint control and significant influence over the Company refer to relations with those shareholders who have joint control over the Bank, also due to agreements between the parties. Transactions with these shareholders were carried out under equivalent conditions to those that prevail in arm’s length transactions.
In addition, the Autonomous Provinces of Trento and Bolzano provide a surety in the Bank’s interest in favour of EIB for €0.502m; the Bank pays a commission every six months to both Provinces equal to 0.08% per year.
The Autonomous Region of Trentino-South Tyrol also provides a surety in the interest of the Bank to the EIB for €29.3m; the Bank pays a commission of 0.4% per annum to the Region.
It should also be noted that there is a provision for risks and charges of €600 thousand relating to a dispute with the Autonomous Province of Trento.

PART L
SEGMENT REPORTING

In spite of the essential single sector character of the Bank's business operations and the associated geographic concentration of activities predominantly in North-eastern Italy, segment disclosures are provided, as the Bank belongs to the category of listed issuers pursuant to transparency regulations.
The present disclosure was prepared according to the requirements of IFRS 8, based on internal reports for the management and the Board of Directors: it makes reference primarily to the classification of activities originated from commercial regional units and, secondarily, the breakdown of business by product. Consequently, the primary reporting basis is by geographical segments and the secondary reporting basis is by economic sector. Less significant data are also reported to observe the management approach to reporting.
Income statement/statement of financial position results are determined on the basis of the following principles:
- the net interest income is obtained by applying the internal transfer rates consistent with the financial characteristics of the products;
- net commissions are punctually attributed to the customer/area/product who/which has generated them;
- direct costs and manufacturing costs have been respectively charged in a punctual manner and on the basis of criteria of reversal of actual costs and only for the primary reporting basis, in keeping with internal management data processed;
- central services costs (Management, Auditing, Planning and Control, Compliance, Risk Management, Administration, ...) have been charged to Head Office;
- statement of financial position components relate to volumes administered by the respective organisational units and are expressed in terms of interest-bearing balances at the end of the period.

SEGMENT REPORTING (notes)

The tables that are provided, prepared on the basis of internal management reports and applying the above-mentioned criteria, show a homogeneous distribution of margins among the main regional units.
The Veneto area recorded a greater incidence of costs, characterised by a larger loan portfolio than the other areas. In relation to the cost of risk, Trentino and Veneto show the highest absolute values; all areas show increases in this cost component, with the exception of the South Tyrol area, which is substantially stable. From a sector perspective, the cost of risk is concentrated mostly in the real estate and construction sectors while in leasing, although of limited amount, this component reduces the entire intermediation margin.
The increase in the contribution to the results of the "Head Office" (primary segment reporting basis) and "other assets" (secondary segment reporting basis) is mainly due to the increase in net interest income due to the aforementioned reduction in the cost of borrowing.

PRIMARY SEGMENT REPORTING BASIS

A.1 Distribution by geographical area of activity: income statement data as at 2017

	Trentino	South Tyrol	Veneto	Lombardy	Emilia	Structure/ Head office	Overall amount
Net interest income	**2,557**	**2,837**	**2,593**	**1,251**	**871**	**8,925**	**19,035**
Net commissions	225	59	142	121	1	967	**1,514**
Dividends and other trading and hedging gains						3,982	***3,982***
Net interest and other banking income	**2,782**	**2,896**	**2,735**	**1,372**	**872**	**13,874**	**24,531**
Write-backs/Adjustments to fin. assets	(3,325)	(988)	(3,414)	(1,610)	(2,414)	(189)	(11,939)
Net income from financial activities	**(543)**	**1,908**	**(679)**	**(238)**	**(1,542)**	**13,685**	**12,591**
Total operating costs	(937)	(806)	(1,322)	(677)	(566)	(6,043)	**(10,352)**
Gains on the sale of buildings						1,856	**1,856**
Profit before income taxes	**(1,480)**	**1,102**	**(2,001)**	**(915)**	**(2,108)**	**9,498**	**4,096**

A.1 Distribution by geographical area of activity: income statement data as at

	Trentino	South Tyrol	Veneto	Lombardy	Emilia	Structure/ Head office	Overall amount
Net interest income	**3,018**	**3,176**	**2,961**	**1,332**	**865**	**1,668**	**13,019**
Net commissions	246	267	178	169	(31)	724	**1,553**
Dividends and other trading and hedging gains						2,958	***2,958***
Net interest and other banking income	**3,264**	**3,443**	**3,139**	**1,501**	**833**	**5,350**	**17,530**
Write-backs/Adjustments to fin. assets	(911)	(1,038)	(1,043)	(282)	(1,057)	(1,031)	(5,363)
Net income from financial activities	**2,352**	**2,405**	**2,096**	**1,218**	**(224)**	**4,319**	**12,167**
Total operating costs	(1,136)	(924)	(1,424)	(810)	(477)	(7,229)	**(12,000)**
Profit before income taxes	**1,216**	**1,481**	**672**	**408**	**(701)**	**(2,910)**	**167**

A.2 Distribution by geographical area of activity: statement of financial position Dec. 2017

	Trentino	South Tyrol	Veneto	Lombardy	Emilia	Structure/Head office	Overall amount
Lending operations	264,512	296,864	239,476	129,806	98,419	542,855	**1,571,932**
Borrowing operations						1,333,213	**1,333,213**

A.2 Distribution by geographical area of activity: statement of financial position Dec. 2016

	Trentino	South Tyrol	Veneto	Lombardy	Emilia	Structure/Head office	Overall amount
Lending operations	283,322	301,427	232,924	141,982	92,410	442,513	**1,494,579**
Borrowing operations						1,256,042	**1,256,042**

SECONDARY SEGMENT REPORTING BASIS

B.1 Distribution by economic sector: income statement data as at 2017

	Securities	Building	Leasing	Agricultural, discounts and facilitated loans	Other activities	Total
Net interest income	**9,270**	**599**	**613**	**1,322**	**7,231**	**19,035**
Net commissions	*1,114*	*41*	*(26)*	*24*	*361*	***1,514***
Dividends and similar income					3,982	**3,982**
Net interest and other banking income	**10,384**	**640**	**587**	**1,346**	**11,574**	**24,531**
Write-backs/Adjustments to fin. assets	(6,261)	(4,330)	(557)	(116)	(676)	**(11,939)**
Net income from financial activities	**4,123**	**(3,690)**	**30**	**1,230**	**10,898**	**12,591**

B.1 Distribution by economic sector: income statement data as at 2016

	Securities	Building	Leasing	Agricultural, discounts and facilitated loans	Other activities	Total
Net interest income	**9,780**	**852**	**658**	**1,617**	**92**	**13,019**
Net commissions	*1,048*	*59*	*39*	*266*	*140*	***1,553***
Dividends and similar income					2,958	**2,958**
Net interest and other banking income	**10,848**	**911**	**697**	**1,883**	**3,191**	**17,530**
Write-backs/Adjustments to fin. assets	(3,747)	(1,212)	(31)	(49)	(325)	**(5,363)**
Net income from financial activities	**7,102**	**(301)**	**666**	**1,834**	**2,866**	**12,167**

B.2 Distribution by economic sector: statement of financial position Dec. 2017

	Securities	Building	Leasing	Agricultural, discounts and facilitated loans	Other activities	Total
Lending operations	855,878	65,604	72,791	167,436	410,223	**1,571,932**
Borrowing operations						**1,333,213**

B.2 Distribution by economic sector: statement of financial position Dec. 2016

	Securities	Building	Leasing	Agricultural, discounts and facilitated loans	Other activities	Total
Lending operations	859,577	73,001	64,302	188,223	309,476	**1,494,579**
Borrowing operations						**1,256,042**

ANNEXES

ANNEX 1
COUNTRY BY COUNTRY REPORTING

(in accordance with art. 89 Directive 2013/36/EU ("CRD IV")

Reference date for information	31 December 2017
Country of establishment	Italy
Companies established	Mediocredito Trentino-Alto Adige S.p.A.
Nature of activity	Financial services to businesses Trading and sales Commercial banking services Retail banking services
Turnover (net interest and other banking income)	€24,228,879
Number of employees (full-time equivalent)	79.7
Profit before taxes	€4,095,265
Taxes on profit	(927,600)
Public contributions received	//

ANNEX 2
FINANCIAL STATEMENTS OF THE SUBSIDIARY COMPANY PARADISIDUE S.R.L.

(prepared in abridged form under Article 2435 bis of the Civil Code)

PARADISIDUE

Single-member private limited liability company
Registered office at Via Paradisi, 1 – Trento
Fully paid-up capital €10,000.00
Registered with the Trento Register of Companies under no. 01856850225
Member company of "Gruppo Bancario Mediocredito Trentino – Alto Adige"
Under the first paragraph of Article 2497-bis, par. 1 of the Civil Code the Company is subject to the management and coordination of Mediocredito Trentino-Alto Adige S.p.A. with registered office in Trento – Via Paradisi, 1 – Tax code and Trento Register of Companies no. 00108470220 – Bank register no. 4764

- ASSETS
- EQUITY AND LIABILITIES
- GUARANTEES AND COMMITMENTS
- INCOME STATEMENT

STATEMENT OF FINANCIAL POSITION

(in Euro)

ASSETS	31/12/2017	31/12/2016
A. SUBSCRIBED UNPAID CAPITAL		
B. FIXED ASSETS		
I. Intangible assets	**-**	**-**
a) cost	*4,000*	*4,000*
b) accumulated amortisation	*4,000*	*4,000*
II. Property, plant and equipment	**5,042**	**1,462**
a) cost	5,824	1,824
b) accumulated depreciation	-782	-362
III. Financial assets	**-**	**-**
C. CURRENT ASSETS	**9,095,821**	**9,117,575**
I. Stocks	8,209,939	8,210,752
- properties - closing stocks	8,131,095	8,131,908
- advance payments to suppliers	78,844	78,844
II. Receivables payable within one year	884,390	884,708
- loans and advances to customers	3,948	2,296
- VAT credit and tax prepayment	880,119	882,007
- security deposits	323	405
III. Financial assets - current assets	-	-
IV. Cash and cash equivalents	1,492	22,115
- Unicredit Bank c/a 40066549	1,492	22,115
D. ACCRUED INCOME AND PREPAYMENTS	**19,219**	**-**
TOTAL ASSETS	**9,120,082**	**9,119,037**

EQUITY AND LIABILITIES	31/12/2017	31/12/2016
A. EQUITY	**25,700**	**124,369**
I. Share capital	10,000	10,000
II. Additional paid-in capital	-	-
III. Valuation reserve	-	-
IV. Legal reserve	1,547	1,547
V. Reserve for treasury shares	-	-
VI. Statutory reserves	-	-
VII. Other reserves	112,822	216,223
VIII. Losses carried forward	-	-
IX. Income (Loss) for the year	(98,669)	(103,401)
B. PROVISIONS FOR RISKS AND CHARGES	**-**	**-**
C. PROVISION FOR SEVERANCE INDEMNITIES	**2,116**	**987**
D. PAYABLES	**9,092,266**	**8,993,681**
Payables due within one year	**9,044,403**	**8,969,394**
- prepayments received	-	-
- sundry payables	30,684	17,337
- suppliers and incoming invoices	96,484	86,758
- due to Parent Company	8,914,160	8,857,299
- tax payables due within one year	878	2,246
- INPS payables due within one year	2,197	2,145
Payables due after one year	**47,863**	**27,896**
- security deposits from customers	8,685	3,609
- prepayments from customers	39,178	24,287
E. ACCRUED LIABILITIES AND DEFERRED INCOME	**-**	**-**
TOTAL EQUITY AND LIABILITIES	**9,120,082**	**9,119,037**

GUARANTEES AND COMMITMENTS

(in Euro)

GUARANTEES AND COMMITMENTS	31/12/2017	31/12/2016
Personal guarantees given/received	-	-
TOTAL GUARANTEES AND COMMITMENTS	**-**	**-**

INCOME STATEMENT

(in Euro)

INCOME STATEMENT	**31/12/2017**	**31/12/2016**
A. PRODUCTION VALUE	**130,198**	**1,103,128**
1) Revenues from sales and services	29,687	426,407
2) Variation in stocks of finished goods and in work in progress	0	675,685
3) Variation in stocks of contract work in progress	-	-
4) Increases in own work capitalised	-	-
5) Other revenues and income	100,511	1,036
B. PRODUCTION COSTS	**215,448**	**1,190,414**
6) Raw materials, subsidiary materials, consumables and goods	(787)	1,027,466
7) Services	80,491	112,272
8) Use of third parties' assets	-	-
9) Staff costs	25,359	28,743
10) Amortisation, depreciations and write-downs	85,769	1,454
a) amortisation of intangible fixed assets	-	*1,334*
b) depreciation of property, plant and equipment	*420*	*120*
c) write-down of receivables included under current assets and cash and cash equivalents	*85,349*	-
11) Variation in stocks of raw materials, subsidiary materials, consumable and goods	813	-
12) Provision for risks	-	-
13) Other provisions	-	-
14) Other operating charges	23,805	20,479
DIFFERENCE BETWEEN PRODUCTION VALUE AND PRODUCTION COSTS	*(85,251)*	*(87,286)*
C. FINANCIAL INCOME AND CHARGES	**(11,360)**	**(16,115)**
15) Income from equity investments	-	-
16) Other financial income	-	1
17) Interest and other financial charges	11,360	16,116
D. VALUE ADJUSTMENTS TO FINANCIAL ASSETS		
18) Revaluations	-	-
19) Write-downs	-	-
E. EXTRAORDINARY INCOME AND CHARGES		
20) Extraordinary income	-	-
21) Extraordinary charges	-	-
RESULT BEFORE TAXES	*(96,610)*	*(103,401)*
INCOME TAXES	2,059	
NET INCOME (LOSS) FOR THE YEAR	**(98,669)**	**(103,401)**

ANNEX 3 GLOSSARY OF RATIOS

COST TO INCOME RATIO

$$\frac{\textit{operating costs}}{\textit{net interest and other banking income}}$$

The amount of operating costs that are used in the calculation of the ratio shown in the Report on Operations and precisely in the section "Income statement dynamics" (€10.352m) corresponds to the amount shown in item 200. of the income statement (€11.159m), augmented by the net gains on the sale of investments for €6 thousand (see item 240. of the income statement) and provisions for legal risks relating to disputes on loans of €802 thousand.
Net interest and other banking income was calculated at €24.531m, equal to the value reported in the financial statements (€24.229m) net of capital gains from the sale of loans (€30 thousand) and increased by capital gains on the sale of equity investments to subsidiaries (€332 thousand).

TOTAL CAPITAL RATIO

$$\frac{\textit{own funds}}{\textit{risk-weighted assets}}$$

The amounts that are used in the calculation of the ratio are shown in part "F – Information on Equity" of the notes to the financial statements in tables 2.1.B "Own Funds – Quantitative information" (€180.304m) and 2.2.B "Capital adequacy – Quantitative information" (€974,256m), respectively.

GROSS DOUBTFUL LOANS TO GROSS LOANS TO CUSTOMERS

$$\frac{\textit{gross doubtful loans}}{\textit{gross loans}}$$

The amounts used in the calculation of the ratio are shown in the Report on Operations in the chapter on Lending operations, under section "Impaired loans" and come to €120.994m and €1,203.809m respectively.

NET DOUBTFUL LOANS TO NET LOANS TO CUSTOMERS

$$\frac{\textit{net doubtful loans}}{\textit{net loans}}$$

The amounts used in the calculation of the ratio are shown in the Report on Operations in the chapter on Lending operations, under section "Impaired loans" and come to €64.071m and €1,126.704m respectively.

GROSS DOUBTFUL LOANS TO OWN FUNDS

$$\frac{\textit{gross doubtful loans}}{\textit{own funds}}$$

The amount of gross doubtful loans used in the calculation of the ratio is shown in the Report on Operations in the chapter on Lending operations, in section "Impaired loans" and comes to €120.994m.
The amount relating to own funds which is used in the calculation of the ratio is shown in part "F – Information on equity" of the Notes to the financial statements in tables 2.1.B "Own funds – Quantitative information" and comes to €180.304m.

NET DOUBTFUL LOANS TO OWN FUNDS

$$\frac{\textit{net doubtful loans}}{\textit{own funds}}$$

The amount of net doubtful loans used in the calculation of the ratio is shown in the Report on Operations in the chapter on Lending operations, in section "Impaired loans" and comes to €64.071m.
The amount relating to own funds which is used in the calculation of the ratio is shown in part "F – Information on equity" of the Notes to the financial statements in tables 2.1.B "Own funds – Quantitative information" and comes to €180.304m.

GROSS IMPAIRED LOANS TO GROSS LOANS TO CUSTOMERS

$$\frac{\textit{gross impaired loans}}{\textit{gross loans}}$$

The amounts used in the calculation of the ratio are shown in the Report on Operations in the chapter on Lending operations, under section "Impaired loans" and come to €167,802m and €1,203,809m respectively.

NET IMPAIRED LOANS TO NET LOANS TO CUSTOMERS

$$\frac{\textit{net impaired loans}}{\textit{net loans}}$$

The amounts used in the calculation of the ratio are shown in the Report on Operations in the chapter on Lending operations, under section "Impaired loans" and come to €99,018m and €1,126.704m respectively.

GROSS IMPAIRED LOANS TO OWN FUNDS

$$\frac{\textit{gross impaired loans}}{\textit{own funds}}$$

The amount of gross impaired loans used in the calculation of the ratio is shown in the Report on Operations in the chapter on Lending operations, in section "Impaired loans" and comes to €167.802m.

The amount relating to own funds which is used in the calculation of the ratio is shown in part "F – Information on equity" of the Notes to the financial statements in tables 2.1.B "Own funds – Quantitative information" and comes to €180.304m.

NET IMPAIRED LOANS TO OWN FUNDS

$$\frac{\textit{net impaired loans}}{\textit{own funds}}$$

The amount of net impaired loans used in the calculation of the ratio is shown in the Report on Operations in the chapter on Lending operations, in section "Impaired loans" and comes to €99.018m.
The amount relating to own funds which is used in the calculation of the ratio is shown in part "F – Information on equity" of the Notes to the financial statements in tables 2.1.B "Own funds – Quantitative information" and comes to €180.304m.

TEXAS RATIO

$$\frac{\textit{gross impaired loans + buildings}}{\textit{own funds+allowance for doubtful accounts (impaired loans)}}$$

The amount of gross impaired loans used in the calculation of the ratio is shown in the Report on Operations in the chapter on Lending operations, in section "Impaired loans" and comes to €167.802m. The amount relating to buildings is shown in the Notes to the Financial Statements, Part B, table 11.1, items 1.1.a (€1.950m) and 1.1.b (€5.559m) and table 11.2, item 2.1.a (€0.116m).
The amount relating to own funds which is used in the calculation of the ratio is shown in part "F – Information on equity" of the Notes to the financial statements in tables 2.1.B "Own funds – Quantitative information" and comes to €180.304m.
The amount of allowance for doubtful accounts (impaired loans) used in the calculation of the ratio is shown in the Report on Operations in the chapter on Lending operations, in section "Impaired loans" and comes to €68.784m.

PAYROLL TO NET INTEREST AND OTHER BANKING INCOME

$$\frac{\textit{payroll}}{\textit{net interest and other banking income}}$$

The amounts of payroll (€6.903m) used for the calculation of the ratio shown in the Report on Operations in section "Income statement dynamics" correspond to the amounts shown in the Income statement in item 150.a.
Net interest and other banking income was calculated at €24.531m, equal to the value reported in the financial statements (€24.229m) net of capital gains from the sale of loans (€30 thousand) and increased by capital gains on the sale of equity investments to subsidiaries (€332 thousand).

AVERAGE COST PER EMPLOYEE

$$\frac{\textit{payroll}}{\textit{average number of employees}}$$

The payroll cost, used for the calculation in the Report on Operations in the section "Income statement dynamics", amounted to €6.427m and is found in Table 9.1 of part "C - Information on the Income Statement" in item 1 of the notes to the financial statements).
The average number of employees (79.7) is shown in the Notes to the financial statements, part "C – Information on the Income statement", in the additional table at the end of table 9.2., and it is calculated as a weighted average taking into consideration the effective number of hours for the part-time contracts.

NET INTEREST AND OTHER BANKING INCOME TO NUMBER OF EMPLOYEES

$$\frac{\textit{net interest and other banking income}}{\textit{average number of employees}}$$

Net interest and other banking income was calculated at €24.531m, equal to the value reported in the financial statements (€24.229m) net of capital gains from the sale of loans (€30 thousand) and increased by capital gains on the sale of equity investments to subsidiaries (€332 thousand).
The average number of employees (79.7) is shown in the Notes to the financial statements, part "C – Information on the Income statement", in the additional table at the end of table 9.2., and it is calculated as a weighted average taking into consideration the effective number of hours for the part-time contracts.

TOTAL ASSETS/ AVERAGE NUMBER OF EMPLOYEES

$$\frac{\textit{total assets}}{\textit{average number of employees}}$$

The amount of total assets that was used for the calculation of the ratio shown in the Report on Operations in section "Income statement dynamics" comes to €1,530.801m, as shown in the financial statements.
The average number of employees (79.7) is shown in the Notes to the financial statements, part "C – Information on the Income statement", in the additional table at the end of table 9.2., and it is calculated as a weighted average taking into consideration the effective number of hours for the part-time contracts.

ROE – RETURN ON EQUITY

$$\frac{\textit{net income for the year}}{\textit{equity (excluding net income for the year)}}$$

The amount of net income for the year that was used for the calculation of the ratio is shown in the Report on operations in section "Income statement dynamics" and comes to €3.168m, as shown in item 290. of the Income Statement. Equity (excluding net income for the year) amounts to €181.412m and is the sum of items 130. "Valuation reserves", 160. "Reserves", 170. "Additional paid-in capital" and 180. "Share capital" of Statement of Financial Position liabilities.

RESOLUTION OF THE SHAREHOLDERS' MEETING

With the presence of 111,074,400 shares of 112,470,400 shares that make up the Company's share capital, the ordinary Shareholders' Meeting of 23 April 2018 unanimously

approved

- the report on operations presented by the Board of Directors for the year ended as at 31 December 2017;
- the financial statements for the year ended as at 31 December 2017 (statement of financial position, income statement, statement of comprehensive income, statement of changes in equity, cash flow statement and notes to the financial statements);
- the allocation of net income as proposed by the Board of Directors.