



BSI

banca sammarinese
di investimento

Annual Report ***2016***

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BANCA SAMMARINESE DI INVESTIMENTO S.P.A.

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Share Capital 20.000.000 fully paid in

Economic Operator Code SM18493

Companies Register registration no. 2771 of 29/05/2002

Bank implementing the depositor protection system introduced by Delegated Decree no. 111/2011

Board of Directors

Giuseppe Dini Chairman

Emanuel Colombini Directors
Roberto Ragini

Board of Auditors

Alfredo Amici Chairman

Alessandro Olei Standing auditors
Marco Cevoli

Gabriele Monti **Managing Director**

Audit World S.r.l. **Auditing Firm**

PRESENCE WITHIN THE TERRITORY: BRANCHES

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BSDISMSDXXX

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BOARD OF DIRECTOR'S REPORT ON MANAGEMENT

Dear Shareholders, we are pleased to submit the Financial Statements for the year ended 31/12/2016 for your consideration and approval.

Before illustrating the activity of the Bank and the results achieved during the year 2016, it is with profound emotion that we wish to remember Mr. Enzo Donald Mularoni, founding partner and president of Banca Sammarinese di Investimento, who passed away too soon, last year.

We turn our thoughts to Mr. Mularoni and we thank him for his deep commitment to the Bank, for his expertise and the teachings that remain an example and a guide for the future.

We deem it appropriate to briefly mention economic trends worldwide, in Italy and in the Republic of San Marino, with a focus on the banking and financial system relating to the past year.

INTERNATIONAL ECONOMIC SITUATION

Economic growth continues to be weak, with modest signs of acceleration, due, in particular, to the recovery in emerging countries.

In the United States, the expectations of acceleration, in part, still lead to disappointment, and current growth rates are insufficient to reduce unemployment.

The Eurozone continues along its moderate expansion path, having passed through a transient slowdown phase in the first half of 2016. The UK's vote to leave the EU did not have much direct effect, but is beginning to affect trade flows through the net depreciation in Britain's pound.

Until mid-year, inflation remained almost zero in the Eurozone, and in the second half of the year, it started to rise slowly, influenced also by the rise in oil prices. In the United States, acceleration starts from a higher base.

Central Banks of developed countries have maintained exceptionally accommodating liquidity conditions and interest rates close to zero. New expansive measures by the ECB are not to be excluded in the coming months.

The situation in emerging countries continues to improve, positively influencing the dynamics of international trade and the trends in the manufacturing industry. Partly due to the presumption of possible supply reduction, oil prices have rebounded since the beginning of 2016, mitigating the concerns about the financial stability of oil-producing countries. Even the Chinese economy appears to be stabilizing, despite persisting concerns about the high levels of indebtedness and the excesses in the real estate market.

In the United States, the rise in interest rates is to be expected, in line with market expectations. The long-term scenario will be conditioned to a degree that is difficult to predict, also by the initiatives taken by the newly elected president. For the time being, the economy seems set to keep growing at a moderate pace, sustained by domestic demand and with no significant inflationary pressures or significant financial imbalances.

Economic growth in the Eurozone accelerated in the first quarter of 2016, but slowed down in the second quarter; in the third quarter, a new, marginal acceleration should have occurred. Growth tendency is stable at around 1.5%, despite the international scenario being less favorable than expected: in summary, the recovery in domestic demand has offset less vivacity than the foreign one. The depreciation of the Britain's pound and the stoppage of UK's investments could also have a negative impact on the Eurozone in 2017. The climate of confidence could also be influenced by political developments: in countries that renew their participation in the Parliament in 2017, movements contrary to European integration are developing. However, employment growth, accommodating financial conditions, and neutral fiscal policy should continue to support the growth. We cannot exclude the possibility of the ECB announcing new monetary policy easing measures, but the maneuver space is limited and resistance to new official rate cuts is growing. Therefore, the announcements are likely to concern mainly the stock purchase program, which could be extended beyond the expiration in March 2017, and could be modified in some respects.

INTERNATIONAL FINANCIAL MARKETS

After the "trauma" of the British referendum on Brexit, the continuation of economic growth does not appear to be at risk, also thanks to the support of Central Banks, with the ECB, the Bank of Japan and the Bank of England keeping a very accommodating monetary policy and the Fed being very cautious in raising interest rates. Government bonds yields in the western countries that have been restrained, and in many cases negative, for a long time, are on a cusp of the reversal of trends. Bonds from emerging countries, as well as corporate bonds, benefit from ample liquidity available and the ECB actions, as well as from the improvement (or moderate worsening) of economic conditions in 2017 in the most important countries.

Stocks rose last year from July to September, with emerging stocks still among the best (+14% since the beginning of the year). Prospects for stock markets in developed countries are moderately favorable, in a context of continued global growth and still accommodating central banks. Bond valuations are still interesting, especially if compared with the low remuneration offered by bond markets. Emerging markets could continue to recover with respect to those of developed markets, thanks to attractive valuations and the abundant liquidity available to the system.

Cautious attitude of Central Banks (ECB's quantitative easing and a very gradual rise in rates in the US) should prevent abrupt upward movements. Italian bonds hold more interest than the German ones. However, at these rates and spread levels, government markets seem to generate modest and lower performance compared to those in the recent years.

The euro-denominated non-government bond market still benefits from the ECB's highly expansive actions and from the improvement in investors' confidence, despite some uncertainties arising about the future. Political-electoral events represent an important risk factor, but the economic fundamentals and measures taken by central banks will keep supporting the sub-funds. The high yield corporate bond sector provides higher performance margins, albeit in a riskier environment. Even the bonds in the emerging countries rely on support from favorable monetary policies and from the expected recovery (or contained slowdown) in 2017 by major economies such as China, India, Brazil and Russia.

Significant stability of the dollar-to-euro exchange rate appears to be the most probable scenario for the future, unless a sudden acceleration in the rise in US rates occurs (which would support the US dollar), with the Yen steadying even after a strong appreciation from the beginning of the year, while the pound remains weak. Emerging currencies are almost stable against the US dollar.

ECONOMY IN ITALY

In the third quarter of 2016, GDP grew by 0.3% over the previous period, as in the Euro area as a whole. Investments began to rise again (0.8%) after the second-quarter stagnation, favored by purchases of machinery and equipment and, above all, means of transport. Consumer spending slowed down (0.1% from 0.2%), especially regarding durable and semi-durable goods. Following an increase in imports, sharper than that in exports (0.7% and 0.1% respectively), foreign trade subtracted 0.1 percentage points from the product growth. The real value added has increased significantly in industry in the strict sense (1.1%, from -0.7% in the previous quarter) and to a lesser extent in services (0.1% from 0.2%), where it has been particularly affected by the contraction in the financial and insurance broking sector; in the construction sector, it has slightly decreased.

Based on the available information, in the fourth quarter GDP continued to grow at a steady rhythm, estimated at around 0.2%. Prospective indicators are consistent with the continued moderate expansion of economic activity in the first quarter of 2017.

Inflation rose to 0.5% in December (from 0.1% in November). Upward pressures are mainly due to the acceleration in prices of fresh food and air transport services, and to the attenuation of the fall in prices for energy products. Overall, in 2016, inflation was -0.1%.

Industrial activity continues to expand. The signs of stabilization in the real estate sector are confirmed, despite more uncertain prospects in the non-residential sector. Business confidence indicators are high. Capital accumulation has increased in the final part of the year.

In autumn, business confidence remained steady with respect to the third quarter, consolidating on high cyclical levels. Good performance in the manufacturing industry was offset by the deterioration in the construction industry. Even the PMI indicators remain at historically high values, compatible with the expansion of manufacturing and service activities. Indications consistent with these forecasts emerge from the quarterly survey carried out in December by the Bank of Italy, which confirms the greater optimism of companies in the manufacturing and services sectors, and the worsening of opinions in the construction sector, particularly in the non-residential sector.

The confidence of construction companies stands at historically high levels, despite the fall in December. The housing market economic survey, conducted in October in collaboration with Tecnoborsa and with Real-Estate Market Observatory (OMI, as abbreviated in Italian) of the Central Auditing Directorate, indicates a slight improvement in the sector conditions. Expectations of real estate agents on short-term trends in their local market and the domestic one, have become more favorable. In the third quarter, the number of real-estate sales rose for the sixth consecutive time (1.1% compared to the previous period); Real-estate prices also increased, albeit modestly (0.1% from 0.2%). Construction companies specialized in residential construction have expressed appreciation of the conditions under which they operate, while those in the non-residential sector have reported a deterioration.

Household consumption grew at a contained rhythm during summer; the latest information suggests that they continued to expand moderately even in the final part of 2016. A sharp increase in disposable income was associated with a gradual increase in the propensity to save, which in 2015 had reached moderate levels. In December, the Consumer Confidence Index broke the downward trend, which was in effect since the beginning of last year.

After rising significantly until the beginning of 2016, household spending grew at a more modest rate in the third quarter, slightly lower than in the previous period (0.1% from 0.2%). It slowed down the spending on durables (0.6% from 1% in the second quarter) and semi-durables (which were stagnant at 1.2%); Purchases of non-durable goods and services, however, slightly accelerated. Automobile registrations in the last quarter of the year increased by 2% in economic terms, in the last quarter (from -0.3% in the third quarter).

In the summer, debt of Italian households, in relation to disposable income, continued to contract, albeit slightly, falling to 61.4% (from 61.5% in June), staying well below the average in the Euro area (about 95% at the end of June). Over the same period, interest rates on new mortgages have fallen further, confirming the trend that started in 2012.

In the summer quarter, Italian exports of goods and services remained almost stationary, reflecting the weak growth in world trade; prospects for foreign orders improved in the fall. The current account surplus continued to increase. The process of Italian investors' portfolio reallocations towards foreign securities, represented in particular by mutual fund shares, continued. In the third quarter of 2016, exports of goods and services remained basically unchanged (they had grown by 2.1% in the previous period). Sales of goods have slightly fallen, curbed by the slowdown in EU countries (particularly in Spain and France). The most pronounced falls were recorded in sectors of refined petroleum products and electronics; However, there has been an increase in expenditure on means of transport, chemical and food products abroad. Exports of services rose by 1.3%.

Overall imports also slowed down, but to a lesser extent, marking a decrease for the services component. On the other hand, purchases of goods grew at a rate similar to the one observed in the previous period (1.4%). The increase concerned both, the EU markets and, to a lesser extent, the non-EU markets.

In the summer quarter, working hours and total employment stabilized. Subordinate employment increased, both regarding contracts fixed-term and open-ended contracts. The most up-to-date economic trends are consistent with a moderate expansion of employment in the final months of 2016. Growth in labor costs was zero.

Consumer inflation turned positive at the end of 2016. However, the price dynamics remain at very low levels; it continues to be affected mainly by the weakness of the underlying component. Households, businesses and major analysts predict a moderate rise in prices in 2017.

ITALIAN BANKING MARKET

The credit quality of Italian banks continues to benefit gradually from the improvement of the economic outlook. The cost of business loans is at historically low levels; surveys reveal improved financing conditions, though still differentiated according to the size of the companies. Household disbursements are growing; corporate credit is particularly affected by a still weak demand. The dynamics of loans is more sustained for companies operating in the services sector and for large ones.

Improvement in the economy prospect is gradually reflecting on the Italian banks' credit quality, which are still characterized by a very high consistency of impaired exposures inherited from the long recession. The impact of the impaired exposure stock began to decline at the end of last year. The stress test conducted in July 2016, revealed four of the five participating Italian banks that have been able to support the impact of a very severe adverse macroeconomic scenario. One of the banks immediately issued a plan for the sale of debts and recapitalization. At the same time, bank stock prices decreased over the year, presumably due to a reduction in

market expectations on their profitability, but at the same time, their default risk premiums were significantly reduced after the peak hit in February.

Details of the data: In the second half of 2016, the private non-financial sector credit dynamics slightly strengthened (1.1%). Household loans accelerated (2.1%). Growth in consumer credit (2.7%) and in mortgages (2%) continues firmly, in line with further increase in sales, while the dynamics of credits to companies remains differentiated by sector of economic activity. Differences in the field of economic activity persist: credit to service companies continues to rise; loans to manufacturing companies slightly fell (-0.5%); the financing contracts for construction companies is, once again, emphasized (-5.4%).

The collection remains unchanged. Between August and November, the overall collection of Italian banks remained largely stable; the increase in residents' deposits and the greater use of refinancing operations at the Eurosystem have offset the decline in bonds held by households. Contraction of bonds placed with intermediaries and institutional investors continues.

Credit cost is at minimal levels, on a historical comparison basis. In November, the average rate on new corporate loans fell further by 10 basis points compared to August (1.6%). The cost of new mortgages fell by 15 basis points for fixed rate payments (2.2%), and by 10 basis points for floating rates (1.7%). The euro area differential remained practically zero for corporate lending and has been confirmed at very low values for households (at 25 basis points).

In the first nine months of 2016, the profitability of significant groups decreased compared to the same period of the previous year: annualized return on equity (ROE) fell to 1.4% (from 3.8%). Both, the interest margin and other revenues decreased (by 4.3% and 1.4% respectively). Operating costs rose, mainly due to the extraordinary costs associated with the employee redundancy incentive plans and deposit guarantee and resolution funds. The management results fell by about a fifth. Value adjustments on loans grew by 20.6%, as a result of the significant increase in the coverage rates for impaired exposures by some intermediaries.

Capital ratios slightly improved. The highest quality equity (CET1) of the significant groups averaged 11.9% percent of risk-weighted assets. At the end of December, the Italian Government authorized the financing of any interventions, in the form of granting guarantees on newly issued liabilities or on capital strengthening measures, in support of Italian banks or banking groups, up to a maximum of 20 billion for the year 2017. Precautionary recapitalization requested by Banca Monte dei Paschi in Siena will proceed, in compliance with the European regulatory framework on the rehabilitation and resolution of bank crises and State aid.

ECONOMIC TREND IN THE REPUBLIC OF SAN MARINO

From 2008 to 2015, the world economic crisis and, in particular, the contraction of the Italian market (the main economic partner of our Republic) have led to the crisis in industrial production in San Marino, with strong repercussions on employment. In those years, San Marino has suffered heavy economic downturn: GDP had contracted for almost 30% since the beginning of the crisis. However, since 2016, the San Marino macroeconomic picture shows the first signs of recovery that give hope for the near future.

In the Concluding Report of the International Monetary Fund's annual mission in 2016, the international delegation highlights the Country's significant progress in normalizing international relations and exiting the deep recession of recent years, tracing an analysis of the strategic points on which to intervene for a further strengthening of the economy. The IMF acknowledges that the exit from the Italian Black List, occurred in February 2014, the inclusion on the Tax White List and the conclusion of the ratification process of financial cooperation and economic cooperation agreements with Italy, have been the determining factors for the inversion of the trend in the economic situation of San Marino. However, according to IMF experts, San Marino's macroeconomic performance remains exposed to exogenous vulnerability factors, such as the trend in relations with Italy and the limited prospects for economic growth in the Euro area. Highlighted is the need to achieve a progressive stabilization of the banking system, which presents high portfolios of doubtful debts in the banks' balance sheets.

Economic activities (companies, individual businesses, freelancers) decreased by 62 units, ranging from 5,141 to 5,079 active subjects. The greatest cuts continue to be reported in the "construction" and "commerce" sectors.

Industrial production index grew, on an annual basis, by 2.15%.

Finally, the unemployment rate trend reversed, which on 31 December 2015 stood at 9.85% (1,611 units), dropping to 8.50% (1,399 units) at the end of 2016. The number of subordinate employees, both public and private, has increased, from 18,082 to 18,524 units.

Residents in the Republic increased by 205 units, from 32,986 on 31 December 2015 to 33,191 on 31 December 2016.

In 2016, the consumer price index has slightly increased.

SAN MARINO FINANCIAL SYSTEM

The financial sector was composed of 18 authorized subjects on 31 December 2016, in decrease from the previous year (on 31 December 2015, the number of subjects authorized by BCSM [Central Bank of the Republic of San Marino] was 22). This phenomenon has been going on for a few years and, after having covered banking institutions (virtually halved, as a result of extraordinary transactions carried out in recent years), today it mainly concerns financial and trustee companies. It seems reasonable to believe that the process of reducing the number of authorized subjects will continue in 2017, as well.

In the autumn of last year, BCSM also launched an Asset Quality Review (AQR) process. The process involves banks in San Marino, Central Bank Supervision and an international consulting firm. The initiative aims to obtain a clear and reliable view of the quality of the assets of San Marino banks, their risk management capabilities and their governance. The AQR process is considered, by the BCSM itself, as a key step in developing new growth and recovery strategies for the San Marino financial system. This process, which in recent months involved considerable organizational efforts and an important engagement of human resources by our institute, has now ended, but the results have not yet been published.

The launch of the Risk Center was also envisaged for the last year, an indispensable tool for banking activity and a proper credit granting policy. Unfortunately, the San Marino banks, though supplying information flows on a monthly basis and having borne the cost of programs installation, are still not receiving the consolidated information flows elaborated by BCSM. We hope that, in the interests of everyone, we will quickly come to the resolution of the issues that currently prevent the return of such flows to the San Marino banks.

The aggregate system data show a progressive decrease in volumes. We point out that the year 2016 was the year in which the capital outflows associated with the Voluntary Disclosure, which was launched in 2015 by the Italian Government, were recorded concretely. This event, which in recent years was preceded by three capital repatriation operations (the so-called Tax Shields), had a heavy impact on the San Marino financial system, in terms of decreasing volumes of direct and indirect deposits.

By comparing the data from end-2015 with those on 30 September 2016 (most recent official report), it is noted that direct deposits decreased (€ 4,649 million on 30 September 2016 compared to € 4,802 million on 31 December 2015). Similarly, indirect deposits decreased (€ 1,847 million as of 30 September 2016 compared to € 1,951 million on 31 December 2015), so the total deposits went from € 6,753 million on 31 December 2015 to € 6,496 million on 30 December 2016 (- 3.8%).

Financing decreased from 3,726 million euros on 31 December 2015 to 3,471 million euros on 30 September 2016 (-7,3%). Similar to what happened in Italy, the problem of non-performing loans (NPL) still persists. In fact, the impact of gross debts on loans, albeit decreasing from 20.7% on 31 December 2015 to 18.1% as of 30 September 2016, still stands at very high levels.

The total net equity of the San Marino banks (including the general banking risk reserve) decreased from € 442 million to € 420 million.

Below is a table showing the system aggregate data over the last five years, which helps to understand the situation of San Marino financial system.

| | 31/12/2012 | 31/12/2013 | 31/12/2014 | 31/12/2015 | 30/09/2016 |
|---------------------|------------|------------|------------|------------|------------|
| Direct collection | 4.991 | 5.022 | 5.147 | 4.802 | 4.649 |
| Indirect collection | 2.288 | 2.142 | 2.202 | 1.951 | 1.847 |
| Total collection | 7.280 | 7.164 | 7.349 | 6.753 | 6.496 |
| Loans | 4.484 | 4.174 | 3.976 | 3.726 | 3.471 |

| | | | | | |
|------------|-----|-----|-----|-----|-----|
| Net equity | 537 | 530 | 466 | 442 | 420 |
|------------|-----|-----|-----|-----|-----|

Source BCSM – data in millions of Euro.

The net asset value includes the provisions for general banking risks.

BANCA SAMMARINESE DI INVESTIMENTO

Since 2012 the Bank has been characterized as a retail bank, serving households and businesses in the region, with the aim to protect and enhance the deposits of savers, and to assist, through targeted funding, both the private and the production sectors.

In the first months of 2016, the 2016-2018 three-year development plan, which was endorsed by the Board of Directors in 2015, was launched and presented to the relevant BCSM bodies, as well. The plan aims to continue to strengthen the presence of Banca Sammarinese di Investimento on the domestic market and, at the same time, to prepare for entry possible new markets, hopefully in the near future.

The Private Banking sector, relating to banking and financial services provided to high-standing clients, was also stimulated by the recruitment of a new senior resource. The development of this sector continues to be a priority, in order to be ready to assist clients, including foreigners, with specific needs.

The Corporate Service, which has been launched at the beginning of 2016, has not yet yielded significant results regarding the volume of jobs. The development of this service remains a primary objective to be pursued in the context of a balanced growth of the bank.

Conversely, the placement of credit cards issued directly by our institute since February 2016 resulted very satisfying. This activity has been particularly marked on the market, being the first and only San Marino bank to provide this service. At the completion of the project, we note that since March 2017, the bank started installing P.O.S. to directly manage the acquiring activity.

Let us take a brief look at the main events of 2016.

New professionals were added to the existing company staff. Specifically, the 37 employees as of 31/12/2015 grew to 42 as of 31/12/2016 (+ 13,5%). It should be noted that about the half of employees graduated or received their bachelor's degree.

During the first quarter of 2017, the bank employed another two expert resources, in exchange for two at a fixed time. Further recruitments will be made in the coming months, in line with the 2016-2018 three-year development plan.

On March 31, 2016, office building for the branch office in Rovereta and the Bank's Head were purchased. This acquisition represents a good strategic and capitalization choice of the Bank, also taking into account the costs incurred in the past for the adjustment of the facility itself.

Also in 2016 particular attention was paid to risk management and the internal control system. The Board of Directors, taking into account the still small size of the Institute and the risk of situations of incompatibility between roles, as well as the absence on the market of staff with an adequate professional profile, preferred to keep the Risk Manager function outsourced, resorting to the San Marino company San Marino Advisor Srl, which has already been working with important financial companies in the Republic. For the same reasons, it was decided to also outsource the internal audit function, entrusted to the Bologna-based company Baker Tilly Revisa, a leading Italian auditing firm.

Particular attention was paid to the training of the staff, which participated in training events organized by San Marino professional associations, and in courses by expert instructors, organized by ABS in collaboration with ABI FORMATION. In addition, in-house refresher courses were held, conducted by internal staff, including: "Anti-money laundering: adequate permanent verification requirements, profiling, active co-operation", "Finance: Managed Savings", "Finance: Suitability of Orders and Accumulation Plans".

Below are the main financial and economic data.

Total deposits at the end of 2016 amounted to € 570.070.740, of which € 435.624.240 direct deposits and € 134.446.500 indirect deposits. The figure shows a growth of over 114 million Euros (+ 25%) compared to the previous year.

As for the treasury of the Bank, as of 31/12/2016 the following cash amounts are recorded:

- a) € 104.985.383 arising from interbank deposits (demand and term) and currency deposits;
- b) € 242.685.038 from securities spread over different issuers; in particular the trading portfolio amounted to € 133.738.941 while investment securities amounted to € 108.946.097.

The total treasury amounts, therefore, to € 347.670.421, which is a considerable value considering the size of the Bank. Investment strategies were inspired, as in the past, by prudence and diversification criteria.

On the lending side, the year 2016 saw an increase in loans to ordinary customers, which amounted to € 115.403.576 at year end, net of loan write-down funds. The increase recorded, of about 8%, is still below the expected growth. The bank pursues a credit management policy, aimed at credit fractioning, both in terms of the number of positions entrusted, and the technical forms used.

With regard to non-performing loans, as of 31 December 2016, there were € 1,389,528 doubtful loans, € 2,915,098 non-performing loans, € 3,250,665 restructured loans (referring exclusively to the so-called "former Delta Group"), as well as expired/overdue loans in the amount of € 273,623 and unsecured loans to countries at risk in the amount of € 7,822. The above figures are net of the write-downs totaling € 5,340,629. The dynamics of doubtful debts towards client is adequately explained in the specific tables in the notes to the financial statements.

Among the budget indices, we outline the ratio between net loans and direct deposits, equal to 26.49%, the ratio between net doubtful loans and net loans of 2.53% and finally the R.O.E. equal to 8.22%. The bank's equity as of 31 December 2016 amounts to € 29,649,152, strongly increased compared to the previous year's level (+ 21%). At the same time, due to strong volumes growth, the net equity/assets ratio decreased from 6.42% in 2015 to 6%.

Surveillance Capital, as determined according to the provisions of the Supervisory Authority, amounts to € 26,534,965, against € 20,835,833 on 31 December 2015. The bank has assets eligible to hedge potential risks, highlighting a total capital ratio of 14.87%, which is well above the Statutory minimum required of 11%.

In 2016, a 10% stake in Techno Science Park San Marino Italia Spa was acquired, which is summed up with the only other shareholding in respect of the 1% stake of the Central Bank of the Republic of San Marino Spa. The asset values of such equity investments, for a total of € 822,848, account for only 0.17% of the bank's assets.

The bank does not hold any treasury shares.

The profit earned amounted to € 2.251.708, after having created a provision for the general banking risks, in the amount of € 3,000,000 for the purpose of strengthening the balance sheet. This fund, which today amounts to € 4,500,000, has the function of covering the generic operational risk, to which the bank is exposed and, being comparable to an asset reserve, the fund represents a positive component of the core surveillance capital.

The enormously satisfactory economic result achieved, obtains even greater importance in view of the economic situation of the reference market and the results achieved by competing banking institutions.

In addition, the fact that the above-mentioned profit was obtained net of net impairment losses of € 1,611,129, and net write-downs of € 500,000 on financial fixed assets, should be taken in due consideration.

Furthermore, due to the strong growth in the number of credit cards placed directly by the bank, and the impulse that is given to their placement, specific Provisions for credit card disputes, in the amount of € 50,000, has been created.

Among the Income Statement items that have recorded the largest increases, we point out the interest margin that went from € 4,514,449 in 2015 to 5,707,258 (+26.42%), and operating commissions increased by 47.15% - from € 1,111,460 in 2015 to € 1,635,545. At the same time, operating costs have naturally increased by 17.68%, from € 4,022,866 in 2015 to € 4,734,309 in 2016.

SUBSEQUENT EVENTS

No such events occurred at a later date than December 31, 2016 as to make the current financial and economic position substantially different from the position resulting from these financial statements or as to require adjustments or supplementary notes to the financial statements.

BUSINESS OUTLOOK

The activity of the Bank will continue, as in previous years, marked by development of volumes and prudence in management. In February, it gave concrete start to the abovementioned three-year development plan, with the opening of a new Branch in Gualdicciolo based at Centro Gualdo.

RECLASSIFIED STATEMENT OF ASSETS AND LIABILITIES

| | 31/12/2016 | Impact | 31/12/2015 | Impact |
|--|--------------------|---------------|--------------------|---------------|
| Inter-bank loans | 104.985.383 | 21,24% | 69.212.740 | 18,20% |
| Customer loans | 91.952.881 | 18,61% | 85.649.302 | 22,53% |
| Debt and capital securities | 242.685.038 | 49,11% | 180.729.904 | 47,54% |
| Leased assets | 23.450.695 | 4,75% | 20.934.368 | 5,51% |
| AF INTEREST-BEARING ASSETS | 463.073.997 | 93,70% | 356.526.314 | 93,78% |
| Cash and cash equivalents | 2.039.903 | 0,41% | 2.088.302 | 0,55% |
| Holdings | 822.848 | 0,17% | 811.848 | 0,21% |
| Other assets | 22.436.237 | 4,54% | 18.689.384 | 4,92% |
| Accrued revenues and deferred expenses | 245.691 | 0,05% | 305.500 | 0,08% |
| ANF NON-INTEREST-BEARING ASSETS | 25.544.679 | 5,17% | 21.895.034 | 5,76% |
| Intangible fixed assets | 938.427 | 0,19% | 780.401 | 0,21% |
| Tangible fixed assets | 4.657.531 | 0,94% | 985.995 | 0,26% |
| AR REAL ASSETS | 5.595.958 | 1,13% | 1.766.396 | 0,46% |
| TOTAL ASSETS | 494.214.634 | | 380.187.744 | |

| | 31/12/2016 | Impact | 31/12/2015 | Impact |
|---|--------------------|---------------|--------------------|---------------|
| Debts with banks | 4.196.689 | 0,85% | 3.005.860 | 0,79% |
| Debts with customers | 210.933.819 | 42,68% | 124.039.293 | 32,63% |
| Debts represented by securities | 224.096.574 | 45,34% | 206.206.353 | 54,24% |
| Subordinated liabilities | - | 0,00% | - | 0,00% |
| PO BEARING LIABILITIES | 439.227.082 | 88,87% | 333.251.506 | 87,65% |
| Other liabilities | 24.401.428 | 4,94% | 22.028.152 | 5,79% |
| Accrued expenses and deferred revenues | 291.046 | 0,06% | 108.456 | 0,03% |
| Staff retirement allowances | 253.016 | 0,05% | 237.080 | 0,06% |
| Risks and costs fund | 392.910 | 0,08% | 165.106 | 0,04% |
| PNO NON-BEARING LIABILITIES | 25.338.400 | 5,13% | 22.538.794 | 5,93% |
| Fund for general banking risks | 4.500.000 | 0,91% | 1.500.000 | 0,39% |
| Corporate capital | 20.000.000 | 4,05% | 20.000.000 | 5,26% |
| Reserves | 2.897.444 | 0,59% | 2.224.820 | 0,59% |
| Profits (Losses) for the financial year | 2.251.708 | 0,46% | 672.624 | 0,18% |
| PAT ASSETS | 29.649.152 | 6,00% | 24.397.444 | 6,42% |
| TOTAL LIABILITIES | 494.214.634 | | 380.187.744 | |

RECLASSIFIED PROFIT AND LOSS ACCOUNT

| | 31/12/2016 | Variation | 31/12/2015 |
|---------------------------------|------------------|---------------|------------------|
| Interests received and proceeds | 11.522.348 | 7,48% | 10.720.198 |
| Interests paid and costs | (5.815.090) | (6,30%) | (6.205.749) |
| MI INTEREST MARGIN | 5.707.258 | 26,42% | 4.514.449 |
| Commissions earned | 1.635.545 | 47,15% | 1.111.460 |

| | | | | |
|-------------|---|--------------------|----------------|--------------------|
| | Commissions paid | (590.119) | 26,37% | (466.960) |
| CN | NET COMMISSIONS | 1.045.426 | 62,21% | 644.500 |
| | Dividends and other proceeds | - | (100,00%) | 301 |
| | Profits/Losses from financial operations | 4.648.396 | 240,08% | 1.366.844 |
| MINT | INTERMEDIATION MARGIN | 11.401.080 | 74,70% | 6.526.094 |
| | Administrative costs | (4.696.837) | 16,50% | (4.031.772) |
| | Value adjustments on intangible fixed assets | (165.694) | 13,51% | (145.970) |
| | Value adjustments on tangible fixed assets | (5.460.415) | 13,03% | (4.831.028) |
| | Other operating proceeds/costs | 5.588.637 | 12,09% | 4.985.904 |
| CO | OPERATING COSTS | (4.734.309) | 17,68% | (4.022.866) |
| RG | GROSS OPERATING PROFIT | 6.666.771 | 166,33% | 2.503.228 |
| | Funding of risk provisions | (50.000) | - | - |
| | Value adjustments on credits | (1.611.129) | 44,52% | (1.114.828) |
| | Value adjustments on financial activities | (500.000) | (22,38%) | (644.191) |
| | Extraordinary proceeds/costs | 932.963 | (8716,21%) | (10.828) |
| | Variation to the fund for general banking risks | (3.000.000) | - | - |
| RL | PROFIT FOR THE FINANCIAL YEAR | 2.438.605 | 232,52% | 733.381 |
| | Financial taxes | (186.897) | 207,61% | (60.757) |
| RN | PROFIT FOR THE FINANCIAL YEAR | 2.251.708 | 234,76% | 672.624 |

HIGHLIGHTS AND INDICATORS

Key balance sheet figures (in EUR)

| | 31/12/2016 | 31/12/2015 | 31/12/2014 | 31/12/2013 |
|---|-------------|-------------|-------------|-------------|
| Total assets | 494.214.634 | 380.187.744 | 329.238.573 | 255.435.926 |
| Net lending | 115.403.576 | 106.583.670 | 94.934.639 | 76.613.886 |
| Net non-performing loans | 7.836.736 | 9.699.386 | 8.424.740 | 7.168.593 |
| Provision for adjustments on doubtful loans | 5.663.913 | 4.242.817 | 4.381.359 | 3.071.272 |
| Direct collection | 435.624.240 | 331.694.070 | 284.727.515 | 215.697.939 |
| Indirect collection: | 249.432.393 | 196.054.465 | 165.677.178 | 117.310.468 |
| - operated | 114.985.893 | 72.290.232 | 71.404.369 | 55.416.355 |
| - managed | 134.446.500 | 123.764.233 | 94.272.809 | 61.894.113 |
| Net equity | 29.649.152 | 24.397.444 | 23.724.821 | 21.633.884 |

Main structural and operational highlights

| | 31/12/2016 | 31/12/2015 | 31/12/2014 | 31/12/2013 |
|---------------------|------------|------------|------------|------------|
| Number of employees | 42 | 37 | 35 | 30 |
| Counters | 4 | 4 | 4 | 4 |

Main economic data (in EUR)

| | 31/12/2016 | 31/12/2015 | 31/12/2014 | 31/12/2013 |
|-----------------------|------------|------------|------------|------------|
| Interest margin | 5.707.258 | 4.514.449 | 3.740.675 | 2.449.510 |
| Intermediation margin | 11.401.080 | 6.526.094 | 6.361.579 | 5.892.284 |

| | | | | |
|-------------------------------|-----------|-----------|-----------|-----------|
| Administrative costs | 4.696.837 | 4.031.772 | 3.760.834 | 3.472.394 |
| Personnel costs | 3.184.586 | 2.771.900 | 2.593.841 | 2.398.424 |
| Operating costs | 4.734.309 | 4.022.866 | 3.852.909 | 3.561.262 |
| Profit for the financial year | 2.251.708 | 672.624 | 1.090.936 | 1.022.721 |

Structural ratios (%)

| | 31/12/2016 | var. | 31/12/2015 | var. | 31/12/2014 | var. | 31/12/2013 |
|---|------------|--------|------------|--------|------------|--------|------------|
| Direct collection / Total assets | 88,14 | 0,90 | 87,24 | 0,76 | 86,48 | 2,04 | 84,44 |
| Net lending / Total assets | 23,35 | (4,68) | 28,03 | (0,80) | 28,83 | (1,16) | 29,99 |
| Net lending / Direct collection | 26,49 | (5,64) | 32,13 | (1,21) | 33,34 | (2,18) | 35,52 |
| Managed collection / Indirect collection | 46,10 | 9,23 | 36,87 | (6,23) | 43,10 | (4,14) | 47,24 |
| Operated collection / Indirect collection | 53,90 | (9,23) | 63,13 | 6,23 | 56,90 | 4,14 | 52,76 |
| Net equity / Total assets | 6,00 | (0,42) | 6,42 | (0,79) | 7,21 | (1,26) | 8,47 |
| Net equity / Net lending | 25,69 | 2,80 | 22,89 | (2,10) | 24,99 | (3,25) | 28,24 |

Indicators of the quality of credit (%)

| | 31/12/2016 | var. | 31/12/2015 | var. | 31/12/2014 | var. | 31/12/2013 |
|------------------------------------|------------|--------|------------|------|------------|--------|------------|
| Net NPLs / Net lending | 2,53 | (0,78) | 3,31 | 0,42 | 2,89 | 2,17 | 0,72 |
| Net problem loans / Net lending | 1,20 | (0,65) | 1,86 | 1,40 | 0,46 | (1,52) | 1,98 |
| Net doubtful credits / Net lending | 6,79 | (2,31) | 9,10 | 0,23 | 8,87 | (0,49) | 9,36 |
| Net NPLs / Net equity | 9,83 | (4,61) | 14,45 | 2,89 | 11,56 | 8,95 | 2,61 |

Profitability ratios (%)

| | 31/12/2016 | var. | 31/12/2015 | var. | 31/12/2014 | var. | 31/12/2013 |
|---|------------|---------|------------|--------|------------|--------|------------|
| Interest margin / Intermediation margin | 50,06 | (19,12) | 69,18 | 10,38 | 58,80 | 17,23 | 41,57 |
| Interest margin / Interest-bearing assets | 1,23 | (0,03) | 1,27 | 0,05 | 1,22 | 0,18 | 1,04 |
| Intermediation margin / Interest-bearing assets | 2,46 | 0,63 | 1,83 | (0,24) | 2,07 | (0,44) | 2,51 |
| Administrative costs / Intermediation margin | 41,20 | (20,58) | 61,78 | 2,66 | 59,12 | 0,19 | 58,93 |
| Cost / Income [cost/income] | 41,53 | (20,12) | 61,64 | 1,07 | 60,57 | 0,13 | 60,44 |
| Net profit / (Net equity – Net profit) [R.O.E.] | 8,22 | 5,38 | 2,84 | (1,98) | 4,82 | (0,27) | 5,09 |
| Net profit / Total assets [R.O.A.] | 0,46 | 0,28 | 0,18 | (0,15) | 0,33 | (0,07) | 0,40 |

Efficiency ratios (in thousands of EUR)

| | 31/12/2016 | var. | 31/12/2015 | var. | 31/12/2014 | var. | 31/12/2013 |
|------------------------------------|------------|-------|------------|-------|------------|-------|------------|
| Total deposits per employee | 16.311 | 2.047 | 14.263 | 1.394 | 12.869 | 1.769 | 11.100 |
| Net loans per employee | 2.748 | (133) | 2.881 | 169 | 2.712 | 158 | 2.554 |
| Intermediation margin per employee | 271 | 95 | 176 | (6) | 182 | (14) | 196 |
| Average personnel costs | 76 | 1 | 75 | 1 | 74 | (6) | 80 |
| Total operating costs per employee | 113 | 4 | 109 | (1) | 110 | (9) | 119 |

STATEMENT OF CASH FLOW

| | 2016 | 2015 |
|---|--------------------|-------------------|
| Funds generated and collected | 10.530.523 | 7.741.862 |
| Profit for the financial year | 2.251.708 | 672.624 |
| Value adjustments on intangible and tangible fixed assets | 5.626.109 | 4.976.998 |
| Value adjustments on financial assets | 500.000 | 644.191 |
| Value adjustments on credits | 1.611.129 | 1.114.828 |
| Provision for severance pay | 253.016 | 237.080 |
| Provision for risks and charges | 288.561 | 96.141 |
| Other funds collected | 108.531.442 | 50.343.553 |
| Debts with banks | 1.190.829 | 1.546.249 |
| Debts with customers | 86.894.526 | 5.544.942 |
| Debts evidenced by securities | 17.890.221 | 43.109.352 |
| Other liabilities | 2.373.276 | 3.151.516 |
| Accrued expenses and deferred revenues | 182.590 | (6.801) |
| Subordinated liabilities | - | (3.001.705) |
| Variation to net equity | 3.000.000 | (1) |
| Reserves | - | (1) |
| Variation of the general banking risks fund | 3.000.000 | - |
| Total funds generated and collected | 122.061.965 | 58.085.414 |
| Use of funds generated from management operations | 297.837 | 400.226 |
| Use of provisions for risks and charges | 60.757 | 171.685 |
| Use of provision for severance pay | 237.080 | 228.541 |
| Funds invested | 121.764.128 | 57.685.188 |
| Cash and cash equivalents | (48.399) | 818.268 |
| Inter-bank loans | 35.772.643 | 16.800.058 |
| Customer loans | 7.914.708 | 7.853.506 |
| Securities | 62.455.134 | 21.169.840 |
| Holdings | 11.000 | - |
| Tangible and intangible fixed assets | 11.971.998 | 9.721.325 |
| Other assets | 3.746.853 | 1.348.752 |
| Accrued revenues and deferred expenses | (59.809) | (26.561) |
| Total funds used and invested | 122.061.965 | 58.085.414 |

Dear members, in consideration of the foregoing and of the results obtained, we invite you to approve these Financial Statements, proposing the distribution of € 400.000 (four hundred thousand) to the shareholders and the capitalization of the remaining income, subject to the provisions required.

The Board of Directors
The President

STATEMENT AS PER FORMER ART. 6, PARAGRAPH X
OF LAW NO. 47 DATED FEBRUARY 23, 2006
AND SUBSEQUENT AMENDMENTS

- **Giuseppe Dini**, born in Sant'Angelo in Vado (PU) on June 04, 1957, a resident of Rimini (RN) Via della Rondine no. 5, taxpayer code number DNIGPP57H04I287R, a citizen of Italy, Chairman of "Banca Sammarinese di Investimento S.p.A.", based in Rovereta (RSM), Via Monaldo da Falciano no.3, registered under no. 2771 of the Register of Companies of San Marino, C.O.E. SM 18493, attached to the notes to the financial statements for the year ended on December 31, 2016;

- **Emanuel Colombini**, born in San Marino (RSM) on February 28, 1978, a resident of Serravalle (RSM) in Strada del Cardio no. 61, ISS Code 22616, a citizen of San Marino, a director of "Banca Sammarinese di Investimento S.p.A.", based in Rovereta (RSM), Via Monaldo da Falciano no. 3, registered under no. 2771 of the Register of Companies of San Marino, C.O.E. SM 18493, attached to the notes to the financial statements for the year ended on December 31, 2016;

- **Roberto Ragini**, born in San Marino (RSM) on May 03, 1956, a resident of Dogana (RSM) in Via Tre Settembre no. 184, ISS Code 9689, a citizen of San Marino, a director of "Banca Sammarinese di Investimento S.p.A.", based in Rovereta (RSM), Via Monaldo da Falciano no. 3, registered under no. 2771 of the Register of Companies of San Marino, C.O.E. SM 18493, attached to the notes to the financial statements for the year ended on December 31, 2016;

declare

under their own responsibility, the permanence for every one of the objective and subjective conditions required by the law no. 47 dated February 23, 2006 and subsequent amendments and additions for the assumption of the office of director.

Giuseppe Dini

Emanuel Colombini

Roberto Ragini

FINANCIAL STATEMENTS

BALANCE SHEET

| ASSETS | | 31/12/2016 | | 31/12/2015 | |
|------------|---|--------------------|--------------|--------------------|--|
| | Part amounts | Total amounts | Part amounts | Total amounts | |
| 10 | Cash and cash equivalents | 2.039.903 | | 2.088.302 | |
| 20 | Inter-bank loans | 104.985.383 | | 69.212.740 | |
| | (a) sight credits | 89.781.580 | | 43.594.543 | |
| | (b) other credits | 15.203.803 | | 25.618.197 | |
| 30 | Customer loans | 91.952.881 | | 85.649.302 | |
| | (a) sight credits | 18.057.105 | | 65.635.279 | |
| | (b) other credits | 73.895.776 | | 20.014.023 | |
| 40 | Bonds and other debt securities | 241.676.419 | | 179.311.672 | |
| | (a) issued by public bodies | 62.332.862 | | 22.885.486 | |
| | (b) issued by banks | 131.195.421 | | 105.612.578 | |
| | (c) issued by financial institutions (companies) | 14.896.703 | | 25.476.061 | |
| | (d) issued by other bodies | 33.251.433 | | 25.337.547 | |
| 50 | Shares, quotas and other capital securities | 1.008.619 | | 1.418.232 | |
| 60 | Holdings | 822.848 | | 811.848 | |
| | (a) financial companies | 811.848 | | 811.848 | |
| | (b) non-financial companies | 11.000 | | - | |
| 70 | Holdings in group businesses | - | | - | |
| | (a) financial companies | - | | - | |
| | (b) non-financial companies | - | | - | |
| 80 | Intangible fixed assets | 938.427 | | 780.401 | |
| | (a) leasing | - | | - | |
| | (b) assets to be leased | - | | - | |
| | - of which assets resulting from annulled lease contracts | - | | - | |
| | - of which for breach by tenant | - | | - | |
| | (c) goodwill | - | | - | |
| | (d) other intangible fixed assets | 938.427 | | 780.401 | |
| 90 | Tangible fixed assets | 28.108.226 | | 21.920.363 | |
| | (a) leasing | 23.443.376 | | 20.927.213 | |
| | (b) assets to be leased | 7.319 | | 7.155 | |
| | - of which assets resulting from annulled lease contracts | 7.319 | | 7.155 | |
| | - of which for breach by tenant | 7.319 | | 7.155 | |
| | (c) real estate property | 3.954.409 | | - | |
| | (d) other tangible fixed assets | 703.122 | | 985.995 | |
| 100 | Subscribed share capital not paid-in | - | | - | |
| 110 | Owned shares and quotas | - | | - | |
| 120 | Other assets | 22.436.237 | | 18.689.384 | |
| 130 | Accrued revenues and deferred expenses | 245.691 | | 305.500 | |
| | (a) accrued revenues | 90.681 | | 187.917 | |
| | (b) deferred expenses | 155.010 | | 117.583 | |
| 140 | Total Assets | 494.214.634 | | 380.187.744 | |

| LIABILITIES AND NET EQUITY | | 31/12/2016 | | 31/12/2015 | |
|----------------------------|---|--------------|--------------------|--------------|--------------------|
| | | Part amounts | Total amounts | Part amounts | Total amounts |
| 10 | Debts with banks | | 4.196.689 | | 3.005.860 |
| | (a) sight debts | 1.322.547 | | 3.005.860 | |
| | (b) term or notice debts | 2.874.142 | | - | |
| 20 | Debts with customers | | 210.933.819 | | 124.039.293 |
| | (a) sight debts | 172.968.213 | | 115.560.668 | |
| | (b) term or notice debts | 37.965.606 | | 8.478.625 | |
| 30 | Debts represented by securities | | 224.096.574 | | 206.206.353 |
| | (a) bonds | 71.734.152 | | 60.740.809 | |
| | (b) certificates of deposit | 152.362.422 | | 145.465.544 | |
| | (c) other securities | - | | - | |
| 40 | Other liabilities | | 24.401.428 | | 22.028.152 |
| | - of which outstanding cheques and similar securities | 593.847 | | 1.448.424 | |
| 50 | Accrued expenses and deferred revenues | | 291.046 | | 108.456 |
| | (a) accrued expenses | 269.777 | | 100.000 | |
| | (b) deferred revenues | 21.269 | | 8.456 | |
| 60 | Staff retirement allowances | | 253.016 | | 237.080 |
| 70 | Risks and costs funds | | 392.910 | | 165.106 |
| | (a) retirement and similar costs funds | - | | - | |
| | (b) tax funds | 186.897 | | 60.757 | |
| | (c) other funds | 206.013 | | 104.349 | |
| 80 | Allowances for possible loan losses | | - | | - |
| 90 | Fund for general banking risks | | 4.500.000 | | 1.500.000 |
| 100 | Subordinated liabilities | | - | | - |
| 110 | Corporate capital | | 20.000.000 | | 20.000.000 |
| 120 | Issue premium | | - | | - |
| 130 | Reserves | | 2.897.444 | | 2.224.820 |
| | (a) ordinary reserves | 579.332 | | 444.807 | |
| | (b) reserve for treasury shares | - | | - | |
| | (c) extraordinary reserves | 818.112 | | 280.013 | |
| | (d) other reserves | 1.500.000 | | 1.500.000 | |
| 140 | Revaluation reserves | | - | | - |
| 150 | Profits (Losses) carried forward | | - | | - |
| 160 | Profits (Losses) for the financial year | | 2.251.708 | | 672.624 |
| 170 | Total Liabilities | | 494.214.634 | | 380.187.744 |

GUARANTEES AND COMMITMENTS

| | | 31/12/2016 | | 31/12/2015 | |
|-----------|---------------------------------|--------------|-------------------|--------------|-------------------|
| | | Part amounts | Total amounts | Part amounts | Total amounts |
| 10 | Guarantees issued | | 6.622.852 | | 1.994.430 |
| | - of which: | | | | |
| | (a) acceptances | 354.705 | | 75.183 | |
| | (b) other guarantees | 6.268.147 | | 1.919.247 | |
| 20 | Commitments | | 13.282.818 | | 17.683.026 |
| | - of which: | | | | |
| | (a) certain to be called on | 6.014.142 | | 3.710.761 | |
| | of which financial instruments | 4.157.142 | | 14.761 | |
| | (b) not certain to be called on | 212.800 | | 6.148.657 | |
| | of which financial instruments | - | | 5.555.000 | |
| | (c) other commitments | 7.055.876 | | 7.823.608 | |

PROFIT AND LOSS ACCOUNT

| | | 31/12/2016 | | 31/12/2015 | |
|------------|---|--------------|--------------------|--------------|--------------------|
| | | Part amounts | Total amounts | Part amounts | Total amounts |
| 10 | Interests received and proceeds | | 11.522.348 | | 10.720.198 |
| | (a) on loans to banks | 171.530 | | 249.149 | |
| | (b) on customer loans | 4.879.399 | | 4.820.570 | |
| | (c) on debt securities | 6.471.419 | | 5.650.479 | |
| 20 | Interests paid and costs | | (5.815.090) | | (6.205.749) |
| | (a) on amounts due from banks | (41.594) | | (6.055) | |
| | (b) on debts with customers | (1.098.326) | | (1.534.046) | |
| | (c) on debts represented by securities | (4.675.170) | | (4.665.648) | |
| | - of which on subordinated liabilities | - | | (3.410) | |
| 30 | Dividends and other proceeds: | | - | | 301 |
| | (a) on shares, quotas and other variable income | - | | - | |
| | (b) on holdings | - | | 301 | |
| | (c) on holdings in group businesses | - | | - | |
| 40 | Commissions earned | | 1.635.545 | | 1.111.460 |
| 50 | Commissions paid | | (590.119) | | (466.960) |
| 60 | Profits (Losses) from financial operations | | 4.648.396 | | 1.366.844 |
| 70 | Other operating proceeds | | 5.588.637 | | 4.985.904 |
| 80 | Other operating costs | | - | | - |
| 90 | Administrative costs: | | (4.696.837) | | (4.031.772) |
| | (a) labour costs | (3.184.586) | | (2.771.900) | |
| | - wages and salaries | (2.126.442) | | (1.866.486) | |
| | - pension contributions | (696.150) | | (571.699) | |
| | - retirement allowances | (253.016) | | (237.080) | |
| | - severance indemnity-related costs | - | | - | |
| | - administrators and mayors | (100.260) | | (69.816) | |
| | - other personnel expenses | (8.718) | | (26.819) | |
| | (b) other administrative costs | (1.512.251) | | (1.259.872) | |
| 100 | Value adjustments on intangible fixed assets | | (165.694) | | (145.970) |
| 110 | Value adjustments on tangible fixed assets | | (5.460.415) | | (4.831.028) |
| 120 | Provisions for risks and costs | | (50.000) | | - |
| 130 | Provisions to allowances for possible loan losses | | - | | - |
| 140 | Value adjustments on credits and provisions for guarantees and commitments | | (2.276.780) | | (1.878.140) |
| 150 | Value recoveries on credits and provisions for guarantees and commitments | | 665.651 | | 763.312 |
| 160 | Value adjustments on financial assets | | (500.000) | | (644.191) |
| 170 | Value recoveries on financial assets | | - | | - |
| 180 | Profits (Losses) on ordinary activities | | 4.505.642 | | 744.209 |
| 190 | Extraordinary proceeds | | 996.744 | | 291.745 |
| 200 | Extraordinary costs | | (63.781) | | (302.573) |
| 210 | Extraordinary Profits (Losses) | | 932.963 | | (10.828) |
| 220 | Income tax for the financial year | | (186.897) | | (60.757) |
| 230 | Variation to the Fund for general banking risks | | (3.000.000) | | - |
| 240 | Profits (Losses) for the financial year | | 2.251.708 | | 672.624 |

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS

Section A - ACCOUNTING PRINCIPLES

The Financial Statements for the year ended as at 31/12/2015 have been prepared in accordance with the provisions of the Regulation no. 2008-02 about the preparation of the financial statements of banks issued on 23 September 2008 (and updated on 2 February 2015) by the Central Bank of the Republic of San Marino, pursuant to article 39 of Law no. 165 of 17 November 2005.

The financial statements comprise the Statement of Assets and Liabilities, the statement of Guarantees and Commitments, the Profit and Loss Account and the Explanatory Notes. They are completed by the Board of Directors' report on management, the Board of Auditors' report and the Auditing Firm's report.

The financial statements have been prepared with clarity and truthfully and correctly represent the asset and financial situation and the net profit.

The figures are expressed in units of Euro and are compared with those of the previous year. Moreover, the provisions issued by the Central Bank, Supervision Division, have been adopted.

The sum of the differences due to the rounding of items is recorded under "other assets/liabilities" for the Statement of Assets and Liabilities and under "extraordinary income/expenses" for the Profit and Loss Account.

The various entries in the financial statements correspond to the company's accounts which have been drawn up in correspondence to the administrative transactions that occurred during the year.

The true and fair representation is carried out in accordance with legal provisions; in the case of an exception, the reasons and the relative influence on the representation of the balance sheet and economic outturn are explained in the notes.

In order to improve the level of clarity and accuracy of the financial statements, the accounts have been drawn up by favoring, where possible, substance over form. In order to allow a representation of the financial situation closer to actual financial movements of items in the bank's balance sheet, the accounts "above the line" are prepared by favoring, where possible, the time of settlement of the transactions over contracting.

The recognition of incomes and charges was made on an accrual basis, regardless of the date of collection or payment, and in accordance with the principle of prudence. The latter principle presides, unless the formation of non-explicit reserves is envisaged.

In order to not reduce the information content of the financial statements figures, implementing principles of truthfulness and clarity, income and expenses were not offset.

The write-down, depreciation and amortization of asset items were exclusively made by means of a direct adjustment decreasing the value of said items.

Section 1 - Illustration of accounting principles

Balance sheet and off-balance sheet assets and liabilities are valued according to the principle of prudence and on a going concern basis.

Cash and cash equivalents

This item includes currencies with legal tender, including banknotes and foreign coins, money orders, bankers' orders and postal orders, as well as equated securities, coupons and on-demand securities. Included are also collectable coins and medals as well as gold, silver and stamped values.

Inter-bank loans

This item shows all loans to banks, whatever their technical form is, except for those represented by financial instruments, which require posting under item no. 40 "Bonds and other fixed income securities" and are booked at their estimated realizable value.

Loans to banks also contain the counter value of carry-over operations and repurchase agreements for which the transferee bank has a sale back obligation to the selling bank on the maturity of the securities. The amount posted is equal to the spot price paid. The spot transferred assets continue to be shown in the portfolio of the selling bank.

Customer loans

This item shows the loans deriving from financing contracts with customers, whatever their technical form is, on condition that, and to the extent to which the loan was effectively granted. The loans that have not been disbursed yet, even though recorded in the accounts on the "contracting date", are not included in this item, but in the item

concerning commitments. The loans represented by financial instruments are recorded in item 40 "Bonds and other fixed-income securities".

The partial contributions received for matured or disputed loans are directly reduced by the value of the same loans. The contributions received in advance for loans not yet matured must be posted under the liability item "amounts due to customers" or "other liabilities", depending on whether these contributions are interest bearing or not.

This item also includes loans deriving from financial lease agreements for expired and not yet received rental charges and the connected loans for default interest.

"Loans to customers" comprise the counter value of carry-over operations and repurchase agreements in which the customer is obliged to the reverse repurchase of the securities spot transferred to the bank. The amount posted is equal to the spot price paid.

The loans are recorded in the financial statements at their estimated realizable value, calculated on the basis of the borrower's state of solvency, as well as the overall difficulty in servicing debt in countries where the borrowers reside.

The estimated realizable value is calculated on the basis of a valuation of all factors that characterize the history of the relationships in question, supported by assets, economic and financial information on borrowers, the nature of the economic activity performed and any guarantees issued.

More specifically:

- *Non-performing loans*: include the full exposure of cash and off-balance sheet loans, regardless of the expectation or otherwise of possible losses, made to borrowers in a state of insolvency, even if not legally ascertained, or in similar situations. This item represents the full exposure, including interest recorded and the expenses incurred for collection activities, adjusted by the portion of interest that is considered unrecoverable. Non-performing loans are valued analyzing the likelihood of their recovery on an analytical basis and calculating the relative presumed loss.

- *Impaired loans*: are loans to borrowers suffering temporary difficulties, which are likely to be overcome in an acceptable period of time. They are valued on an analytical basis. Furthermore, by virtue of Regulation no. 2008/02, impaired loans now also include loans that have fallen due and have not been repaid, even only partially, as follows:

3 six-monthly instalments or 5 quarterly instalments for loans with an original term exceeding 36 months

2 six-monthly instalments or 3 quarterly instalments for loans with a term equal to or less than 36 months

If the depreciation plan for the loan envisaged monthly instalments, the number of instalments due and unpaid considered is as follows:

7 instalments for loans with a term exceeding 36 months

5 instalments for loans with a term of less than 36 months.

- *Past due and/or overdrawn loans*: refer to exposures towards customers with individual cash and off-balance sheet loans that, unlike impaired or non-performing loans, are past due or overdrawn in a continuative manner for more than 90 days at the reference date; if this exposure represents 20% of the overall exposure, these commitments are subject to arbitrary write-down.

- *Loans to at-risk countries*: refer to exposures to borrowers coming from Zone B countries; this category represents a residual part of the commitments and was consequently subject to arbitrary write-down.

- *Restructured loans*: cash and "off-balance sheet" exposures for which the bank, due to the worsening of debtor's economic-financial conditions, allows to change the original contract conditions (for example, terms rescheduling, debt and/or interest reduction, etc.) resulted in a loss. Exposures towards companies expected to close (e.g. for voluntary liquidation or similar situations) are not included. Anomalous exposures especially concerning the Country risk are also excluded.

- *Restructured loans to ex Gruppo Delta*: refer to all loans subject to the Delta Group restructuring agreement, pursuant to article 182 bis of Italian Bankruptcy Law. Given the specific nature of the exposures in question ("Plusvalore Spa" and "Carifin Italia Spa", both companies are in liquidation), these loans do not fall within any of the categories under Regulation no. 2008/02 and therefore, a special category has been created in the Explanatory Notes.

- *Performing loans*: these are written-down on an overall basis, in order to guarantee a hedging from the so-called "physiological risk"; the write-down is made by decreasing the value booked in the statement of assets.

Bonds and other debt financial instruments

The own securities portfolio is comprised of investment securities held for investment properties and trading securities held for treasury and trading.

This item shows all the financial debt instruments in the bank's portfolio, both long- and short-term, such as

government securities, bonds, certificates of deposit and the other fixed or variable income financial instruments. Valuations have been made in accordance with Regulation no. 2008/02 of the CBSM on the preparation of financial statements of banks.

Stocks, shares and other capital financial instruments

This item includes all financial instruments having the nature of trading capital securities (stocks and shares). It also comprises CIUs.

Shareholdings

This item includes all investments, represented or not by securities, in the capital of other companies, creating a long-term relationship with the bank.

Investment portfolio

The financial instruments in the investment portfolio, including all financial instruments intended to be held for a long term by the bank (up to maturity, except in exceptional events), listed and unlisted, are valued at purchase cost. They are written down in the event of any lasting deterioration in the debt repayment ability of the issuer, as well as of the related country risk. These write-downs will be eliminated once the causes that gave rise to them no longer subsist. The same evaluation criteria mentioned above are applied to financial instruments, listed and not listed on regulated markets, representing "off-balance sheet" operations related to the investment portfolio, apply the same evaluation criteria mentioned above.

The multi-year accrued income and/or expenses are detected depending on the result obtained from the difference between the book cost and the nominal redemption value divided by the remaining life of the security.

Trading portfolio

This portfolio includes all securities held for investment but having trading purposes to meet treasury and trading needs. The financial instruments in the trading portfolio, listed and not listed on regulated markets, are valued at marked cost. For listed securities, the market value is represented by the listed value. For unlisted securities, the market value is determined based on the value of similar listed and unlisted instruments or, where that is not possible, on the basis of reasonable estimates.

The determination of the value of trading securities is made with reference to the value determined at the balance sheet date.

Capital gains and losses, arising from the comparison between the market value at the date of December 31, 2016 with the last book values, have been recorded in the profit and loss account.

Intangible fixed assets

Intangible fixed assets are recorded at the original purchase cost, adjusted directly with the depreciation made, systematically, based on the estimated residual life. The rate of annual ordinary depreciation is 20%. As regards intangible fixed assets related to contracts, depreciation has been calculated based on the duration of the latter.

Tangible fixed assets

Tangible fixed assets are recorded at purchase cost, inclusive of additional charges and any other incremental expenses.

Assets are depreciated systematically by directly adjusting their value using the rates established by Captains Regent Decree no. 3 of 20 January 1986, deemed appropriate and representative of the value corresponding to the residual useful life of the asset. If assets demonstrate an impairment value which is lower than its cost, this is written down. Should the assumptions supporting the original write-down no longer subsist, write-downs made in previous periods are not maintained.

It should be noted that on 18/05/2012 with letter Prot. N. 5584, the Tax Office of the Republic of San Marino authorized the request of the bank to use depreciation rates equivalent to half of the ordinary rate in relation to all durable goods acquired during the year to strengthen the technical infrastructure of the Institute, thus taking into account the actual useful life of assets.

Leasing

The amount of assets subject to financial lease is recorded in asset item 90 "Tangible fixed assets". This category includes assets awaiting lease (purchased by the bank on a leasing contract already concluded with the customers) and assets held in respect of terminated contracts, the amount of which is detailed in a special sub-item, to distinguish the component attributable to resolution situations for breach of the tenant. Loans relative to financial lease transactions are calculated according to the financial methodology, as established by Law no. 115 of 19/11/2001, and recorded in the assets as the algebraic balance obtained from the difference between the financed capital or historic cost of the asset and the relative accumulated depreciation fund replenished by the capital share of the instalments accrued.

The instalments accrued during the year are entered under item no. 10 of the profit and loss account "interest income and similar revenues for the part regarding the interest, and under items 70 "Other operating income" and 110 "Tangible fixed asset adjustments" for the part regarding the capital, for the same amount with a neutral effect

on the operating result.

Assets and liabilities in foreign currency

Assets and liabilities denominated in foreign currency and off-balance sheet transactions are recognized at the spot exchange rate in effect at year end, according to art. III.II.6 of Regulation no. 2008/02. The effect of such valuation is recorded in the profit and loss account.

Off-balance sheet transactions in foreign currency are recognized at the spot exchange rate in effect at year end, if such regards spot transactions which have not been settled or forward transactions to “hedge” spot transactions. In the latter case, the differentials between forward exchange rate and spot exchange rate of the expiring contracts are recorded in the profit and loss account on an accrual basis and include the interests generated by covered assets and liabilities: this is to be recorded in the profit and loss account item 10-20 “Interest income (expenses) and similar revenues (charges)”.

“Off-balance sheet” transactions (other than those on currencies)

Off-balance sheet transactions are recognized according to the same criterion adopted for assets/liabilities recorded in the financial statements, depending on whether these are posted as fixed assets or current assets.

Any trading contracts for securities (spot or forward) which have not been settled at year end are valued using criteria that are consistent with those adopted for value portfolio securities.

Debts with banks

This item shows all the amounts due to banks whatever their technical form, except for those represented by financial instruments which require to be posted under item no. 30.

The amounts due to banks include the equivalent value of the financial instruments received by the selling bank as spot in repo and carry-over transactions for which the transferee bank is obliged to forward resale. Such items are recorded at par value.

Debts with customers

This item shows all the amounts due to customers whatever their technical form, except for those represented by financial instruments that require posting under item no. 30.

The amounts due to banks include the equivalent value of the financial instruments received by the selling bank as spot in repo and carry-over transactions for which the transferee bank is obliged to forward resale. Such items are recorded at par value.

Payables represented by financial instruments

Payables represented by financial instruments are recorded at par value.

In addition to bonds and certificates of deposit, this item includes, under the sub-item “other financial instruments”, its traced acceptances and the atypical securities according to article II.III.8 of regulation 2007/07. Debt financial instruments which are past due but have not yet been repaid upon the reference date are also included.

“Repurchasing agreements” on securities with customers, require the obligation for the transferee to sell back the securities of the operation, are shown as “Amounts due to customers b) term or notice” and are recorded at the “spot” value, while the underlying securities are represented in asset postings under item “Bonds and other debt securities”.

Other assets and Other liabilities

This item contains all the assets and liabilities that are not associated to other assets or liability items. It also includes any (negative or positive) balances for items in transit and suspended that are not attributed to the relevant accounts. Payment means issued by the banks, such as bankers' drafts, are posted under other liabilities.

Accruals and Deferrals

These are recognized according to the same accrual principle also adopted for the recognition of all income and charges, the portions of interest income and expense and other income and expenses.

In compliance with the amendments made to article IV.I.13 of the Regulation, the bank directly adjusts the asset accounts or liability accounts, increasing or decreasing them, in the following cases:

- a) in asset accounts, in relation to interest accrued on loans and securities;
- b) in liability accounts, in relation to interest accrued on payables, represented or not represented by securities, which include “advanced” interest, including the issue discount for bonds and certificates of deposit.

Severance

The item shows the total amount of severance pay shares for all the employees of the bank.

Provisions for risks and charges

These provisions exclusively cover losses, changes or payables of a set nature, of probable or certain existence, but which have no set amount or date of occurrence at year end.

They mainly include:

- provisions made to cover tax liabilities, calculated on the basis of a realistic forecast of the tax burden, in relation to the tax regulations in force;
- provisions to cover possible liabilities of which the exact amount or date of occurrence is not known.

General banking risk reserve

The function of this item General banking risk reserve is to cover general business risks to which the bank is exposed. Being similar to a capital reserve, it is a positive component of the basic regulatory capital base (see article VII.II.2 of Regulation no. 2007/07). The balance of the allocations and withdrawals (net change) recorded by the fund during the year is recorded, with the appropriate algebraic sign, under item 230 of the profit and loss account "Variation in the general banking risk fund". Therefore, the constitution, replenishment and utilization of the fund cannot take place when allocating the profit for the year.

Guarantees

This item includes all the personal guarantees presented by the bank as well as the assets provided as guarantee for third-party obligations.

Commitments

This item includes all the irrevocable commitments of specific or unspecific use, which may lead to credit risks (e.g. the margins available on irrevocable credit lines granted to customers or banks).

The commitments arising from derivative contracts are valued on the basis of their notional value.

Guarantees given and commitments are recorded as follows:

- deposit and loan contracts based on the amount to be paid;
- irrevocable lines of credit based on the residual usable amount;
- other commitments and guarantees based on the value of the contractual commitment undertaken by the bank.

Section 2 - Adjustments and provisions

No provisions and value adjustments were made solely for tax purposes.

Section B - INFORMATION ON THE STATEMENTS OF ASSETS AND LIABILITIES

Cash and cash equivalents

Table 1.1 | Composition of item 10 “Cash and cash equivalents”

| | 31/12/2016 | | 31/12/2015 | | Variations | |
|------------------------------|------------------|--|------------------|--|-----------------|----------------|
| | | | | | Importo | % |
| Banknotes and coins in Euros | 1.969.728 | | 2.069.598 | | (99.870) | (4,83%) |
| Foreign currency cash | 66.922 | | 17.204 | | 49.718 | 288,99% |
| Other | 3.253 | | 1.500 | | 1.753 | 116,87% |
| Total | 2.039.903 | | 2.088.302 | | (48.399) | (2,32%) |

The item 10 “Cash and cash equivalents” includes all banknotes and coins in Euros and foreign currency available at the four branches of the Bank.

Inter-bank loans

Table 2.1 | Composition of item 20 “Inter-bank loans”

| | 31/12/2016 | | 31/12/2015 | | Variations | |
|---|--------------------|------------------|-------------------|------------------|---------------------|-----------------|
| | Euros | Currency | Euros | Currency | Amount | % |
| Sight credits | 88.274.238 | 1.507.342 | 40.593.036 | 3.001.507 | 46.187.037 | 105,95% |
| - Current accounts for performed services | 63.504.807 | 1.507.342 | 22.559.480 | 3.001.507 | 39.451.162 | 154,34% |
| - Current accounts | - | - | - | - | - | - |
| - Other | 24.769.431 | - | 18.033.556 | - | 6.735.875 | 37,35% |
| Other credits | 14.161.643 | 1.042.160 | 24.610.963 | 1.007.234 | (10.414.394) | (40,65%) |
| - Term deposits | 14.161.643 | 1.042.160 | 24.610.963 | 1.007.234 | (10.414.394) | (40,65%) |
| - Current accounts | - | - | - | - | - | - |
| - Repos and reverse repos | - | - | - | - | - | - |
| - Other | - | - | - | - | - | - |
| Total | 102.435.881 | 2.549.502 | 65.203.999 | 4.008.741 | 35.772.643 | 51,69% |

The item 20 “Inter-bank loans” includes all amounts due from banks, regardless of their technical form, with the exception of loans represented by securities which are returned to item 40 of assets.

These credits are shown at their estimated realizable value.

The item “Sight credits” includes all current accounts and demand deposits held with other foreign and San Marino banks in Euro and in foreign currency.

Table 2.2 | Composition of cash credits to banks

| | 31/12/2016 | | | 31/12/2015 | | |
|----------------------------|----------------|-------------------------|--------------|----------------|-------------------------|--------------|
| | Gross exposure | Total value adjustments | Net exposure | Gross exposure | Total value adjustments | Net exposure |
| Doubtful loans | - | - | - | - | - | - |
| - Non-performing loans | - | - | - | - | - | - |
| - Past due / overrun loans | - | - | - | - | - | - |

| | | | | | | |
|--|--------------------|---|--------------------|-------------------|---|-------------------|
| - Restructured loans | - | - | - | - | - | - |
| - Expired / overdue loans | - | - | - | - | - | - |
| - Unsecured loans to countries at risk | - | - | - | - | - | - |
| Performing loans | 104.985.383 | - | 104.985.383 | 69.212.740 | - | 69.212.740 |
| Total | 104.985.383 | - | 104.985.383 | 69.212.740 | - | 69.212.740 |

The credits shown under “Performing loans” are considered collectable and therefore no further adjustments have been made.

Table 2.3 | Changes in doubtful loans to banks

| | Non-performing loans | Substandard loans | Restructured loans | Past due / overrun loans | Unsecured loans to countries at risk |
|---|----------------------|-------------------|--------------------|--------------------------|--------------------------------------|
| Opening gross exposure | - | - | - | - | - |
| of which for past-due interests | - | - | - | - | - |
| Increases | - | - | - | - | - |
| - Inflow from loans | - | - | - | - | - |
| - Past-due interests | - | - | - | - | - |
| - Other increases | - | - | - | - | - |
| Decreases | - | - | - | - | - |
| - Outflow to loans | - | - | - | - | - |
| - Write-offs | - | - | - | - | - |
| - Collections | - | - | - | - | - |
| - Arising from sales | - | - | - | - | - |
| - Other decreases | - | - | - | - | - |
| Closing gross exposure at 31/12/2016 | - | - | - | - | - |
| of which for past-due interests | - | - | - | - | - |

Table 2.4 | Changes in total value adjustments on “Inter-bank loans”

| | Non-performing loans | Substandard loans | Restructured loans | Past due / overrun loans | Unsecured loans to countries at risk | Performing loans |
|---|----------------------|-------------------|--------------------|--------------------------|--------------------------------------|------------------|
| Opening total adjustments | - | - | - | - | - | - |
| Increases | - | - | - | - | - | - |
| - Value adjustments | - | - | - | - | - | - |
| of which for past-due interests | - | - | - | - | - | - |
| - Utilization of allowance for possible loan losses | - | - | - | - | - | - |
| - Transfers from other categories of loans | - | - | - | - | - | - |
| - Other increases | - | - | - | - | - | - |
| Decreases | - | - | - | - | - | - |
| - Value recoveries from valuation | - | - | - | - | - | - |
| of which for past-due interests | - | - | - | - | - | - |
| - Value recoveries from collection | - | - | - | - | - | - |
| of which for past-due interests | - | - | - | - | - | - |
| - Write-offs | - | - | - | - | - | - |
| - Transfers from other categories of loans | - | - | - | - | - | - |
| - Other decreases | - | - | - | - | - | - |

| | | | | | | |
|---|---|---|---|---|---|---|
| Closing total adjustments at 31/12/2016 | - | - | - | - | - | - |
| of which for past-due interests | - | - | - | - | - | - |

Table 2.5 | Composition of “Inter-bank loans” according to residual life

| | 31/12/2016 | 31/12/2015 |
|---------------------------|--------------------|-------------------|
| Sight | 103.843.223 | 54.205.456 |
| From 1 day to 3 months | - | 10.000.051 |
| From 3 months to 6 months | - | - |
| From 6 months to 1 year | - | 4.000.000 |
| From 1 year to 18 months | - | - |
| From 18 months to 2 years | - | - |
| From 2 years to 5 years | - | - |
| 5 years + | - | - |
| No term | 1.142.160 | 1.007.233 |
| Total | 104.985.383 | 69.212.740 |

The residual life corresponds to the time interval between the date of the financial statements and the contractual maturity of each transaction. In the case of bound operations, the deadline does not exceed 6 months. The security deposit to guarantee the operations of prepaid credit cards was brought under the item “No term”.

Customer loans

Table 3.1 | Composition of item 30 “Customer loans”

| | 31/12/2016 | | 31/12/2015 | | Variations | |
|--|-------------------|------------------|-------------------|------------------|---------------------|-----------------|
| | Euros | Foreign currency | Euros | Foreign currency | Amount | % |
| Sight / non-revolving loans | 18.057.050 | 55 | 65.634.924 | 355 | (47.578.174) | (72,49%) |
| - Current accounts | 13.494.707 | 55 | 18.939.449 | 355 | (5.445.042) | (28,75%) |
| - Other | 4.562.343 | - | 46.695.475 | - | (42.133.132) | (90,23%) |
| Other loans | 72.913.777 | 981.999 | 20.014.023 | - | 53.881.753 | 269,22% |
| - Current accounts | 3.757.657 | - | 2.101.742 | - | 1.655.915 | 78,79% |
| - Discounted portfolio and subject to collection | 8.363.013 | - | 9.443.622 | - | (1.080.609) | (11,44%) |
| - Repos and reverse repos | - | - | - | - | - | - |
| - Other loans | 60.793.107 | 981.999 | 8.468.659 | - | 53.306.447 | 629,46% |
| Total | 90.970.827 | 982.054 | 85.648.947 | 355 | 6.303.579 | 7,36% |

The item 30 “Customer loans” is the collection of credits arising from loan agreements entered into with customers, whatever is their technical form, and are stated at their estimated realizable value.

The items “Current accounts (sight/other)” include the summation of the debt balances on current accounts, including interest, in the form of current account according to the maturity of the loan itself.

The items “Other”, “Discounted portfolio and subject to collection” and “Other loans” include credits arising from financing import / export transactions, open positions for portfolio advances, mortgage relationships with amortization schedule, grants and doubtful loans.

Table 3.2 | Secured customer loans

| | 31/12/2016 | | 31/12/2015 | | Variations | |
|-----------------------|-------------------|-------------------|------------------|---------------|------------|--|
| | Amount | % | Amount | % | | |
| From mortgages | 27.802.738 | 22,221.853 | 5.580.885 | 25,11% | | |

| | | | | |
|-----------------------------|-------------------|-------------------|------------------|-----------------|
| From pledges on | 405.156 | 1.147.322 | (742.166) | (64,69%) |
| - Cash deposits | 232.923 | 883.686 | (650.763) | (73,64%) |
| - Securities | 155.961 | 162.206 | (6.245) | (3,85%) |
| - Other valuables | 16.272 | 101.430 | (85.158) | (83,96%) |
| From guarantees by | 25.317.997 | 26.257.220 | (939.223) | (3,58%) |
| - States | - | - | - | - |
| - Other government bodies | - | - | - | - |
| - Banks | - | - | - | - |
| - Other financial companies | - | - | - | - |
| - Other issuers | 25.317.997 | 26.257.220 | (939.223) | (3,58%) |
| Total | 53.525.891 | 49.626.395 | 3.899.496 | 7,86% |

The table shows the total amount of “Customer loans” that are assisted, in whole or in part, by real and personal guarantees. If a credit is partially guaranteed, only the amount of loans guaranteed has been shown.

Table 3.3 | Composition of cash credits to customers

| | 31/12/2016 | | | 31/12/2015 | | |
|--|--------------------|---------------------------|--------------------|--------------------|---------------------------|--------------------|
| | Gross exposure | Overall total adjustments | Net exposure | Gross exposure | Overall total adjustments | Net exposure |
| Bad and doubtful loans | 13.177.365 | 5.340.629 | 7.836.736 | 13.650.011 | 3.950.625 | 9.699.386 |
| of which from financial leases | 242.786 | 26.924 | 215.862 | 300.166 | 29.484 | 270.682 |
| - Non-performing loans | 6.414.190 | 3.499.092 | 2.915.098 | 6.124.859 | 2.600.462 | 3.524.397 |
| of which from financial leases | 11.670 | 4.244 | 7.426 | 8.535 | 855 | 7.680 |
| - Substandard loans | 2.484.046 | 1.094.518 | 1.389.528 | 2.975.929 | 995.426 | 1.980.503 |
| of which from financial leases | 231.116 | 22.680 | 208.436 | 291.631 | 28.629 | 263.002 |
| - Restructured loans | 3.983.259 | 732.594 | 3.250.665 | 4.236.167 | 339.476 | 3.896.691 |
| of which credits to ex Gruppo Delta | 3.983.259 | 732.594 | 3.250.665 | 4.236.167 | 339.476 | 3.896.691 |
| of which from financial leases | - | - | - | - | - | - |
| - Past due / overrun loans | 288.024 | 14.401 | 273.623 | 305.056 | 15.237 | 289.819 |
| of which from financial leases | - | - | - | - | - | - |
| - Unsecured loans to countries at risk | 7.846 | 24 | 7.822 | 8.000 | 24 | 7.976 |
| Performing loans | 107.890.124 | 323.284 | 107.566.840 | 97.176.476 | 292.192 | 96.884.284 |
| of which from financial leases | 23.645.740 | 70.927 | 23.574.813 | 20.826.190 | 62.479 | 20.763.711 |
| Total | 121.067.489 | 5.663.913 | 115.403.576 | 110.826.487 | 4.242.817 | 106.583.670 |

The table shows the situation of cash credits for each category of credit, as dictated by Art. I.I.2 of Regulation no. 2007-07. The table also includes credit deriving from financial leases; therefore, the final net exposure coincides with the sum of items no. 30 “Customer loans”, no. 80 “Intangible fixed assets” (a + b) and no. 90 “Tangible fixed assets” (a + b).

The write-backs for general risks on credits equal 0.3% of the same credits. The institute proceeded to the classification of receivables claimed to the ex Gruppo Delta among the restructured loans giving specific reports by creating the appropriate sub-item.

Table 3.4 | Changes in bad and doubtful loans to customers

| | Non-performing loans | Substandard loans | Restructured loans | Past due / overrun loans | Unsecured loans to countries at risk |
|---------------------------------|----------------------|-------------------|--------------------|--------------------------|--------------------------------------|
| Opening gross exposure | 6.124.859 | 2.975.929 | 4.236.167 | 305.056 | 8.000 |
| of which for past-due interests | 63.999 | 6.143 | - | 307 | - |
| Increases | 1.374.742 | 4.910.092 | - | 783.248 | 77.551 |

| | | | | | |
|---|------------------|------------------|------------------|----------------|---------------|
| - Inflow from performing loans | 243.322 | 1.911.600 | - | 238.897 | - |
| - Past-due interests | 114.098 | 9.264 | - | 217 | 1 |
| - Other increases | 1.017.322 | 2.989.228 | - | 544.134 | 77.550 |
| Decreases | 1.085.411 | 5.401.975 | 252.908 | 800.280 | 77.705 |
| - Outflow to loans | - | - | - | - | - |
| - Write-offs | 76.481 | 109.960 | - | - | - |
| - Collections | 841.615 | 3.596.677 | 252.908 | 610.464 | 77.705 |
| - Arising from sales | - | - | - | - | - |
| - Other decreases | 167.315 | 1.695.338 | - | 189.816 | - |
| Closing gross exposure at 31/12/2016 | 6.414.190 | 2.484.046 | 3.983.259 | 288.024 | 7.846 |
| of which for past-due interests | 142.312 | 2.802 | - | 78 | - |

This table provides a representation of the up and down changes that occurred during the financial year in the amount of gross exposures of doubtful loans.

During 2016, the Institute has revised in full all amounts receivable in an analytical way, providing for their reclassification taking into account the risk involved.

Table 3.5 | Changes in total value adjustments on customer loans

| | Non-performing loans | Substandard loans | Restructured loans | Past due / overrun loans | Unsecured loans to countries at risk | Performing loans |
|--|----------------------|-------------------|--------------------|--------------------------|--------------------------------------|------------------|
| Opening total adjustments | 2.600.462 | 995.426 | 339.476 | 15.237 | 24 | 292.192 |
| Increases | 1.259.048 | 964.083 | 393.118 | 14.388 | 22 | 142.878 |
| - Value adjustments | 775.888 | 956.232 | 393.118 | 14.216 | 22 | 137.304 |
| of which for past-due interests | 103.556 | - | - | - | - | - |
| - Utilization of allowance for possible loans | - | - | - | - | - | - |
| - Transfers from other categories of loans | 388.698 | 7.851 | - | 172 | - | 5.574 |
| - Other increases | 94.462 | - | - | - | - | - |
| Decreases | 360.418 | 864.991 | - | 15.224 | 22 | 111.786 |
| - Value recoveries | 46.460 | 70.062 | - | 6.258 | 22 | 102.164 |
| of which for past-due interests | - | - | - | - | - | - |
| - Value recoveries from collection | 144.226 | 296.459 | - | - | - | - |
| of which for past-due interests | 23.356 | - | - | - | - | - |
| - Write-offs | 76.481 | 109.960 | - | - | - | 3.592 |
| - Transfers to other categories of loans | - | 388.510 | - | 8.966 | - | 4.819 |
| - Other decreases | 93.251 | - | - | - | - | 1.211 |
| Closing total adjustments at 31/12/2016 | 3.499.092 | 1.094.518 | 732.594 | 14.401 | 24 | 323.284 |
| of which for past-due interests | 142.312 | - | - | - | - | - |

This table shows the changes that occurred during the year in the amount of the total value adjustments on cash.

Table 3.6 | Composition of "Customer loans" according to residual life

| | 31/12/2016 | 31/12/2015 |
|---------------------------|------------|------------|
| Sight | 16.555.673 | 23.819.916 |
| From 1 day to 3 months | 16.021.115 | 15.838.080 |
| From 3 months to 6 months | 7.016.060 | 6.440.248 |
| From 6 months to 1 year | 5.581.472 | 4.126.590 |
| From 1 year to 18 months | 4.453.411 | 4.053.632 |
| From 18 months to 2 years | 5.985.331 | 3.840.189 |

| | | |
|-------------------------|--------------------|--------------------|
| From 2 years to 5 years | 19.376.428 | 15.293.197 |
| 5 years + | 37.355.408 | 28.811.318 |
| No term | 3.058.678 | 4.360.500 |
| Total | 115.403.576 | 106.583.670 |

The term “residual life” means the time interval between the date of the financial statements and the contractual maturity of each transaction. In particular, for transactions with repayment plans, reference was made to the remaining duration of a single instalment.

Table 3.7 | Composition of “Loans to customers” (net values) by economic activity sector

| | 31/12/2016 | 31/12/2015 |
|-------------------------------------|--------------------|--------------------|
| Government and public sector | 5.383.827 | 5.317.001 |
| Financial companies | 3.305.399 | 3.929.848 |
| Non-financial companies | 67.183.259 | 63.111.613 |
| - industry | 26.122.463 | 26.698.286 |
| - building | 5.206.005 | 5.002.515 |
| - services | 35.820.090 | 31.410.648 |
| - other | 34.701 | 164 |
| Families | 39.405.095 | 34.104.219 |
| Other | 125.996 | 120.989 |
| Total | 115.403.576 | 106.583.670 |

Bonds and other debt securities and shares, quotas and other capital securities

Table 4.1 | Composition of investment and trading securities – Asset items 40 – 50

| | Immobilizzati | Non immobilizzati |
|--|----------------------|--------------------------|
| Bonds and other debt securities | 108.946.097 | 132.730.322 |
| - issued by public bodies | 21.173.759 | 41.159.103 |
| - issued by banks | 71.442.523 | 59.752.898 |
| - issued by financial institutions | 8.963.546 | 5.933.157 |
| - issued by other bodies | 7.366.269 | 25.885.164 |
| Shares, quotas and other capital securities | - | 1.008.619 |
| Total at 31/12/2016 | 108.946.097 | 133.738.941 |

The securities in the portfolio are exclusively bonds issued by sovereign states, banks and private companies belonging to zone A.

The trading portfolio consists of securities held for trading and/or maintained for the cash requirements. The investment portfolio, as required by law, is valued at purchase or transfer value from another portfolio, while the trading portfolio is valued at its market value.

Table 4.2 | Composition of investment securities

| | 31/12/2016 | | 31/12/2015 | |
|------------------------|--------------------|---------------------|-------------------|---------------------|
| | Book Value | Market Value | Book Value | Market Value |
| Debt securities | 108.946.097 | 106.579.004 | 89.679.993 | 86.469.462 |
| - Bonds | 108.946.097 | 106.579.004 | 89.679.993 | 86.469.462 |
| listed | 82.609.537 | 80.318.786 | 76.288.528 | 73.809.651 |
| unlisted | 26.336.560 | 26.260.218 | 13.391.465 | 12.659.811 |

| | | | | |
|---------------------------|--------------------|--------------------|-------------------|-------------------|
| - Other debt securities | - | - | - | - |
| listed | - | - | - | - |
| unlisted | - | - | - | - |
| Capital securities | - | - | - | - |
| - listed | - | - | - | - |
| - unlisted | - | - | - | - |
| Total | 108.946.097 | 106.579.004 | 89.679.993 | 86.469.462 |

Investment securities are composed of bonds issued by sovereign states and banks for about 90%, the remaining part consists of bonds issued by private companies in which a stake is held by the States.

Table 4.3 | Annual variations to investment securities

| | 31/12/2016 | 31/12/2015 |
|------------------------------------|--------------------|-------------------|
| Opening balance | 89.679.993 | 40.168.496 |
| Increases | 36.081.858 | 69.786.883 |
| - Purchases | 34.182.711 | 23.677.373 |
| of which debt securities | 34.182.711 | 23.677.373 |
| - Value recoveries | - | - |
| - Transfers from trading portfolio | - | 43.032.038 |
| - Other variations | 1.899.147 | 3.077.472 |
| Decreases | 16.815.754 | 20.275.386 |
| - Sales | 6.795.982 | 2.000.000 |
| of which debt securities | 6.795.982 | 2.000.000 |
| - Redemptions | 5.003.700 | 2.555.500 |
| - Value adjustments | 500.000 | 644.191 |
| of which lasting devaluations | 500.000 | 644.191 |
| - Transfers to trading portfolio | 4.049.443 | 13.273.056 |
| - Other variations | 466.629 | 1.802.639 |
| Closing balance | 108.946.097 | 89.679.993 |

In order to achieve a proper management policy and in particular to reduce and optimize the strong imbalance between deposit volumes and reduced loans, as provided for by article IV.V.1 of BCSM Regulation no. 2008-02, it should be noted that the following actions were carried out during the year:

- investment securities were sold in advance for a total of about 6,796 million Euros: this transfer generated extraordinary positive income components amounting to about 0,963 million Euros.
- securities were transferred from the investment portfolio to the free portfolio for a total of about 4,049 million Euros.

Table 4.4 | Composition of "Trading securities"

| | 31/12/2016 | 31/12/2015 |
|---------------------------|---------------------|---------------------|
| | Market Value | Market Value |
| Debt securities | 132.730.322 | 89.631.679 |
| - Bonds | 132.730.322 | 89.631.679 |
| listed | 125.489.590 | 72.323.062 |
| unlisted | 7.240.732 | 17.308.617 |
| - Other debt securities | - | - |
| listed | - | - |
| unlisted | - | - |
| Capital securities | 1.008.619 | 1.418.232 |

| | | |
|--------------|--------------------|-------------------|
| - listed | - | 1.418.232 |
| - unlisted | 1.008.619 | - |
| Total | 133.738.941 | 91.049.911 |

Table 4.5 | Annual variations to "Trading securities"

| | 31/12/2016 | 31/12/2015 |
|---------------------------------------|--------------------|--------------------|
| Opening balance | 91.049.911 | 120.035.759 |
| Increases | 293.778.695 | 382.682.369 |
| - Purchases | 283.047.305 | 363.421.255 |
| of which debt securities | 238.868.765 | 302.495.686 |
| of which capital securities | 44.178.540 | 60.925.569 |
| - Writebacks and revaluations | 2.213.406 | 982.950 |
| - Transfers from investment portfolio | 4.049.443 | 13.273.056 |
| - Other variations | 4.468.541 | 5.005.108 |
| Decreases | 251.089.665 | 411.668.217 |
| - Sales and redemptions | 249.317.474 | 363.814.608 |
| of which debt securities | 204.101.997 | 298.886.506 |
| of which capital securities | 45.215.477 | 64.928.102 |
| - Value adjustments and devaluations | 1.041.806 | 1.764.963 |
| - Transfers to investment portfolio | - | 43.032.038 |
| - Other variations | 730.385 | 3.056.608 |
| Closing balance | 133.738.941 | 91.049.911 |

The valuation of investment securities is based on market value as at 31/12/2016. The effect of such a method is described under items "Writebacks and revaluations" and "Value adjustments and devaluations" in the table above.

Transactions on own shares

Tabella 5.1 | Composizione azioni sociali – voce 110 dell'Attivo

| | Number of shares | % on the capital | Nominal value | Negotiation amount |
|---------------------------------------|-------------------------|-------------------------|----------------------|---------------------------|
| Values at 31/12/2015 | - | - | - | - |
| Purchases | - | - | - | - |
| Sales | - | - | - | - |
| Values at 31/12/2016 | - | - | - | - |
| | | | | Profit/Loss |
| Negotiation profit/loss on own shares | | | | - |

In 2016 no repurchase and sale transactions of own shares were carried out under the corporate portfolio.

Holdings

Table 6.1 | Holdings

| Denominations | Headquarters | Activity performed | Net equity | Profit / Loss | Share % | Book Value |
|---------------------------------------|---------------------|---------------------------|-------------------|----------------------|----------------|-------------------|
| Companies of the banking group | | | | | | |

| | | | | | | |
|---|----------------------------------|----------|------------|-------------|--------|---------|
| No investment | | | | | | |
| Other subsidiaries | | | | | | |
| No investment | | | | | | |
| Other investee companies | | | | | | |
| S.P.A. Central Bank of the Republic of San Marino | San Marino - Via del Voltone 120 | Bank | 77.812.157 | (3.392.725) | 1,00% | 811.848 |
| S.P.A. Techno Science Park San Marino - Italy | Dogana - Via III Settembre 99 | Services | 91.543 | 14.543 | 10,00% | 11.000 |

Table 6.2 | Comparison between net equity variation and cost valuation

| Denomination | Activity performed | Share capital | Share % | Net equity share (a) | Book value share (b) | Comparison s (a) – (b) |
|---|--------------------|---------------|---------|----------------------|----------------------|------------------------|
| S.P.A. Central Bank of the Republic of San Marino | Bank | 12.911.425 | 1,00% | 778.122 | 811.848 | (33.726) |
| S.P.A. Techno Science Park San Marino - Italy | Services | 77.000 | 10,00% | 9.154 | 11.000 | (1.846) |

Table 6.3 | Composition of item 60 “Holdings”

| | 31/12/2016 | 31/12/2015 |
|-------------------------------------|----------------|----------------|
| In banks | 811.848 | 811.848 |
| - listed | - | - |
| - unlisted | 811.848 | 811.848 |
| In other financial companies | - | - |
| - listed | - | - |
| - unlisted | - | - |
| Other | 11.000 | - |
| - listed | - | - |
| - unlisted | 11.000 | - |
| Total | 822.848 | 811.848 |

Table 6.4 | Annual changes of item 60 “Holdings”

| | 31/12/2016 |
|-------------------------------|----------------|
| Opening balance | 811.848 |
| Increases | 11.000 |
| - Purchases | 11.000 |
| - Writebacks | - |
| - Revaluations | - |
| - Other changes | - |
| Decreases | - |
| - Sales | - |
| - Value adjustments | - |
| of which permanent writedowns | - |
| - Other changes | - |
| Closing balance | 822.848 |
| Total revaluations | - |
| Total adjustments | - |

In the month of November 2016, 10% of the company S.P.A. Techno Science Park San Marino – Italy was acquired.

Table 6.5 | Annual variations of item 70 “Holdings in group companies”

| | 31/12/2016 |
|-------------------------------|------------|
| Opening balance | - |
| Increases | - |
| - Purchases | - |
| - Writebacks | - |
| - Revaluations | - |
| - Other changes | - |
| Decreases | - |
| - Sales | - |
| - Value adjustments | - |
| of which permanent writedowns | - |
| - Other changes | - |
| Closing balance | - |

Table 6.6 | “Assets and liabilities to holdings” of item 60

| | 31/12/2016 |
|--|------------|
| Assets | |
| - loans to banks | 72.264.497 |
| of which subordinate | - |
| - loans to other financial companies | - |
| of which subordinate | - |
| - loans to other companies | - |
| of which subordinate | - |
| - bonds and other debt financial instruments | - |
| of which subordinate | - |
| Liabilities | |
| - debts to banks | - |
| - debts to other financial companies | - |
| - debts to other companies | - |
| - subordinated liabilities | - |
| Guarantees and commitments | |
| - guarantees given | - |
| - commitments | - |

Table 6.7 | Assets and liabilities to holdings in group companies (item 70)

| | 31/12/2016 |
|--|------------|
| Assets | |
| - loans to banks | - |
| of which subordinate | - |
| - loans to other financial companies | - |
| of which subordinate | - |
| - loans to other companies | - |
| of which subordinate | - |
| - bonds and other debt financial instruments | - |
| of which subordinate | - |

| | |
|--------------------------------------|---|
| Liabilities | |
| - debts to banks | - |
| - debts to other financial companies | - |
| - debts to other companies | - |
| - subordinated liabilities | - |
| Guarantees and commitments | |
| - guarantees given | - |
| - commitments | - |

Intangible fixed assets

Table 7.1 | Changes of item 80 “Intangible fixed assets”

| | 31/12/2016 | Leased assets | Assets to be leased | of which assets resulting from annulled lease contracts for breach by tenant | Start-up costs | Other deferred charges |
|--------------------------------------|----------------|---------------|---------------------|--|----------------|------------------------|
| Opening balance | 780.401 | - | - | - | - | 780.401 |
| Increases | 460.574 | - | - | - | - | 460.574 |
| - Purchases | 460.574 | - | - | - | - | 460.574 |
| - Value recoveries | - | - | - | - | - | - |
| of which for credit rating | - | - | - | - | - | - |
| - Revaluations | - | - | - | - | - | - |
| - Other variations | - | - | - | - | - | - |
| Decreases | 302.548 | - | - | - | - | 302.548 |
| - Sales | - | - | - | - | - | - |
| - Value adjustments | 165.694 | - | - | - | - | 165.694 |
| of which depreciations | 165.694 | - | - | - | - | 165.694 |
| of which lasting devaluations | - | - | - | - | - | - |
| of which for credit rating | - | - | - | - | - | - |
| - Other variations | 136.854 | - | - | - | - | 136.854 |
| Closing balance at 31/12/2016 | 938.427 | - | - | - | - | 938.427 |

The table above shows the changes in intangible fixed assets recorded in the balance sheet at their acquisition cost, net of accumulated depreciation.

The item “Purchases” is mainly composed of all expenses connected with software implementation.

Tangible fixed assets

Table 8.1 | Description and changes of item 90 “Tangible fixed assets”

| | 31/12/2016 | Leased assets | Assets to be leased | of which assets resulting from annulled lease contracts for breach by tenant | Real estate | Other tangibles |
|----------------------------|-------------------|-------------------|---------------------|--|------------------|-----------------|
| Opening balance | 21.920.363 | 20.927.213 | 7.155 | 7.155 | - | 985.995 |
| Increases | 14.441.371 | 10.283.742 | 41.491 | 41.491 | 4.022.728 | 93.410 |
| - Purchases | 14.034.365 | 10.282.330 | - | - | 3.658.625 | 93.410 |
| - Value recoveries | - | - | - | - | - | - |
| of which for credit rating | - | - | - | - | - | - |
| - Revaluations | - | - | - | - | - | - |

| | | | | | | |
|--------------------------------------|-------------------|-------------------|---------------|---------------|------------------|----------------|
| - Other variations | 407.006 | 1.412 | 41.491 | 41.491 | 364.103 | - |
| Decreases | 8.253.508 | 7.767.579 | 41.327 | 41.327 | 68.319 | 376.283 |
| - Sales | 1.665.228 | 1.639.616 | 25.612 | 25.612 | - | - |
| - Value adjustments | 5.466.776 | 5.233.708 | 15.715 | 15.715 | 68.319 | 149.034 |
| of which depreciations | 5.460.415 | 5.229.376 | 13.686 | 13.686 | 68.319 | 149.034 |
| of which lasting devaluations | - | - | - | - | - | - |
| of which for credit rating | 6.361 | 4.332 | 2.029 | 2.029 | - | - |
| - Other variations | 1.121.504 | 894.255 | - | - | - | 227.249 |
| Closing balance at 31/12/2016 | 28.108.226 | 23.443.376 | 7.319 | 7.319 | 3.954.409 | 703.122 |

The table shows the changes in tangible fixed assets recorded in the balance sheet at their acquisition cost, net of accumulated depreciation.

The item "Purchases" is mainly connected with the acquisition of new assets leased to third parties for financial leasing contracts. In the month of March 2016, the real estate properties with the headquarters of the General Management and the branch of Rovereta branch were acquired.

Other assets

Table 9.1 | Composition of item 120 "Other assets"

| | 31/12/2016 | 31/12/2015 |
|---|-------------------|-------------------|
| Maintenance margins | - | - |
| Premiums paid for options | - | - |
| Others | 22.436.237 | 18.689.384 |
| - Effects received from correspondent banks | 1.820.816 | 1.252.498 |
| - Effects from SBF customers | 12.076.922 | 11.637.393 |
| - Effects after collection from customers | 2.832.593 | 2.285.509 |
| - Illiquid effects | 4.133.039 | 1.828.046 |
| - Transitional accounts - items to be settled | 234.426 | 116.753 |
| - I.G.R. advances and withholding of the Tax Office | 182.145 | 521.399 |
| - Anticipated taxes as per Art. 40 Law no. 150/2012 | 1.014.639 | 1.014.639 |
| - Other items | 141.657 | 33.147 |
| Total | 22.436.237 | 18.689.384 |

Table 9.2 | Composition of item 130 "Accrued revenues and deferred expenses"

| | 31/12/2016 | 31/12/2015 |
|--------------------------|----------------|----------------|
| Accrued revenues | 90.681 | 187.917 |
| - on banks | - | 66.592 |
| - on other transactions | 90.681 | 121.325 |
| Deferred expenses | 155.010 | 117.583 |

With particular reference to this item, it should be noted that for the year 2016 the Bank, where possible, adjusted upwards or downwards the asset accounts to which accrued revenues and deferred expenses refer, pursuant to Art. IV.I.13 of Regulation no. 2008-02 of the Central Bank.

Debts with banks

Table 10.1 | Description of item 10 "Debts with banks"

| | 31/12/2016 | | 31/12/2015 | | Variations | |
|-------------------------------|------------------|------------------|------------------|------------------|--------------------|-----------------|
| | Euros | Foreign currency | Euros | Foreign currency | Amount | % |
| Sight debts | 1.322.547 | - | 3.005.860 | - | (1.683.313) | (56,00%) |
| - Current accounts overdrafts | 1.322.233 | - | 503.717 | - | 818.516 | 162,50% |
| - Demand deposits | 314 | - | 2.502.143 | - | (2.501.829) | (99,99%) |
| - Other | - | - | - | - | - | - |
| Term or notice debts | - | 2.874.142 | - | - | 2.874.142 | - |
| - Current accounts overdrafts | - | - | - | - | - | - |
| - Time deposits | - | 2.874.142 | - | - | 2.874.142 | - |
| - Repos and reverse repos | - | - | - | - | - | - |
| - Other loans | - | - | - | - | - | - |
| Total | 1.322.547 | 2.874.142 | 3.005.860 | - | 1.190.829 | 39,62% |

The table shows the debts that the Bank has towards San Marino and foreign banks.

Table 10.2 | Composition of debts with banks according to residual life

| | 31/12/2016 | 31/12/2015 |
|---------------------------|------------------|------------------|
| Sight | 1.322.547 | 3.005.860 |
| From 1 day to 3 months | 794.559 | - |
| From 3 months to 6 months | 2.079.583 | - |
| From 6 months to 1 year | - | - |
| From 1 year to 18 months | - | - |
| From 18 months to 2 years | - | - |
| From 2 years to 5 years | - | - |
| 5 years + | - | - |
| No term | - | - |
| Total | 4.196.689 | 3.005.860 |

Please note that “residual life” means the time interval between the date of the financial statements and the contractual maturity of each transaction.

As can be seen, the Bank does not have debts to other banks other than those relating to the ordinary operation.

Debts with customers

Table 11.1 | Composition of item 20 “Debts with customers”

| | 31/12/2016 | | 31/12/2015 | |
|-------------------------------|--------------------|------------------|--------------------|------------------|
| | Euros | Foreign Currency | Euros | Foreign Currency |
| Sight debts | 169.618.642 | 3.349.571 | 111.365.689 | 4.194.979 |
| - Current accounts overdrafts | 168.426.656 | 3.349.571 | 110.874.646 | 4.194.979 |
| - Sight savings deposits | 462.249 | - | 371.991 | - |
| - Other | 729.737 | - | 119.052 | - |
| Term or notice debts | 37.965.606 | - | 8.478.625 | - |
| - Time deposits | - | - | - | - |
| - Time savings deposits | - | - | - | - |
| - Repos and reverse repos | 30.560.890 | - | 5.239.801 | - |
| - Other funds | 7.404.716 | - | 3.238.824 | - |
| Total | 207.584.248 | 3.349.571 | 119.844.314 | 4.194.979 |

The table shows all debts with customers regardless of their technical form, except those represented by financial instruments which are brought back to item 30 of Liabilities.

Table 11.2 | Composition of debts with customers according to residual life

| | 31/12/2016 | 31/12/2015 |
|---------------------------|--------------------|--------------------|
| Sight | 172.968.213 | 115.560.668 |
| From 1 day to 3 months | 17.608.882 | 224.750 |
| From 3 months to 6 months | 10.292.678 | 5.169.896 |
| From 6 months to 1 year | 10.064.046 | 3.083.979 |
| From 1 year to 18 months | - | - |
| From 18 months to 2 years | - | - |
| From 2 years to 5 years | - | - |
| 5 years + | - | - |
| No term | - | - |
| Total | 210.933.819 | 124.039.293 |

The table shows that the amounts due to customers have a maximum expiration date of 1 year.

Funds

Table 12.1 | Changes of item 60 "Staff retirement allowances"

| | 31/12/2016 | 31/12/2015 |
|------------------------|----------------|----------------|
| Opening balance | 237.080 | 228.541 |
| Increases | 253.016 | 237.080 |
| - Provisions | 253.016 | 237.080 |
| - Other variations | - | - |
| Decreases | 237.080 | 228.541 |
| - Utilization | 237.080 | 228.541 |
| - Other variations | - | - |
| Closing balance | 253.016 | 237.080 |

As required by law, the Staff Retirement Allowances is paid annually to all employees. Accordingly, the balance at the end of 2016 coincides with the relative share of the current year to be settled within the year 2017.

Table 12.2 | Composition of item 70 "Risks and costs funds"

| | 31/12/2016 | 31/12/2015 |
|--|----------------|----------------|
| Taxes and fees fund | 186.897 | 60.757 |
| Fund for post-employment benefits and similar obligations | - | - |
| Other funds | 206.013 | 104.349 |
| - Fund for paid and unused leave | 156.013 | 104.349 |
| - Provisions for payment card dispute risks | 50.000 | - |
| Total | 392.910 | 165.106 |

The amount of the tax liability will be partially compensated through the use of deferred tax assets in accordance with the rules set by Art. 40 of the Finance Act 2013 (no. 150/2012). The item "Other funds" comprises provisions for the employees' leaves accrued but not taken as of December 31, 2016, in the amount of € 156.013, plus € 50.000 allocated to cover any counter-claim in credit card disputes.

Table 12.3 | Composition of “Tax reserves”

| | 31/12/2016 | 31/12/2015 |
|------------------------|----------------|----------------|
| Opening balance | 60.757 | 171.685 |
| Increases | 186.897 | 60.757 |
| - Provisions | 186.897 | 60.757 |
| - Other variations | - | - |
| Decreases | 60.757 | 171.685 |
| - Utilization | 60.757 | 171.685 |
| - Other variations | - | - |
| Closing balance | 186.897 | 60.757 |

Table 12.4 | Changes of sub-item c) “Other provisions”

| | 31/12/2016 | 31/12/2015 |
|------------------------|----------------|----------------|
| Opening balance | 104.349 | 68.965 |
| Increases | 101.664 | 35.384 |
| - Provisions | 101.664 | 35.384 |
| - Other variations | - | - |
| Decreases | - | - |
| - Utilization | - | - |
| - Other variations | - | - |
| Closing balance | 206.013 | 104.349 |

The table shows the variations of the “Annual leave payments” and of the “Provisions for payment card dispute risks” during the year 2016.

Table 12.5 | Changes of item 80 “Funds for possible loan losses”

| | 31/12/2016 | 31/12/2015 |
|------------------------|------------|------------|
| Opening balance | - | - |
| Increases | - | - |
| - Provisions | - | - |
| - Other variations | - | - |
| Decreases | - | - |
| - Utilization | - | - |
| - Other variations | - | - |
| Closing balance | - | - |

Other liabilities

Table 13.1 | Composition of item 40 “Other liabilities”

| | 31/12/2016 | 31/12/2015 |
|--------------------------------------|-------------------|-------------------|
| Maintenance margins | - | - |
| Premiums received for options | - | - |
| Other | 24.401.428 | 22.028.152 |
| - Cheques in circulation | 593.847 | 1.448.424 |

| | | |
|---|-------------------|-------------------|
| - Transferor of SBF effects | 16.391.190 | 14.963.975 |
| - Transferor of after-collection effects | 3.937.224 | 3.137.953 |
| - Due to tax office | 373.004 | 900.192 |
| - Transitional accounts and items to be settled | 2.102.853 | 269.473 |
| - Term transactions | 183.892 | - |
| - Other creditors | 819.418 | 1.308.135 |
| Total | 24.401.428 | 22.028.152 |

The sub-item “Due to Tax Office” includes the liabilities against the State relating to withholdings made on interests, premiums and other income granted by the Bank as required by the relevant Tax Law; it also includes debts for single-phase tax and withholding tax on income from employment.

The sub-item “Other creditors” is composed as follows:

| | Amount |
|------------------------------------|----------------|
| Supplier invoices to be received | 81.357 |
| Payables to I.S.S. | 66.371 |
| Payables to F.S.S. | 2.120 |
| Payables to C.S.U. | 579 |
| Employees payroll account | 164.549 |
| Payables to suppliers | 196.761 |
| Amounts in favour of third parties | 307.681 |
| Total sub-item | 819.418 |

Table 13.2 | Composition of item 50 “Accrued expenses and deferred revenues”

| | 31/12/2016 | 31/12/2015 |
|-------------------|-------------------|-------------------|
| Accrued expenses | 269.777 | 100.000 |
| Deferred revenues | 21.269 | 8.456 |

Please note that the bank has directly adjusted the increased or decreased liability accounts to which accrued expenses and deferred revenues relate as provided by Art. IV.I.13 of Regulation no. 2008-02 of the Central Bank. “Deferred revenues” mainly refer to advance payments and fees on endorsement loans.

Corporate capital, Reserves, Issue premium, Subordinated liabilities, Fund for general banking risks and Profit for the financial year

Table 14.1 | Composition of item 90 “Fund for general banking risks”

| | 31/12/2016 | 31/12/2015 |
|-----------------------------------|-------------------|-------------------|
| Opening balance | 1.500.000 | 1.500.000 |
| Inflow in the financial year | 3.000.000 | - |
| Utilization in the financial year | - | - |
| Closing balance | 4.500.000 | 1.500.000 |

During the financial year 2016, a financial contribution to the fund, in the amount of € 3.000.000, was made with the purpose of consolidation of assets, therefore the allocated provisions have a balance of Euro 4.500.000.

Table 14.2 | Composition of item 100 “Subordinated liabilities”

| | Variazioni |
|--|-------------------|
|--|-------------------|

| | 31/12/2016 | 31/12/2015 | Importo | % |
|--------------------------|------------|------------|---------|---|
| Subordinated liabilities | - | - | - | - |

Table 14.3 | Composition of item 110 "Corporate capital or endowment fund"

| | 31/12/2016 | 31/12/2015 | Amount | Variations % |
|--------------------------|-------------------|-------------------|----------|-----------------|
| Number of shares | 20.000 | 20.000 | - | - |
| Nominal value | 1.000 | 1.000 | - | - |
| Corporate capital | 20.000.000 | 20.000.000 | - | - |

Table 14.4 | Composition of item 120 "Issue premium"

| | 31/12/2016 | 31/12/2015 | Amount | Variations % |
|----------------|------------|------------|--------|-----------------|
| Issue premiums | - | - | - | - |

Table 14.5 | Composition of item 130 "Reserves"

| | 31/12/2016 | 31/12/2015 | Amount | Variations % |
|------------------------------|------------------|------------------|----------------|-----------------|
| Ordinary reserve | 579.332 | 444.807 | 134.525 | 30,24% |
| Extraordinary reserve | 818.112 | 280.013 | 538.099 | 192,17% |
| Reserve for own transactions | - | - | - | - |
| Other reserves | 1.500.000 | 1.500.000 | - | - |
| Total | 2.897.444 | 2.224.820 | 672.624 | 30,23% |

On May 26, 2016, the Shareholders Meeting approved the allocation of all profits deriving from the year 2015 as follows:

- EUR 134.525: "Ordinary reserve" as per statute;
- EUR 538.099: "Other reserves".

Table 14.6 | Composition of item 150 "Profits (Losses) carried forward"

| | 31/12/2016 | 31/12/2015 | Amount | Variations % |
|----------------------------------|------------|------------|--------|-----------------|
| Profits (Losses) carried forward | - | - | - | - |

Table 14.7 | Composition of item 160 "Profit (Loss) for the financial year"

| | 31/12/2016 | 31/12/2015 | Amount | Variations % |
|--------------------------------------|------------|------------|-----------|-----------------|
| Profit (Loss) for the financial year | 2.251.708 | 672.624 | 1.579.084 | 234,76% |

Table 14.8 | Variation to net equity in the last 4 years

| | 31/12/2016 | 31/12/2015 | 31/12/2014 | 31/12/2013 |
|-------------------|------------|------------|------------|------------|
| Corporate capital | 20.000.000 | 20.000.000 | 20.000.000 | 20.000.000 |

| | | | | |
|----------------------------------|-------------------|-------------------|-------------------|-------------------|
| Uncalled capital | - | - | - | - |
| Issue premium | - | - | - | - |
| Ordinary reserve | 579.332 | 444.807 | 226.620 | 22.075 |
| Other reserves | 2.318.112 | 1.780.013 | 907.265 | 89.088 |
| Operating performance | 2.251.708 | 672.624 | 1.090.936 | 1.022.721 |
| Profits (Losses) carried forward | - | - | - | - |
| Fund for general banking risks | 4.500.000 | 1.500.000 | 1.500.000 | 500.000 |
| Total | 29.649.152 | 24.397.444 | 23.724.821 | 21.633.884 |

Table 14.9 | Table of net equity variations

| | Value at 31/12/2015 | Profit allocation | Other variations | Profit for the financial year | Value at 31/12/2016 |
|--------------------------------------|------------------------|-------------------|------------------|----------------------------------|------------------------|
| Fund for general banking risks | 1.500.000 | - | 3.000.000 | - | 4.500.000 |
| Corporate capital | 20.000.000 | - | - | - | 20.000.000 |
| Issue premiums | - | - | - | - | - |
| Reserves: | 2.224.820 | 672.624 | - | - | 2.897.444 |
| a) ordinary reserve | 444.807 | 134.525 | - | - | 579.332 |
| b) extraordinary reserve | 280.013 | 538.099 | - | - | 818.112 |
| c) other reserves | 1.500.000 | - | - | - | 1.500.000 |
| Profit (Loss) for the financial year | 672.624 | (672.624) | - | 2.251.708 | 2.251.708 |
| Total Net Equity | 24.397.444 | - | 3.000.000 | 2.251.708 | 29.649.152 |

Please find below the summary of the key events that have characterized the variation of the net equity during the financial year:

- allocation of the profits deriving from the financial year 2015 for capital reserves, for a total value of EUR 672.624 as established by the Shareholders Meeting on May 26, 2016;
- allocation of Euro 3.000.000 to the Provisions for general banking risks, with the purpose of consolidation of assets.

Revaluation reserves

Table 15.1 | Composition of item 140 "Revaluation reserves"

| | 31/12/2016 | 31/12/2015 | Amount | Variations % |
|----------------------|------------|------------|--------|-----------------|
| Revaluation reserves | - | - | - | - |

Prudential aggregates

Table 16.1 | Prudential aggregates

| | Amount / % |
|--|-------------|
| Regulatory capital | |
| - Basic assets | 28.710.726 |
| - Supplementary assets | - |
| - Elements to be deducted | (2.175.761) |
| - Assets for supervisory purposes | 26.534.965 |
| Assets at risk and capital adequacy ratio | |

| | |
|---|-------------|
| - Weighted risks assets | 178.410.583 |
| - Assets for supervisory purposes/Weighted risks assets | 14,87% |

Guarantees and Commitments

Table 17.1 | Composition of "Guarantees issued"

| | 31/12/2016 | 31/12/2015 | Amount | Variations % |
|--|------------------|------------------|------------------|-----------------|
| Endorsment credits of a trade nature | 1.640.636 | 1.529.691 | 110.945 | 7,25% |
| Endorsment credits of a financial nature | 862.317 | 464.739 | 397.578 | 85,55% |
| Assets pledged as collateral security | 4.119.899 | - | 4.119.899 | - |
| Total | 6.622.852 | 1.994.430 | 4.628.422 | 232,07% |

Table 17.2 | Composition of credit commitments

| | 31/12/2016 | 31/12/2015 | Amount | Variations % |
|---|------------------|------------------|----------------|-----------------|
| Credit commitments of a trade nature | 1.640.636 | 1.529.691 | 110.945 | 7,25% |
| - Acceptances | 354.705 | 75.183 | 279.522 | 371,79% |
| - Guarantees and endorsements | 1.010.407 | 1.003.188 | 7.219 | 0,72% |
| - Strong comfort letter | - | - | - | - |
| - Other | 275.524 | 451.320 | (175.796) | (38,95%) |
| Credit commitments of a financial nature | 862.317 | 464.739 | 397.578 | 85,55% |
| - Acceptances | - | - | - | - |
| - Guarantees and endorsements | 762.317 | 440.239 | 322.078 | 73,16% |
| - Strong comfort letter | - | - | - | - |
| - Other | 100.000 | 24.500 | 75.500 | 308,16% |
| Total | 2.502.953 | 1.994.430 | 508.523 | 25,50% |

Table 17.3 | Loan guarantees to assume the debts

None.

Table 17.4 | Margin loans on credit lines

| | 31/12/2016 | 31/12/2015 |
|------------------|------------|------------|
| A) Central banks | - | - |
| b) Other banks | - | - |
| Total | - | - |

Table 17.5 | Composition of "Spot commitments"

| | 31/12/2016 | 31/12/2015 | Amount | Variations % |
|--|------------|------------|--------|-----------------|
| Commitments to grant finance certain to be called on | - | - | - | - |
| of which commitments for financing to be granted | - | - | - | - |

| | | | | |
|---|------------------|------------------|--------------------|-----------------|
| Commitments to exchange financial instruments certain to be called on | 4.157.142 | - | 4.157.142 | - |
| Commitments to grant finance not certain to be called on: | 212.800 | 593.657 | (380.857) | (64,15%) |
| of which passive margins usable on credit lines | 212.800 | 593.657 | (380.857) | (64,15%) |
| of which put option issued | - | - | - | - |
| Commitments to exchange financial instruments not certain to be called on | - | 5.555.000 | (5.555.000) | (100,00%) |
| Other commitments | - | - | - | - |
| Total | 4.369.942 | 6.148.657 | (1.778.715) | (28,93%) |

The item “Commitments to grant finance not certain to be called on” includes the available margins on lines of credit granted by the Bank.

Table 17.6 | Composition of “Forward commitments”

| | Coverage | Negotiation | Other transaction |
|-------------------------------|------------------|------------------|-------------------|
| Trades | 3.207.000 | 1.858.563 | - |
| - Financial instruments | - | - | - |
| purchases | - | - | - |
| sales | - | - | - |
| - Currencies | 3.207.000 | 1.858.563 | - |
| currency against currency | - | - | - |
| purchases against EUR | 1.857.000 | - | - |
| sales against EUR | 1.350.000 | 1.858.563 | - |
| Deposits and loans | - | - | - |
| to be given | - | - | - |
| to be received | - | - | - |
| Derivative contracts | 3.847.313 | - | - |
| - With exchange of capital | - | - | - |
| - securities | - | - | - |
| - purchases | - | - | - |
| - sales | - | - | - |
| - currencies | - | - | - |
| - currency against currency | - | - | - |
| - purchases against EUR | - | - | - |
| - sales against EUR | - | - | - |
| - other values | - | - | - |
| - purchases | - | - | - |
| - sales | - | - | - |
| - Without exchange of capital | 3.847.313 | - | - |
| - currencies | - | - | - |
| - currency against currency | - | - | - |
| - purchases against EUR | - | - | - |
| - sales against EUR | - | - | - |
| - other values | 3.847.313 | - | - |
| - purchases | 3.847.313 | - | - |
| - sales | - | - | - |

The item “Trades” includes all outstanding off-balance transactions at year-end related to contracts of sale that have been not settled yet. The contracts involving the exchange of two currencies have been shown reporting the currency to be purchased only.

Table 17.7 | Derivatives

| Operation Category | Coverages | Negotiations | Other transactions |
|-------------------------------|--------------|--------------|--------------------|
| Derivative contracts | 5.617 | - | - |
| - with exchange of capital | - | - | - |
| - securities | - | - | - |
| - purchases | - | - | - |
| - sales | - | - | - |
| - currencies | - | - | - |
| - currency against currency | - | - | - |
| - purchases against EUR | - | - | - |
| - sales against EUR | - | - | - |
| - other values | - | - | - |
| - purchases | - | - | - |
| - sales | - | - | - |
| - Without exchange of capital | 5.617 | - | - |
| - currencies | - | - | - |
| - currency against currency | - | - | - |
| - purchases against EUR | - | - | - |
| - sales against EUR | - | - | - |
| - other values | 5.617 | - | - |
| - purchases | 5.617 | - | - |
| - sales | - | - | - |

Table 17.8 | Credit derivatives

| Operation Category | Negotiations | Other transactions |
|---------------------------------|--------------|--------------------|
| 1. Protection purchases | - | - |
| 1.1 With exchange of capital | - | - |
| 1.2 Without exchange of capital | - | - |
| 2. Protection sales | - | - |
| 2.1 With exchange of capital | - | - |
| 2.2 Without exchange of capital | - | - |

Concentration and distribution of assets and liabilities

Table 18.1 | Major risks

| | Variations | | | |
|--------|------------|------------|-------------|----------|
| | 31/12/2016 | 31/12/2015 | Amount | % |
| Amount | 24.031.684 | 29.253.540 | (5.221.856) | (17,85%) |
| Number | 7 | 9 | (2) | (22,22%) |

Table 18.2 | Risks with related parties

| | Variations | | | |
|--|------------|------------|--------|---|
| | 31/12/2016 | 31/12/2015 | Amount | % |

| | | | | |
|--------|------------|-----------|---------|--------|
| Amount | 10.202.453 | 9.968.182 | 234.271 | 2,35% |
| Number | 11 | 8 | 3 | 37,50% |

Table 18.3 | Distribution of customer loans for main debtor categories

| | Total | Sight | From 1 day to 3 months | From 3 months to 6 months | From 6 months to 1 year | From 1 year to 18 months | From 1 year to 18 months | From 18 months to 2 years | From 18 months to 2 years | From 2 years to 5 years | From 2 years to 5 years | More than 5 years | More than 5 years | No term |
|---|-------------|-------------|------------------------|---------------------------|-------------------------|--------------------------|--------------------------|---------------------------|---------------------------|-------------------------|-------------------------|-------------------|-------------------|-----------|
| | | | | | | F | V | F | V | F | V | F | V | |
| ASSETS | | | | | | | | | | | | | | |
| Inter-bank loans | 104.985.383 | 103.843.223 | - | - | - | - | - | - | - | - | - | - | - | 1.142.160 |
| Customer loans | 115.403.576 | 16.555.673 | 16.021.115 | 7.016.060 | 5.581.472 | 532.440 | 3.920.971 | 453.652 | 5.531.679 | 1.419.310 | 17.957.118 | 2.364.288 | 34.991.120 | 3.058.678 |
| Bonds and other debt securities | 241.676.419 | - | 7.989.425 | 2.086.875 | 18.108.694 | 5.568.424 | 7.352.733 | 8.276.128 | - | 60.806.556 | 20.489.731 | 64.061.879 | 46.935.974 | - |
| Off-balance sheet operations | 11.424.255 | 212.800 | 4.929.657 | 2.352.994 | 290.481 | - | - | 217.587 | - | 707.966 | - | 2.712.770 | - | - |
| LIABILITIES | | | | | | | | | | | | | | |
| Debts with banks | 4.196.689 | 1.322.547 | 794.559 | 2.079.583 | - | - | - | - | - | - | - | - | - | - |
| Debts with customers | 210.933.819 | 172.968.213 | 17.608.882 | 10.292.678 | 10.064.046 | - | - | - | - | - | - | - | - | - |
| Debts represented by securities: | | | | | | | | | | | | | | |
| - bonds | 71.734.152 | - | - | - | 30.042.858 | 29.477.843 | - | - | - | 12.213.451 | - | - | - | - |
| - certificates of deposit | 152.362.422 | 801.796 | 61.379.406 | 42.221.785 | 35.947.292 | 8.397.549 | - | 459.795 | - | 869.923 | 2.284.876 | - | - | - |
| - other securities | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Other liabilities: cheques in circulation | 593.847 | 593.847 | - | - | - | - | - | - | - | - | - | - | - | - |
| Subordinated liabilities | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Off-balance sheet operations | 1.858.563 | - | 723.703 | 950.273 | 184.587 | - | - | - | - | - | - | - | - | - |

This table shows a time cross-section of the remaining life of the asset and liability items included in the balance sheet. The column “No term” shows the doubtful credits for which no relevant temporal allocation has been found.

Suspense accounts

Table 19.1 | Suspense accounts

| | 31/12/2016 | 31/12/2015 |
|---|--------------------|--------------------|
| Asset management | 114.985.893 | 72.290.232 |
| - Customer asset management | 114.985.893 | 72.290.232 |
| of which cash | 43.423.578 | 11.981.074 |
| of which debt securities issued by the reporting institution | 43.423.578 | 11.981.074 |
| of which debt securities | 66.042.436 | 53.621.658 |
| of which debt securities issued by the reporting institution | 545.000 | 735.000 |
| of which capital securities and OIC shares | 5.519.879 | 6.687.500 |
| of which cash deposited at the reporting institution | - | - |
| - Portfolios managed by third parties | - | - |
| Securities custody and management | 373.924.259 | 300.747.354 |
| - Deposited third parties securities | 134.446.500 | 123.764.233 |
| of which owned issued securities (debts) | 70.814.000 | 59.674.000 |
| of which owned issued securities (equities) | 17.800.000 | 17.800.000 |
| of which third parties securities deposited with third parties | 45.528.198 | 45.105.213 |
| - Owned securities deposit with third parties | 239.477.759 | 176.983.121 |
| Securities and other values related to the custodian bank's activity | - | - |
| - Cash | - | - |
| of which cash deposited by the reporting institution | - | - |
| - Debt securities | - | - |
| of which debt securities issued by the reporting institution | - | - |
| - Capital securities, OIC shares, other financial instruments | - | - |
| of which capital securities issued by the reporting institution | - | - |

| | | |
|--|---|---|
| - Assets other than financial instruments and cash | - | - |
|--|---|---|

The item “Deposited third-party securities” of which financial tools and other securities issued by the bank (equity securities)” also includes some owned securities for a value of EUR 17.800.000.

Table 19.2 | Assets under the control of a trustee

| | 31/12/2016 | 31/12/2015 |
|--|------------|------------|
| A. Assets | | |
| A.1 Cash | - | - |
| A.2 Credits | - | - |
| A.3 Securities | - | - |
| A.3.1 Debt securities | - | - |
| A.3.2 Capital securities | - | - |
| A.3.3 OIC | - | - |
| A.3.4 Other | - | - |
| A.4 Holdings | - | - |
| A.5 Other financial activities | - | - |
| A.6 Real estate | - | - |
| A.7 Registered assets | - | - |
| A.8 Other assets and services | - | - |
| Total Trust Assets | - | - |
| B. Liabilities | | |
| B.1 Debts | - | - |
| B.2 Other liabilities | - | - |
| Total Trust Liabilities | - | - |
| C. Management proceeds and expenses | | |
| C.1 Proceeds connected with trusted assets | - | - |
| C.2 Expenses connected with trusted assets | - | - |
| Difference between proceeds and expenses | - | - |

Section C - INFORMATION ON THE STATEMENT OF EARNINGS

Interests

Table 20.1 | Composition of item 10 “Interests received and proceeds”

| | 31/12/2016 | 31/12/2015 | Amount | Variations % |
|------------------------------|------------------|------------------|-----------------|-----------------|
| On inter-bank loans | 171.530 | 249.149 | (77.619) | (31,15%) |
| - Current accounts | 114.063 | 124.746 | (10.683) | (8,56%) |
| - Deposits | 57.467 | 124.403 | (66.936) | (53,81%) |
| - Other loans | - | - | - | - |
| of which on financial leases | - | - | - | - |
| On customer loans | 4.879.399 | 4.820.570 | 58.829 | 1,22% |
| - Current accounts | 925.451 | 1.161.752 | (236.301) | (20,34%) |
| - Deposits | - | - | - | - |
| - Other loans | 3.953.948 | 3.658.818 | 295.130 | 8,07% |

| | | | | |
|--|-------------------|-------------------|----------------|---------------|
| of which on financial leases | 918.131 | 815.940 | 102.191 | 12,52% |
| On debt securities from banks | - | - | - | - |
| - Certificates of deposit | - | - | - | - |
| - Bonds | - | - | - | - |
| - Other securities | - | - | - | - |
| On debt securities from customers (other issuers) | 6.471.419 | 5.650.479 | 820.940 | 14,53% |
| - Bonds | 6.471.419 | 5.650.479 | 820.940 | 14,53% |
| - Other securities | - | - | - | - |
| Total | 11.522.348 | 10.720.198 | 802.150 | 7,48% |

Table 20.2 | Composition of item 20 “Interests paid and costs”

| | 31/12/2016 | 31/12/2015 | Amount | Variations |
|--|-------------------|-------------------|------------------|-------------------|
| | | | | % |
| On debts with banks | 41.594 | 6.055 | 35.539 | 586,94% |
| - Current accounts overdrafts | 20.223 | 6.055 | 14.168 | 233,99% |
| - Deposits | 7.277 | - | 7.277 | - |
| - Other debts | 14.094 | - | 14.094 | - |
| On debts with customers | 1.098.326 | 1.534.046 | (435.720) | (28,40%) |
| - Current accounts overdrafts | 664.264 | 767.749 | (103.485) | (13,48%) |
| - Deposits | 79.734 | 127.145 | (47.411) | (37,29%) |
| - Other debts | 354.328 | 639.152 | (284.824) | (44,56%) |
| On debts represented by securities with banks | - | - | - | - |
| of which on certificates of deposit | - | - | - | - |
| On debts represented by securities with customers | 4.675.170 | 4.662.238 | 12.932 | 0,28% |
| of which on certificates of deposit | 2.826.943 | 3.385.717 | (558.774) | (16,50%) |
| On subordinated liabilities | - | 3.410 | (3.410) | (100,00%) |
| Total | 5.815.090 | 6.205.749 | (390.659) | (6,30%) |

Dividends and other revenues

Table 21.1 | Composition of item 30 “Dividends and other revenues”

| | 31/12/2016 | 31/12/2015 | Amount | Variations |
|---|-------------------|-------------------|---------------|-------------------|
| | | | | % |
| On shares, quotas and other capital financial instruments | - | - | - | - |
| On holdings | - | 301 | (301) | (100,00%) |
| On holdings in bank group companies | - | - | - | - |
| Total | - | 301 | (301) | (100,00%) |

Commissions

Table 22.1 | Composition of item 40 “Commissions earned”

| | 31/12/2016 | 31/12/2015 | Amount | Variations |
|-------------------|-------------------|-------------------|---------------|-------------------|
| | | | | % |
| Guarantees issued | 28.551 | 22.591 | 5.960 | 26,38% |

| | | | | |
|---|------------------|------------------|----------------|---------------|
| Credit derivatives | - | - | - | - |
| Investment services: | 278.586 | 153.230 | 125.356 | 81,81% |
| - receipt and transmission of orders (let. D 1 enc.1 LISF) | 221.564 | 137.479 | 84.085 | 61,16% |
| - execution of orders (let. D2 enc.1 LISF) | 30.022 | 15.751 | 14.271 | 90,60% |
| - management of securities portfolio (let. D4 enc.1 LISF) | - | - | - | - |
| - placement of securities (let.D5 and D6 enc.1 LISF) | 27.000 | - | 27.000 | - |
| Consultancy services | - | - | - | - |
| Distribution of third-party services and products other than placement: | 524.310 | 201.479 | 322.831 | 160,23% |
| - asset management | 524.310 | 201.479 | 322.831 | 160,23% |
| - insurance products | - | - | - | - |
| - other services or products | - | - | - | - |
| Collection and payment services | 387.961 | 363.704 | 24.257 | 6,67% |
| Custodian bank services | - | - | - | - |
| Securities custody and management | 31.537 | 37.624 | (6.087) | (16,18%) |
| Trust services | 9.950 | 10.249 | (299) | (2,92%) |
| Operation of tax services and treasury | - | - | - | - |
| Currency transactions | 47.922 | 42.782 | 5.140 | 12,01% |
| Other services | 326.728 | 279.801 | 46.927 | 16,77% |
| Total | 1.635.545 | 1.111.460 | 524.085 | 47,15% |

Table 22.2 | Composition of item 50 “Commissions paid”

| | Variations | | | |
|---|----------------|----------------|----------------|---------------|
| | 31/12/2016 | 31/12/2015 | Amount | % |
| Guarantees received | - | - | - | - |
| Credit derivatives | - | - | - | - |
| Investment services: | 346.902 | 246.552 | 100.350 | 40,70% |
| - receipt and transmission of orders (let. D 1 enc.1 LISF) | - | - | - | - |
| - execution of orders (let. D2 enc.1 LISF) | 125.325 | 78.996 | 46.329 | 58,65% |
| - management of securities portfolios (let. D4 enc.1 LISF): | 221.577 | 167.556 | 54.021 | 32,24% |
| own portfolio | 84.263 | 25.805 | 58.458 | 226,54% |
| third-party portfolio | 137.314 | 141.751 | (4.437) | (3,13%) |
| - placement of securities (let. D5 and D6 enc.1 LISF) | - | - | - | - |
| Door-to-door sale of financial instruments, products and services | - | - | - | - |
| Collection and payment services | 125.932 | 118.175 | 7.757 | 6,56% |
| Other services | 117.285 | 102.233 | 15.052 | 14,72% |
| Total | 590.119 | 466.960 | 123.159 | 26,37% |

Profits and losses from financial operations

Table 23.1 | Composition of item 60 “Profits (Losses) from financial operations”

| | Securities transactions | Currency transactions | Other transactions |
|------------------------------------|-------------------------|-----------------------|--------------------|
| Revaluations | 2.216.143 | | - |
| Write-downs | 1.041.806 | | - |
| Other profits / losses (+/-) | 3.447.176 | 26.883 | - |
| Total by operative division | 4.621.513 | 26.883 | - |
| of which Government securities | 133.543 | | |

| | |
|---|-----------|
| of which Other debt-based financial instruments | 3.860.645 |
| of which Capital financial instruments | 627.325 |
| of which Contracts derived from financial instruments | - |

The items “Revaluations” and “Writedowns” include the capital gains and losses recognized on the value of securities in the trading portfolio at 31/12/2016. The item “Other profits/losses” includes the profits and losses deriving from negotiation and trading of financial instruments and from transactions involving the purchase and sale of currencies other than the Euro.

Administrative costs

Table 24.1 | Number of employees by category

| | Average | Number as at 31/12/2016 | Number as at 31/12/2015 |
|---------------------|--------------|-------------------------|-------------------------|
| Senior managers | 12,50 | 13 | 12 |
| Managers | 1,50 | 1 | 2 |
| Remaining personnel | 25,50 | 28 | 23 |
| - office employees | 25,50 | 28 | 23 |
| - other personnel | - | - | - |
| Total | 39,50 | 42 | 37 |

As a result of the development plan, the employed personnel increased of 5 units, bringing the total number of employees from 37 at the end of the year 2015 to the current number of 42. The workforce consists of 13 directors (1 general manager, 2 deputy general managers and 10 officials responsible for the operational areas and branches), 1 manager and 28 employees. 69% of current employees are male while the remaining 31% are female.

Table 24.2 | Composition of sub-item “b) Other administrative expenses”

| | 31/12/2016 | 31/12/2015 | Amount | Variations % |
|-------------------------------------|------------------|------------------|----------------|-----------------|
| Services | 253.681 | 253.115 | 566 | 0,22% |
| Consumable materials | 59.073 | 44.384 | 14.689 | 33,10% |
| Rental expenses | 125.066 | 167.342 | (42.276) | (25,26%) |
| Network service fees | 348.149 | 335.489 | 12.660 | 3,77% |
| Insurance | 69.934 | 57.709 | 12.225 | 21,18% |
| Maintenance and repair | 38.857 | 29.922 | 8.935 | 29,86% |
| Utilities and service fees | 93.379 | 91.517 | 1.862 | 2,03% |
| Supervisory and associative burdens | 323.793 | 178.935 | 144.858 | 80,96% |
| Taxes and duties | 18.227 | 15.708 | 2.519 | 16,04% |
| Other general expenses | 182.092 | 85.751 | 96.341 | 112,35% |
| Total | 1.512.251 | 1.259.872 | 252.379 | 20,03% |

As in the past, the item under consideration shows a proper cost management and monitoring policy. Despite the increase in clients, the expenditure items that show high increase are related to the Supervisory fees and other general expenses mainly related to the project for issuing credit cards and own point of sale terminals.

A decrease in rental expenses has also been noted, following the purchase of office building for the Head Office and for the Rovereta branch office.

Adjustments, write-backs and provisions

Table 25.1 | Composition of items 100-110 “Value adjustments on tangible and intangible fixed assets”

| | | | | Variations |
|---|------------------|------------------|----------------|---------------|
| | 31/12/2016 | 31/12/2015 | Amount | % |
| Value adjustments on intangible fixed assets | 165.694 | 145.970 | 19.724 | 13,51% |
| - Software | 78.296 | 67.745 | 10.551 | 15,57% |
| - Multi-year fees | 87.398 | 78.225 | 9.173 | 11,73% |
| Value adjustments on tangible fixed assets | 5.460.415 | 4.831.028 | 629.387 | 13,03% |
| - Lands and buildings | 68.319 | - | 68.319 | - |
| - Furniture | 38.271 | 45.991 | (7.720) | (16,79%) |
| - Systems and technical equipment | 66.561 | 83.247 | (16.686) | (20,04%) |
| - Electronic office devices | 35.048 | 36.226 | (1.178) | (3,25%) |
| - Vehicles | 9.154 | 9.154 | - | - |
| - Goods in leasing | 5.243.062 | 4.656.410 | 586.652 | 12,60% |
| Total | 5.626.109 | 4.976.998 | 649.111 | 13,04% |

The difference compared to the previous financial year is due to the value adjustments on the purchase of new capital equipment to carry out the banking activity in addition to the net value of the assets held under finance leases reported in items 80 and 90 of Assets in the Balance Sheet. The latter will not have an impact in the operating result as they will be offset from registration under the item 70 "Other operating income" of the part of capital relating to finance lease.

Table 25.2 | Composition of item 120 "Provisions for risks and charges"

| | | | | Variations |
|----------------------------------|---------------|------------|---------------|------------|
| | 31/12/2016 | 31/12/2015 | Amount | % |
| Provisions for risks and charges | 50.000 | - | 50.000 | - |
| a) Pension funds | - | - | - | - |
| b) Tax provisions | - | - | - | - |
| c) Other funds | 50.000 | - | 50.000 | - |
| Total | 50.000 | - | 50.000 | - |

This item comprises a prudential provision covering possible controversies that may arise from the cash segment management.

Table 25.3 | Composition of item 130 "Allowances for possible loan losses"

| | | | | Variations |
|-------------------------------------|------------|------------|--------|------------|
| | 31/12/2016 | 31/12/2015 | Amount | % |
| Allowances for possible loan losses | - | - | - | - |

Table 25.4 | Composition of item 140 "Value adjustments on credits and provisions for guarantees and commitments"

| | | | | Variations |
|--|------------------|------------------|----------------|---------------|
| | 31/12/2016 | 31/12/2015 | Amount | % |
| Value adjustments on credits | 2.276.780 | 1.878.140 | 398.640 | 21,23% |
| of which lump-sum adjustments for country risk | - | - | - | - |
| of which other lump-sum adjustments | 22.165 | - | 22.165 | - |
| Provisions for guarantees and commitments | - | - | - | - |
| of which lump-sum adjustments for country risk | - | - | - | - |
| of which other lump-sum provisions | - | - | - | - |
| Total | 2.276.780 | 1.878.140 | 398.640 | 21,23% |

With a view to controlling and managing, to cover the insolvency risk, the Bank made prudent provisions based on presumable realizable value.

Table 25.5 | Different types of movements of the financial year

| | 31/12/2016 | | 31/12/2015 | | Variations |
|---|------------------|---------------|------------------|--------------------|-----------------|
| | Analytical | Lump sum | | Amount | % |
| Total cash credit write-downs | 2.068.174 | 19.168 | 389.336 | 1.698.006 | 436,13% |
| - Non-performing loans | 699.407 | - | 389.336 | 310.071 | 79,64% |
| - Substandard loans | 846.272 | - | - | 846.272 | - |
| - Other loans | 522.495 | 19.168 | - | 541.663 | - |
| Total losses on cash credits | 186.441 | 2.997 | 1.488.804 | (1.299.366) | (87,28%) |
| - Non-performing loans | 76.481 | - | 1.485.580 | (1.409.099) | (94,85%) |
| - Substandard loans | 109.960 | - | - | 109.960 | - |
| - Other loans | - | 2.997 | 3.224 | (227) | (7,04%) |
| Total cash value adjustments | 2.254.615 | 22.165 | 1.878.140 | 398.640 | 21,23% |
| Total advances on guarantees and commitments | - | - | - | - | - |
| - Guarantees | - | - | - | - | - |
| - Commitments | - | - | - | - | - |
| Total | 2.254.615 | 22.165 | 1.878.140 | 398.640 | 21,23% |

Table 25.6 | Composition of item 150 "Value adjustments and provisions for guarantees and commitments"

| | | | | Variations |
|----------------------------------|------------|------------|-----------|------------|
| | 31/12/2016 | 31/12/2015 | Amount | % |
| Writebacks | 665.651 | 763.312 | (97.661) | (12,79%) |
| of which on non-performing loans | 190.686 | 235.435 | (44.749) | (19,01%) |
| of which on substandard loans | 366.521 | - | 366.521 | - |
| of which on other credits | 108.444 | 527.877 | (419.433) | (79,46%) |

Table 25.7 | Composition of item 160 "Value adjustments on fixed financial assets"

| | | | | Variations |
|--|------------|------------|-----------|------------|
| | 31/12/2016 | 31/12/2015 | Amount | % |
| Value adjustments | 500.000 | 644.191 | (144.191) | (22,38%) |
| of which on investments | - | - | - | - |
| of which on investments in group companies | - | - | - | - |
| of which on other equity instruments | - | - | - | - |
| of which on debt instruments | 500.000 | 644.191 | (144.191) | (22,38%) |
| of which on derivative financial instruments | - | - | - | - |

Table 25.8 | Composition of item 170 "Value recoveries on fixed financial assets"

| | 31/12/2016 | | 31/12/2015 | | Variations |
|---------------------------|------------|----------|------------|----------|------------|
| | | | | Amount | % |
| Value recoveries | - | - | - | - | - |
| - of which on investments | - | - | - | - | - |

| | | | | |
|--|---|---|---|---|
| - of which on investments in group companies | - | - | - | - |
| - of which on other equity instruments | - | - | - | - |
| - of which on debt instruments | - | - | - | - |
| - of which on derivative financial instruments | - | - | - | - |

Other items in the profit and loss account

Table 26.1 | Composition of item 70 "Other operating proceeds"

| | 31/12/2016 | 31/12/2015 | Amount | Variations % |
|--------------------------------|------------------|------------------|----------------|-----------------|
| Proceeds for recovery expenses | 345.574 | 290.438 | 55.136 | 18,98% |
| Other proceeds lease principal | 5.243.063 | 4.695.465 | 547.598 | 11,66% |
| Total | 5.588.637 | 4.985.903 | 602.734 | 12,09% |

As shown in the footnote to Table 25.1, this item includes the share capital of the finance lease payments accrued during the financial year, which is the greater impact part of this item.

Table 26.2 | Composition of item 80 "Other management expenses"

| | 31/12/2016 | 31/12/2015 | Amount | Variations % |
|---------------------------|------------|------------|--------|-----------------|
| Other management expenses | - | - | - | - |

Table 26.3 | Composition of item 190 "Extraordinary proceeds"

| | 31/12/2016 | 31/12/2015 | Amount | Variations % |
|------------------------|----------------|----------------|----------------|-----------------|
| Extraordinary proceeds | 996.744 | 291.745 | 704.999 | 241,65% |
| Total | 996.744 | 291.745 | 704.999 | 241,65% |

The item mainly consists of earnings generated from the sale of securities held as fixed assets, in the amount of Euro 963.677 and non-taxable capital gains, in the amount of Euro 18.227.

Table 26.4 | Composition of item 200 "Extraordinary costs"

| | 31/12/2016 | 31/12/2015 | Amount | Variations % |
|---|---------------|----------------|------------------|-----------------|
| Extraordinary liabilities and contingent assets | 63.781 | 302.573 | (238.792) | (78,92%) |
| Total | 63.781 | 302.573 | (238.792) | (78,92%) |

The item is characterized by losses on investment securities for EUR 63.388 and for EUR 393 by other non-deductible expenses.

Section D - OTHER INFORMATION

Directors and statutory auditors

Table 27.1 | Remuneration

| | 31/12/2016 | 31/12/2015 | Amount | Variations |
|--------------------|----------------|---------------|---------------|---------------|
| | | | | % |
| Directors | 61.063 | 39.000 | 22.063 | 56,57% |
| Statutory auditors | 39.197 | 30.816 | 8.381 | 27,20% |
| Total | 100.260 | 69.816 | 30.444 | 43,61% |

Other information

None.

